Mortgaging Their Future: Student Debtload in the U.S.

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Biosketches

Patricia Somers, Ph.D. is Associate Professor of Higher Education at the University of Missouri - St. Louis. Prior to joining UMSL in 1999, she was an Associate Professor at the University of Arkansas at Little Rock. She holds a Ph.D. in Educational Administration (Higher Education Concentration) from the University of New Orleans, an M.A. in Portuguese from the University of Illinois, and a B.A. in Spanish from Michigan State University.

For her doctoral dissertation, Somers developed and tested econometric models for studying first-time enrollment and student persistence. Her models have been used in studies by other researchers, and she has replicated her dissertation in a national study of 18,000 students. Her dissertation won the Melvene Hardee Dissertation Award from the National Association of Student Personnel Administrators in 1993. She was given the Emerging Scholar Award by the American Association of University Women in 1997. In addition, she has received grants to use federal databases to study college student enrollment and persistence.

Somers has published or presented over thirty-five papers since 1992; the primary focus of these was college student persistence. Her areas of research include student financial aid, immigration, education law, and international education. She has presented papers at meeting of the American Educational Research Association, Association for the Study of Higher Education, and

Association for Institutional Research. Somers has published in journals such as *Educational Record*, *Journal of College and University Law*, *Journal of Student Financial Aid*, *International Issues*, *Initiatives*, and *National Association of Student Personnel Administrators Journal*.

James Cofer, Ed.D. is a public sector finance and administration professional with over twenty years of national and international experience. Currently he is the Vice President for Finance and Administration at the University of Missouri System. He has also served as the Vice President of the University of Arkansas System and the chief administrative and fiscal officer for the University of Georgia System, a complex organization of thirty-four campuses ranging from 600 to 35,000 students. As Vice Chancellor for Finance, he was primarily responsible for the planning of the Olympic Village for the 1996 Summer Olympic Games in Atlanta, Georgia. This effort included the planning, financing and construction of over $300 million in capital improvements, with a multitude of operational leases.

Over the last fifteen years as chief fiscal officer for a state government, three higher education systems and a major state-funded university, Cofer has developed a wealth of experience in resource allocation. This expertise covers both deep cuts and extraordinary large increases (-20% to + 20%). He has developed formulas for allocating institutional, multi-campus system, and national level resources, incorporating innovative allocation methods such as incentive funding, normative and program funding at all levels.

Cofer spent the Fall of 1995 in Hungary where he was an Eisenhower fellow working on the problems of Hungarian higher education. He assisted and continues to assist, as part of the World Bank initiative in Hungary, in the development of a "normative" based funding formula and the restructuring of that country's institutions of higher learning. This fellowship culminated in the award of a World Bank loan for the restructure of the higher education system in Hungary. Dr. Cofer presented the results of his work at the European Association of Institutional Research.

Cofer has a B.S. in Statistics and Accounting, and an M.B.A from Mississippi State University, and the Ed.D. in Higher Education Administration from the University of Arkansas at Little Rock.

Executive Summary

From its beginnings in 1965, through numerous philosophically incoherent amendments, several key principles of federal student financial aid policy have evolved. These principles are: the costs of higher education are shared by the student (and, to a lesser extent, the student's parents and family) and taxpayer; and the ability of the student to pay for education is objectively measured. In addition, the federal government makes grants available to low-income students so that they can afford moderately-priced public institutions (access to postsecondary education), makes loans available to middle-and upper-income students so that they can afford higher-priced private institutions (choice in higher education institutions), and provides aid to students without regard to academic discipline or achievement, as long as the student maintains satisfactory academic progress.

The Higher Education Act of 1992 (Pub. L. No. 102-325) increased student borrowing limits; with this change came renewed concern about the impact of debtload on students, an anxiety that

is supported by the figures on student borrowing: fully one-third of all the loans in the history of the student loan program were extended in the fiscal years 1994-1996, and the average graduate student indebtedness rose from $11,256 in 1995 to $19,568 in 1997 (Scherschel & Behmyer, 1997). Between 1989-90 and 1995-96, spending on student loans doubled. In 1997, the federal government invested over $40,000,000,000 in generally available student aid, with fully three quarters of that devoted to student loans. These figures only begin to suggest the impact of loans on students and their families.

In these hearings, the Senate Governmental Affairs Committee has asked us to focus on three broad questions. We draw from our research on student financial aid that uses over 58,000 students (Cofer & Somers, 1999a, 1999b, 1999c, 1998, 1997; Somers, Austin, Birkner, Flowers, Inman, Martin, Stokes, & Sullivan, 1998; Somers & Bateman, 1997; Somers & Cofer, 1997; Somers, Cofer, DeAngelis, & Cook, 1997; Somers, Cofer, VanderPutten, & Hall, 1999).

