Center On Culture, Organizations and Politics
Institute for Research on Labor and Employment
University of California, Berkeley

ISSUE BRIEF

Wall Street & California's Student Debt Crisis

By Charlie Eaton and Brian Stewart*

Executive Summary

This brief shows large student loan debt increases in California since the 2004-05 school year. Further, we show that the whole public higher education sector — not just students — is paying more than ever to Wall Street. By the academic year ending in 2009-10, California's public colleges and universities were spending more than $1 billion a year on interest alone for bonds and institutional borrowing. Meanwhile, spending on instruction declined in the California State University (CSU) and community college systems. Spending on auxiliary services, including amenities like dorms and recreation centers, however, increased rapidly. Expansion of such amenities is often financed using bonds marketed by Wall Street banks.

Some key findings include:

- State appropriations to the University of California (UC) system after Prop 30 remain 21% lower than in 2001-02 without even considering inflation or enrollment growth. CSU appropriations are 11% lower. Nor have college appropriations been restored to 2001-02 inflation adjusted levels.
- From 2004-05 to 2013-14, in-state tuition increased by 114% at UC, by 134% at CSU, and by 43% at community colleges.
- From 2001-02 to 2009-10,[1] average revenue per student from tuition after financial aid is awarded increased by $3,990 at UC, by $2,982 at CSU, and by $537 at community colleges.
- Despite declining interest rates and stabilization of university revenue through tuition increases, growth in borrowing by CSU increased annual spending on interest payments per student by 82% from $265 to $479 per student annually.
- Despite stabilization of university revenue through tuition increases, growth in borrowing by UC increased annual spending on interest payments per student by 21% to $2,078 per student annually.
- Community colleges avoided tuition increases comparable to UC and CSU, but only with borrowing to offset public funding shortfalls under California's Prop 98 deferred payment scheme. With this new borrowing, community colleges increased spending on interest payments by 2,044% from $25 to $536 per student annually.
- While CSU decreased instructional spending, it had an 18% increase in spending on auxiliary services, an area that includes amenities such as dorms and recreation centers. Expansion of such amenities is often financed through bond borrowing that increases university interest rate costs.
- UC increased spending by 78% on auxiliary services but by just 23% on instruction.
- Facing these increasing costs, the share of current and former college students with student debt increased from 15% in 2004 to 23% in 2012.
- The average debt owed by Californians with student loans increased from $16,600 to $25,700.
- The share of California borrowers who are more than 90 days delinquent increased from 10% to 18%.
- Nationally, 81% of African American students have student loans, the highest rate.
- Nationally, 84% of students at for-profit colleges have student loans, the highest rate for any higher education sub-sector.

[1] This brief uses after-aid tuition revenue, state appropriation revenue, interest spending, auxiliary service spending, instructional spending, and full time equivalent student enrollment data from Delta Cost Project database which uses Integrated Post Secondary Education Data System data. Unfortunately, the database only has consistent data from 2001-02 to 2009-10. Tuition and fees data come from the College Board, CSU, and UC and are only easily available from 2004-05 through 2013-14.

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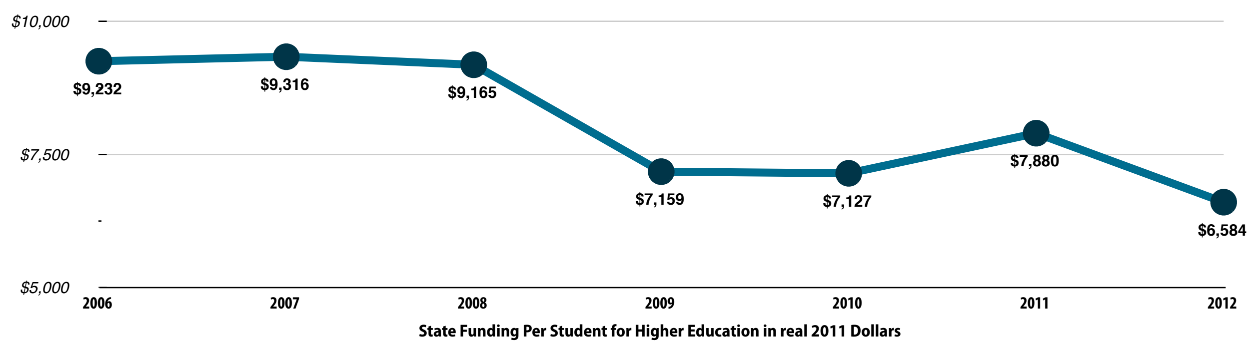
PART 1: **Tax Breaks For Wall Street, Cuts in Per-Student Funding For Higher Education**

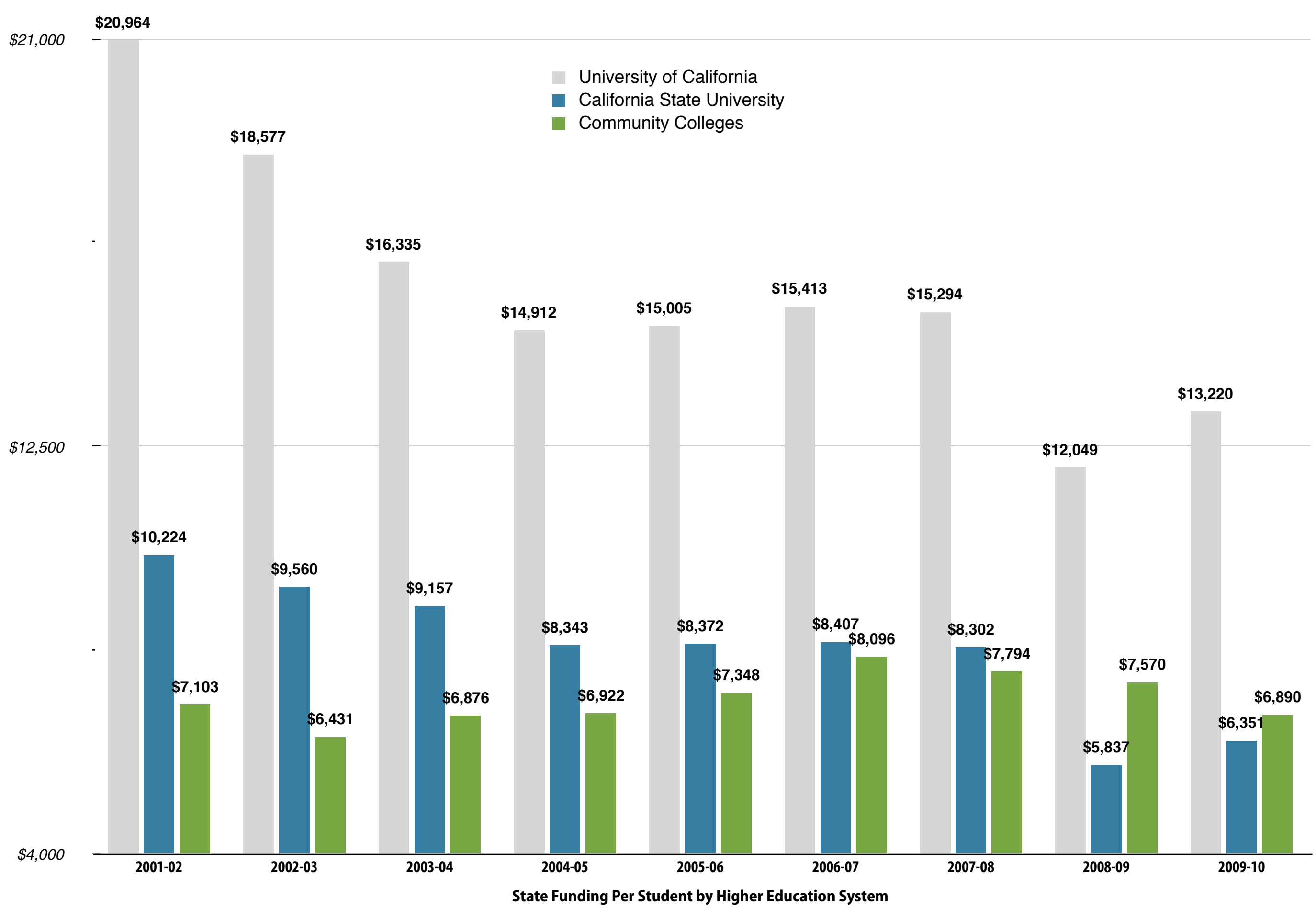
While Wall Street profits have soared, benefiting from corporate tax breaks, state funding per student has declined for higher education.

