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# **College Affordability and Completion in Maryland**

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# College Affordability and Completion in Maryland

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College is more important, and more expensive, than ever before. Universities' ever-rising tuition rates and students' trillion-plus dollars of debt have generated growing concerns for students, families, and the federal and state governments. The Maryland Higher Education Commission (MHEC), through its 2013 State Plan for Postsecondary Education, *Maryland Ready*, is tasked with managing access, affordability, and degree completion across the State's higher education sectors. MHEC reports these three concepts are "the linchpins for an educated citizenry and an innovative and productive workforce for the State's twenty-first century knowledge-based economy." Thus, connecting the State's various initiatives in affordability (tuition moderation and financial aid) with access (college readiness) and completion (graduation rates) is a top priority for MHEC, the General Assembly, and Maryland's diverse educational institutions.

Traditionally, breaking down financial barriers to higher education focused on comparisons of tuition rates between institutions, pricing discounts given to students, and federal grants which all serve to incentivize enrollment. While degree attainment remains the primary goal for college students, most financial aid remains focused just on getting students to enroll and take credits, but not complete them. Thus, while tuition policies and federal aid broaden the accessibility of higher education, it is up to institutional and State financial aid programs and policies to incentivize and reward actual degree completion. Both national and MHEC research indicates financial aid is an invaluable, if underutilized, tool for improving student outcomes by promoting certain types of enrollment and focusing students in workforce shortage areas.

This analysis will walk through a discussion of education costs for students, how financial need is determined, describe federal and State programs, and present new strategies and goals in State financial aid programs aimed at improving graduation rates. While this paper will focus on students working toward associate (two-year) and baccalaureate (four-year) degrees, certificates and other credentials from private career schools and community colleges are a separate, but vital, issue for the State.

## Financial Aid Supply Does Not Meet Demand

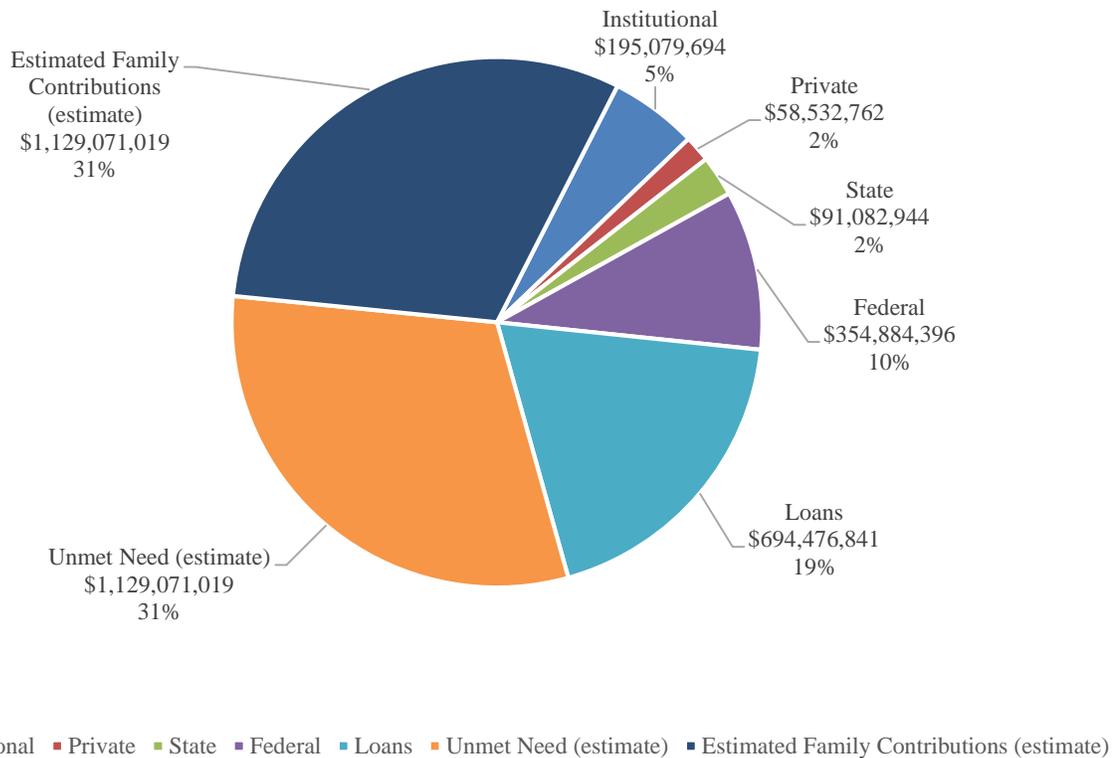
Current financial aid resources do not meet financial aid demand. **Exhibit 1** shows total financial need in fiscal 2014, as measured by FAFSAs received by MHEC, was \$3.7 billion, but only \$1.4 billion in financial aid sources are recorded. About one-third of financial need is met by the expected family contribution (EFC). The remaining third is unmet need that must be covered by other resources. MHEC estimates approximately \$1.1 billion in unmet financial need. Educational loans from any source covered 19% of need, or the equivalent of all nonloan aid from federal, State, institutional, and private sources. MHEC's undergraduate financial aid programs, about \$91 million, covered just 2% of need.

Despite about one-third of demonstrated financial need not met by traditional aid sources, *these students still enrolled*. While data is lacking, it is likely many students use some mixture of

home equity loans, retirement plan loans, and credit cards to cover unmet need. The amount of unmet need also reflects students who may live at home or otherwise have lower costs than the official cost of attendance (COA). Also, COA is based on the institution a student lists first on the FAFSA, which may not be where the student ultimately enrolls. Finally, quantitative information is lacking on students who do not enroll at all because of concerns over higher education costs. Sometimes enrollment hurdles can be shockingly small – Baltimore City Community College (BCCC) reported that over 1,100 applications for fall 2015 were not completed due to the inability of students to pay the \$10 application fee. Such pre-enrollment costs are not eligible to be covered by financial aid awards. BCCC is now considering removing this fee.

**Exhibit 1**  
**Maryland Student Financial Need Met and Unmet by Source**  
**At Public Institutions**  
**Fiscal 2014**

**Total = \$3.7 Billion**



Source: Financial Aid Information System, Maryland Higher Education Commission

## **Tuition Policies and Affordability**

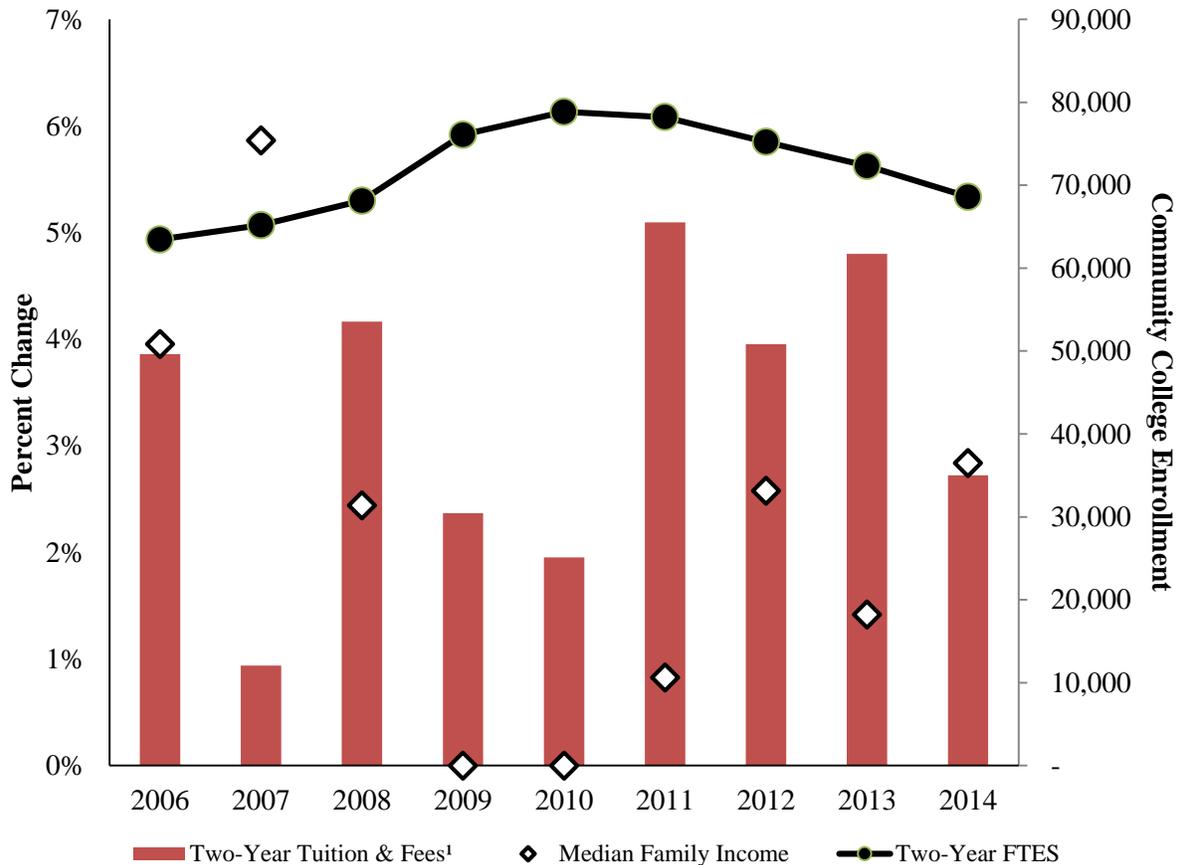
Higher education is expensive. The largest cost for operating any university is the salaries and other fringe benefits for faculty and administrators. An explanation of all the factors contributing to the rising cost of university tuition is well beyond the scope of this paper. Whether higher costs are being driven by the spending decisions of universities (that also set the tuition rates that enable salaries and the size of the workforce to be increased) or merely reflect a service-heavy sector is a long running debate that will not be resolved here.

For the purposes of this analysis, in response to rapidly increasing operating costs and constrained spending at the State level, it is assumed that institutions turn to the simplest measure for raising revenue – increasing tuition and mandatory fees (T&F). No other state organizations or agencies have such a powerful ability to raise their own revenue for personnel and general expenses. Strictly speaking, tuition goes toward academic-related expenses, while fees cover specific purposes, such as information technology upgrades, transportation benefits, or intercollegiate athletics. While access for students of all socioeconomic backgrounds is a primary goal of publicly funded institutions, when State support does not grow as fast as anticipated, many schools balance budgets by raising T&F. Maryland is unusual in that direct public support to institutions has mostly grown over the past decade, despite the Great Recession, and funding has been provided to moderate resident undergraduate tuition increases.

One method for evaluating the affordability of Maryland's public institutions is to look at the annual growth in T&F versus the growth in Maryland's median family income (MFI) and the effect, if any, on student enrollment. Maryland's MFI in 2014 was \$89,678, the highest in the country. With respect to community colleges, **Exhibit 2** shows these three factors from fiscal 2006 through 2014, the most recent year MFI data is available. Overall, at Maryland's 16 community colleges, which also set their own tuition rates, tuition increased at a rate below the growth in MFI in three of the nine years in this exhibit. Only in fiscal 2006 and 2014 were tuition growth and MFI growth comparable. In 2009 and 2010 tuition grew 4.0% or more while MFI growth was negative. This raises a classic problem – MFI decreases during a recession at the same time that State and county support is often flat or declining for higher education, putting institutions in a difficult spot to balance budgets and also maintain affordability. Community college enrollment grew significantly in 2009 and 2010 (also classic that higher education enrollment, especially at community colleges, increases during a recession), and since then has flattened and declined.

Fiscal 2012 merits special mention as it was the only year the Keeping Maryland Community Colleges Affordable (KMCCA) Grant was funded. This \$5.0 million grant went to colleges that held tuition rate increases to 3.0% or less during the 2011-2012 academic year and was distributed among participating colleges based on State aid-eligible for-credit enrollments. KMCCA grant funds were then added to the State-supported base for each community college in the Cade formula. However, new funding was subsequently cut in cost containment in fiscal 2013. Despite the KMCCA, T&F on average still grew more than MFI in fiscal 2012.