To what extent does actual or potential debtload influence:

A person's decision to attend a postsecondary institution? While we found that some students were undeterred in their educational plans because of the expected debtload, many students chose institutions and majors based on cost. Included in this calculus are tuition, living expenses, financial aid package, and expected debt. Further, accumulated debtload has a negative influence on student persistence once in college. Students reported a number of loan avoidance behaviors.

Which job to take after graduation? Having student loans is very stressful. As students approach graduation, the specter of repayment looms large. This influences their job hunting decisions. Students in lower paying fields like education and public service truly panic when they realize the gap between their salaries and loan repayments.

Other life decisions? Student loan debtload obviously influences immediate financial decisions such as housing, transportation, and living expenses. However, we also found that personal decisions (marriage, divorce, children) are also influenced by debt.

Are postsecondary student persistence rates affected by debtload?

We found that student persistence in all types of institutions is influenced by accumulated student loan debtload. Rather than being incremental, the effect of debt is felt suddenly as debt is incurred. That is, a student borrows, which varies depending on need and other factors, in a lump sum at the beginning of the semester. When the next semester rolls around, the student has to again make a decision to persist based, in part, on this new, higher level of debt. Students view threshold levels as intimidating, especially when they move from one perceived level to another. Further, in the short term, students are increasingly willing to borrow to attend college, and at an increasing rate. This short-term borrowing to finance tuition appears to have decreased the influence of rising tuition on persistence decisions. However, the long-term effect of short-term borrowing decreases the likelihood of continued enrollment. Finally, students have developed a greater reliance and willingness to borrow to attend college, but within limits.

Low income students and debtload

The 1992 Reauthorization of HEA resulted in a significant shift in federal policy from a commitment to promote access through need-based grants to a broader strategy of loans regardless of family income or need. The findings from our studies suggest that the pendulum has swung too far. Middle-income students appear to be adequately subsidized to enable them to attend the college of their choice. They do not appear to be affected by an accumulation of debt, and the effect of non-financial stimuli on middle-income persistence is minimal when compared to low- and high-income students. High-income students have had the opportunity to choose any type of education. A large plurality chose private institutions with their concomitant high tuition; to accommodate these high tuition charges, high-income students borrowed more on a current basis but did not accumulate large amounts of debt. This situation is seemingly contradictory unless parental assistance is considered. Low-income students with grants received no more than high- and middle-income students. Even though they attended low-cost public institutions, low-income students were forced to borrow and accumulated more debt, which had a significant effect on their persistence and to a greater extent in 1996 than 1987.

In addition to the decreasing persistence rate among low-income students, our studies seem to confirm that low-income student participation in higher education was decreasing. What can be done to reverse the trend of decreasing low-income enrollment? What initiatives can be developed that reverse the developing trend of unmanageable debt for low-income students? Are there federal initiatives that can re-level the playing field as intended by original federal financial aid legislation?

We have a number of suggestions for changes in federal policy; however, these must be implemented with the recognition of the differential impact on low- and middle-income students. In general, programs that increase aid to the neediest students during college and ease repayment after graduation will help low-income students while tax breaks and repayment reforms will assist middle-income students.

State grants - reform the method of "packaging" student financial aid, placing state grants before federal grants. This would make more federal money available for the neediest students and reduce inflationary pressures on tuition.

"Eveready" student loans - reform the payment method for income-contingent student loans, setting the payment plan to a percentage of income and capping payments at ten years.

Cafeteria payment plans - allow those with student loans to repay those loans through employer-offered cafeteria payment plans. Employers set maximum amounts and provide partial matching options.

Tax reduction plans - tax deductions generally benefit middle class students. Any measures that provide tax incentives should include students and families broadly.

Loan forgiveness - would tie forgiveness of part or all of a student loan to working in a high-demand, low-supply occupation.

Bankruptcy law changes - standardize the "undue hardship" definition which prohibits the discharge of student loans in bankruptcy or drop the special treatment of student loans in bankruptcy proceedings.

Vocational training - provide additional training at public technical institutions and two-year colleges.

Educational HMO - use the principles of a health maintenance organization to control costs while maintaining access to higher education.

We talked to students all over the country about student loans. We learned that most students, unlike the popular image of a college student, were dedicated not only to achieving a better education, but being better citizens with that education. The majority were, however, concerned that no one really cared about what they had to offer, and no one really wanted to assist them. Their frustration and anger was not uni-directional. The institution, the federal government, financial aid directors, credit card companies, and often professors and family were the subject of their diatribes. What we did learn was that most thought the programs poorly designed and not particularly student-friendly. Graduate students wondered why there were no grant programs for them, since they would be making a significant contribution to society after graduation. Undergraduates, especially those in low paying fields like teaching, were equally concerned about how they would repay their loans. They perceived that all the talk about reform was only window dressing; the proposals that they were aware of changed only the delivery mechanism, not the root of the problem. Many students were concerned not only about their particular situation, but also what would be facing their brothers, sisters, and children. In other words, they were extremely tired of the rhetoric and wanted to see substantive changes.