From 2006 to 2012, **state appropriations per student** in California declined by **28.7%**.



Source: "2013 Grapevine Compilation of State Fiscal Support for Higher Education," Center for the Study of Education Policy at Illinois State University. This data is adjusted for inflation to represents 2011 constant dollars.

Between 2001-02 and 2009-10, state and local funding per student declined by **25.4%** at **the University of California**, by **19.6%** at **California State University**, and increased by **1.6%** at **community colleges.**

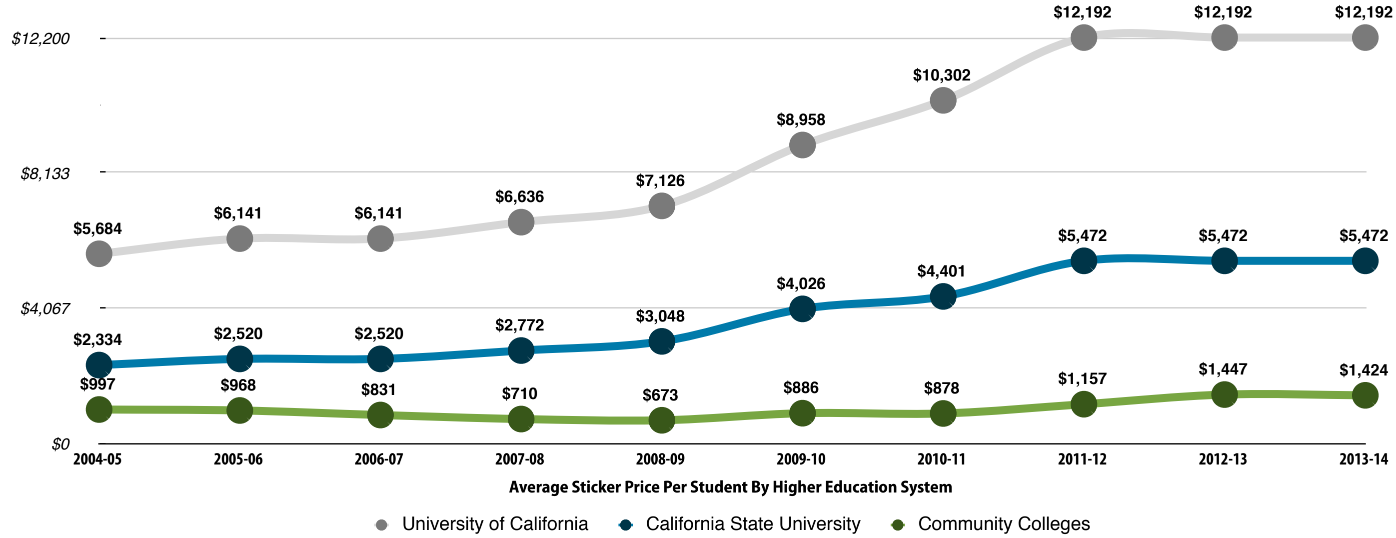


Source:: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars. IPEDS data is not available for years since Proposition 30 restored some funding for higher education. It is clear, however, that Proposition 30 has not altered the basic pattern. State appropriations to UC after Prop 30 remain 21% lower than in 2001-02 without even considering inflation or enrollment growth. CSU appropriations are 11% lower. Community college appropriations have not kept up even with inflation.

PART 2: **Students Are Paying the Price With Higher Tuition**

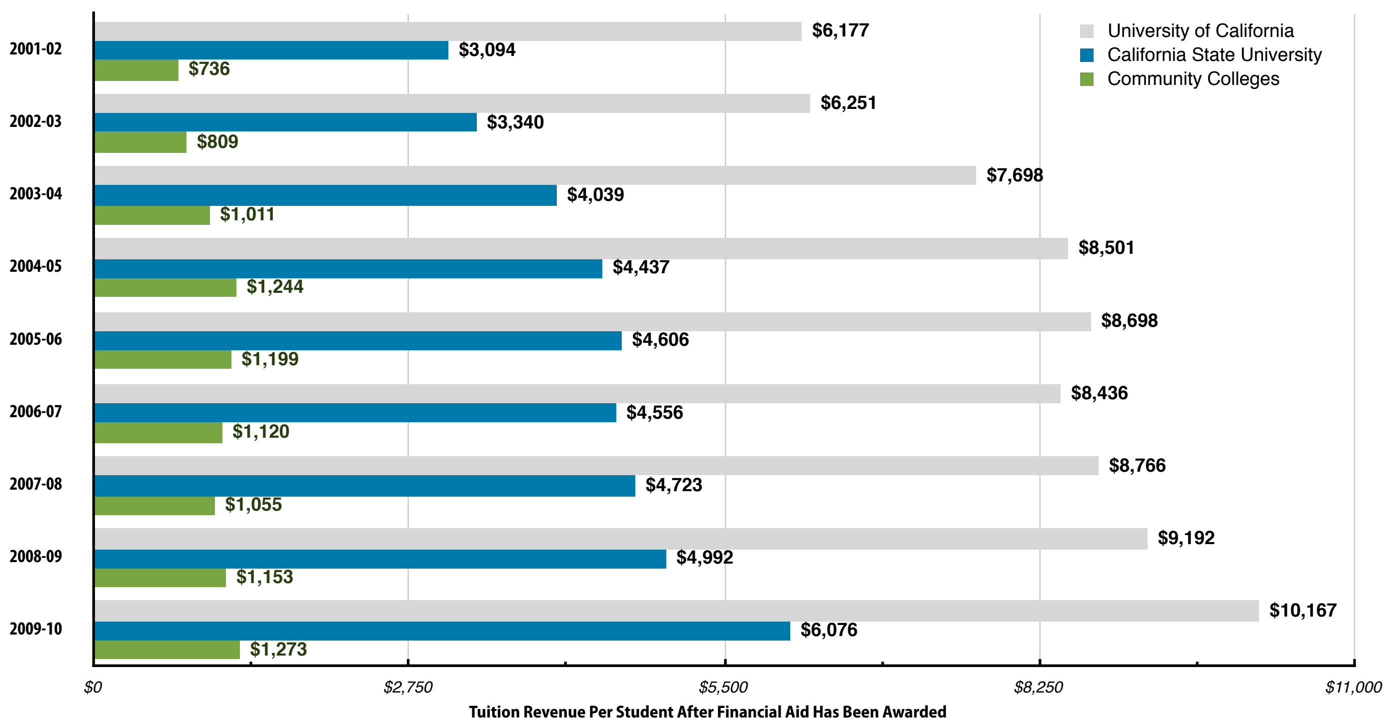
Public colleges have increased tuition radically to offset state appropriation reductions rather than rein in spending on non-instructional costs.