**Exhibit 2**  
**Growth in Public Two-year Tuition & Fees and Median Family Income**  
**Versus Enrollment**  
**Fiscal 2006-2014**



FTES: full-time equivalent students

<sup>1</sup>Weighted Average

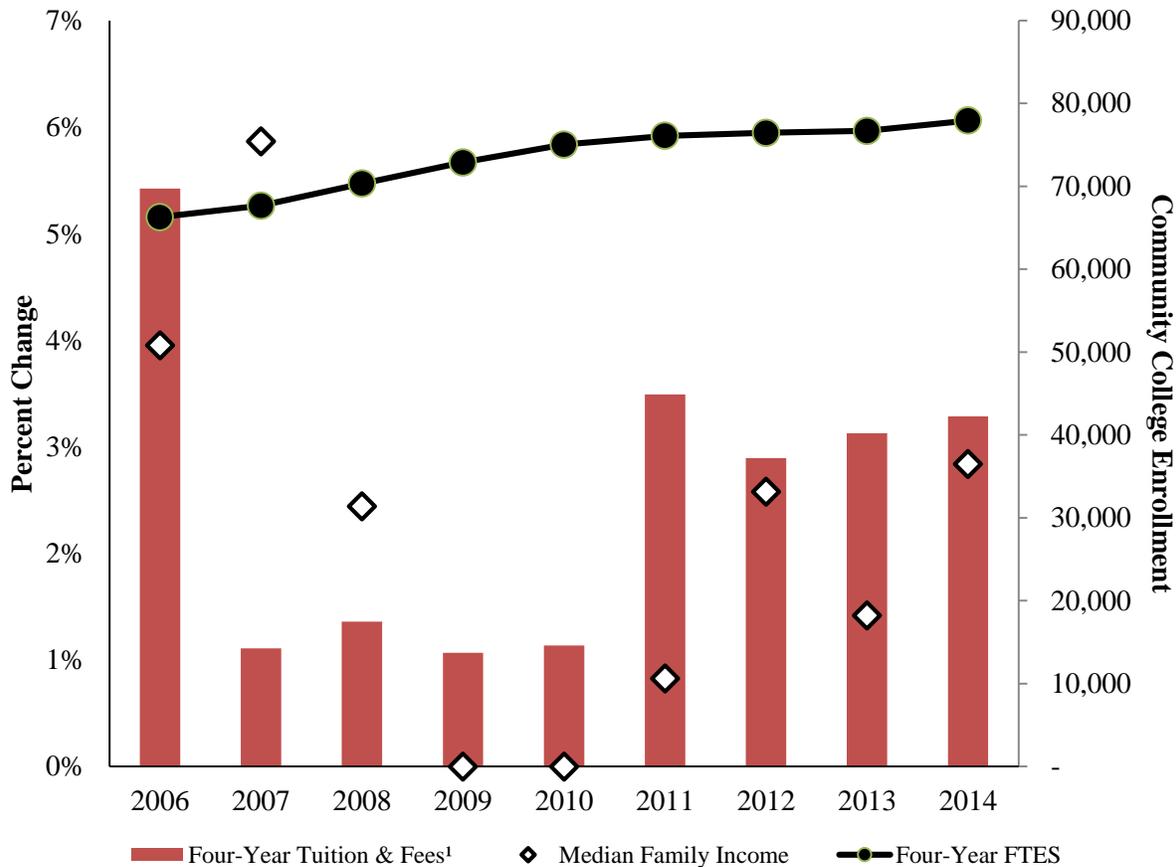
Note: Median family income growth was actually negative in 2009 and 2010. Enrollment reflects only Maryland residents enrolled in credit-bearing courses.

Source: College Board; U.S. Census Bureau; Maryland Higher Education Commission

**Exhibit 3** shows the same information for public four-year institutions. Here, there is a slightly clearer story on tuition policy, as the sector increased T&F rapidly following the early 2000s recession, and this continued as seen by the 2006 rate. To help students, the State committed to freezing undergraduate resident tuition (but not fees) at most public four-year institutions from fiscal 2007 through 2010 and moderating tuition increases to about 3.0% from fiscal 2011 to 2014.

This practice ended in spring 2015 with midyear tuition increases at some campuses. Despite the additional State support provided to moderate tuition growth, T&F grew slower than MFI in only two years. It should be noted that the General Assembly set a goal in statute that any increase in resident undergraduate T&F at public four-year institutions in any given year should be limited to a percent not to exceed the increase in the three-year rolling average of MFI. Even using a smoothed, rolling average can be difficult, especially when there were two years of negative MFI growth in 2009 and 2010.

**Exhibit 3  
Growth in Public Four-year Tuition & Fees and Median Family Income  
Versus Enrollment  
Fiscal 2006-2014**



FTES: full-time equivalent students

<sup>1</sup>Weighted Average

Note: Median family income growth was actually negative in 2009 and 2010. Enrollment reflects only undergraduate Maryland residents. Includes St. Mary’s College of Maryland, which did not participate in the tuition buydowns.

Source: College Board; U.S. Census Bureau; Maryland Higher Education Commission

Even though T&F growth is generally outpacing MFI growth in both sectors, undergraduate full-time equivalent students in the two-year and four-year institutions grew by 21.6% and 9.5%, respectively, from fiscal 2006 to 2014 despite T&F growing 29.1% and 18.8%, respectively, compared to MFI's 15.2% growth. One of MHEC's Measuring for Results targets is to keep community college T&F at or below 4.0% of MFI and four-year T&F at or below 10.0% of MFI. Since fiscal 2013, community colleges have been around 5.0% and four-year institutions around 11.0%. While linking MFI to T&F rates illustrates how middle-income families fare, it does not provide much information on low-income families.

Broadly speaking higher education can be made affordable by two means: charging low (or no) tuition to all students or by individually tailoring financial aid packages. In the public sectors, both strategies are used, but over time it has tilted toward the latter for many institutions. As shown in Exhibit 3, Maryland made a strong commitment to reducing the upfront cost at four-year schools. At the two-year level, BCCC did not raise T&F from fall 2008 through fall 2015. Even rarer is an outright price cut. Washington State reduced public four-year tuition 15% to 20% in fiscal 2016 and limited future tuition hikes to growth in MFI. Support for the "make college free" movement came in January 2015 when President Obama's Administration promoted America's College Promise (ACP), which it compared to the expansion of free, public high schools a century ago. ACP would cover the cost of T&F for community college students contingent on 25% matching state funds and a commitment from institutions to pursue best practices. This would cover students working toward certificates or associate's degrees. Federal grants would be issued to states, then institutions, on a per-student basis. The goal is to cover the national average cost of community college T&F, which ACP publications have pegged at \$3,800, and have the state cover any remaining direct cost to the student. Precise details of how the plan would work are unavailable, but it takes inspiration from two efforts already underway: Tennessee Promise and Chicago's Star Scholarships, which both started with fall 2015 entering students, or cohorts.

There is a local example of this strategy in Maryland: Garrett County funds the Garrett County Scholarship Program (GCSP) which covers T&F for recent high school graduates or General Equivalency Diploma recipients who pursue associate's degrees. GCSP began in fall 2006 and expanded to include certificate programs in 2010. The program requires students to apply for federal aid and covers any remaining cost from county resources. Allegany County started a similar program in fall 2014 that covers up to 50% of in-county tuition rates after federal aid is applied.

For GCSP's 2013 cohort, the most recent data available, the average award was only \$1,271. Just under 70% of those awarded required remedial education, more than the general student population, which is often a stumbling block for on-time graduation. Despite that, GCSP recipients had grade point averages (GPAs) of 0.2 to 0.4 points higher than the general student body in all but one semester since 2006. Between 30% and 50% of awardees transferred to another institution prior to receiving an Associate's of Arts (AA) degree, suggesting most students are using GCSP as a stepping stone to a bachelor's degree. Two concerns arise. First, many high school graduates who would benefit from a certificate or AA still do not pursue community college

even with GCSP. Second, of those who do enroll, about 30% of students still leave Garrett College without completing a degree or transferring to another institution, representing the downside to truly open admissions. This creates difficulty in predicting the acceptance of even generous financial aid offers and the outcomes generated. Finally, the total number of GCSP awardees declined from over 130 in the 2007 cohort to only 79 in the 2013 cohort, making it difficult to ascertain what the effects would be of scaling up this program in other parts of the State.

While the freezing and moderation of tuition at the public four-year institutions was very effective at keeping tuition increases predictable, if not necessarily relatively affordable over time for resident undergraduates, the benefit of such moderation at many institutions primarily flows to those who arguably could already afford or nearly afford a college education. For students who struggle with meeting the financial cost of higher education, other State policies and programs are necessary. Over the course of the Great Recession, students from all over the income spectrum have come to rely on greater levels of financial aid, including loans, to pay for postsecondary education. Understanding the many sources of aid and how an institution calculates a particular student's specific financial need can be a confusing process for students.

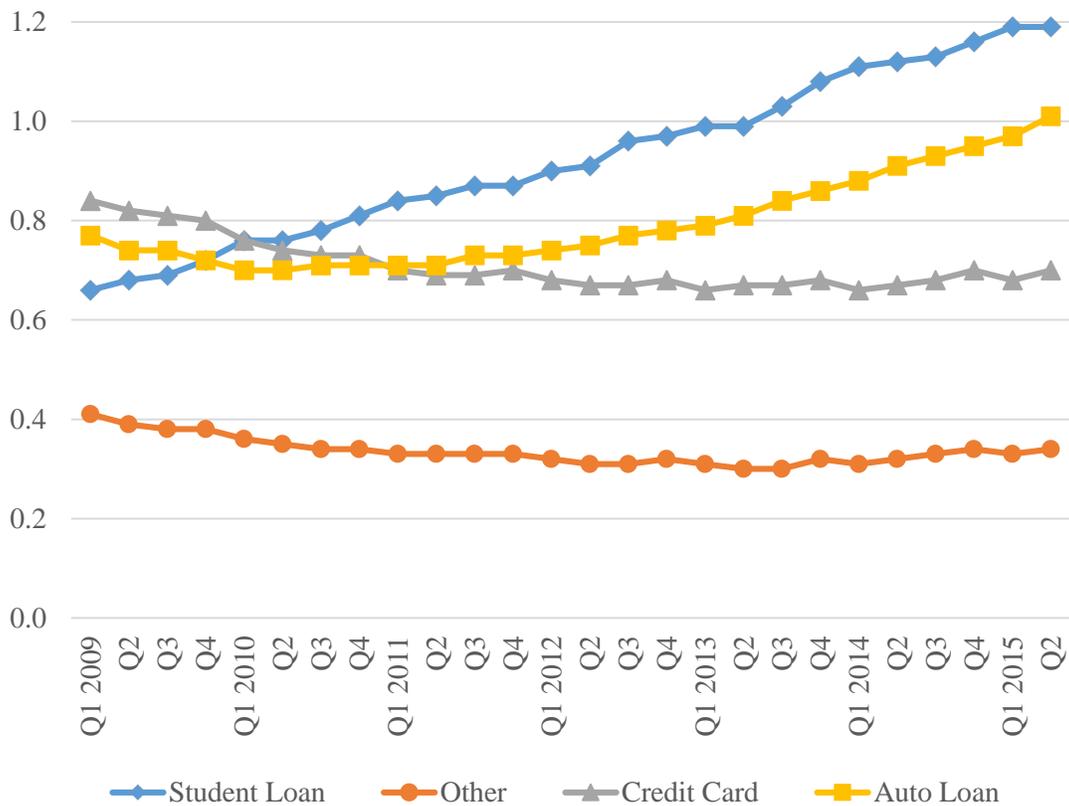
## **Student Debt Burden**

Another measure of the cost of a higher education is student debt. **Exhibit 4** shows consumer debt by type; student loans have risen quickly and, since 2009, are the leading source of consumer debt. The Federal Reserve Bank of New York, in the second quarter of 2015, reported about \$1.2 trillion in total outstanding student loans. It is important to note that total outstanding student loans include all active student loans, including undergraduate and graduate loans; therefore, some of this figure is made up of currently enrolled students who have deferred payment because they are in school at least half-time (six credits). On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not currently tracked. While the Great Recession had some effect on other forms of household credit (debt), student loans grew steadily throughout this time period, demonstrating a remarkably consistent demand despite increasing T&F rates nationwide and the new federal restrictions on aid covered later in this paper.

The most recent Maryland data for public and private, nonprofit four-year institutions reported by the Project on Student Debt (PSD), covering 2014 graduates, reports 58% had student debt with the average debt totaling \$27,457. This source places Maryland thirty-fourth in the country for the percent of undergraduates graduating with debt and twentieth for the per capita amount of debt. PSD's 2014 report looked back at changes over the past 10 years. While PSD noted the steady participation of Maryland institutions in the survey, it summarized Maryland this way:

The 10-year change for Maryland is not only large in scale but also highly robust. The average reported debt of Maryland's new graduates more than doubled in 10 years, rising a striking 118% from the Class of 2004 to the Class of 2014. That is more than twice the national growth rate for the same period, and more than four times the rate of inflation.

**Exhibit 4**  
**Total Consumer Debt by Type**  
**2009-2015 Q2**  
**(\$ in Trillions)**



Note: Excludes mortgages and other forms of home equity debt.