Introduction

The Higher Education Act of 1992 (Pub. L. No. 102-325) increased student borrowing limits. With this change came renewed concern about the impact of debtload on students, an anxiety that is supported by the figures on student borrowing: fully one-third of all the loans in the history of the student loan program were extended in the fiscal years 1994-1996, and the average graduate student indebtedness rose from $11,256 in 1995 to $19,568 in 1997 (Scherschel & Behmyer, 1997). Between 1989-90 and 1995-96, spending on student loans doubled. In 1997, the federal government invested over $40,000,000,000 in generally available student aid, with fully three quarters of that devoted to student loans (Almanac, 1999). These figures only begin to suggest the impact of loans on students and their families.

We report here on a series of studies done by Somers, Cofer, and Associates (Cofer & Somers, 1999a, 1999b, 1999c, 1998, 1997; Somers, Austin, Birkner, Flowers, Inman, Martin, Stokes, & Sullivan, 1998; Somers & Bateman, 1997; Somers & Cofer, 1997; Somers, Cofer, DeAngelis, & Cook, 1997; Somers, Cofer, VanderPutten, & Hall, 1999) on how student debtload influences a variety of career and academic decisions. In these studies, we have interviewed 785 students

between 1996 and 1998. We also used the National Postsecondary Student Aid Studies of 1987, 1993, and 1996, with data from 57,426 students.

Background - Federal Student Aid

Under the rubric of the "Great Society," the Higher Education Act (HEA) (20 U.S.C. § 1001 et seq.), and the companion Elementary and Secondary Education Act (ESEA) (20 U.S.C § 6301 et seq.) formed the cornerstone of federal policy in education. The Higher Education Act of 1965 consolidated several previously enacted anti-poverty measures with programs whose major attention was the provision of access to higher education for the poor and talented students (Keppel, 1987; Kimberling, 1995). The legislation creating HEA '65 was the result of two competing ideologies for federal funding of higher education. The first was that of assisting higher education by funneling funds directly to institutions through an all-encompassing formula based on student counts. This first method would clearly benefit institutions. The second was that of assisting needy students directly through grants to the poorest students and subsidized loans to lower-middle class students. This alternative provided a system of portable aid that provided both access and choice to the student. Even though the 1965 legislation was indeed a compromise between these two competing interests, the primary objective was one of equalizing educational opportunity for socioeconomically disadvantaged students by providing equal access to higher education for all students.

The 1972 amendments to HEA (Pub. L. No. 92-318) broadened the policy objectives to access and *choice*. Direct portable aid to needy students was introduced in the 1972 amendments through the Basic Educational Opportunity Grants (BEOG) (20 U.S.C. §§ 1070a-1070a-6, 34 C.F.R. Part 674). The new Basic Educational Opportunity Grant (BEOG - later renamed Pell Grants after Senator Claiborne Pell) was a portable voucher-like system for needy students. The BEOG differed from the earlier EOG Program in that the students applied directly to the federal government instead of the institution. These new grants were awarded solely on the basis of need, and that need was determined by a formula which was administered at the federal level.

Changes to HEA in 1972 not only broadened student choice, but also broadened eligibility for a whole new group of institutions. The access and choice question is essentially a public school and private school dichotomy. Public schools offer low tuition and very little institutional based aid. Low tuition implies that most of the aid at public schools will go to low-income students, since middle-and high-income students will have no need. Therefore, federal student aid acts to supplement the low-tuition strategy of public institutions and promote access. Private schools represent the choice part of the access and choice equation. In general, private institutions spend a large portion of their resources on student aid through tuition discounting. Therefore, federal student aid "federalizes" some of the costs of student aid that these institutions would incur in the natural course of business. Secondly, the need-based federal financial support focuses more on the lower-income students than the college would without the federal subsidy. Is it fair to subsidize private higher education with public dollars? This question is best answered in relation to one's position on the question, "Should the federal government bear part of the cost of student choice?" Coupled with the funding of choice, the proprietary education sector developed rapidly after the change of "higher education" to "postsecondary education" in the definition of eligible training in the 1972 amendments.