From 2004-05 to 2013-14, in-state tuition increased by **114%** at **UC**, by **134%** at **CSU**, and by **43%** at **community colleges**.



Source: Community college tuition and fees data are from http://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-sector-and-state-over-time. CSU data is for systemwide tuition only and is from http://www.calstate.edu/budget/student-fees/fee-rates/fullerton-history.shtml. UC data is for systemwide tuition only and is from http://data.universityofcalifornia.edu/student/stu-financial-aid.html.

Average revenue per student from tuition after financial aid is awarded increased by **$3,990** at **the University of California**, by **$2,982** at **California State University**, and by **$537** at **community colleges.**

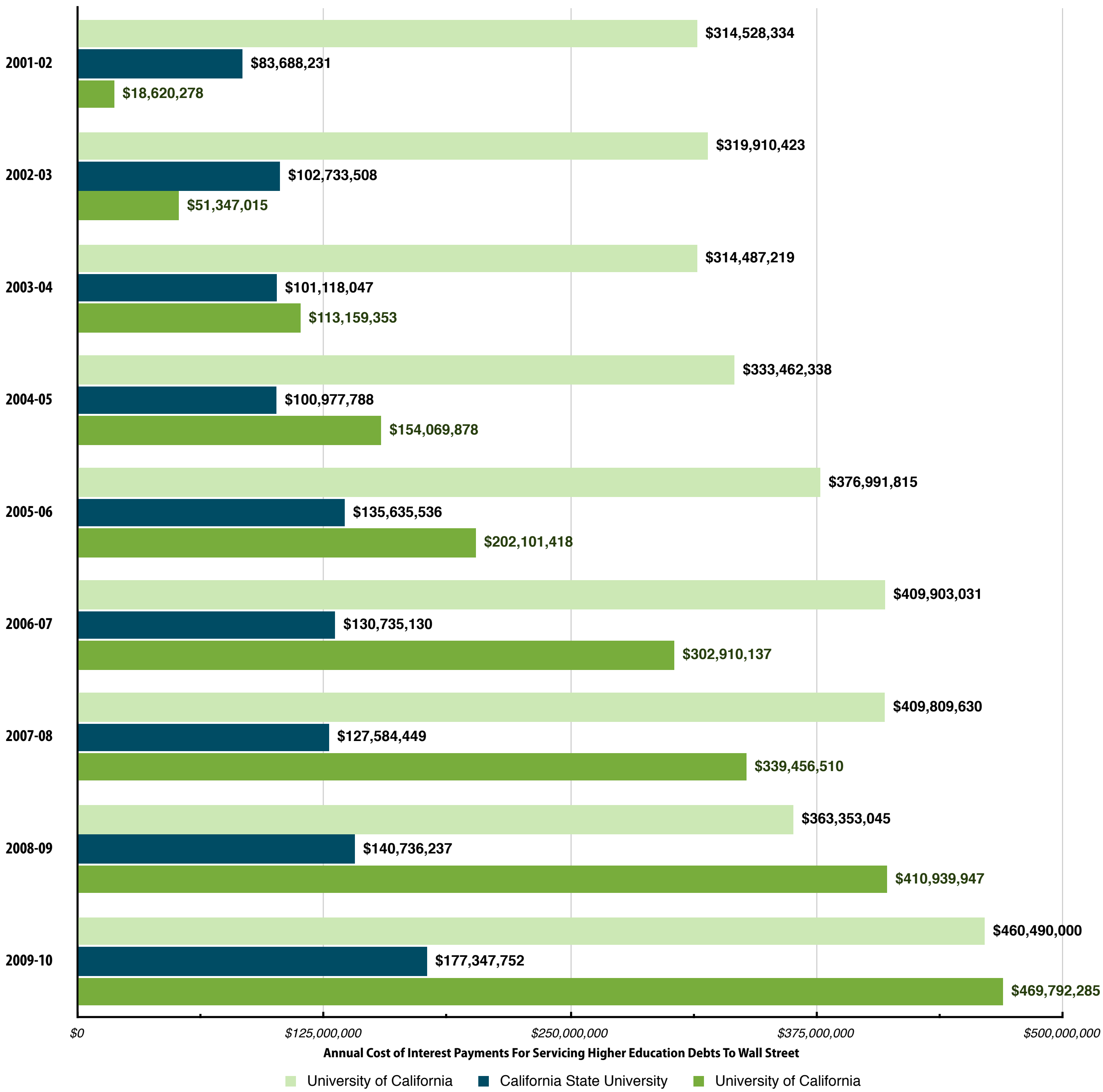


Source: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars.

