

# HOW AMERICA PAYS FOR COLLEGE

Sallie Mae's National Study of College Students and Parents  
Conducted by Gallup



## Overview of Findings

*How America Pays for College* is a new Sallie Mae® national study conducted by Gallup. This study is the first of its kind, gathering data directly from families of the college-going population on their attitudes, aptitudes, and actual experiences regarding paying for college.

During May 2008, Gallup interviewed 684 undergraduates and 720 parents of students aged 18 to 24 who were attending an institution of higher education in 2007-2008 to determine how American families are paying for higher education and to measure public attitudes toward college and various topics related to paying for college. The study, which provides a wealth of new information, is intended to be the first of a series of annual studies and, as such, can serve as a baseline to measure how policy and other changes affect the ability of American families to pay for college.

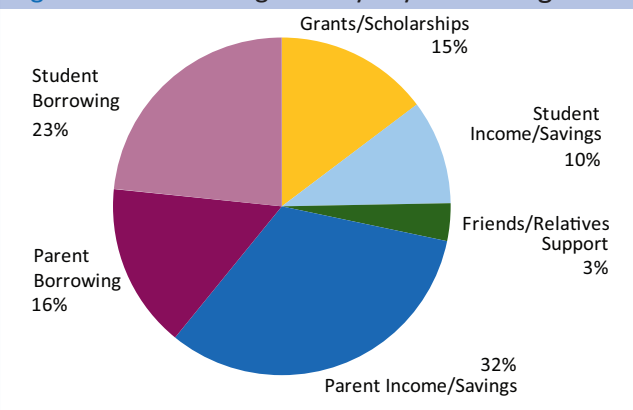
The primary goal of this study is to provide a clearer picture of the many sources that families rely on to pay for college. Gallup worked with parents and students to gather details on the various sources used in 2007-2008 to pay for college tuition and related expenses. Until now, little data has been available regarding how families actually paid for college as opposed to how they expect to pay for college. Gallup gathered this data from parents and students and used the results to develop representative composites on the sources of funds that families use to pay for college.

The study shows that both parents and students shared the responsibility of paying for college. Parents, on average, contributed the largest share of paying for college, through current income and savings (32% of the total amount paid) and borrowing (16% of the total). The average student covered 33 percent of the cost, through borrowing (23%) and their own income and savings (10%). Grants and scholarships made up 15 percent of the amount paid, while support from friends and relatives made up 3 percent.

Family contributions varied greatly across income levels. Higher-income families paid much more out of pocket from savings and income, and generally paid substantially more for college. The differences between lower-income families and middle-income families were smaller. Before borrowing, middle-income families spent slightly more on college tuition and related costs than lower-income families, with middle-income families receiving less in gift aid, such as scholarships and grants, and paying more out of pocket. However, middle-income families borrowed more on average to pay more for college than lower-income families, though not significantly so. This may suggest that middle-income families were borrowing more to reach for a higher-cost postsecondary institution.

The composite of how the average American family paid for college presents an extremely useful picture of how important each funding source was to families paying for college tuition and related expenses. However, while the composite is important for the overall picture, on a family-to-family basis, the picture can be quite different. Indeed, the study also found that there was great variation in the sources that families used and, in many ways, there was no easily defined standard for the average American family. For example, the composite shows that, overall, families did not rely on home equity loans to pay for college. However, the 3 percent of families who borrowed from home equity relied on it heavily, borrowing an average of \$10,853. The importance to individual families can be seen by looking at how often families used various funding sources and the specific amounts used from each source.

**Fig. 1 How the Average Family Pays for College**



Note: Average percent of total cost of attendance met by each source.



The study found that:

- More than seven out of 10 families used non-borrowed sources to fund college, including current income, savings, scholarships, and grants.
- Slightly less than half of all families reported using borrowed money to pay for the cost of college.
- The most often used source by families paying for college is parents' current income, with 38 percent of all families reporting that they spent an average of \$5,815 through this source.
- Borrowing by students from the federal student loan programs was the second most frequently used single source of paying for college. This funding source was used by 28 percent of all families, borrowing an average of \$5,075.
- While parents reported borrowing less frequently than students, when they did borrow, they tended to borrow greater amounts. For example, the small percentage of families who reported using the Federal PLUS program (6%), home equity loan or line of credit (3%), or "other loans" (5%) reported borrowing an average of approximately \$10,000.

In addition to the sources used to pay for college, the study found that nearly nine out of 10 families with annual incomes below \$35,000 filled out the Free Application for Federal Student Aid (FAFSA). However, this number dropped off considerably to 76 percent for families with annual incomes between \$35,000 and \$50,000. The drop continued as income increased, with only 42 percent of families earning greater than \$150,000 completing the FAFSA.

Moreover, the study found that 37 percent of college students and 46 percent of parents of college students did not eliminate schools because of costs at any stage of the application and college selection process. In addition, students' expected post-graduation income has little impact on the decision to borrow to finance a college education. In total, 70 percent of students and parents said a student's expected post-graduation income was not considered at all, or if it was, it did not make a difference on their borrowing decisions.

Not surprisingly, the study shows that students enrolled in college and parents with children enrolled in college believed strongly in the value and importance of higher education. Three-quarters of students strongly agreed that one of the reasons they are attending college is that they will enjoy a better quality of life. Ninety-four percent of parents agreed that sending their child to college was an investment in their child's future and 96 percent of students agreed that college was an investment in their future. Three quarters of parents and 87 percent of students agreed that they would rather borrow to pay for college than not be able to go at all. In fact, 60 percent indicated that student loans were acceptable debt, second only to mortgages when compared to other types of borrowing and consumer debt.<sup>1</sup>

The study also showed that most families worry about how the economy will affect their ability to pay for college. Sixty percent of parents were worried that colleges will raise their tuitions while 51 percent were worried that student loan interest rates will increase. The level of concern was greatest among families with annual incomes less than \$50,000, with 75 percent of these families concerned about rising tuitions and 63 percent concerned about possible increases in student loan interest rates. In addition, 40 percent of parents were worried that student loan money will be less available; more than one-third (38%) were worried that the value of their savings and investments will decline; and more than one-quarter (28%) were concerned that the value of their home will decrease, thus affecting their ability to pay for college.<sup>2</sup>

This study, *How America Pays for College*, comes at a critical time for American families. Additional findings, response statistics and explanations regarding methodology can be found in the full report. We invite you to examine the data there and share in the dialogue about how best to meet the needs of all families who face the opportunities and challenges of investing in a higher education. Copies of the full report are available for download at [www.SallieMae.com/HowAmericaPays](http://www.SallieMae.com/HowAmericaPays).

<sup>1</sup> "Agreed" percentages are based on combined 4 and 5 responses on a 5 point scale where a 5 means Strongly Agree and a 1 means Strongly Disagree. "Acceptable" percentage is based on combined 4 and 5 responses on a 5 point scale where a 5 means Acceptable and a 1 means Unacceptable.

<sup>2</sup> "Worried" or "concerned" percentages are based on combined 4 and 5 responses on a 5 point scale where a 5 means Extremely Worried and a 1 means Not at all Worried.



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