During the 1970s, 76 percent of federal student financial aid was in the form of grants and approximately 20 percent in loans. By the mid-1980s, that ratio had almost reversed with loans accounting for 67 percent and grants 29 percent of federal financial aid (Hannah, 1996). Further, Pell grants paid less than 50 percent of the cost of education (College Board, 1992). The passage of the Middle Income Student Assistance Act (MISSA) (Pub. L. No. 96-49) in 1978 was a fundamental shift in federal financial aid policy and philosophy. Easily accessible, non-need based aid became available to large numbers of middle- and upper-income students on a quasi-entitlement basis. Federal student aid outlays increased by 59 percent between 1977-78 and 1980-81 (Hearn, 1993). The lower-income targeted, need-based, grant-oriented federal policy

period came to an end. While the stated goals of MISSA were to promote educational choice, persistence, and access for both middle- and lower-income families, upper-income families took advantage of the program in substantially larger than expected numbers. Figure 1 illustrates

the changes in the percentage distribution between federal grants and loans from 1971 to 1997. After the passage of MISSA, enrollments of lower-income students declined (Mortenson, 1990).

Figure 1

Federal Financial Aid Expressed as Percentage in Grants v. Loans, 1971-77

By the mid-1980s, college costs were increasing and median family income was falling. The budget situation was casting a "dark shadow" over all federal programs, and expectations were not very high for the 1986 Reauthorization of the Higher Education Act (Pub L. No. 99-498) (Mumper, 1996). The emphasis on student financial aid at the federal level was "to put the brakes on." Proposals were advanced, primarily by Congressman Ford, to expand the programs so that low-income students could cover the increasing costs of college attendance.

The final compromise, according to Mumper (1996),

. . . did nothing to reverse the declining value of Pell grants to low-income students. It increased dependence of many students on borrowing for college. It increased the long-term costs of the program, and it accelerated the shifting character of federal aid toward loans away from grants. (p. 98)

The 1986 Reauthorization of HEA did little to change the shifting of the responsibility for federal financial aid policy from the federal government to the families of students. A new Congressional Methodology (CM) was enacted, effective in the 1988-89 school year, that standardized the need assessment mechanism. The needs test for loan eligibility was reinstated; family assets, as well as income, were considered in the needs assessment, with emphasis more heavily weighted toward income. The new Congressional Methodology replaced the Uniform Methodology which had been used as a guide for needs assessment since 1976 for all programs except Pell Grants. In addition, the definition of independent student was changed, under CM, independent students with dependents were treated differently than dependent students. The differences generally increased the expected family contribution (EFC) for independent students with no dependents and decreased the EFC for independent students with dependents (Lee, 1988; Mortenson, 1990a).

Two measures were included in the 1986 reauthorization bill aimed at cutting program costs. First, as mentioned earlier, family assets were added to the needs analysis calculation under the new CM, which had the effect of lowering the amount of aid for which a student could qualify. Second, a 3 percent insurance fee was charged to all borrowers to ease the growing default problem. However, limits on middle-income students were relaxed so that the aggregate loan amounts for undergraduates went from $17,500 to $25,000. The cumulative amount that a student could borrow for both undergraduate and graduate school was $54,750, more than twice the previous limit of $25,000 (Gladieux & Wolanin, 1976). With the 1986 reauthorization, the transformation was complete; loans replaced grants as the primary method of financing college costs, and even these loans were limited.

The 1992 reauthorization of HEA (Pub. L. No. 102-325) cemented the shift in federal policy from a commitment to promote access through need-based grants to a broader strategy of loans regardless of family income or need. The relaxed eligibility for government subsidized loans resulted in an increase of 2 million additional students receiving loans between 1990 and 1996, with a concomitant 92 percent increase in money borrowed. Table 1 illustrates the loan limits before and after the 1992 Reauthorization. With only a 16 percent increase in the Pell grant program, the imbalance between loans and grants worsened (Hartle, 1996). The efforts to restore integrity to the program have been successful with default rates dropping from an aggregate 22.4 percent in 1990 to 10.7 percent in 1994 ("FTEL Default Rates," 1997).

Table 1

Loan Limits Before and After the 1992 HEA Reauthorization

	Before the 1992 reauthorization		After the 1992 reauthorization	
	Independent students	Dependent students	Independent students	Dependent students
Subsidized Stafford				

Freshmen	
	$2,625
	$2,625
	$2,625
	$26,250
Sophomores	
	$2,625
	$2,625
	$3,500
	$3,500
Juniors/Seniors	
	$4,000
	$4,000
	$5,500
	$5,500
Graduate	
	$7,500
	$7,500
	$8,500
	N/A

Total Subsidized and Unsubsidized Stafford Loans

Freshman				
	$6,625			
	$2,625			
	$6,625			
	$26,250			
Sophomores				
	$7,500			
	$3,500			
	$7,500			
	$3,500			
Juniors/Seniors				
	$10,500			
	$5,500			
	$10,500			
	$5,500			
Graduate				
	$18,500			
	$8,500			
	$18,500			
	N/A			
PLUS				
	N/A			
	$4,000			
	N/A			
	No Limits			

Aggregate Maximums

Undergraduate	
	$37,250
	$17,250
	$46,000
	$23,000
Graduate	
	$74,750
	$74,750
	$138,500
	$138,500
PLUS	
	$20,000
	$20,000
	No Max
	No Max

Adapted from Graduating into Debt: The Burdens of Borrowing for Graduate and Professional Students, by The Institute for Higher Education Policy and The Education Resource Institute, 1997, p. A2.