PART 3: **More Spending is Going to Wall Street Instead of the Classroom**

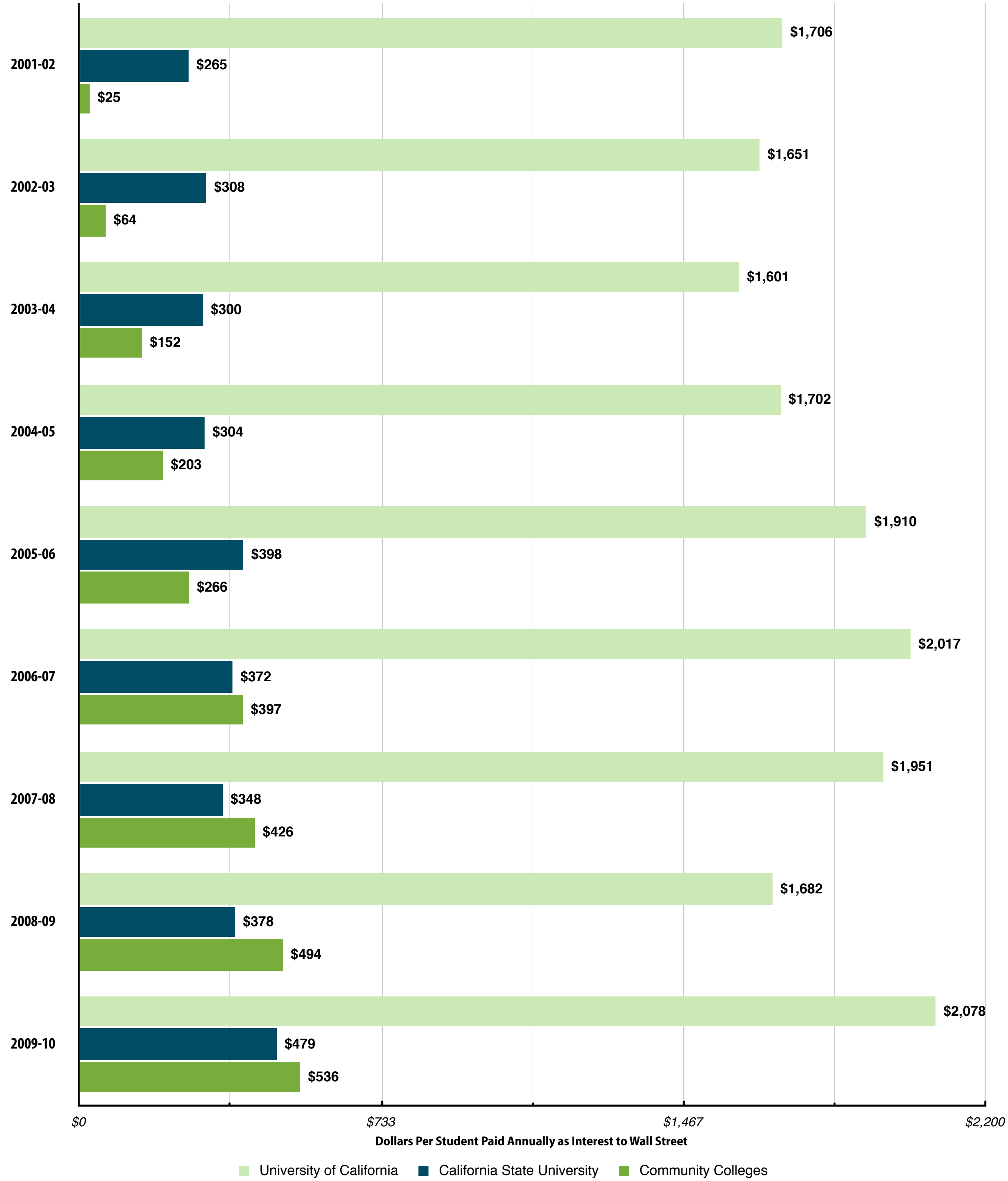
Public colleges have dramatically increased borrowing from Wall Street, much of it to pay for construction of amenities such as dorms, recreation centers, and sports facilities. Spending is increasing rapidly for auxiliary services, the area in which large parts of amenity spending is reported. Increased borrowing has also led to substantial increases in interest payments to Wall Street, despite a decline in interest rates offered by bond markets. On the other hand, spending on instruction has remained comparatively flat. With flat or reduced instructional spending, California's public colleges have turned away hundreds of thousands of qualified students.

From 2001-02 to 2009-10, California's public higher education institutions paid **$6.5 billion** in **interest to Wall Street**.



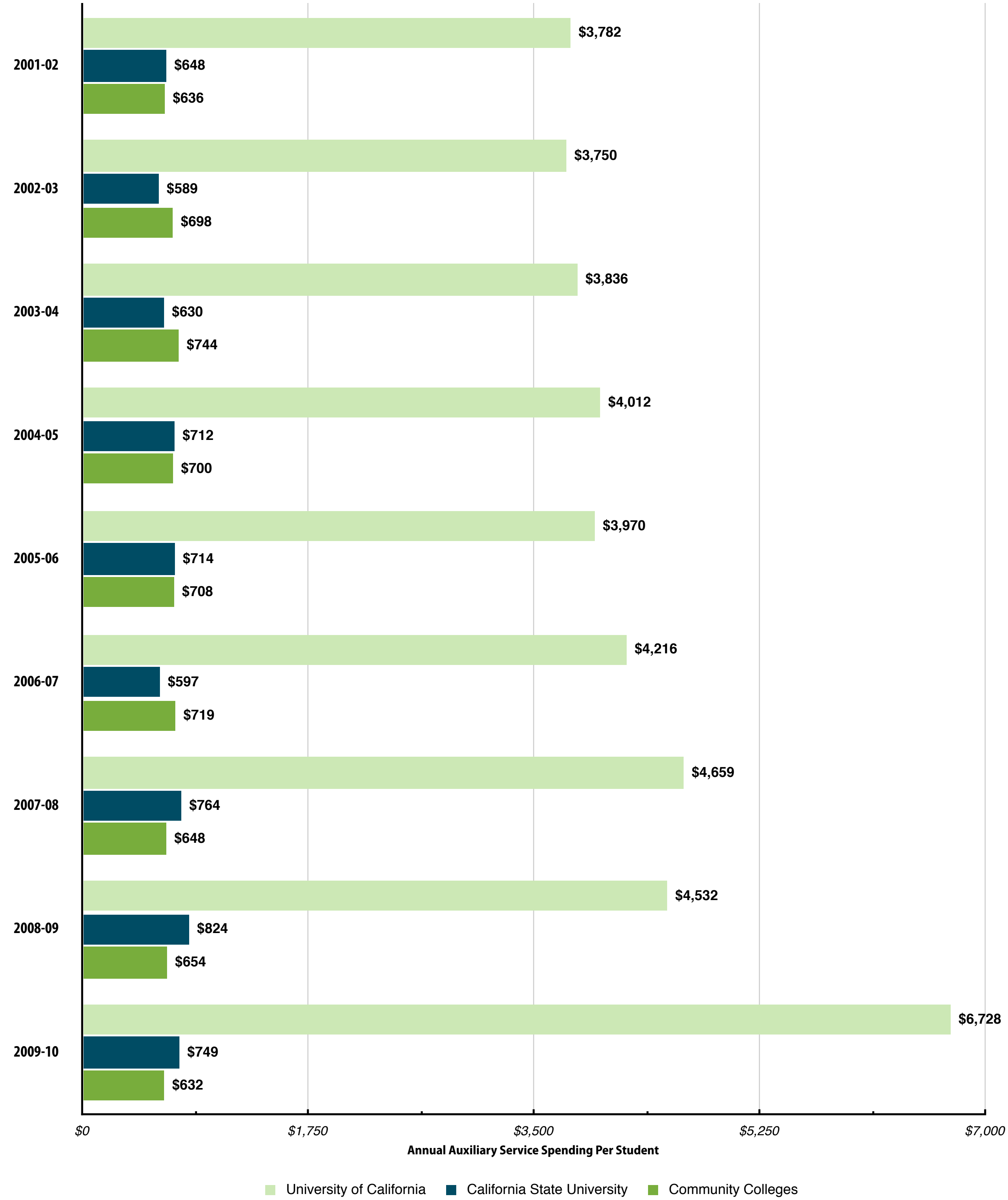
Source: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars.

