

Financing Postsecondary Education in the United States

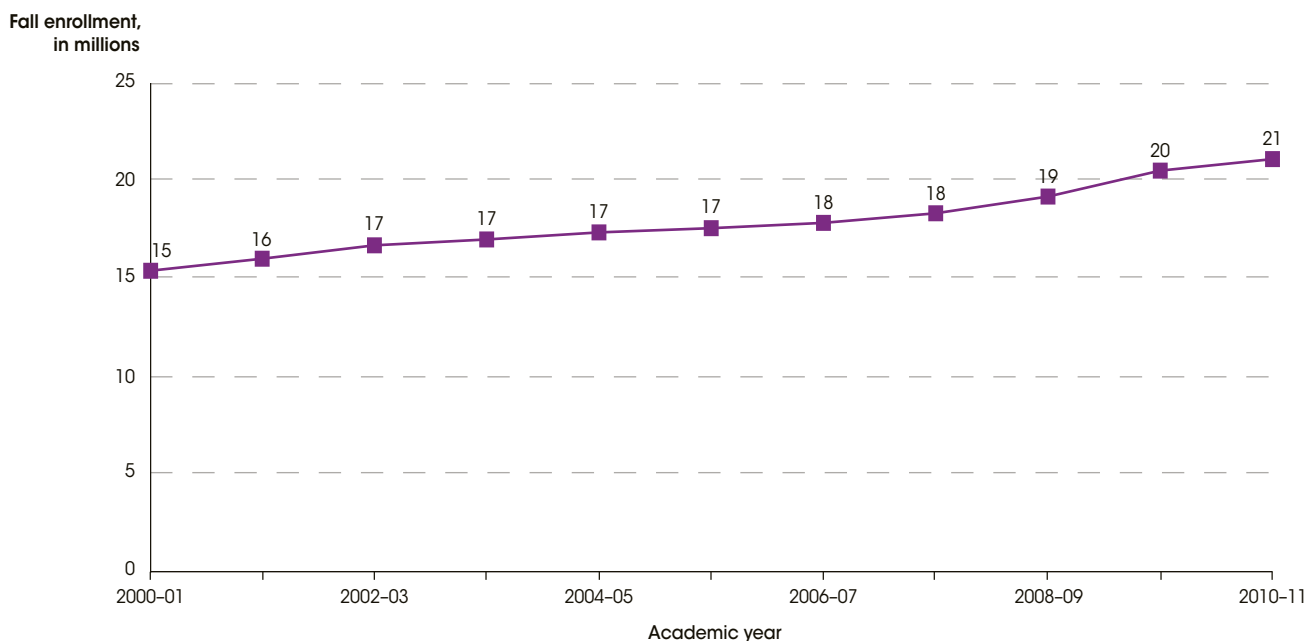
In 2011, the federal government provided \$146 billion in student financial aid in grants and loans. The total amount, in constant 2011 dollars, disbursed in grant aid increased almost fourfold, from \$10 billion in 2000 to \$38 billion in 2010. The total annual amount disbursed to students as loans (Direct and Federal Family Education Loans) increased 2½ times—from \$43 billion in 2000 to \$109 billion in 2010.

Postsecondary education in the United States includes academic, career and technical, and continuing professional education programs after high school. American colleges and universities and technical and vocational institutions offer a diverse array of postsecondary education experiences. Participation in postsecondary education in the United States has expanded over the last decade, as has the total financing for this growing sector of the U.S. economy. Students are increasingly relying on loans as a funding source, affecting the balance sheets of current students, prior students,

and those who loan money to them, including the federal government.

In 2000, some 45 percent of 18- and 19-year-olds and 32 percent of 20- to 24-year-olds were enrolled in postsecondary education (see *Digest of Education Statistics 2012*, table 7). By 2011, these numbers had increased to 50 percent of 18- and 19-year-olds and 40 percent of 20- to 24-year-olds. In addition, in 2011, some 15 percent of 25- to 29-year-olds and 8 percent of 30- to 34-year-olds were enrolled in school.

Figure 1. Total fall enrollment in degree-granting postsecondary institutions: Academic years 2000-01 through 2010-11



NOTE: Degree-granting institutions grant associate's or higher degrees and participate in Title IV federal financial aid programs. Some data have been revised from previously published figures.