From its beginnings in 1965, through several philosophically incoherent amendments, several key principles of federal student financial aid policy have evolved. Johnstone (1995) and McPherson, Shapiro, and Winston (1993) generally agree that these principles are: the costs of higher education are shared by the student (and, to a lesser extent, the parents) and taxpayer; and the ability of the student to pay for education is objectively measured. In addition, the federal

government makes grants available to low-income students so that they can afford moderately-priced public institutions (access to postsecondary education), makes loans available to middle- and upper-income students so that they can afford higher-priced private institutions (choice in higher education institutions), and provides aid to students without regard to academic discipline or achievement, as long as the student maintains satisfactory academic progress.

Our Quantitative Studies of Student Debtload

We studied the impact of debtload (and other variables) on the persistence of students in two-year and four-year colleges using the National Postsecondary Student Aid Studies of 1987, 1993, and 1996 (Cofer & Somers, 1999a, 1999b, 1999c, 1998, 1997; Somers & Cofer, 1997; Somers, Cofer, VanderPutten, & Hall, 1999). We used standard methodology and following is a summary of the results from the key studies.

Persistence at public v. private universities. We compared the impact of debtload on students at public and private four-year colleges in 1987 and 1993 (Somers & Cofer, 1998). Tuition was, in every case, negatively associated with persistence. The magnitude of the effect of tuition, however, was smaller for private school students and smaller in 1993 than 1987 for both public and private school students.

Current year grants and loans were all positively and significantly related to persistence for both private and public school students across both surveys. Generally the magnitude of the effect of subsidies on persistence was greater in 1993 than 1987 for both types of students. The only exception was current year loans which were less of a factor in 1993, based on effect size, for public school students.

The debt variables produced the most interesting picture of all the variables in the analysis. For public school students, debtload was not as important in the persistence/withdrawal decision as other non-financial and financial variables. In 1987, only those students with debt between $3,000 and $7,000 did not persist as well as those with no debt, and in 1993 persistence was affected significantly for only students with low debt levels. Private school student behavior was quite different. In 1987, persistence was affected only for private students with accumulated debt above $7,000. By 1993, all levels of debt were significant and negatively associated with persistence for private school students.

The amount of debt carried by private college students and their families has a significant and negative impact on within-year persistence. In the short-term, both public and private school students are willing to borrow to attend college, and at an increasing rate. This short-term borrowing to finance tuition appears to have decreased the influence tuition increases have on persistence decisions. However, in the case of private school students, the long-term effect of short-term borrowing decreases the likelihood of continued enrollment.

The access and choice question is essentially a public school and private school dichotomy. Public schools offer low tuition and little institutional based aid. Low tuition implies that most of the aid at public schools will go to low-income students, since middle- and high-income students will have no need. Therefore, federal student aid acts to supplement the low-tuition strategy of public institutions, and promote access. Private institutions, in general, spend a large portion of

their resources on student aid through tuition discounting. Therefore, federal student aid "federalizes" some of the costs of student aid that these institutions would incur in the natural course of business.

Persistence of African American and Caucasian students. Our research (Somers, Cofer, VanderPutten, & Hall, 1999) compared the persistence of African American and Caucasian students in 1996. We have five conclusions. First, tuition has a small negative effect on the persistence of African American students. This suggests that keeping tuition increases small and matching any increases with financial aid would promote the persistence of African Americans and lower income students regardless of ethnicity.

Second, African Americans respond positively to grants. Additional monies in institutional, state, and federal grant programs would encourage persistence of African American students and help keep the cost of attendance affordable for all students.

Third, work study can be used more effectively to promote student persistence. While in this study, persistence of African American students was not significantly associated with the receipt of work study, this program provides both social and economic benefits that can result in improved persistence. The interaction between the student and the employing department is important as well as the dollars that work study provides.

Fourth, African American students should not be "loaded up" with debt. Finding other sources of money for the financial aid package will encourage persistence of all students. Moreover, an institutional loan program, particularly one that would "forgive" part of the loan or have a reasonable income contingent repayment plan for graduates with low paying jobs would also be an effective persistence tool. All four of these suggestions can be used by institutions to promote persistence of all students, with a special benefit for African American students.

Finally, it is important to continue to improve the educational achievement of the parents of African American students. As the parental educational level increases, so do the aspirations of the children. With higher aspirations, more African American students will apply to colleges.