Source: The Federal Reserve Bank of New York

For the class of 2014, average loan debt at most Maryland public four-year institutions was around \$25,000, although Bowie State University's average was nearly \$30,000 and Morgan State University's average was nearly \$36,000. Morgan State University ranked among the top 20 public institutions with the highest graduates' debt in the country. Data was unavailable for the University of Baltimore; Coppin State University; University of Maryland, Baltimore; and

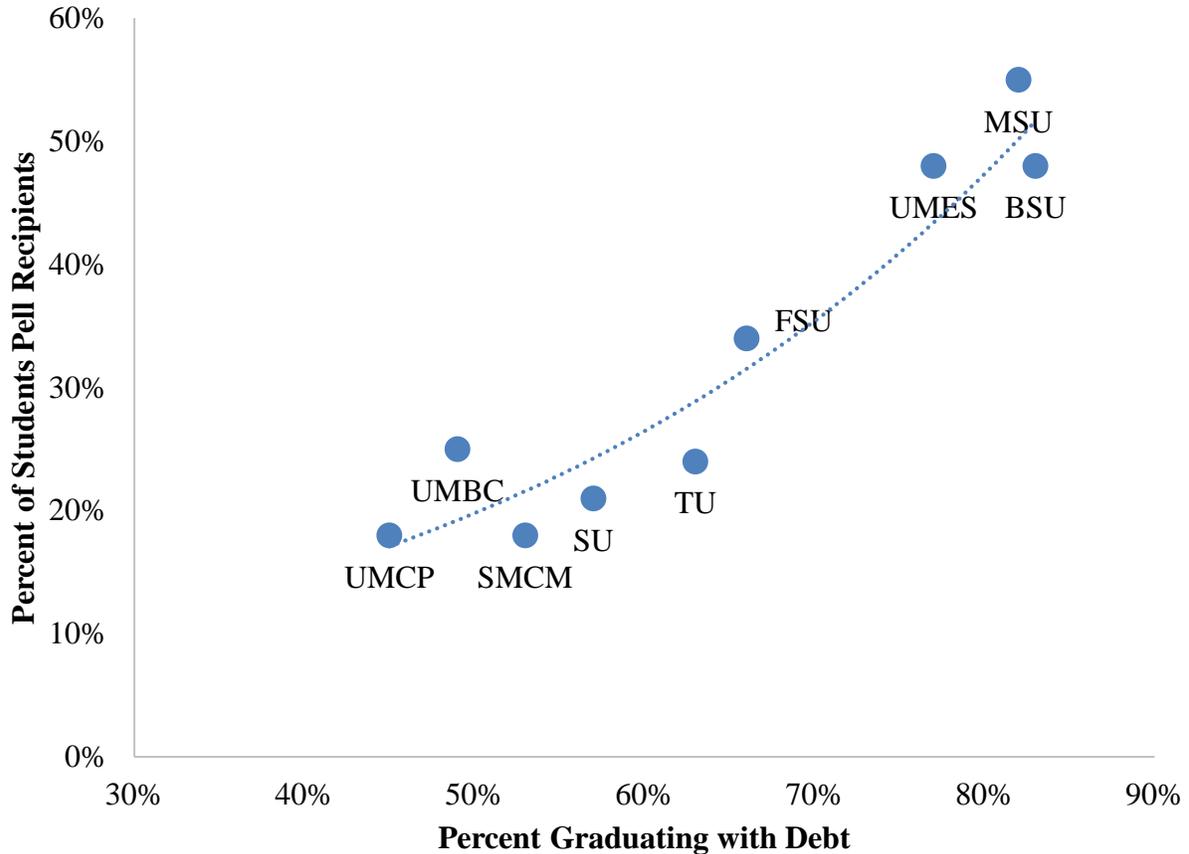
University of Maryland University College. Institutions serving low-income students often have difficulty meeting the financial need for all students who attend. **Exhibit 5** shows PSD data for the percent of undergraduate students graduating with debt and the percent of students receiving Pell grants. The graph shows an apparent positive relationship between Pell grants and graduating with debt, suggesting that perhaps Pell grants alone are too small an award to adequately meet expenses or that there are nonfinancial barriers to completion. If the former, this may, in the absence of large increases in State and institutional financial aid, highlight a need for more students to consider attending more affordable community colleges, then take advantage of statewide transfer agreements to complete a bachelor's degree.

The PSD data only look at those who graduated and does not offer much insight into students who did not graduate. Given that the six-year graduation rate for public four-year institutions was 63.7% for the most recent cohort, 2008, there are many noncompleters. Recent research indicates that noncompleters have some of the smallest average debts in the country, but also substantially higher default rates. For many, noncompleter status is a worse outcome than not attending school at all, since they have to repay student loans and do not have the credential to earn a higher wage to cover the cost of the debt. To begin exploring this issue in Maryland, the University System of Maryland (USM) recently looked at the outcomes of those who do not finish, shown in **Exhibit 6**.

Overall, those who did not graduate had a slightly higher chance of having loans in both cohorts, but the change over this time in loan amounts was much smaller for nongraduates, growing only 5.2% versus 12.4%. If the average loan amount of a graduate is divided over six years that means the students are taking out about \$5,000 and \$5,700 in each cohort, respectively. Assuming the nongraduates are taking out a comparable amount of debt in each year as the graduates, then the nongraduates should be over three years toward a degree, a significant amount of time and money invested toward a potential degree.

USM has a policy goal that low-income undergraduate students have 25% less debt than high-income students. In USM's most recent financial aid report, entering first-time/full-time (FT/FT) Pell students from fall 2004 to fall 2007 did graduate with approximately 25% less debt than their peers, \$36,407 versus \$26,744. This suggests that universities are effectively using financial aid to meet USM's policy. However, Pell students who transferred from Maryland community colleges have roughly the same debt as their non-Pell peers at graduation, although it should be noted that all community college transfer students who graduated did so with significantly less debt than students who started at a four-year institution, about \$22,500 compared to \$36,500. Meeting the financial needs of low-income transfer students will be a growing challenge for all public universities, and it is important that the debt at graduation not unduly burden young adults. The Federal Reserve, among other organizations, has raised concerns over the lifetime effects of starting adulthood beneath a high debt burden and the effects this has on consumer behavior, household formation, and social mobility. In order to more fully analyze affordability and student debt, the calculation of the cost of attendance and the concomitant financial aid must be explained.

**Exhibit 5  
Percent of Students with Loan Debt and Pell Grants by Public  
Four-year Institution  
Fiscal 2014**



BSU: Bowie State University  
 FSU: Frostburg State University  
 MSU: Morgan State University  
 SMCM: St. Mary’s College of Maryland  
 SU: Salisbury University

TU: Towson University  
 UMBC: University of Maryland Baltimore County  
 UMCP: University of Maryland, College Park  
 UMES: University of Maryland Eastern Shore

Source: *Student Debt and the Class of 2014*, The Project on Student Debt

**Exhibit 6**  
**Average Indebtedness for University System of Maryland Freshmen**  
**First-time, Full-time Students**  
**Fall 2004 and 2007 Cohorts**

	<u>Did</u> <u>Graduate</u>	<u>Did Not</u> <u>Graduate</u>	<u>Difference</u>
<b><u>2004 Cohort</u></b>			
% with Loans	52.1%	57.2%	5.1%
Average Loan	\$30,275	\$16,680	-\$13,595
<b><u>2007 Cohort</u></b>			
% with Loans	54.1%	56.3%	2.3%
Average Loan	\$34,023	\$17,554	-\$16,470
Change in Average Loan	\$3,748 12.4%	\$874 5.2%	

Source: *Financial Aid Data Update*, University System of Maryland Office

## Determining Cost of Attendance

Financial aid is a very broad term encompassing grants, scholarships, work study, waivers, loans, loan repayment, and tax credits. Aid can also be broken down by how a student qualifies for it, as well as by the organization that disburses it. Aid is used to pay for the overall COA, which is the cost of all enrollment-related expenses: tuition, mandatory fees, room, board, textbooks, and other incidentals, such as transportation and health insurance. The COA, also called the sticker price, is thus the total upfront annual cost of education. Additional academic program-specific fees may also apply that can drive the cost even higher, as well as personal factors such as child care costs.

Because the COA is generally large, most students apply for and receive some grants or scholarship support from the federal government, state government, or the institution itself, so that the actual price that the student pays is reduced. The exact makeup of a student's financial aid package is greatly influenced by results from the FAFSA. This online form compiles income, taxes, and savings information to estimate how much a student and the student's family should contribute toward the COA. This amount is called the Expected Family Contribution (EFC). While COA is specific to a campus, EFC is specific to an individual student. In a perfect situation, the EFC plus the financial aid package meets or exceeds the entire COA.

The federal Higher Education Opportunity Act of 2008, awaiting congressional reauthorization in 2016, required universities to post a net price calculator prominently on admissions and financial aid websites to provide out-of-pocket cost comparisons for FT/FT students. **Exhibit 7** shows this calculator in action for an 18-year-old enrolling at Towson University, the State's largest comprehensive institution, with a household income of \$30,000 or less. In this case, over half the COA is nonacademic in nature: room, board, and miscellaneous expenses.

The COA for this hypothetical student is over \$23,000, but the expected aid package cuts the price by 55%. While this is a large reduction off of the sticker price, it still leaves a large amount of unmet need to be covered through other means, such as family income (*i.e.*, EFC) or student loans. While the sticker price may be misleading because aid is available, this low-income student still has a large need remaining relative to family income (about 35%). If this student covered unmet need with only loans for four years, the student would need to borrow nearly \$42,000 for a bachelor's degree. While that already seems high, this calculation ignores several real world factors the student would face, such as the COA increasing during enrollment, that the student would exhaust federal Stafford loans and have to move on to less desirable federal PLUS loans, and ignores loan origination fees. Most importantly, it assumes the student graduates in four years, when, in fact, only about 46% of FT/FT freshmen at Towson (and at many institutions) do so.

While the net price calculator is now required on schools' websites, the information is not necessarily timely, as evidenced by the fiscal 2014 data currently available. COA also varies by institution, so net prices remain difficult to compare, even between Maryland institutions near each other. For example, for the 2015-2016 academic year, Coppin State University has off-campus undergraduate room and board estimated at \$10,390, but Morgan State University has \$11,876 and the University of Baltimore has \$14,200. The net price shown in Exhibit 7 could also be considered misleading, as the majority of financial need met in Maryland comes from federal student loans, not grants or scholarships. There is some debate as to whether student loans should even be considered as true financial aid, since there is little cost to the institution to offer federal Stafford loans, as the administration of such loans is managed by the U.S. Department of Education (USED), and loans represent a considerable burden on students after graduation.

**Exhibit 7**  
**In-state Cost of Attendance at Towson University**  
**Fiscal 2014**

	<u>Cost</u>	<u>% of COA</u>	<u>Notes</u>
Tuition and Fees	\$8,342	36%	
Books and Supplies	1,080	5%	
Room and Board (On Campus)	10,662	46%	Accommodations and meals
Other Miscellaneous	3,082	13%	Personal expenses and transportation
<b>Cost of Attendance</b>	<b>\$23,166</b>	100%	
Grant and Scholarships Aid	\$12,745	55%	Includes federal, State, local, and institutional awards
<b>Net Price</b>	<b>\$10,421</b>	45%	Remaining cost to student

COA: cost of attendance

Note: Computed for an 18-year-old Maryland resident living on campus with a household income of \$30,000 or less and no other adjustments. Not all students receive financial aid.

Source: *Net Price Calculator*, Towson University Accessed October 2015

## Income and Ability to Pay

The first hurdle to completion of a college degree is initial enrollment and many students increasingly rely on financial aid to open this door. Maximizing aid depends greatly on whether a student first taps into federal resources, which are by far the greatest source of financial aid. In fiscal 2014, MHEC's Financial Aid Information System (FAIS) reported \$2.1 billion in financial aid disbursements to Maryland institutions, with about 65% of that, or \$1.4 billion, coming from federal sources. To receive any of these federal funds, a student must file a FAFSA.

**Exhibit 8** shows the number of FAFSAs reported in FAIS by segment compared to total headcount enrollment. MHEC data indicates that, in total, 61% of all students at Maryland public institutions filed a FAFSA, which opens the door to federal and State aid and generally is required for institutional aid. Out of this sample, about 54% of community college students filed FAFSAs versus 69% at public four-year institutions, which is very similar to numbers previously reported for fiscal 2012. Private, nonprofit institutions, which have a higher COA, have a higher FAFSA filing rate at nearly 66%. In total, this suggests that about 40% of students at public institutions are not filing FAFSAs as MHEC does not have a valid EFC in FAIS for these students. Additionally, the adjusted gross income (AGI) of students enrolling at public institutions was

\$32,745 and for \$35,109 for all publics and independents, both significantly lower than the State's MFI.