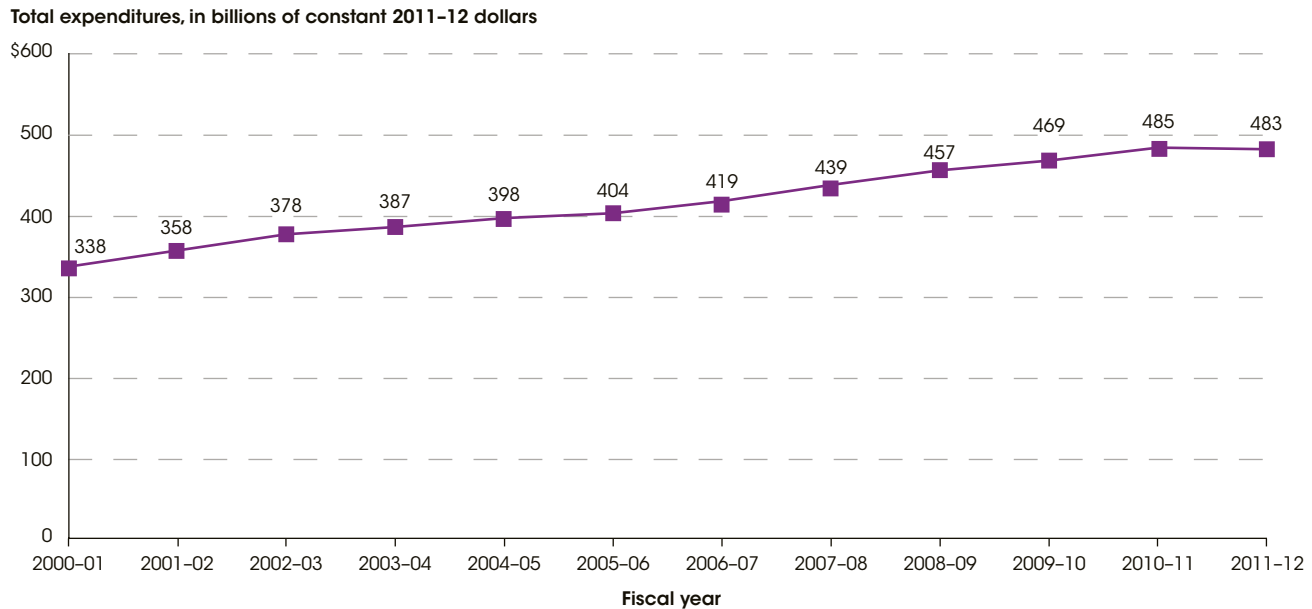
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Spring 2001 through Spring 2011, Fall Enrollment component. See *Digest of Education Statistics 2012*, table 222.

For more information, see the Reader's Guide and the Guide to Sources.

Overall, between 2000 and 2010, fall enrollment in degree-granting institutions increased by 37 percent, from 15 million students to 21 million students (see *Digest of Education Statistics 2012*, table 222). Of these

21 million students in 2010, about 18 million were in undergraduate programs and 3 million were in graduate, or postbaccalaureate, programs (see *Digest of Education Statistics 2012*, table 228).

Figure 2. Total expenditures of postsecondary degree-granting institutions in constant 2011–12 dollars: Fiscal years 2000–01 through 2011–12