Two year college student persistence. The effect of debt on two-year college students is substantially different than for four-year college students (Cofer & Somers, 1999a, 1999b). We found that debtload had a significant and negative effect at all three levels of debt tested in the study. Debt is significant and negatively associated with persistence at the low and middle levels of debt, but significant and positively associated with persistence for high levels of debt. In addition, the effect of the largest levels of debt on persistence was fairly high.

Because of the basic nature of two-year institutions, the amount of funds a student needs to borrow is smaller than that of four-year college students. Two-year college students do not have to face the "Do I take out more loans this semester?" decision as many semesters as a four-year student. Additionally, not only is the length of time to finish a program of study shorter, but tuition is substantially lower at the overwhelming majority of two-year institutions; therefore, the investment decision is not as onerous as for four-year students. It would seem that two-year students motivated to graduate, for whatever reason, are willing to assume larger amounts of debt

to meet their goal. For other students, the decision to assume more debt significantly contributes to the decision to withdraw.

Persistence of four-year college students by income level. Cofer (1998) compared the persistence of students by income level at four-year institutions in 1987 and 1996. Tuition was, in every case, negatively associated with persistence. The magnitude of the effect of tuition, however, was smaller in 1996 than 1987 for all income groups. Most important, the magnitude of the effect of tuition was very small across all income levels in 1996. Therefore, the results of this study tend to not only confirm the theory (Dresch, 1975) that price coefficients change over time, but also that in the most recent history, those price coefficients decreased. Based on this study, it appears that students were less sensitive in the 1990s to tuition than they were in the mid-1980s. All subsidy variables for current year grants and loans were positive and significantly related to persistence for the three income groups across both surveys. Generally, the magnitude of the effect of subsidies on persistence was greater in 1996 than 1987.

When comparing the tuition and average subsidy amounts for all students, it appears that only low-income students had sufficient subsidy payments to cover tuition costs. In 1987, the average tuition was $3,142, $3,518, and $4,459 for low-, middle-, and high-income students. The total average subsidy for all students by income level was $3,699, $2,391, and $1,237. Low-income students received, on the average, $181 more than was required to pay tuition; middle- and high-income students received $1,127 and $3,222 less. In 1996, low-income students received $569 more than that required for tuition; and middle- and high-income students received $656 and $2,035 less than required to cover tuition cost respectively.

When one analyzes the effect of subsidies on tuition for only those students receiving a subsidy, the picture changes. The comparison between tuition payments and subsidies received by only those students who received subsidies showed that in only two cases out of nine did subsidies not cover tuition. These cases both involve high-income students. Those students who received some amount of work-study money had the highest net positive amount remaining after tuition. The effect of work-study has not been considered critical to student success because of the relatively small amount of each work-study award. However, those students who received at least some work-study money had the highest subsidy award across all income groups, which became more pronounced in 1996. Low-income students who received work-study awards received $3,530 more in subsidies in 1996 than those students who received the lowest total subsidy amount. In 1987, the difference between the highest subsidy and lowest was $1,560. While the absolute amounts were different, the concept that students who received the largest subsidy were work-study students and that the difference was more pronounced in 1996 was applicable at every income level. Therefore, while work-study amounts may not be a significant factor in persistence, the neediest students were work-study students.

There were changes in the components of the increase in subsidies from 1987 to 1996. The increase in loans was larger than the increase in grants. It is also interesting to note that grants increased more for middle-income students and, in most cases, for high-income students than they did for low-income students. In addition, the loan amount increased more for low-income and high-income students, albeit probably for different reasons, than it did for middle-income

students. In most cases subsidies increased more for high- and middle-income students on a percentage basis than they did for low-income students.

We believe that, rather than being incremental, the effect of debt is felt in lump sums. That is, a student borrows in a lump sum (which varies depending on need and other factors) at the beginning of the semester. When the next semester rolls around, the student has to again make a decision to persist based, in part, on this new, higher level of debt. Students view threshold levels as intimidating, especially when they move from one perceived level to another.

Second, there does not appear to be a single model that can be equally applied to all students. College students today are a non-homogenous entity when compared to their predecessors, and they will not all react in the same manner. Public and private school students, non-traditional students, African Americans, Hispanics, and working students all have different motivations for attending college. They also have different funding sources than previous students, more loans, company benefits, and pay-as-you-work. The traditional full-time, full- paying, 18-23 year-old student, on which much persistence research is based, is clearly the new minority.

Students and their families are willing to invest time and money, and assume debt, when they are rewarded by grants and good grades and students socially integrate into the campus environment. Therefore, the economic payoff of a college education is preconditioned by satisfaction with and commitment to the institution. When all of these factors are present, students will invest more, in terms of tuition and living costs, and assume more debt. This accumulation of debt does, however, have a limit, and there are differing thresholds for that limit.

Clearly, college students and their families are willing to assume greater and greater amounts of debt, but there is a limit. Who reaches that limit first, the federal government or the college student, will direct federal financial aid policy in the future.