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**Exhibit 8**  
**FAFSAs Submitted by Segment and Headcount Enrollment**  
**Fiscal 2014**

	<u>Two-year</u> <u>Institutions</u>	<u>Four-year</u> <u>Institutions</u>	<u>Public</u> <u>Institutions</u>	<u>Independent</u> <u>Institutions</u>	<u>All</u> <u>Institutions</u>
FAFSAs Received	75,305	82,169	157,474	20,097	177,571
Undergraduate Headcount	139,198	119,115	258,313	30,638	288,951
% Filing FAFSA	54.1%	69.0%	61.0%	65.6%	61.5%
AGI of Students Filing			\$32,745		\$35,109

AGI: adjusted gross income

FAFSA: Free Application for Federal Student Aid

Note: In this exhibit, a headcount of all students with a valid Expected Family Contribution in the Financial Aid Information System is used as a proxy for FAFSA filing.

Source: Financial Aid Information System, Maryland Higher Education Commission

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Filing is dependent on whether students know about the FAFSA and whether they expect the application process to be worth their time. While some more affluent students may see little benefit in filing, encouraging more students to file FAFSAs represents one of the simplest ways Maryland can help its young adults access more financial resources, as well as provide better data about students' financial needs. The FAFSA form itself may also be intimidating to students and parents who are unfamiliar or uncomfortable with sharing tax information. Organized events like College Goal Maryland (part of the national effort College Goal Sunday) that provide students and their parents with assistance filling out the FAFSA help encourage more students to file.

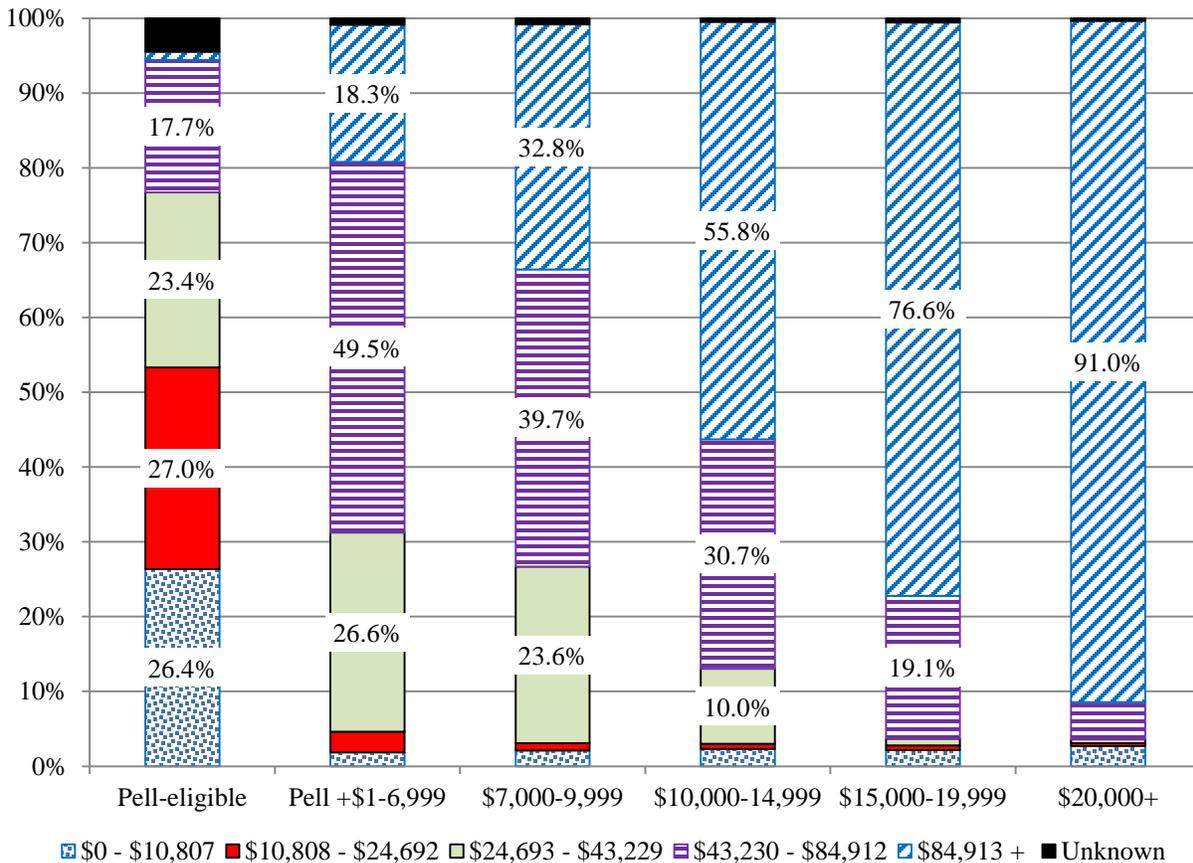
Before continuing, it is important to note the difference between the EFC and AGI, as computed for annual federal income taxes. While the EFC is related to family income, it is derived from additional factors, such as other members of the family in postsecondary education, other dependents, and invested assets. For this reason, a student from a family with a high AGI may still qualify for the Pell grant and other forms of need-based aid. In this analysis, AGI is divided into five ranges, or quintiles.

Because these ranges are based upon FAFSAs received by MHEC, they are likely lower than the actual AGI quintiles of Maryland because many high-income families, expecting little or no financial aid, likely did not bother to fill out a FAFSA.

**Exhibit 9** shows each AGI quintile as a share of EFC bands in fiscal 2014. The information shown is only for public Maryland institutions. Pell-eligible students in Maryland show

representation mostly from the first four quintiles of income, with the second quintile the largest by a narrow margin. More than one-half of Pell-eligible students have an AGI below \$25,000. On the other hand, about 50% of the students who just miss the Pell cutoff, the Pell+\$1 to \$6,999 EFC band, come from the fourth highest quintile. This means that despite coming from what may well be a middle-income family, the student is not that far removed from the same level of financial need as the Pell-eligible students. It is interesting that the Pell+\$1 band also includes 4.6% of students from the second lowest AGI quintile and 18.3% from the highest quintile, which indicates the wide range of students who may just be missing out on Pell grants. The remaining four EFC bands are dominated by the two highest AGI bands. For EFC bands of \$7,000 and above, this exhibit demonstrates that the EFC spectrum does directly relate to family AGI.

**Exhibit 9**  
**AGI as Share of EFC Bands for Students at Public Institutions**  
**Fiscal 2014**



AGI: adjusted gross income  
 EFC: Expected Family Contribution

Note: Bars not labeled are under 10%. Unknown reflects students with reported EFC and unreported AGI.

Source: Maryland Higher Education Commission

## Federal Student Financial Aid Programs

Broadly, the federal government provides three sources of financial aid: grants and work study; subsidized and unsubsidized loans; and tax benefits. Research is especially lacking on the tax benefits portion, although it is widely assumed that it provides the greatest benefit to more affluent students whose parents have enough income to pursue tax liability reductions like the American Opportunity Credit or Lifetime Learning Credit. Given the limited data available and the indirect nature of the benefit to students, this analysis will exclude discussion of federal tax credit programs and 529 college savings plans.

Of the two remaining components, Pell grants and Stafford loans are the most significant sources of aid. Pell awards, begun in 1972, are given to students who could not otherwise afford college and have an EFC of less than a specified amount, which is \$5,198 for the current academic year. This means a student with an EFC of \$5,200 would not be eligible for any Pell award in fiscal 2016. For students at or near the Pell EFC cutoff, financial aid packages can potentially change significantly from year to year even if the student's own finances do not change. For academic year 2015-2016, the maximum Pell grant is \$5,775, which is only \$225, or 4.1%, higher than it was five years earlier in academic year 2010-2011.

### Pell Grants

From fiscal 2008 to 2010, the amount of Pell grant funding increased rapidly at institutions nationwide. It is estimated that about 40% of this growth was due to the recession creating more financial need, 25% from an increase of \$619 in the maximum Pell grant in fiscal 2010, and the remainder due to various rule changes, such as adding the Automatic Zero EFC provision. This provision means that a student with an EFC below a certain amount automatically gets a full Pell award. In Maryland alone, Pell grants ballooned from almost \$180 million in fiscal 2008 to over \$418 million in fiscal 2012, before levelling off at \$400 million in fiscal 2014.

As noted in prior Department of Legislative Services (DLS) analyses, Maryland institutions are still recovering from fiscal 2012 federal actions that significantly restricted Pell eligibility retroactively by reducing the time a student may receive a Pell grant from 18 to 12 semesters and dropped the Automatic Zero EFC threshold from \$30,000 to \$23,000 adjusted family or gross income. Additionally, Congress eliminated the "double Pell grant" wherein students could receive a second Pell award within a single calendar year to pursue summer coursework to expedite graduation. Students must also now have a high school diploma or general education diploma, and Pell will only pay for a student to retake a class once. All rule changes went into effect on July 1, 2012, impacting the fall 2012 enrollment cycle. Institutions that serve needier student populations, such as Maryland's four Historically Black Colleges and Universities (HBCU), believe these changes harmed many students and contributed to enrollment declines. While not an HBCU, BCCC, an institution with high Pell eligibility, especially noted a decline in returning students after the changes were made. Whether these students ever return to complete academic studies is an ongoing concern, although, as will be discussed later, there are programs to capture these "stop outs."

## Federal Student Loans

The proverbial elephant in the room of financial aid discussions is undoubtedly federal student loans, totaling over \$700.0 million in Maryland in fiscal 2014 according to FAIS. Federal loans began with the 1958 National Defense Education Act, which was originally meant to increase student enrollment in science, technology, engineering, and mathematics (STEM) programs. In 1965, Title IV of the Higher Education Act established many of the federal aid programs that would become Pell Grants and Stafford Loans. Stafford loans allow students to borrow money with low interest rates and flexible repayment options relative to the terms for private student loans.

In summer 2013, Congress pegged Stafford and Parent PLUS (the other large loan program) to the interest rate of the 10-year Treasury bill, effective June 1 each year. While this settled a long-running debate over how student loan interest rates would be set, it increased rates slightly across the board. Subsidized Stafford loans had been 3.4% and have risen to 4.29% for academic year 2015-2016. Unsubsidized loans went to 5.8% and PLUS loans to 6.84%. Overall, caps are set at 8.25%, 9.5%, and 10.5%, respectively. This is meant to be a more permanent solution and provide stability and predictability to students.

**Exhibit 10** shows the maximum amount of loans that may be taken out by student type and federal loan program. These limits have not been changed in several years. Parent PLUS loans are excluded from this exhibit because PLUS loans are only capped by the total COA, minus any other aid. Overall, students have a tremendous amount of financial credit readily available to them, generally at least \$31,000 for undergraduate studies. However, considering that the hypothetical student in Exhibit 7 may need over \$40,000 in total loans, it is quite possible to exhaust Stafford eligibility at public institutions, especially if a student does not graduate in four years. This is one reason why students turn to private loans.

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### Exhibit 10 Maximum Lifetime Federal Aid Possible

		Independent	Dependent	
		<u>Undergraduate</u>		<u>Graduate</u>
<b>Stafford</b>	Maximum	\$57,500	\$31,000	\$138,500
	Subsidized*	23,000	23,000	65,500
<b>Pell</b>	Grant	\$34,650	\$34,650	
<b>Total Federal Aid Possible</b>		<b>\$92,150</b>	<b>\$65,650</b>	<b>\$138,500</b>

\*This is the total amount of the maximum Stafford loan amount that may be subsidized.

Note: Graduate amount includes loans taken by those students during their undergraduate years. Limits are as of academic year 2015-2016. Excludes PLUS loans which are limited only by total cost of attendance.

Source: Federal Student Aid, U.S. Department of Education

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Not shown in Exhibit 10 is the federal Perkins Loan program, the original loan program from 1958, because it ceased receiving new federal funding on October 1, 2015, as part of a movement to simplify federal programs. However, some already-signed disbursements will continue through fiscal 2020. The program had allowed students to take loans up to \$27,500 in undergraduate studies and \$60,000 in graduate studies. In fiscal 2014, FAIS reported about \$10.9 million in Maryland, mostly at independent institutions. While the federal funds are phasing out, the Perkins program required a one-third match from the participating institution, which means about \$2.7 million in institutional aid remains available for potential future awards.

Similar to concerns highlighted during the recent mortgage crisis, many student loan borrowers have difficulty consolidating and refinancing their debt to take advantage of low interest rates due to a lack of refinance options and difficulty securing employment in the current labor market. Moreover, some defaulters stop out or drop out of school, meaning they bear all the responsibility of repaying the loan and have no credentials to improve their employment prospects. Additionally, student loans are the only debt that cannot be discharged in bankruptcy proceedings. Another concern is that student loans, like mortgages, can be sold to other third parties for servicing and collections. This can make tracking and consolidating loans confusing and difficult, a growing concern for the federal Consumer Financial Protection Bureau.