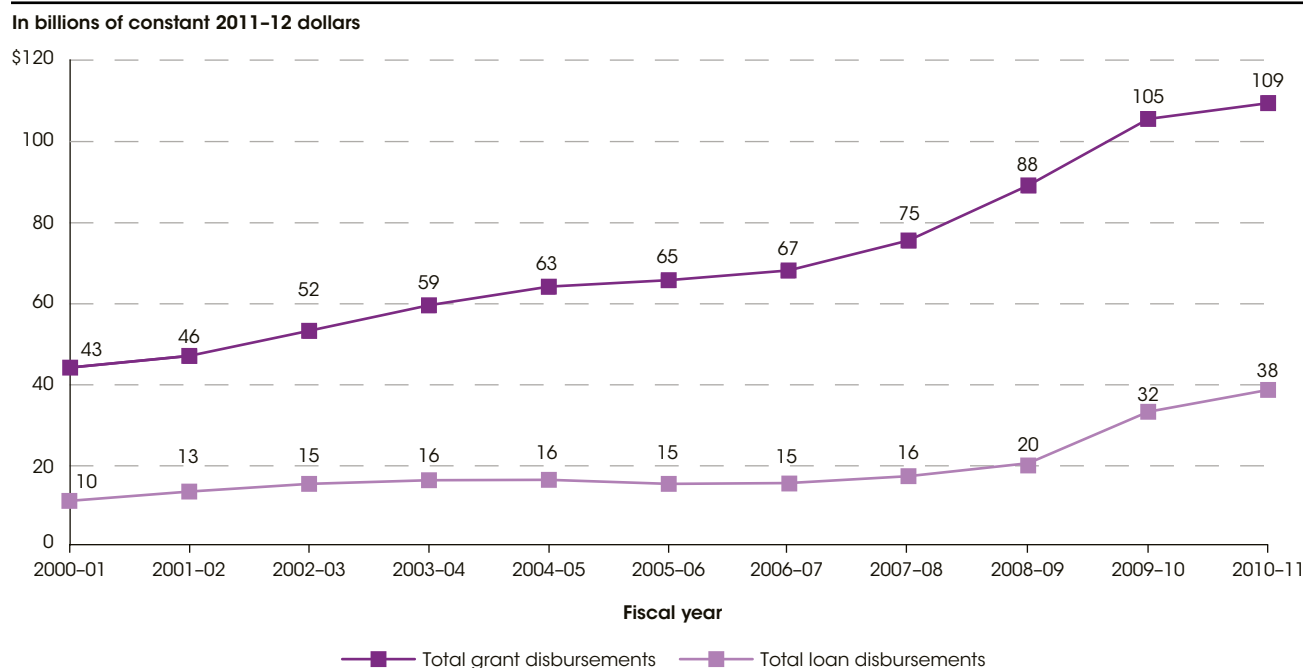


NOTE: Degree-granting institutions grant associate's or higher degrees and participate in Title IV federal financial aid programs.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Spring 2001 through Spring 2012, Finance component; and unpublished tabulations. See *Digest of Education Statistics 2012*, table 29.

Reflecting the growth in enrollment, postsecondary education has grown as an economic sector. In 2010, expenditures by postsecondary institutions accounted for 3.2 percent of the gross domestic product (GDP) in the United States, compared to 2.6 percent in 2000 (see *Digest of Education Statistics 2012*, table 28). This is evidenced by the fact that total expenditures by postsecondary institutions increased, in constant 2011–12 dollars, from \$338 billion in 2000 to \$483 billion in 2011, an increase of 43 percent (see *Digest of Education Statistics 2012*, table 29).

One-third of the total expenditures on postsecondary education in 2011, or \$181 billion, was provided by the federal government (see *Digest of Education Statistics 2012*, table 419). Of this amount, \$146 billion was in the form of student financial aid. The federal government offers students several financial aid programs, including grants (which do not have to be repaid), student loans (which do have to be repaid), and work-study (which allows students with demonstrated financial need to earn money to pay for school).

Figure 3. Total annual disbursements of grants and student loans by the federal government, in constant 2011-12 dollars: Fiscal years 2000-01 through 2010-11



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Grant recipients, in thousands	4,059	4,528	4,977	5,365	5,548	5,415	5,658	6,152	6,840	9,123	10,517
Grant disbursements, in billions	\$10.4	\$12.7	\$14.6	\$15.5	\$15.6	\$14.6	\$14.8	\$16.5	\$19.7	\$32.4	\$37.8
Loan recipients, in thousands	7,544	8,181	9,152	10,234	11,038	11,459	11,846	12,589	15,303	18,783	19,174
Loan disbursements, in billions	\$43.3	\$46.2	\$52.4	\$58.7	\$63.3	\$64.9	\$67.3	\$74.7	\$88.3	\$104.7	\$108.6

NOTE: Data for federal work-study programs are not included as they are a much smaller component of federal student aid and are not directly funded to the student.