The 1992 Reauthorization of HEA resulted in a significant shift in federal policy from a commitment to promote access through need-based grants to a broader strategy of loans regardless of family income or need. Congress planned to make more loans available to the middle-class students and decrease the reliance on loans by increasing grant support. The results were mixed. The relaxed eligibility for government subsidized loans resulted in an increase of two million additional students receiving loans between 1990 and 1996, with a concomitant 92 percent increase in money borrowed. With only a 16 percent increase in the Pell grant program, the imbalance between loans and grants increased (Hartle, 1996).

The findings from our studies suggest that the pendulum has swung too far to the right. Middle-income students appear to be adequately subsidized to enable them to attend the college of their choice. They do not appear to be affected by an accumulation of debt; the effect of non-financial stimuli on middle-income persistence is minimal when compared to low- and high-income students. High-income students have had the opportunity to choose any type of education. A large plurality chose private institutions with their concomitant high tuition; to accommodate for these high tuition charges, high-income students borrowed more on a current basis, but they did not accumulate large amounts of debt. This situation is seemingly contradictory unless parental assistance is considered. Low-income students with grants received no more than high- and middle-income students. Even though they attended low-cost, public institutions, low-income

students were forced to borrow and accumulated more debt. That accumulated debt had a significant effect on the persistence of low-income students and to a greater extent in 1996 than 1987. In addition to the decreasing persistence rate among low-income students, this study seemed to confirm the conclusion of Mortenson and Wu (1994) that low-income student participation in higher education was decreasing. What can be done to reverse the trend of decreasing low-income enrollment? What initiatives can be developed that reverse the developing trend of unmanageable debt for low-income students? Are there federal initiatives that can re-level the playing field as intended by original federal financial aid legislation?

Our Qualitative Studies of Student Debtload

Our three qualitative studies of student debtload are unique in the literature. Over a two-year period, we interviewed 785 two-year, four-year, and graduate students about student loans, including students who had no loans. The interviews delved more deeply into how student loans affect student academic, career, and life decisions.

For the first study, we held focus groups with undergraduate students in upper-division courses in the spring of 1996 (Somers & Bateman, 1997). Thirteen focus groups were held at five public universities. One hundred and seven students participated. Of the students who participated, 58.9 percent were female and 16 percent were minority group members. The average student age was 27.3 years; the range was 21-47 years old. Most (75.8 percent) were financially independent. Almost three-quarters of the students (72.1 percent) had taken out student loans with an average total of $11,579.

The second study included graduate and professional school students (Somers, Cofer, DeAngelis, & Cook, 1997). In the summer and fall of 1997, we held interviews (electronically and in person) with 396 graduate and professional students. Eleven focus groups were chosen cross-sectionally at research, doctoral, and comprehensive universities. Two of the eleven focus groups were specialty groups, one composed of minority students and the other of graduate students who worked full time. Of the respondents, 55.1 percent were female; the average age was 30. Eighty-one percent of the subjects were Caucasian, 40 percent were married, and 19 percent had dependents. The sample was fairly evenly split between doctoral (44.4 percent) and master's (40.5 percent) programs. A majority (57.8 percent) of these students had worked before entering graduate school.

For the third study, we drew students from technical schools, community colleges, and proprietary schools (Somers, Austin, Birkner, Flowers, Inman, Martin, Stokes, & Sullivan, 1998). We conducted 12 focus groups with 282 students at two-year and technical colleges and one proprietary school. A majority of the participants in the focus groups were women (59.1%). The 18-20 age category was the largest (35.6%). The 21-25 age category was the second largest, representing 26% of the total. The majority of students were single (55.9%) with no dependents (49.8%), taking a full course load (65.1%) and working part-time off campus (34%). The vast majority of students (72.2%) were employed. A significant percentage (33.8%) of students worked more than 30 hours per week.

Themes

Using standard qualitative analysis techniques, we analyzed the data from the three studies. The following 14 themes emerged: 1) Pre-college Considerations of Financial Aid, 2) Influence on College and Academic Choices, 3) Do Parents Pay? 4) Awareness of Debtload, 5) Financial Safety Net, 6) Life Decisions, 7) Aid to Minority Students, 8) AMEX, Don't Leave for College Without It, 9) Trying to Avoid Student Loans, 10) University Responsibility, 11) Supporting a Family on Financial Aid, 12) Hell No, We Won't Owe, 13) It's Better to Ask Forgiveness, and 14) The Fed. Here, we present summaries of the themes and illustrative quotes.

Pre-college Consideration of Financial Aid (What, Me Worry?)

Undergraduate students reported a very low level of awareness of the cost of attending college or the financial aid options available. Despite the plethora of information from postsecondary institutions, state governments, and the federal government, the details of paying for college were lost on many students.

I thought you had to pay them all back at once. Like, when you graduated, you had to pay them all back.