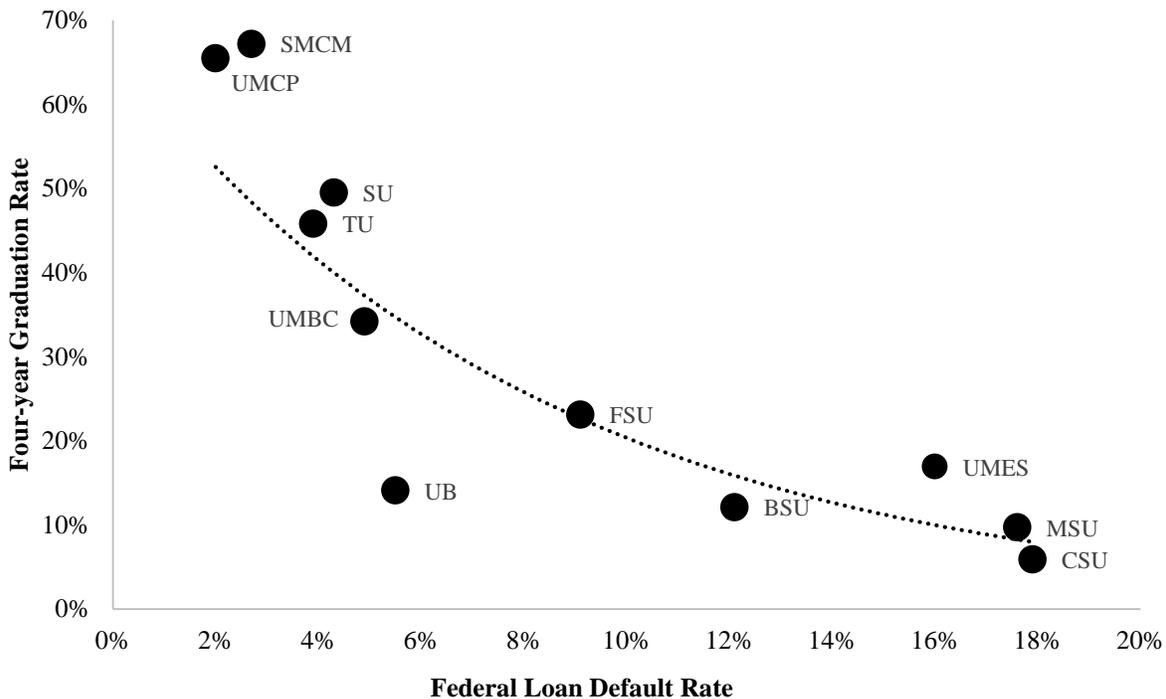
The most extensive data available on student loan default rates is the three-year cohort default rate (CDR) for 2009-2012, as reported by USDE. This measures how many undergraduate and graduate students have not made a single payment in at least 270 days on a federal loan issued in a particular federal fiscal year. For students who enroll in higher education, but do not graduate, there is a tremendous burden to make student loan payments. The federal CDR accounts for anyone who has taken out a federal loan, except for Parent PLUS loans.

**Exhibit 11** shows Maryland institutions' CDR compared to the most recent four-year graduation rate (2010 cohort). This exhibit shows that when students graduate on-time at high rates, such as St. Mary's College of Maryland and the University of Maryland, College Park, the risk of default is very low. At the other end, when students have very low on-time graduation rates, the default rate rises to about 18%. The University of Baltimore, which recently began lower division classes, seems to have a lower graduation rate than its default rate might suggest, which may be due to generous financial aid policies it gave to its initial lower division cohorts. Overall, higher-cost institutions like St. Mary's College of Maryland and the University of Maryland, College Park fare well in this comparison, while Coppin State University, the most affordable four-year institution, performs poorly. Again this points toward a need to see all students through to degree completion.

The exhibit shows a strong negative correlation between six-year graduation rates and CDR. In other words, if a student graduates, the degree conferred does a good job of ensuring income adequate to pay off the loan. Conversely, for students who do not graduate, but still have to make monthly loan payments, there is a higher risk of default. For this reason, it is a concern that students at institutions with lower graduation rates take out so much in loans, given the likelihood that many students will not complete a degree. While it may be that low-income

students finish over a longer time period than is traditionally measured for graduation, loan payments will still become due and interest will compound. Since the total outstanding federal debt includes loans in deferment due to many borrowers being current students, the actual default rate of student loan debtors in repayment is likely significantly higher than rates currently calculated for this cohort.

**Exhibit 11**  
**Federal Loan Default Rates and Four-year Graduation Rates**  
**Federal Fiscal 2012 and Cohort Year 2010**



BSU: Bowie State University  
 CSU: Coppin State University  
 FSU: Frostburg State University  
 MSU: Morgan State University  
 SMCM: St. Mary’s College of Maryland  
 SU: Salisbury University  
 TU: Towson University

UB: University of Baltimore  
 UMBC: University of Maryland Baltimore County  
 UMCP: University of Maryland, College Park  
 UMES: University of Maryland Eastern Shore

Note: The default rate cohort and graduation cohort are from different years, but reflect the most recent data available. Graduation rate reflects only first-time, full-time students. The University of Baltimore is excluded from the trend line because it is an outlier.

Source: U.S. Department of Education; Maryland Higher Education Commission

If a school hits 30% in its default rate for one year, USDE requires it to take corrective actions such as creating a default prevention plan and student outreach efforts. If it hits 30% or higher in successive years, USDE may take punitive sanctions against the institution. For this

reason, some institutions choose not to participate in federal loans so as not to jeopardize future receipt of Pell grants. This is the case for BCCC, Carroll, and Chesapeake community colleges. From the 2010 to the 2012 cohort, all four-year institutions saw their default rates decrease between 2 to 4 percentage points, although Morgan State University and the University of Maryland, Eastern Shore declined by about 7 percentage points each.

## Federal Student Loan Repayment and Forgiveness

Federal loans made directly to the student have, compared to privately sourced loans, generous repayment terms. All federal loans initially enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size:

- **Income Contingent Repayment (ICR):** original loan amount forgiven after 25 years of on-time payments, but must pay all accrued interest on loans.
- **Income Based Repayment (IBR):** payments are capped at 15% of any income beyond the poverty level; any remainder is forgiven after 25 years of payments.
- **Pay as You Earn (PAYE):** only for loans made on or after October 1, 2011; payments are capped at 10% of any income beyond the poverty level; any remainder is forgiven after 20 years of payments.

A further layer to these plans was added with a public service component for loans made after October 1, 2007:

- **Public Service Loan Forgiveness:** must be enrolled in a qualifying repayment plan (ICR, IBR, PAYE, or default 10-year plan); must work for a qualifying public service organization (generally, anything tax-exempt); any remainder is forgiven after 120 monthly on-time payments.

Many of the benefits of these federal repayment programs and others are similar or overlapping, causing some confusion for graduates. Beginning in December 2015, the Revised PAYE (REPAYE) program will take effect and should simplify the above programs by letting students with older student loans join a plan with PAYE-equivalent benefits.

As shown in **Exhibit 12**, federal loan calculators give students many options for repayment. In this example, a student takes out the average Maryland debt, about \$27,500, maxing out subsidized loans and the remainder in unsubsidized loans. With the average debt amount, the graduate actually does not face a significant difference in the amount paid each month or in the total amount of capitalized interest, except for the graduated plan, which ramps up payment steadily over the life of the repayment plan. The difference between the highest and lowest amount

paid is about \$1,800, or a difference of about 5% over the life of the loan. It is only for very highly indebted students that there is a significant change in monthly payments and the prospect of loan forgiveness under the federal repayment plans. Interestingly, under this scenario, no debt would actually be forgiven.

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**Exhibit 12**  
**Federal Repayment Plans Example**  
**Total Loan = \$27,457**

<u>Repayment Plan</u>	<u>Repayment Period</u>	<u>Initial to Final Amounts</u>	<u>Monthly Payment</u>	<u>Total Interest Paid</u>	<u>Total Amount Paid</u>
Standard	120 months	\$289 to \$289		\$7,173	\$34,630
Graduated	120 months	\$163 to \$489		9,009	36,466
Income-based Repayment	121 months	\$265 to \$289		7,369	34,826
Pay As You Earn	121 months	\$265 to \$289		7,369	34,826
Income-contingent Repayment	146 months	\$241 to \$258		8,884	36,341

Note: This assumes a single Maryland resident taking a starting job with an average starting wage (\$49,500) per Towson's College Scorecard. Loan amount example comes from the Project on Student Debt.

Source: Repayment Estimator, U.S. Department of Education

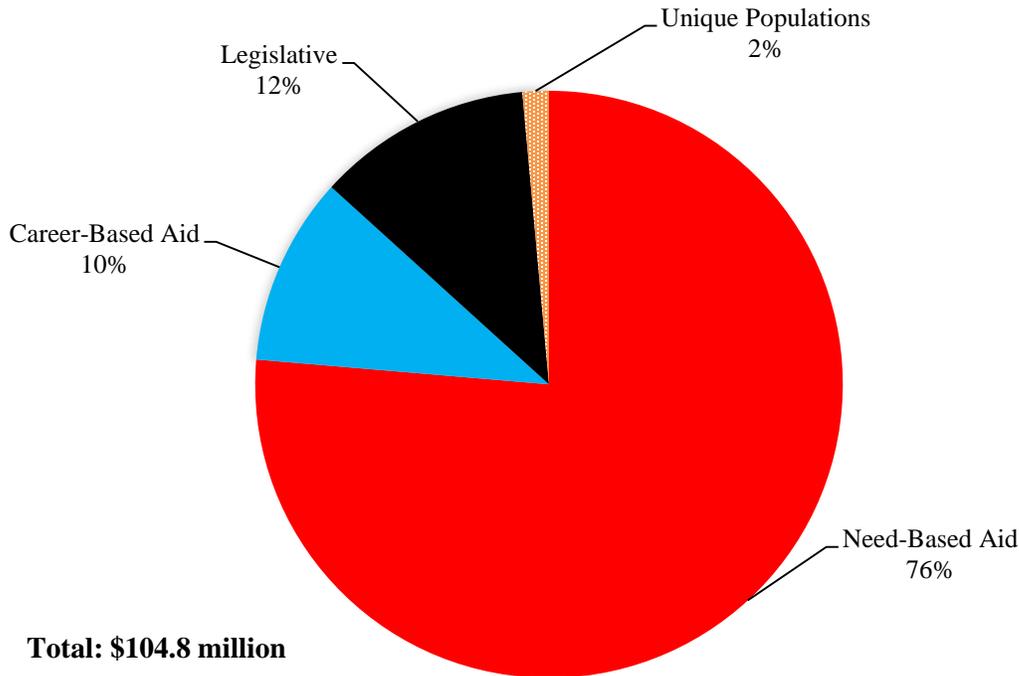
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## Maryland's State Financial Aid Programs

At the State level, the Office of Student Financial Assistance (OSFA) within MHEC is responsible for administering grants and scholarships to students through four types of financial assistance: need-based grants, legislative scholarships, career-based grants & scholarships, and aid to unique populations (such as military veterans). **Exhibit 13** shows the percentage of State funds appropriated by aid type in fiscal 2016. Need-based aid represents the largest portion of State financial aid at 76%, or \$80.1 million. This has been level-funded since fiscal 2010. As of 2015, Maryland ranks sixteenth nationally for need-based grant dollars per undergraduate student, awarding approximately \$491 per undergraduate. This is below the national average of \$533, which is pulled upward by states such as New Jersey which awards \$1,227 and Pennsylvania which awards \$840 per undergraduate. Those states are ranked second and sixth, respectively.

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**Exhibit 13**  
**State Student Financial Assistance Programs**  
**Fiscal 2016**



Source: Financial Aid Information System, Maryland Higher Education Commission

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Given the increase in financial need for students, concern has been raised that the process for awarding need-based grants is inconsistent, which is causing acceptance rates for need-based grants to be at a historic low. The 2014 *Joint Chairmen's Report* (JCR) required MHEC to examine certain aspects of the State's need-based aid programs, such as the application process, student eligibility, the number of recipients, average award amounts, program expenditures, and the waitlist. In response to the JCR charge, MHEC reconvened the Financial Aid Advisory Committee (FAAC) in spring 2014 and released a report addressing the 2014 JCR charge in December 2014 entitled *Recommendations to Improve Need-Based Student Financial Aid Programs and Expenditure of State Funds*.

