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# **The California Higher Education Loan Program (Cal-HELP) – A Proposal to Address the Problem of Higher Education Affordability in California**

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## **The Issue**

The total cost of attending California's public colleges and universities will soon be beyond the reach of many middle-income families. Thirty years ago, the state invested 17 percent of its General Fund revenues in higher education. Today that number has fallen to 11.3 percent. To adjust for this reduction in state funding, the University of California and the California State University have been essentially forced to increase their tuition by 350 percent since 1990. During that same time, the consumer price index rose 44 percent and Californians' average income increased by 70 percent.

Most middle-income families cannot qualify for the free money offered through the state's Cal Grant program because they do not meet the minimum thresholds, and fewer families can qualify for federal grant aid and subsidized loan programs. Further exacerbating this problem, the interest rates on student loans are set to escalate sharply on July 1, 2006, tightening the squeeze on low- and middle-income families.

So how are students and families filling this gap to pay for the increases in the cost of tuition, housing, books, and other expenses? Simple -- they are borrowing at unprecedented rates from a variety of sources, while accumulating huge levels of debt.

## **The Cal-HELP (California Higher Education Loan Program)**

A proposed California Higher Education Loan Program (Cal-HELP) could restore the promise of access and affordability that was written into the state's 1960 *Master Plan for Higher Education*. That historic plan is being eclipsed by a "new era" in which the financing of higher education is becoming a burden and barrier for many of the state's citizens who are seeking a better life by earning a college degree.

Cal-HELP would use the state's general obligation bonding authority to provide loans of up to \$5,000 per academic year at a very low rate of interest -- not to exceed 2 percent -- to middle-income families earning between \$65,000 and \$120,000 in adjusted gross income. In addition, the program would feature a loan forgiveness component that would encourage students to remain in California and take jobs in high demand and shortage fields.

Funding for the program would come through the issuance of at least \$1.0 billion in General Obligation Bonds. It could be part of a larger package of higher education program initiatives, or could appear on the ballot as a stand-alone program. Funds could be used to finance any portion of the cost of attendance, including the expected contributions from students and families. It would be packaged and made available at the campus level, and could be administered by existing student loan entities at the state level.

Program expenses including bond issuance costs, interest rate subsidies, loan origination and servicing, loan forgiveness, and other administrative expenditures would consume roughly 50 percent of the bond proceeds, and would be funded through the State General Fund. The repayment stream from the loans, that are not forgiven, would leverage roughly \$500 million for future loan giving. The Cal-HELP initiative would permit the electorate, through the initiative process, to decide whether helping Californians finance their higher education is equal in priority to funding new facilities through bonds.