SOURCE: U.S. Department of Education, Federal Student Aid, *Title IV Program Volume Reports*, Direct Loan Program, Federal Family Education Loan Program, Grant Programs. Retrieved February 11, 2013, from <http://studentaid.ed.gov/about/data-center/student/title-iv>.

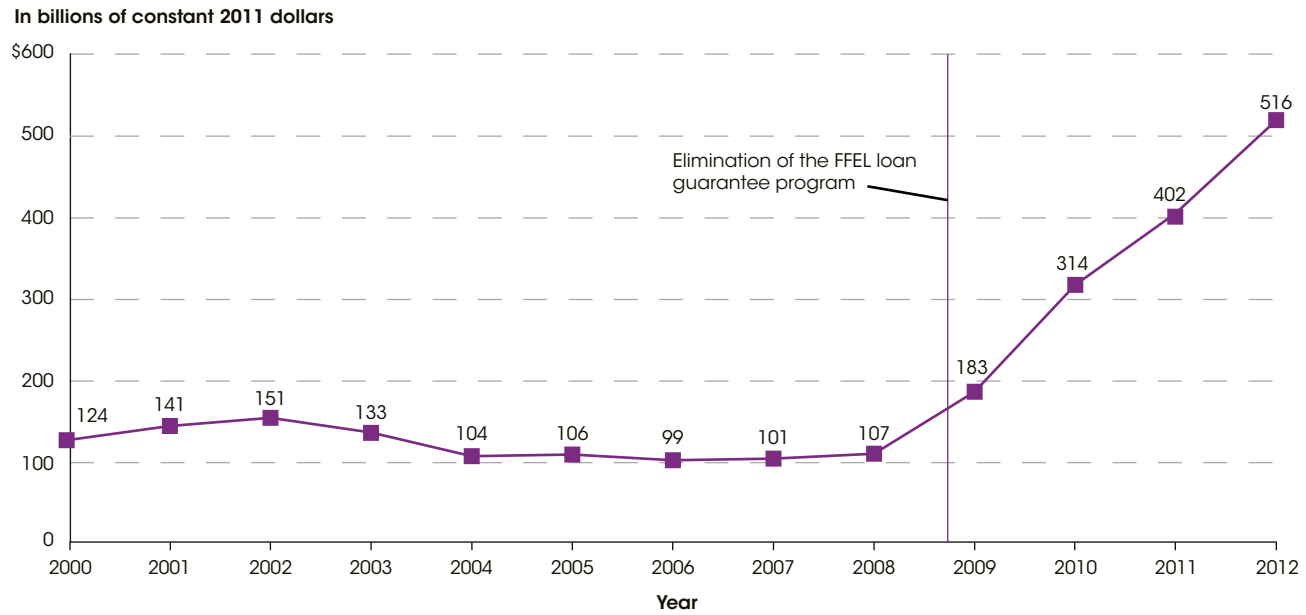
The primary federal grant program is the Pell Grant Program. These grants are needs based and are usually only awarded to undergraduate students who have not yet earned a bachelor's degree. In the last decade, the total annual amount, in constant 2011-12 dollars, that was disbursed by the federal government in grant aid increased almost fourfold, from \$10 billion in 2000 (when 100 percent of federal grants were Pell Grants) to nearly \$38 billion in 2010 (when 97 percent of federal grants were Pell Grants). During this same time period, the number of recipients of federal grants increased from 4 million students to 11 million students.

The William D. Ford Federal Direct Loan (Direct Loan) Program is the largest federal student loan program. Direct Loans can be awarded to undergraduate students, either with the interest subsidized (DL Subsidized) or unsubsidized (DL Unsubsidized); to parents of

undergraduate students (DL PLUS); or to graduate students (DL GRAD PLUS). The U.S. Department of Education is the lender for these loans. Prior to 2010, the federal government also offered the Federal Family Education Loan (FFEL) Program. Under this program, private lenders loaned money to students and the federal government insured the loans. In 2010, it was decided that the U.S. Department of Education would become the lender for all federal student loans, and the FFEL program was ended. As a result, no new FFEL loans have been made since July 2010. The total annual amount disbursed to students as loans (Direct and FFEL) increased by 150 percent (in constant 2011-12 dollars) in the last decade, from \$43 billion in 2000 to \$109 billion in 2010. The number of loan recipients increased from 8 million students to 19 million students. However, it is possible for a student to be the recipient of multiple loans in a given year.