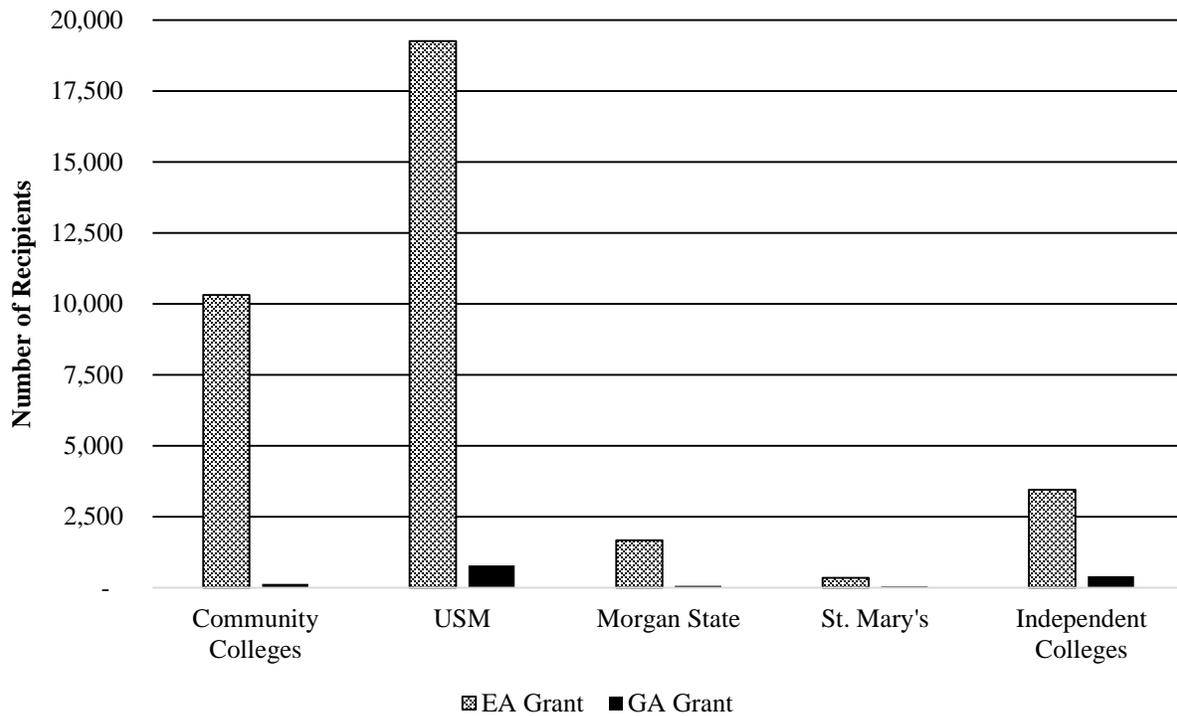
## **Education Excellence Award Program**

The largest need-based grant program in the State, 92% of all need-based funding, is the Howard P. Rawlings Education Excellence Award (EEA) Program. The EEA program provides grants to students who are Maryland residents, demonstrate financial need, and meet other qualifications determined by OSFA. The EEA program is comprised of the Guaranteed Access grant (GA) and the Educational Assistance grant (EA). During fiscal 2014, 1,432 students received a GA grant and 35,037 students received an EA grant. That year, the GA program had an expenditure of \$16.3 million and the EA program had an expenditure of \$73.8 million. As illustrated by **Exhibit 14**, in fiscal 2014 the majority of EA and GA grants went to students who attended the University System of Maryland.

The GA grant is awarded to low-income students whose total family income is at or below 130% of the federal poverty level for initial awards, and 150% of the federal poverty level for renewal awards as evidenced by the student's FAFSA. The GA grant covers 100% of a student's financial need, which includes the cost of tuition, mandatory fees, and room and board minus the Pell grant, other State scholarships, and the student's EFC. To qualify for an initial GA grant, a student must complete and file a FAFSA and a GA grant application before March 1, enroll at a two-year or four-year institution of higher education in the State as a full-time, degree-seeking, undergraduate student, and demonstrate financial need. While the maximum GA grant in fiscal 2014 was \$16,100, the average grant award was \$11,618. In fiscal 2016, the maximum GA grant award is \$17,500, the cost of attendance at the most expensive University System of Maryland institution.

Similarly, a student is eligible for an EA grant by demonstrating financial need through the FAFSA. The EA grant is intended to meet 40% of a student's financial need at a four-year institution and 60% of a student's financial need at a community college. The EA grant amount a student receives is determined by factoring in a student's COA. The EA grant may be applied to a student's costs of tuition, mandatory fees, and room and board. To qualify for an EA grant, a student must complete and file a FAFSA before March 1, enroll at a two-year or four-year institution of higher education in the State as a full-time, degree-seeking, undergraduate student, and demonstrate financial need. An EA grant can range from \$400 to \$3,000 per year. The average EA grant award for fiscal 2014 was \$2,105.

**Exhibit 14**  
**Number of EEA Grant Recipients by Higher Education Segment**  
**Fiscal 2014**



Source: Financial Aid Information System Report; Maryland Higher Education Commission

Total EEA funding is distributed first to students who are eligible for a GA grant. Any remaining funds then go toward making EA grants, in order of financial need. The GA and EA grant programs allow a student's award to be renewed if the student continues to demonstrate some level of financial need, is enrolled at an institution of higher education as a full-time student, remains a resident of the State, is making "satisfactory" academic progress according to the institution, and completes and files a FAFSA by March 1, annually. GA initial awards and renewals and EA grant renewals have priority over initial EA awards. The EEA program is typically not enough to provide grants to every student that is eligible for an EA grant, which results in a waitlist. EEA grants are available to a student for up to four years of study at an institution of higher education unless certain conditions are met. The priority for EEA funding can be expressed as:

Initial and Renewal GA Grants → Renewal EA Grants → Initial EA Grants

One of the aspects of the EEA program that the FAAC examined was the definition of full-time enrollment. FAAC recommends changing the definition from 12 credits per semester to 15 credits per semester, or 30 credits per year. Maryland law and USDE define "full-time

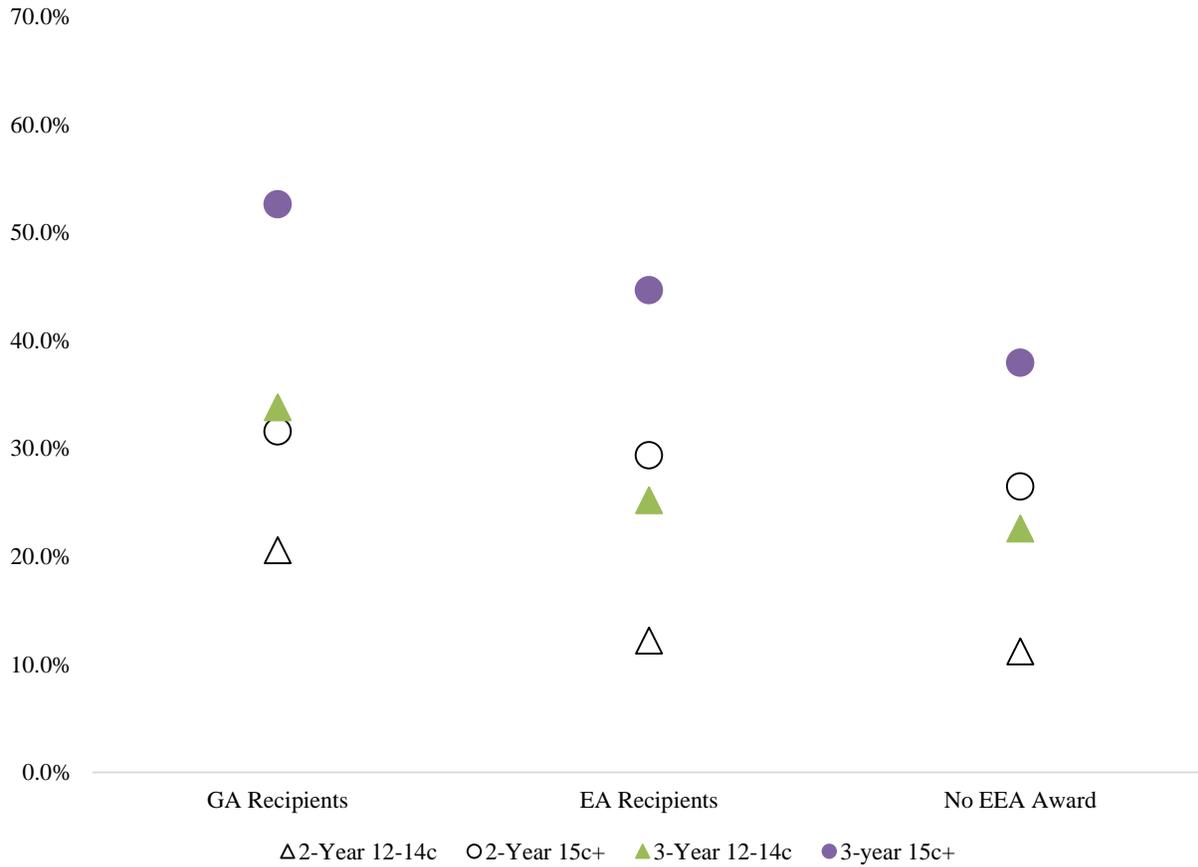
enrollment” as 12 credits per semester for financial aid purposes. Most four-year degree programs require a student to satisfactorily complete at least 120 credits to graduate and earn a bachelor’s degree, and similarly, 60 credits are required for most associate’s degrees at community colleges. A student enrolling in 12 credits per semester would need five years to complete the 120 credits required to graduate, whereas a student enrolling in 15 credits per semester would need four years. The definition of 12 credits as full-time, has been cited as a contributing factor to fewer students graduating in four years as compared to a couple decades ago.

In addition to changing the definition of full-time enrollment, FAAC also recommends that students enrolled in 15 credits per semester should receive the maximum EA grant award amount, and students enrolled in 12 credits per semester should receive 80% of the maximum award. FAAC believes that this change is necessary because students often run out of eligibility for need-based grants before completing their degrees. If a student runs out of eligibility before the student completes their degree program, the student will have to pay for their educational expenses either with loans or out of pocket.

FAAC reviewed outcomes for EA and GA grant recipients versus the rest of the student body by credit hours attempted. This information, shown for community colleges in **Exhibit 15**, raises some interesting questions about student performance at community colleges. It should be noted that the data for this exhibit and the next can only track a student’s outcome based on how many credits that student takes in their first semester. The student may enter enrolled in between 12 and 14 credits but could enroll in more or fewer credits in succeeding semesters. The data is not adjusted for this possibility. When first enrolling for 12 to 14 credits, GA recipients outperform EA recipients and students with no EEA award. When taking at least 15 credits, the performance of GA recipients improves further. Clearly, starting full-time in the first semester has a strong influence on student achievement. In fact, national research, such as Lumina Foundation, supports these findings showing that students who take 15 or more credits per semester earn better grades, are more likely to stay enrolled in school, and are more likely to graduate.

**Exhibit 16** shows comparable data for public four-year institutions with four- and six-year graduation rates. Converse to the community colleges, it does not seem to matter how many credits GA recipients initially enroll in as their performance is nearly identical regardless of the number of credit hours. Moreover, they slightly outperform EA recipients at the 12- to 14-credit level, but lag behind all other groups. When taking at least 15 credits, the performance of EA recipients and no EEA award improve significantly.

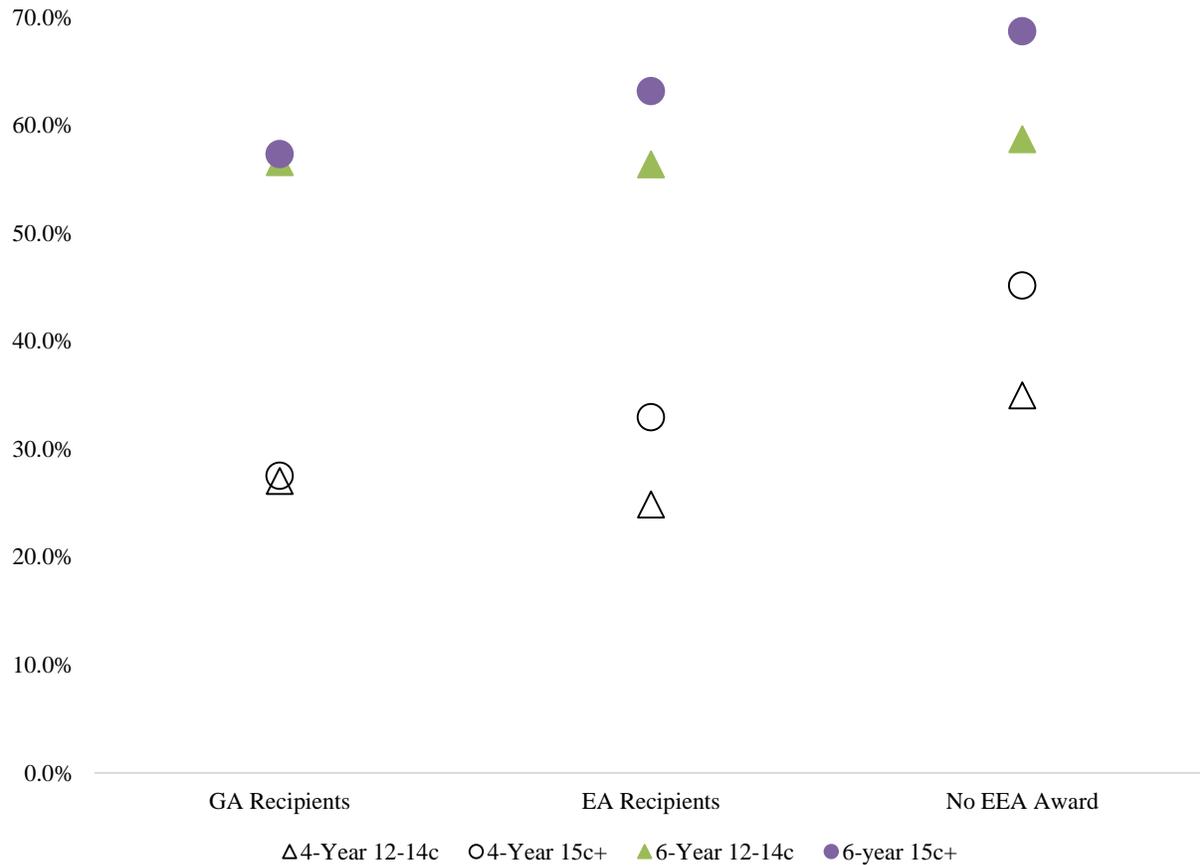
**Exhibit 15**  
**Graduation Rates by Award Type at Community Colleges**  
**Cohort 2008**



Note: Two-year and three-year graduation rates are shown.