By the 2009-10 academic year, California higher education institutions were paying **$775 per student** in **annual interest to Wall Street**, an increase of 127%.



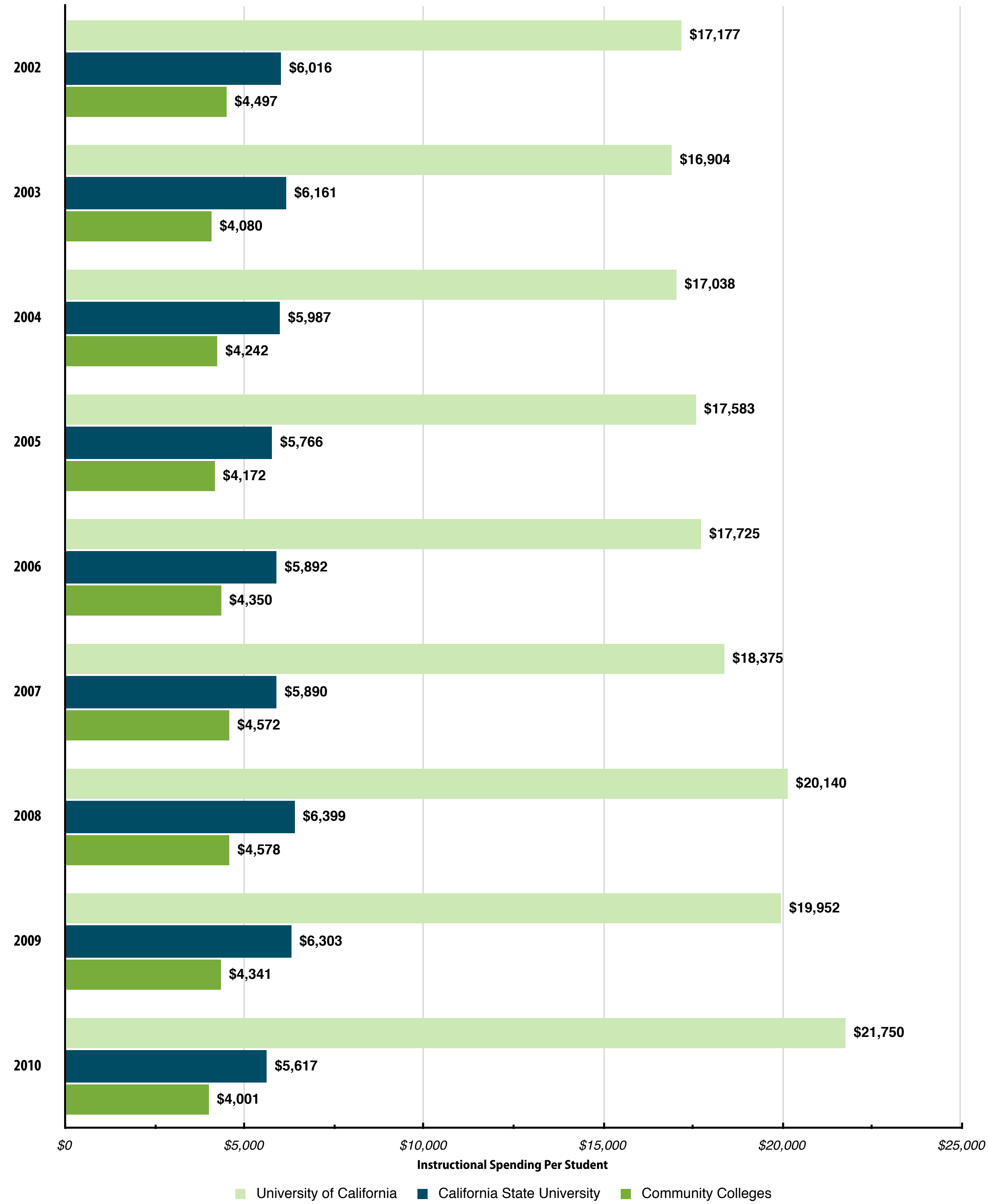
Source: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars.

Between 2001-02 and 2009-10, California's public higher education institutions increased spending by **44%** for **auxiliary services**, which include many amenities.



Source: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars.

Between 2001-02 and 2009-10, California public colleges increased per-student **spending on instruction** just **5%.** Spending decreased at CSU and community colleges.

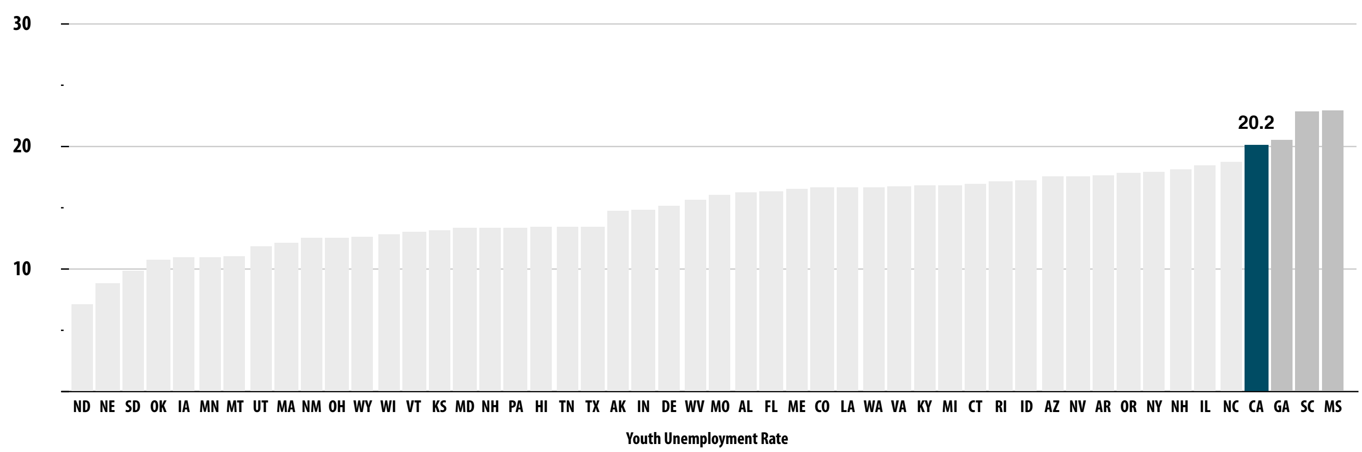


Source: Author analysis of Integrated Post Secondary Education Data (IPEDS) from National Center for Education Statistics. 2012. "IPEDS Analytics: Delta Cost Project Database 1987-2010: Data File Documentation." Washington, DC. This data is adjusted for inflation to represent 2010 constant dollars.