For more information, see the Reader's Guide and the Guide to Sources.

Figure 4. Total outstanding balance of student loans owned by the federal government, in constant 2011 dollars: October 2000 through October 2012

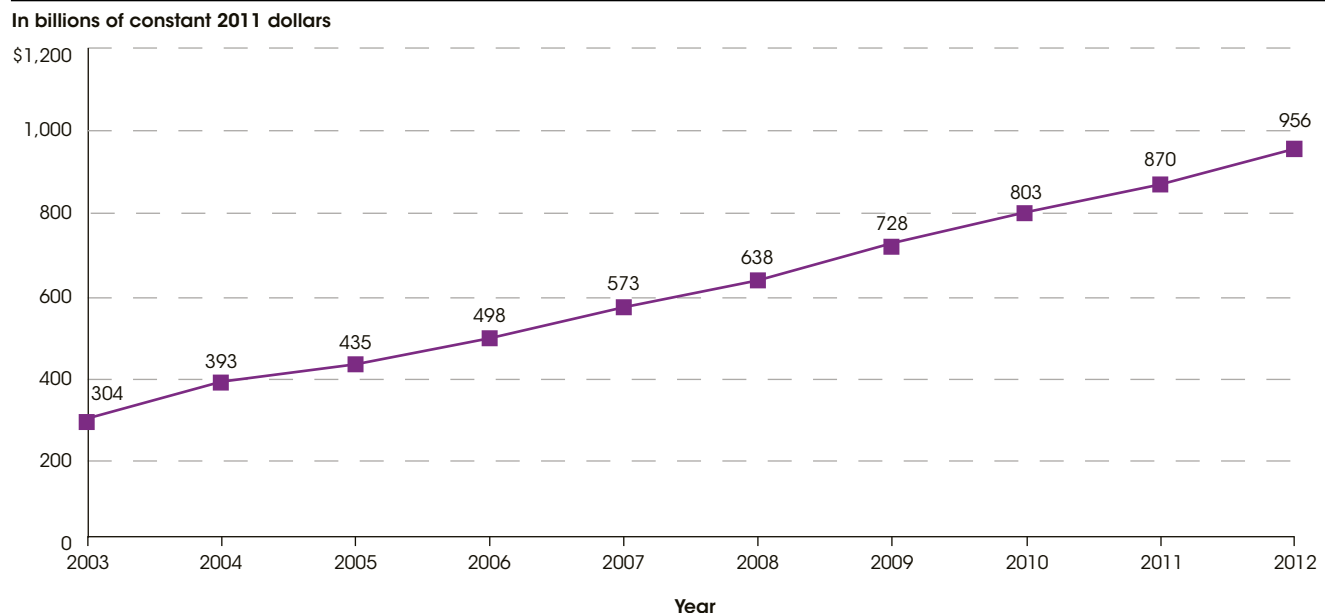


NOTE: Under the Federal Family Education Loan Program (FFEL) the federal government insured student loans, but did not provide the financing. As of July 2010, no new FFEL loans have been issued.
SOURCE: Board of Governors of the Federal Reserve System, G-19 Statistical Release, "Consumer Credit," December 2012. Retrieved February 11, 2013, from <http://www.federalreserve.gov/releases/g19/current/default.htm>.

In its monthly G-19 statistical report on consumer credit, the Federal Reserve Bank provides data on the total amount of student loans owned by the federal government. According to the report, the federal government originates consumer credit solely in the form of nonrevolving student loans through the Department of Education. The G-19 quarterly report includes data on federal government balances on loans issued through the Direct Loan Program, as well as the FFEL program

loans purchased from depository institutions and finance companies. Between October 2000 and October 2009, the total outstanding amount of student loans owned by the federal government, in constant 2011 dollars, remained between approximately \$100 and \$150 billion. A combination of the federal student loan policy change and a growing demand for student loans resulted in a balance of over \$500 billion by October of 2012.