Source: Office of Student Financial Assistance, Maryland Higher Education Commission

**Exhibit 16**  
**Graduation Rates by Award Type at Public Four-year Institutions**  
**Cohort 2008**



Note: Four-year and six-year graduation rates are shown.

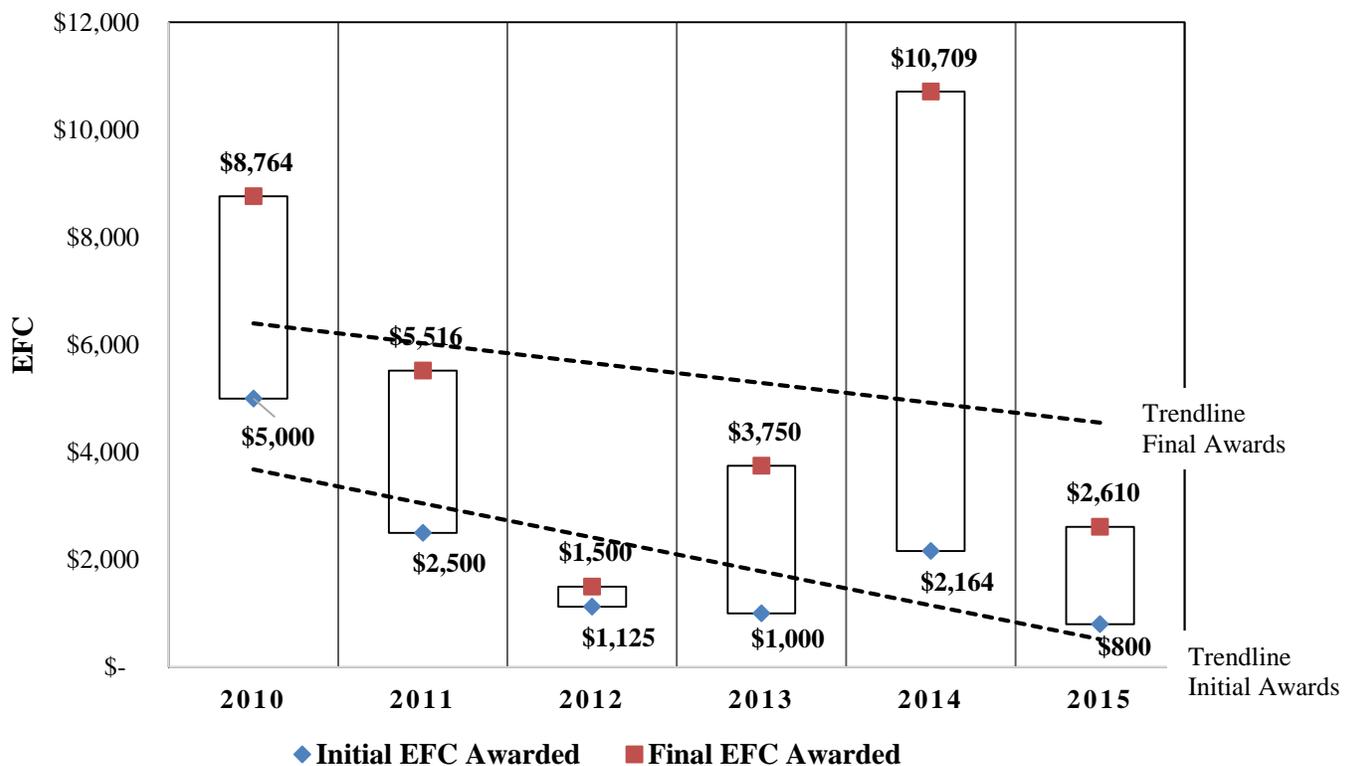
Source: Office of Student Financial Assistance, Maryland Higher Education Commission

FACC also recommended that OSFA stop giving priority for EA renewal grants and treat all EA award grants as initial awards. In fiscal 2014, OSFA allocated 58% of the total EEA program appropriation to EA grant renewal awards. Currently, renewal awards are automatically accepted for both EA and GA grant award recipients, as long as the recipient completes and files a FAFSA by March 1, continues to demonstrate some level of financial need, and is progressing satisfactorily through the institution of higher education.

In fiscal 2014, OSFA awarded EA grants to students with an EFC no more than \$2,164. When waitlist awarding was performed, the EFC cutoff increased to \$10,709, thus impacting the number of renewal awards that could be offered in subsequent years. Therefore, in fiscal 2015,

EA grant awards were renewed for students who had an EFC up to \$10,709, hence the EA grant initial awards could only be made up to an EFC of \$800. **Exhibit 17** shows that both the initial and final EFCs of students who received EA grants is trending downwards. This implies that only students with more significant financial need are being reached, leaving those with more moderate need without aid.

**Exhibit 17**  
**EFC Cut Off for EA Grant Awards**  
**Fiscal 2010-2015**



Source: Office of Student Financial Assistance, Maryland Higher Education Commission

FAAC asserts that if all EA grant awards are treated as initial awards, the high variation between the EFC cutoff of initial and renewal awards could be greatly reduced, thus creating greater equity in award distribution. FAAC does not recommend the same change for the GA program.

Additionally, FAAC recommends that OSFA create an application for the EA grant in order for OSFA to improve their ability to project future program expenditures. To receive an EA

grant, a student has to complete and file a FAFSA by March 1. Students who show *any* degree of financial need based on their FAFSA are deemed eligible for an EA grant and are placed in line based on EFC. According to OSFA, the number of students eligible for an EA grant varies greatly between award years. Requiring students to fill out an application in order to be eligible for an EA grant would allow OSFA to know exactly how many students are interested in receiving an EA grant, allowing OSFA to better project how many students would be eligible and interested in receiving an EA grant in future years. Additionally, if a student is required to actively apply for an EA grant, the student could be more likely to accept the award in a timely manner, improving award acceptance rates. However, requiring students to apply for EA grants may deter financially needy students from receiving aid as it is another application to submit in addition to FAFSA.

Lastly, FAAC recommended moving the FAFSA deadline for State awards to sometime later than March 1, the current due date, to provide students more time to decide on whether to pursue higher education during the senior year of high school. However, in September 2015, the Obama Administration announced that the FAFSA would begin accepting what is called prior prior-year tax information beginning for the 2017-2018 academic year. Using two-year old tax information rather than one-year old information means the FAFSA will be available significantly earlier for that application cycle – sometime in October 2016 rather than January 2017. Allowing prior prior-year information plus the three-month earlier start date for the FAFSA should greatly simplify the process for families and give students more information before regular admissions decisions must be made, generally in April for selective institutions and later for other institutions, and will make the early acceptance process more viable. These changes may lead to an increase in financial aid demand. Because State need-based programs are applied to student need after federal grants are considered, Maryland is sensitive to federal financial aid changes. For this reason, FAAC, in responding to the 2015 *Joint Chairmen's Report*, may decide to wait and see how prior prior-year affects State financial aid before recommending further changes.

### **Other Need-based Awards**

The Campus-Based Educational Assistance Grant is allocated to institutions of higher education in the State to make financial aid awards to students who apply for aid *after* the March 1 deadline date or who have other extenuating circumstances. According to OSFA, in the past, institutions have tended to spend all of the funds allocated to them for Campus-Based Educational Assistance grants. In fiscal 2015, the Campus-Based Educational Assistance Grant Program received an appropriation of \$1.8 million to be split among participating institutions.

Chapter 315 and 429 of 2002 established the College Readiness Outreach Program which allows ninth and tenth graders who qualify for the Guaranteed Access (GA) grant, an award of up to \$17,500 in the 2015-2016 school year, to “pre-qualify” for financial aid as an incentive to become college and career ready and pursue higher education. The statute specifies that MHEC should work with the Maryland State Department of Education and county boards of education to publicize and implement this opportunity for students and counsel them about how to become college ready and apply, as well as connect students with mentors. No State funding has been provided for this initiative.

The Part-Time Grant Program provides funds to institutions of higher education in the State based on the number of part-time undergraduate students with a demonstrated financial need. Under Maryland law, a part-time student is defined as a student who is taking between 3 and 11 credits each semester, or is a dually enrolled high school student. Each semester, an institution of higher education may use up to 10% of the part-time grant allocation to provide grants to students who are enrolled in at least three but less than six credits. Currently, the Part-Time Grant Program receives a yearly appropriation of \$5,087,452 split among participating institutions. The minimum part-time grant is \$200 and the maximum grant is \$2,000. This is one of the few State options available to students who are enrolled less than full-time at an institution of higher education in the State. However, the part-time grant is only available in the fall and spring semesters.

FAAC recommends that OSFA consider making part-time grants available to students who take summer coursework. Summer coursework has increasingly become a popular option for students who want to remain academically productive during the summer months. Previously Pell grants could be used for summer work but that was eliminated by the federal government beginning with summer 2012. Summer coursework can help a student who may have taken less than 15 credits in either the fall and spring semester earn more credits in order to be on track for on-time graduation. In the summer months, students typically take between three and eight credits. In order to make part-time grants available in the summer semester to offset the impact of the federal change, the provision in the Annotated Code that limits the percentage of the part-time grant allocation to be given to students who take between three and six credits above 10% would need to be amended.

### **The Need-Based Student Financial Assistance Fund**

The Need-Based Student Financial Assistance Fund (NBSFAF) is a special fund that was created to better account for unused financial aid funds. Over the years, OSFA has encountered an issue with the large number of students who are awarded need-based grants but for whatever reason, fail to accept the grants. Unused and canceled scholarship allocations are deposited into the NBSFAF at the end of each fiscal year to be used for future need-based awards. MHEC retains a fund balance in the NBSFAF throughout each fiscal year as a safeguard against over-awarding. A legislative audit conducted in 2013 noted that OSFA had not used the funds in the NBSFAF to make need-based awards and large balances had accrued.

The award acceptance period generally lasts around six weeks, the majority of which occurs during the summer months after award announcements are made. Once a student is made aware of their award, the student has 21 days to accept the award or the award is canceled and is put into the NBSFAF. Historically a large number of canceled awards has greatly impacted OSFA's ability to accurately anticipate expenditures, which impacts OSFA's ability to reach eligible applicants on the waitlist. FAAC recommends that any leftover funds in the NBSFAF be moved into the Part-Time Grant and Campus-Based EA Grant programs so that more awards could be made from each program.

## **2+2 Transfer Scholarship**

The 2+2 Transfer Scholarship is designed to assist and encourage transfer students from community colleges in the State to attend a four-year institution of higher education in the State. To be eligible for the 2+2 Transfer Scholarship, a student must be enrolled as a degree-seeking student at a community college in the State, be accepted for admission to a degree program at a public or private nonprofit four-year institution of higher education, and intend to complete a bachelor's program. Additionally, a student must have an EFC of \$10,000 or less. The annual award amount is \$1,000, except for a student who enrolls in a science, teaching, engineering, computer science, mathematics, or nursing program, the award amount is \$2,000. Per Maryland law, if the Governor does not provide at least \$2.0 million for the program, MHEC is required to appropriate \$2.0 million to fund the program. Initial awarding of the scholarship was delayed due to confusion regarding whether MHEC was in fact mandated to appropriate the funds to the program. It was determined that the appropriation of funds was not a mandate, but an appropriation could be made to the 2+2 Transfer Scholarship fund by budget amendment. MHEC resolved the issue with the Department of Budget and Management and \$200,000 will be made available for these scholarships, which MHEC will start awarding in fall 2015.