PART 4: **As Tuition, Amenities Spending, and Financial Transfers to Wall Street Have Risen, So Has Student Debt**

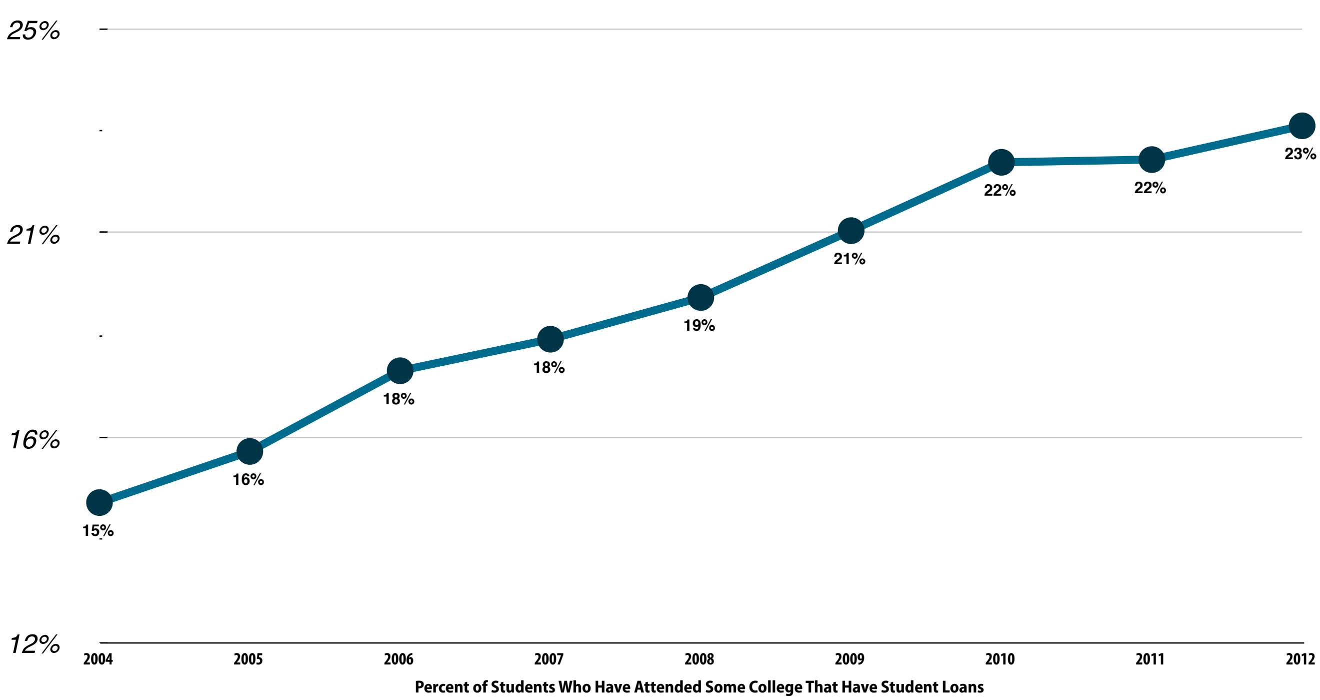
While the federal bailout has helped profits soar again on Wall Street, unemployment – especially youth unemployment – remains high. With limited employment opportunities, students are taking on more debt than ever before. An increasing share of borrowers cannot afford to make required payments. Students at for-profit colleges – some of them turned away from publics because of budget cuts – have been particularly hard hit by student debt.

Youth unemployment in California is **20.2%**.



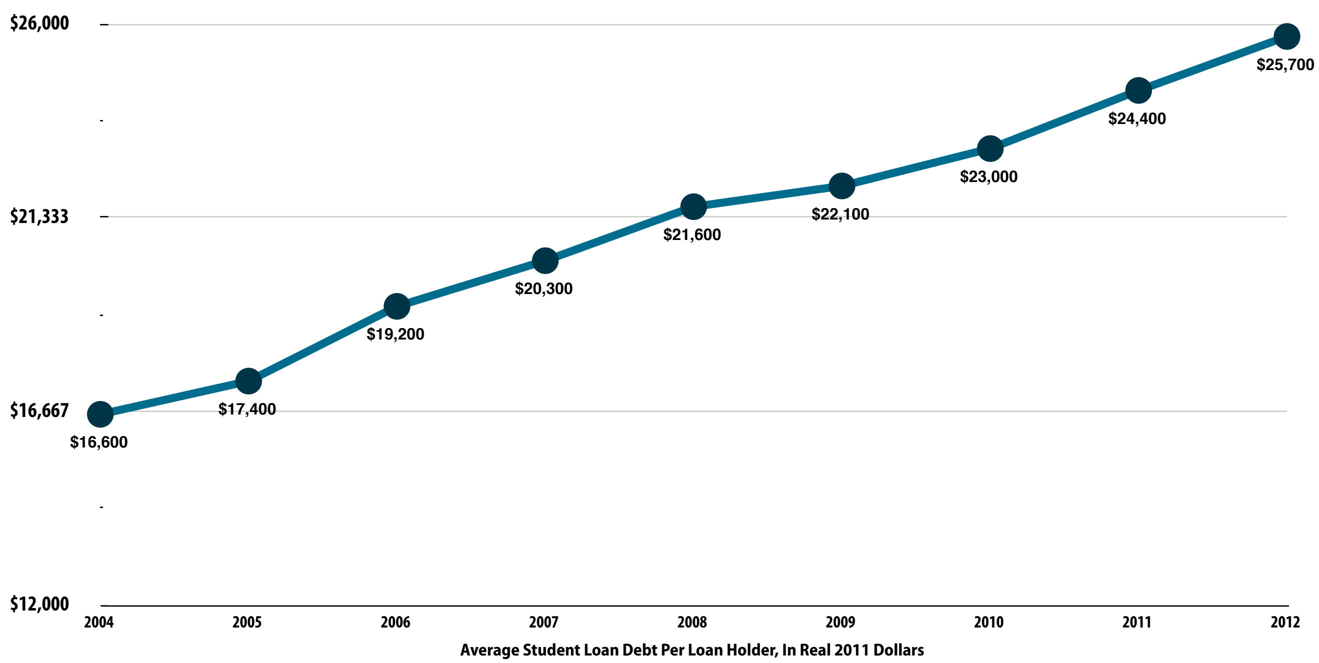
Source: Young Invincibles

The **share of current and former college students with student debt** increased from **15%** in 2004 to **23%** in 2012.