Figure 5. Total outstanding student loan debt held by consumers, in constant 2011 dollars: Third quarter 2003 through third quarter 2012

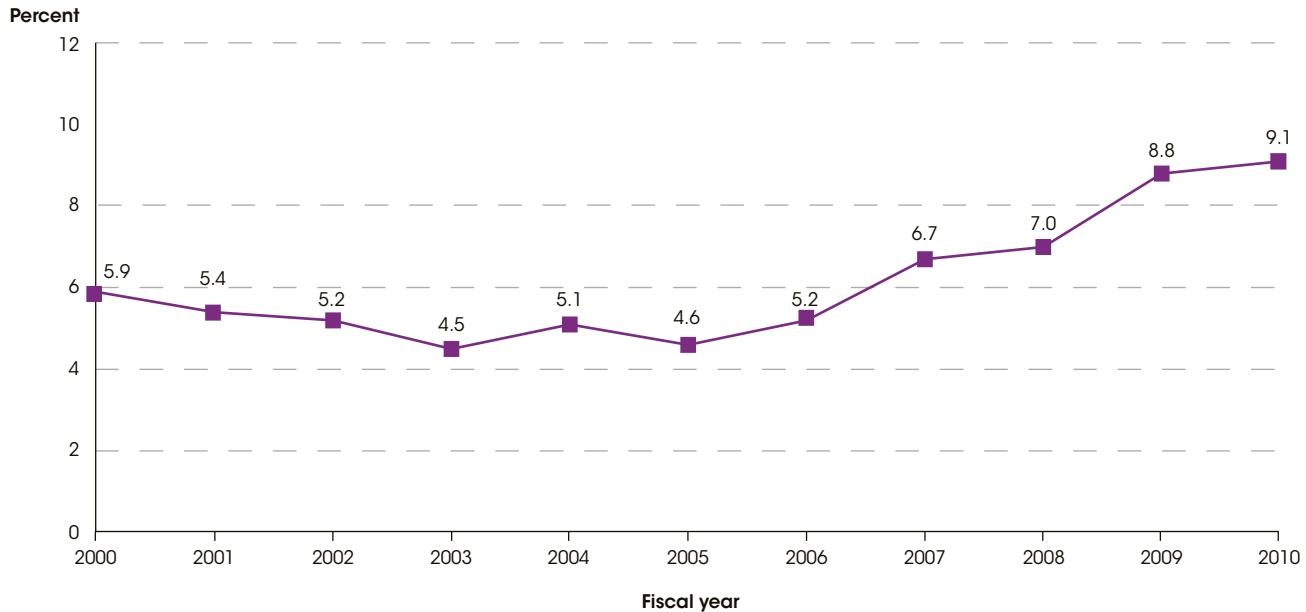


SOURCE: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, 2012 Q3. Retrieved February 11, 2013, from <http://www.newyorkfed.org/householdcredit/>.

In addition to loans originated by the federal government, students can obtain private student loans from financial institutions, nonprofit lenders, and certain schools that elect to fund or guarantee loans. According to the Federal Reserve Bank of New York's *Quarterly Report on Household Debt and Credit*, total student loan debt, across all age groups, stood at nearly \$1 trillion (\$956 billion) in the fall of 2012. By comparison, in fall 2003, total student loan debt outstanding was \$304 billion (in constant 2011

dollars), meaning that it has more than tripled in the last 9 years. Further, student loan debt is the only form of consumer debt that has grown since the peak of consumer debt in 2008, and balances of student loans have eclipsed both auto loans and credit cards, making student loan debt the largest form of consumer debt outside of mortgages.⁵

Figure 6. Postsecondary federal student loan 2-year cohort default rates: Fiscal years 2000 through 2010