## **State Loan Assistance Programs**

Although Maryland has not offered student loans since the 1980s, the State funds several LARPs for physicians, dentists, and other occupations, such as teaching and law. LARPs provide loan repayment assistance in exchange for certain service commitments to help ensure that there are sufficient numbers of skilled professionals working in underserved areas of the State or on behalf of low-income families. While most aid is focused on enrolling students, LARPs reward students for completing a degree. State funding has been relatively flat, at about \$3.0 million, for several fiscal years, and the number of students receiving awards has remained relatively low. While MHEC makes about 60,000 financial aid awards per year, LARPs account for only about 200 awards. Additional funding for LARP can benefit many students due to a new requirement by the General Assembly that recipients must be enrolled in PSLF. If LARP awards are limited to the minimum payments required for the PSLF, it could stretch State funding even further. Georgetown University uses this strategy to assist its law school graduates.

## **Using Financial Aid to Increase Completion Rates**

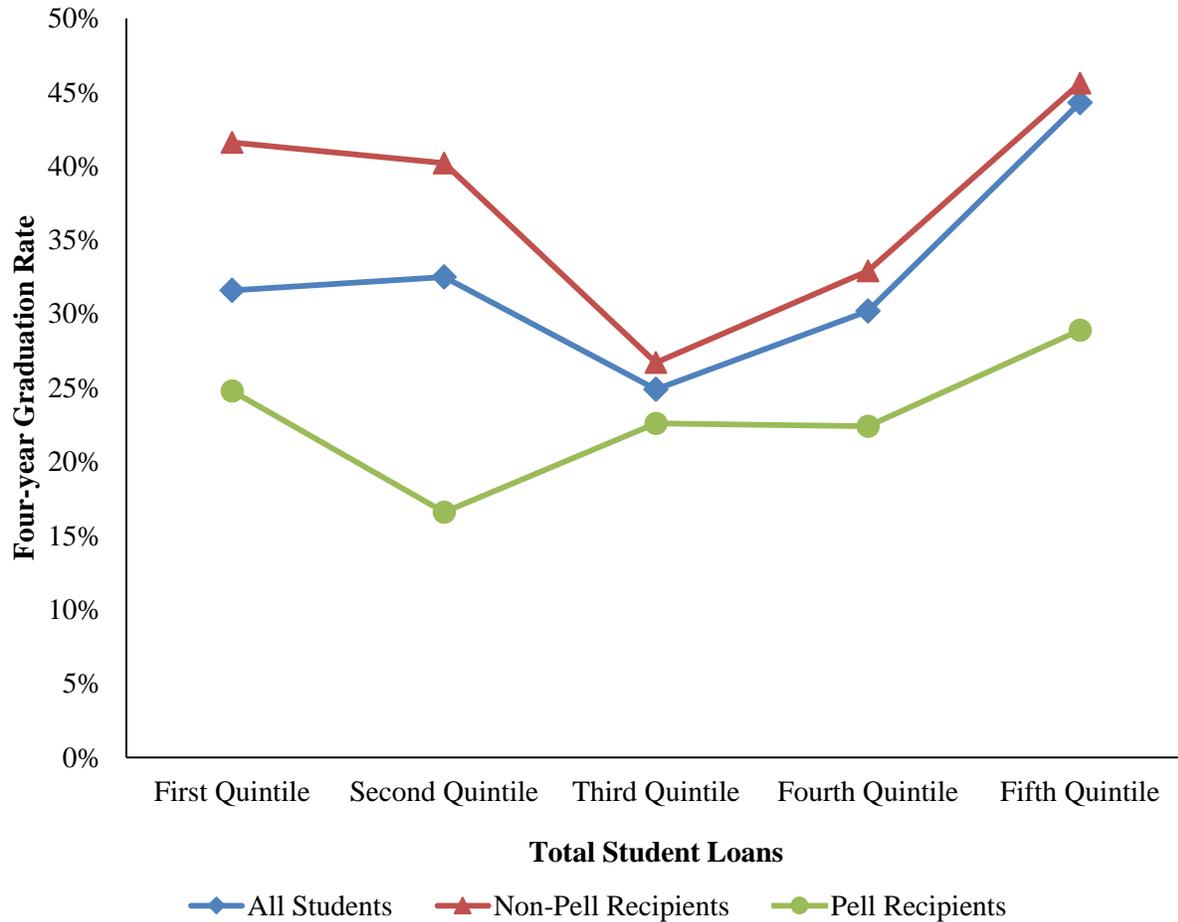
Given the large amount of unmet need of Maryland students and the likely continuation of modest to no increases in State funding, how can Maryland leverage the dollars it does have to increase completion rates? A pressing need for financial aid research lies in determining how much aid is necessary to incentivize retention and graduation, rather than just enrollment. In response to charges in the 2013 and 2014 *Joint Chairmen's Reports*, MHEC pursued a line of research examining how unmet need impacts the odds that a student will return to school (persistence) and complete a degree (graduation).

In a 2013 report that ran a regression analysis on students enrolled in fall 2010, MHEC found a very strong relationship between retention rates and family incomes. It examined deciles of family income, which suggested that the issue is not just initial access to institutions, but rather sustaining necessary financial aid for the duration of enrollment, especially for students in the lowest income deciles. Given that students from the lowest decile of income are more likely to receive Pell grants, it was not surprising to see students just above that actually having a higher unmet need due to not receiving Pell grants. In the middle of the income spectrum, unmet need fell to only \$600, and above that, students actually had, on average, negative unmet need. In other words, the higher income deciles are receiving financial aid benefits in excess of the COA. This is due to many students receiving various forms of non-State merit aid.

In the same study, MHEC then compared the strength of unmet need versus other variables, such as grade point average (GPA), Scholastic Aptitude Test (SAT) scores, and gender, in predicting retention and graduation. Families with incomes from about \$47,000 to \$122,000 used loans to finance 35% to 38% of college costs, higher than other income ranges under the study. After review, MHEC determined that unmet need is statistically significant for predicting retention for students in the lowest two income quintiles, but the effect size was small, especially compared to first-year GPA and SAT scores, both strictly academic indicators. Another model was run for graduation rates, and MHEC found GPA, SAT scores, and gender had stronger explanatory power than unmet need. So, while unmet need has a negative correlation to both persistence and four-year graduation rates, it is only significant for the two lowest income quintiles, or the lower 40% of AGI.

MHEC's 2014 report examined the effects of unmet financial need on student performance at public four-year institutions to determine whether loans had an impact on the graduation rate of FT/FT students in fall 2010, after dividing this cohort into five brackets by student loan size, or loan quintiles. As shown in **Exhibit 18**, the overall graduation rate across loan quintiles for all students is U-shaped – the highest and lowest quintiles had the highest graduation rates, 44.3% and 36.1%, respectively, and the middle quintile had the lowest, 24.9%. However, when Pell-eligible students alone are considered, all graduation rates were lower and much flatter so the difference between the upper and lower quintile and the middle quintile was only 4 to 6 percentage points. This suggests that students with small loans graduate, as well as students who take out large loans to cover all costs, whereas students in the middle may not be taking enough loans out, may be ineligible for more loans, or are reluctant to add debt and so do not graduate on time. It is not clear why only 30.0% of Pell-eligible students, even when taking out the highest amount of loans (the fifth quintile), graduate on time.

**Exhibit 18**  
**Four-year Graduation Rates of First-time, Full-time Students with Loans**  
**Cohort 2010**



Note: Each quintile is one-fifth of the total range of loan amounts taken out by students in this study. The higher the quintile, the higher the amount of loans that were taken out.

Source: Maryland Higher Education Commission

MHEC also looked at quintiles of unmet need versus quintiles of family income for student loans. The results were not surprising. Over 70% of students with the highest level of unmet need (\$4,700 or more) were in the bottom two quintiles of income, while over 85% of students with overmet need (\$12,900 or more) were in the highest two quintiles of income. Overmet need means the student is receiving more financial aid, generally merit based, than is necessary to cover costs of attendance as calculated by the FAFSA. MHEC's work also highlights some unusual outcomes. For example, no more than 45% of students with overmet need graduate on time at any quintile of

family income, and none graduated from the lowest quintile, suggesting financial aid leading to overmet need is ineffective for increasing on-time graduation.

Retention of low-income students is an ongoing problem for many institutions, as these students are more sensitive to annual price increases at institutions. Most institutions focus aid on enrolling students, rather than retaining students. This raises the issue of whether institutions should focus more resources on retaining students who are already enrolled, rather than on first-time, full-time students. In many cases, the average unmet need may be small, especially for the low- to middle-income students, and given limited institutional resources, it may make more sense to focus aid on students who have already accumulated credits toward a degree.

USM's own research findings from October 2013 discuss the quest to find the financial aid "levels sufficient to incentivize greater student retention and graduation." As mentioned earlier, the State and institutions strive to find the perfect award size to cause a student to enroll. MHEC currently has \$250,000 in funding called Complete College Maryland, which is part of a One Step Away program to re-enroll near completers. These grants are generally quite small, but enough to get a student to pursue education again. USM notes that 12% of seniors, roughly 4,000 students with at least 90 credits, fail to graduate each year. Institutional and State funding should look to those students to realize the best bang for the buck.

## Conclusion

Most students rely on financial aid to afford postsecondary education and most financial aid is federally funded. However, Maryland still plays an important role in influencing college affordability while also prioritizing completion. These can be broken down into the time in a student's career:

- **Before College:** With the simplification and wider application window of the FAFSA due to the acceptance of prior prior-year tax information, more students should be encouraged to fill out a FAFSA during the final year of high school since the student is only submitting a form to determine EFC, which does not commit a student to enrolling at a particular institution, or at all. Implementation and funding of the College Readiness Outreach Program would incentivize the most financially needy students to become college and career ready and pursue higher education.
- **During College:** First, continue supporting tuition moderation. This provides some predictability to students and allows universities some flexibility in responding to rising higher education costs. Second, support 15 credits as full-time to get students to on-time graduation. Third, support near completer programs to get students who need extra time or assistance over the finish line. Fourth, the State and institutions should consider incorporating progression metrics into scholarship renewal eligibility for State and institutional aid. For example, providing financial aid incentives for full-time students to

take at least 15 credits, instead of the current minimum of 12 credits. This will increase on-time graduation and get the students (and the State) more “bang for the buck.”

- **After College:** Encourage graduates with large federal loans to enroll in income-based repayment programs.

Demographics indicate that future higher education enrollment will include more students who will need greater financial assistance to enroll. While Maryland has provided considerable support for higher education institutions and has held tuition at public four-year institutions down, the amount of financial aid has not kept pace with the financial need of Maryland students. Increasingly, students are turning to loans to fulfill financial need that is not met by grants and scholarships. Ongoing dialogue between MHEC, institutions, and the General Assembly will be critical for improving affordable, on-time student outcomes at Maryland’s higher education institutions.

## **Recommendations**

- Institutions should establish best practices for reducing student loan burdens and set benchmarks for appropriate average loan debt and debt for lower-income students.
- The State and public institutions should continue to prioritize the moderating of tuition increases and also closely consider how rapid increases in mandatory fees, especially for activities not crucial to academics, such as intercollegiate athletics, impact students. Institutions should also consider the impact of nonmandatory fees, such as those specific to academic fields of study.
- The State should pursue the most effective use of financial aid dollars and outreach efforts that have the greatest impact on student completion, including additional funding for need-based aid and LARPs (as well as expanding LARPs) and additional advising and outreach efforts both in high school and college.
- The Financial Aid Advisory Committee should continue to meet in the 2016 interim to review OSFA awards and other topics it finds appropriate.

## **Discussion Questions**

- Getting FAIS data from MHEC has been repeatedly delayed on an annual basis, how can the Maryland Annual Collection system be better aligned, funded, or staffed to produce the most recent closed out fiscal year’s information in time for the legislative session?
- How will the recently redesigned MHEC website and the planned redesign of the MDGo4It website achieve the goals of the new outreach and college access plan? Is there a plan to unify net price calculators online?

- Since prior prior-year information can be used in the next FAFSA cycle, how can MHEC and the Maryland State Department of Education work with high schools to get more students to fill out the FAFSA in the October through March timeframe?
- Would the proposed EA grant application be in addition to the current GA application? How would this help the students applying for assistance?
- How will the NBSFAF be able to support fully funding the 2+2 Transfer Scholarship and provide additional funding to the Part-Time Grant Program and the Campus-Based Educational Access Grant Program simultaneously?
- What is on MHEC's financial aid research agenda for the next year, specifically how it can continue its previous line of inquiry exploring how financial aid can be used to incentivize persistence and graduation.