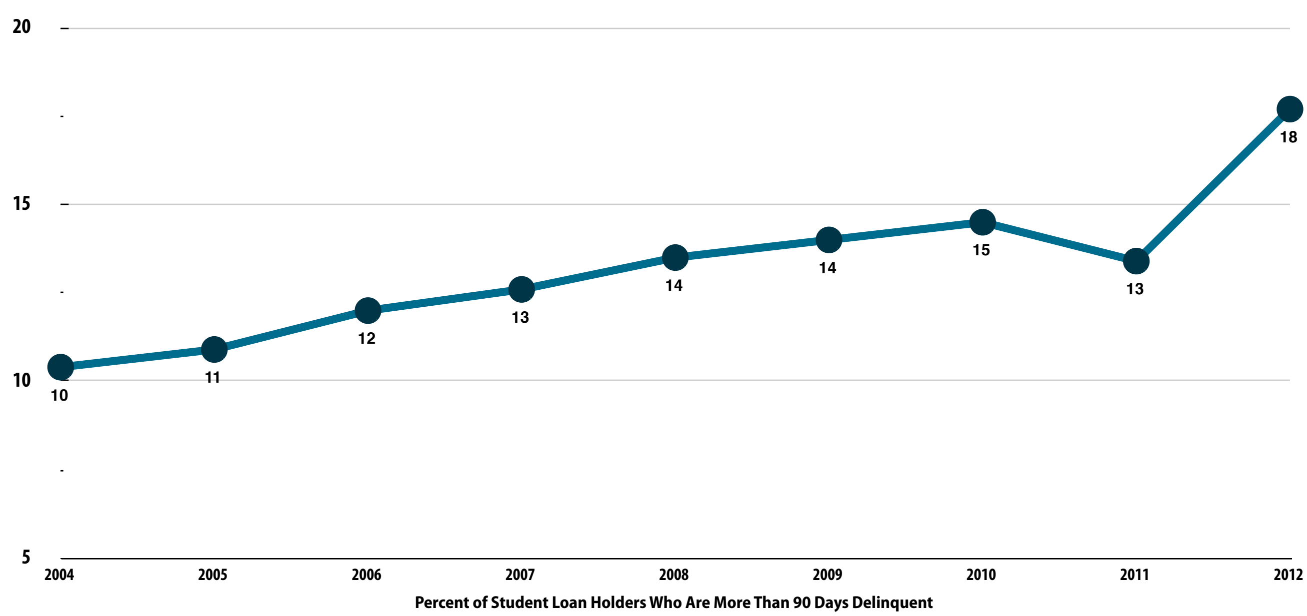
Source: Number of borrowers is from the Federal Reserve Bank of New York Consumer Credit Panel. Number of current and former college students is from Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

The **average debt owed by Californians with student loans** rose from **$16,600** in 2004 to **$25,700** in



Source: Federal Reserve Bank of New York Consumer Credit Panel

The share of California borrowers who are **more than 90 days delinquent** has increased to **18%**.

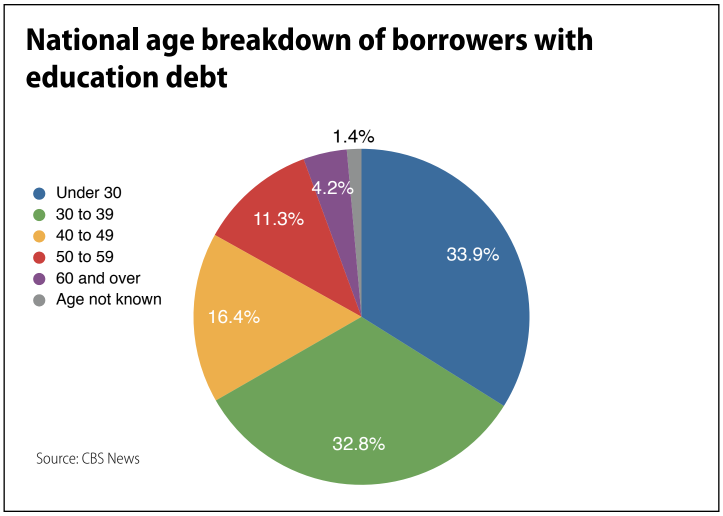


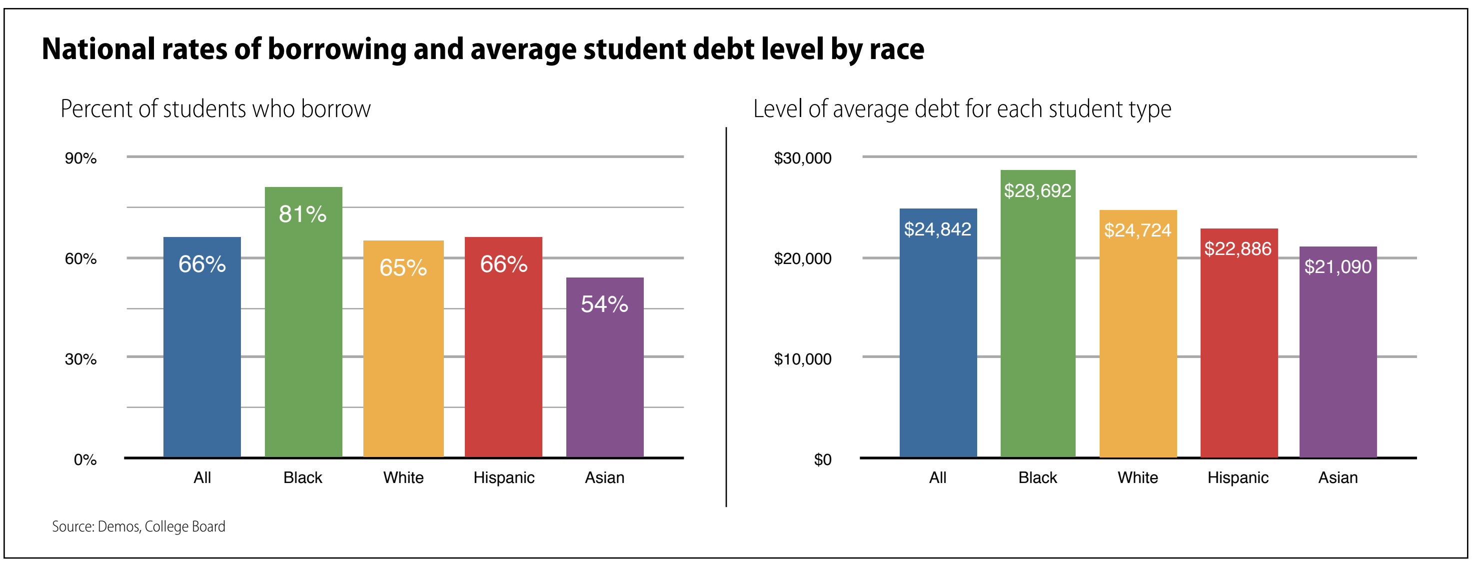
Source: Federal Reserve Bank of New York Consumer Credit Panel.