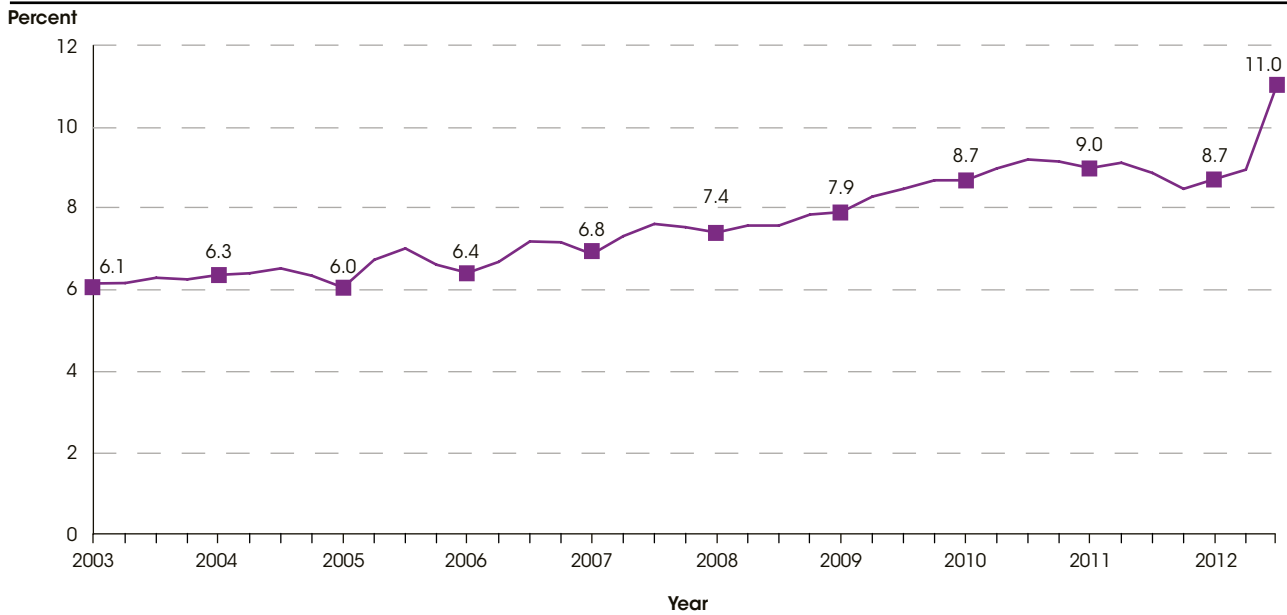
NOTE: The Department of Education issues default rates according to the fiscal year that borrowers entered repayment. For example, the fiscal year 2010 default rate is based on students who entered repayment between October 1, 2009, and September 30, 2010. The Department publishes default rates approximately 2 years after the fiscal year in which students enter repayment.
SOURCE: U.S. Department of Education, Federal Student Aid. Retrieved February 11, 2013, from <http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html>.

According to the federal government, a federal student loan is in default if there has been no payment on the loan in 270 days. The Department of Education calculates a 2-year cohort default rate, which is the percentage of students who entered repayment in a given fiscal year

(from October 1 to September 30) and then defaulted within the following 2 fiscal years. In 2010, the national 2-year cohort default rate was 9.1 percent, meaning that of those students who entered repayment during fiscal year 2008, some 9.1 percent had not made a payment on their loans for at least 270 consecutive days during fiscal years 2009 and 2010. The 2-year cohort default rate has been increasing since 2005, when it was 4.6 percent.

⁵ Federal Reserve Bank of New York, Research and Statistics Group. (November 2012). *Quarterly Report on Household Debt and Credit*, p. 1. Retrieved February 11, 2013, from http://www.newyorkfed.org/research/national_economy/householdcredit/DistrictReport_Q32012.pdf.

Figure 7. Percentage of total outstanding student loan debt held by consumers that is 90 or more days delinquent: First quarter 2003 though third quarter 2012



SOURCE: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, 2012 Q3. Retrieved February 11, 2013, from <http://www.newyorkfed.org/householdcredit/>.

In addition to providing data on the total student loan debt outstanding, the Federal Reserve Bank of New York’s *Quarterly Report on Household Debt and Credit* contains data on those student loans that are delinquent in a given month, meaning that they are at least 30 days past due, as

well as those that are “seriously” delinquent, meaning that they are at least 90 days past due. In the first quarter of 2003, approximately 6 percent of all outstanding student loans were at least 90 days delinquent. By the third quarter of 2012, that rate had increased to 11 percent.

Reference tables: *Digest of Education Statistics 2012*, tables 7, 28, 29, 222, 228, 419

Glossary: Private institution, Public institution