



Testimony for Little Hoover Commission on Institutional Debt Hearing on March 26, 2026

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Thank you for the opportunity to speak with this commission about the problem of institutional student debts in California. I'm an economic sociologist and professor at UC Merced where I coauthored the *Creditor Colleges* study of institutional student debt with fellow UC Merced sociology professor Dr. Laura Hamilton, UC Irvine Law Professor Dalié Jiménez and Berkeley Law Professor Jonathan Glater. I also have a lot of hands-on knowledge from recently serving as the Chair of UC Merced's Admissions and Financial Aid Committee.

Institutional debts work differently than student loans, and they tend to be more harmful. 300,000 mostly low-income California students incur these debts in an average year. These debts in turn create obstacles to student degree completion. They also reduce enrollments at community colleges and public universities, reducing tuition revenue.

As such, institutional student debts pose a problem, but also an opportunity to substantially improve degree completion and increase tuition revenue to support our higher education segments.

Here's how this works. Most students incur institutional debts when they withdraw from school in the middle of an academic term because of a health or economic hardship. Schools are required to return some of these students' Pell grant and loan aid to the US Department of Education. While they are not required to do so, most schools then place registration holds that bar further enrollment until students repay their federal aid to the school. Schools also commonly use this structure to try to recoup school-based aid awarded to students who withdraw mid-term. Such a case occurred at UCLA where the school sought to take back a \$9,000 Blue and Gold grant that UCLA had used to pay itself for a student's housing. You'll hear from that student Stephanie later this morning.

As you'll hear from Stephanie, students often do not know that they will incur a debt when they withdraw. Stephanie was not informed. At UC Merced, a state funded degree completion program has contacted dozens of former students with institutional student debts like Stephanie. Almost uniformly, they report having no idea they would incur a debt when they withdraw.

It is difficult to track the exact extent and circumstances in which students incur institutional debts. This is because neither the state nor the federal government require schools to publish data when this occurs. To assess the scale of the problem, we requested data directly from several UCs, CSUs, and community colleges. Sometimes these requests involved public records act requests. Because schools do not track institutional debts consistently, the data we got back was varied in its form and challenging to reconcile.



But here are the estimates we produced for the Creditor Colleges report, which none of the California higher education segments have disputed. These estimates are based on data from July 2020 to July 2021, so they are not affected by the spring 2020 COVID-19 disruptions:

- Around 320,000 community colleges incur a total of around \$100M in institutional debts annually.
- Around 34,000 CSU students incur around \$58M in institutional debts.
- Around 18,000 UC students incur around \$30M in institutional debts.

This is a bit less than 10% of all undergraduates at CSU and UC. It's closer to 15% of all community college students annually.

At this scale, institutional debts are highly consequential for efforts to increase degree completion rates. These are rough estimates. We haven't updated them because of how labor intensive it is to get data from the segments.

But these estimates are consistent with data we've obtained from the Franchise Tax Board on the extent to which each segment seeks to collect on institutional debts through the garnishing of tax refunds. Not all schools use the garnishment program. And schools that do may not send smaller debts to the FTB. Finally, not all former students receive refunds that can be garnished.

That said, analysis by our collaborator Andrew Martin found the following: Over 80,000 refunds were garnished for institutional debts in 2019 (2025). This included:

- 60,000 garnishments for community colleges even though only a minority of community colleges used the program.
- 14,839 garnishments for CSU even though 13% of CSUs didn't use the program.
- 6,294 garnishments for UC even though 40% of UCs did not use the program.

The UC and CSU numbers remained the same in 2023 while the community college numbers actually declined – I'll say more about that in a moment.

We also do not know exactly which students are affected by institutional debts because of data limitations. But it is likely that most impacted students are low-income and from under-represented communities. This is because the origins of most debts are from efforts to recover financial aid paid to a student for cost of attendance. Students must be low-income to qualify for the federal and state grant aid portions of this aid, such as Pell Grants.

The consequence for these students is that they become much less likely to complete a degree. As you will hear from Stephanie, the debt imposed a hardship, but her mom helped her to pay it so that she could complete the degree. The data we received from the segments, however, shows that students rarely ever repay institutional debts. This is because, as was the case with Stephanie, students often have already used their aid funds to pay for housing or other costs of attendance. They needed financial aid to cover those costs because they lacked other means. So they simply do not have the money to pay the debt. You can't get blood from a stone.



As a result, two UC campuses reported that debts are rarely collected after they are referred to a 3rd party debt collector. One UC campus reported a 19% collections rate. The other reported a 30% collections rate. At UC Merced, we ultimately write off about 75% of institutional debts as uncollectable. This is also why many students with debts are reported to the FTB for tax refund garnishment.

Because schools place registration holds on students with institutional debts, students are barred from taking further courses towards a degree. They can transfer to other institutions. But this adds costs to getting a degree, especially if there is no other public institution nearby.

The carte blanche use of registration holds is also penny wise but pound foolish for schools. This is because enrolling a student for just one additional semester would typically bring in more tuition revenue than the amount of the institutional debt. Enrolling a student for all of their terms left towards a degree would bring in even more tuition revenue. Students can use federal loans, Pell Grants and Cal Grants to pay these tuition costs. They can't use those funds to pay an institutional debt.

With only a fraction of students ever repaying debts, it would boost schools' revenue to figure out a way to continue enrolling students with institutional debts. Lost potential tuition revenue hurts all students by depleting resources for instruction – especially at CSUs and Community Colleges with under enrollments and declining enrollments.

Perhaps because of the revenue losses from enrollment holds, a growing number of schools have increased the institutional debt size threshold for which they institute enrollment holds. Based on information published on their websites and provided by CSUs legislative advocates, 18 CSUs now allow students to register with institutional debts below \$200. 7 of those CSUs allow students with debts up to \$1,000 or more to continue taking courses. Sonoma state allows students with debts up to \$5,000 to continue. Unfortunately, we are only aware of 2 UCs, UCSD and UC Merced, where students with debts up to \$250 are allowed to register. Some community colleges also use higher thresholds, but we lack systematic data.

Overall, the data we have points to several solutions for institutional student debts:

1. State legislation should set standard thresholds for the amount of institutional debt required for a registration hold. There are equity problems with the inconsistency across schools.
2. Schools should offer a one semester grace period for debts before implementing a registration hold. During this period, schools should offer zero-interest repayment options so that students like Stephanie don't have to use high-cost credit to pay off institutional debt for re-enrollment. This will create incentives for schools to avoid mid-semester withdrawals through better support and communication for struggling students.



3. The state should require schools to track and report a) how many students incur debts (both above and below registration hold thresholds), b) how many of those students pay off their debt and when, and c) how many of those students register for and complete another term. This would allow us to see whether higher registration hold debt thresholds or the registration hold grace period end up bringing in additional tuition revenue or increase the rate at which students repay institutional student debts.

Again, I thank the commission for its attention to this important issue where California has an opportunity to substantially improve degree completion and increase tuition revenue to support our higher education segments. This could also provide a model for improving educational attainment and equity nationally.

References

Martin, Andrew Colin. "Financialized Administrative Burdens: Unequal Institutional Student Debts in California Public Higher Education." Master's thesis, University of California, Merced, 2025.

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