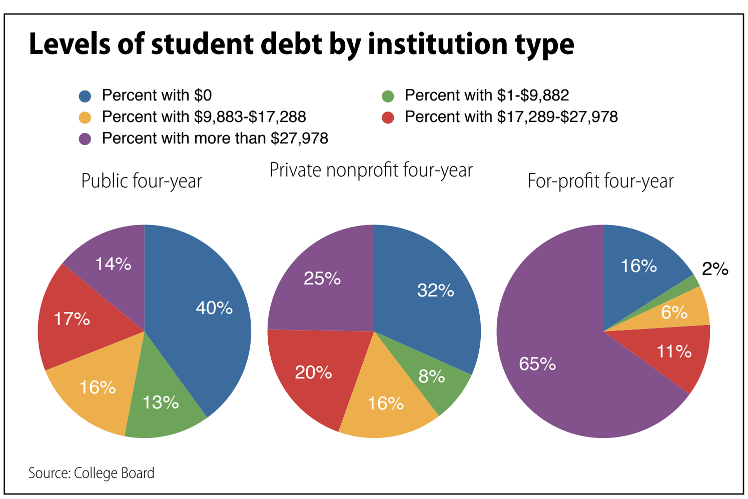
*90 day delinquency rates tend to be twice as high for borrowers who are in repayment, because many borrowers have loans that do not require repayment until future years and conditions.

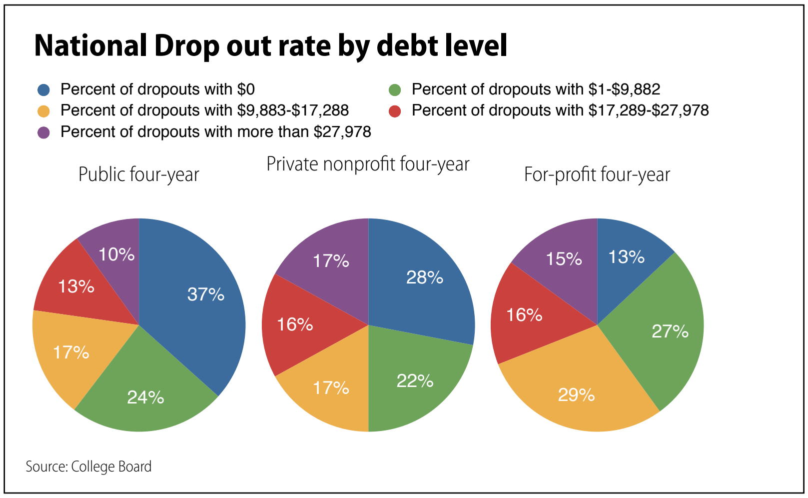
PART 5: **Nationally, African Americans Are Hit the Hardest**

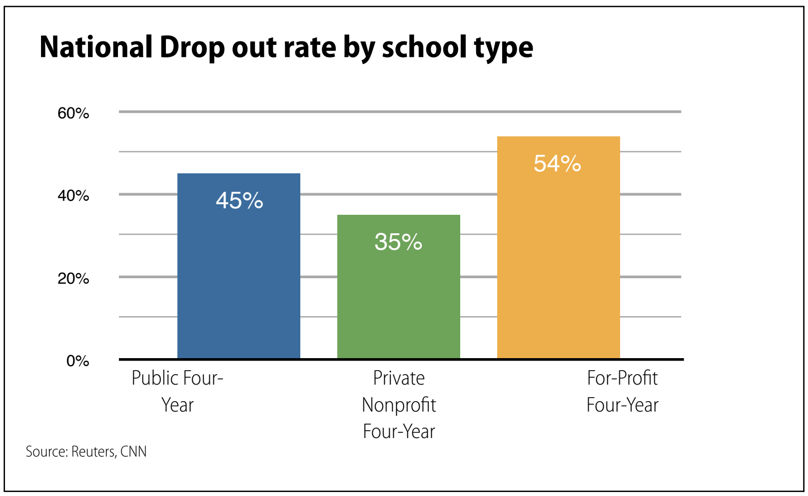
Students at for-profit colleges have the highest rates of student debt as well as the highest average student debt. African Americans, who have disproportionately turned to for-profit institutions, have the highest rates of borrowing and the highest average debt levels.

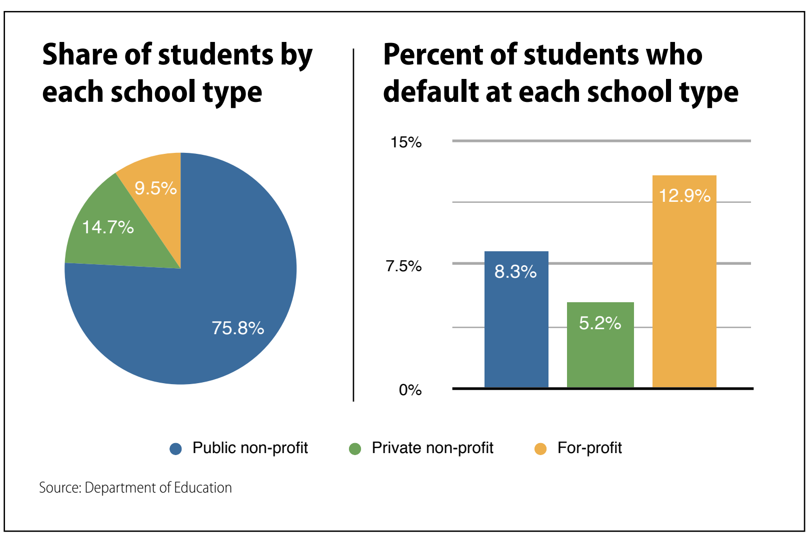







National Drop out rate by debt level
Percent of dropouts with $0
Percent of dropouts with $1-$9,882
Percent of dropouts with $9,883-$17,288
Percent of dropouts with $17,289-$27,978
Percent of dropouts with more than $27,978
Public four-year
Private nonprofit four-year
For-profit four-year
10%
37%
13%
17%
24%
17%
28%
16%
17%
22%
15%
13%
16%
27%
29%
Source: College Board


National Drop out rate by school type
60%
40%
20%
0%
45%
35%
54%
Public Four-Year
Private Nonprofit Four-Year
For-Profit Four-Year
Source: Reuters, CNN


Share of students by each school type
Percent of students who default at each school type
9.5%
14.7%
75.8%
15%
7.5%
0%
8.3%
5.2%
12.9%
Public non-profit
Private non-profit
For-profit
Source: Department of Education