I didn't know that student loans existed.

Influence on College and Academic Choices (The Three P's of Choice: Price, Price, Price)

We found undergraduate students to be very aware of college costs. Some made decisions about which institution to attend and what to major in based on financial considerations.

[This university] was the closest school, and since I drive 45 minutes a day [to get here] it was feasible; however, [this university] doesn't offer a degree in theater. I had to change my goals [and major in] public relations. [Later,] I believe that the cost of grad school will keep me from enrolling.

Cheap is important. I would have considered getting a medical degree if the debtload was not so tremendous. I just want to be able to find a job with a decent income.

[The cost] has affected which college I chose and the profession I chose. [However,] I chose a major which I enjoyed, and it helped that it would allow me to earn the money to pay back any loans.

Two-year students think they are getting an educational bargain that is more convenient and accessible than a four-year school. Students remarked that they attend a two-year school for the following reasons:

[It is] the same education, but cheaper.

[The] location [and] low cost. I was able to work and go to school at the same time.

These remarks indicate that, at least for some students, post-secondary educational choices are limited by cost. Not only do students choose institutions based on price, their choice may also be limited by which major is offered as well.

All of these comments indicate that students are acutely aware of cost and know much more about price than aid. This price consciousness indicates that universities should be cautious about tuition increases and emphasize net cost (tuition - aid).

Do Parents Pay?

One of the assumptions of student financial aid is that parents pay part of the educational cost. The students we interviewed had mixed experiences:

. . .undergraduate, my parents paid for everything, so I didn't have to take up a loan. [But when I go to graduate school] it's loan time.

. . .there was no way I was going to get a loan for college. My parents had to pay for it. They had too much money, so there was no loan.

My brother [and I] are both in school now, and my parents can't afford to send both of us and pay all the costs involved, so now that I'm fixing to graduate, I have $15,000 in loans. Now, it's how am I going to pay this back? How long is it going to take to pay it back? What's the interest on it?

My parents were retired my whole B.S. degree career, so I did it on my own.

Because of the intergenerational nature of the sample, two students reported family experiences with financing college. One student said her mother had to take out a loan for her own schooling but now was able to help the daughter pay for college. A father reported that his sons worked during the summers and took off semesters when necessary to make enough money to pay for college on their own. There was real concern on the part of students that a legacy to their children would be generations in debt.

Awareness of Debtload

Undergraduate students exhibited a lack of awareness about finances in general and student loans in particular:

Nobody really sat down with me and budgeted. . .I was thinking in terms of work study that paid so much per week. . .I needed some budget counseling.

On the other hand, a few students were very aware of the payback terms of their loans, consolidation loans, and interest rates. Many students came to the interviews and focus groups clutching loan documents and pleading for help in understanding them and calculating their debt. This indicates that despite the counseling mandated by the student loan program, many students are uninformed. Perhaps this is a reflection of the "charge it" generation. However, virtually every student knew the conditions under which they could defer loans and the grace period.

Financial safety net

We asked students if they had a financial safety net. Most said that they had little in reserve for emergencies like medical bills or major car repairs. Most indicated that they would have to drop out of school in case of an emergency. They described their rescuers:

[The] Police.

The good Lord.

I would just quit [school].

If times get tough, I'll just have to quit.

It would appear from these quotes that two-year, technical, and proprietary students have few resources to rely upon in case of emergency.

Life Decisions (The House Note Without the House)

Students feelings were mixed on how their debtload would affect their life decisions after college. Many students expressed trepidation about handling the loan payments:

I won't be able to buy a car or a house right away. This [student loan payment] is just like having a house note without the house.

I'm figuring $20,000 a year here [for graduate school], so that's about $80,000. I want to keep it under $100,000. That's scary, that's a house.

It is not just the loan amount that scares me. I can pay that off. But it's hard to graduate with debt on top of the fact that I have no savings. No retirement plan, etc. I feel I am so behind. . .

Two students expressed reservations about marriage:

I would not have married the woman had I known she had defaulted on $30,000 of student loans (one divorce and one bankruptcy later).

I'm getting married in June and she has no loans. . .[she's going to] pay for everything. She's bringing all the stuff, and [I'm] bringing all the debt.

When asked about consumer purchases, students had definite plans to curtail. When asked how the student loan payments would affect their future finances, these students responded:

Divorce.

[We'll wait on] cars, house, baby.

Students felt considerable pressure to land a high-paying job quickly and had ideas on how to temporarily earn more money in order to pay off their loans. Virtually all students reported that their debtload would affect their financial decisions after graduation.

Aid and Minority Students (Forget the boot straps; or I don't have any boots!)

In general, minority students expressed an aversion to borrowing. These quotes are indicative:

. . . I don't like debt a lot because it puts me in mind of sharecropper situations and I came from a line of sharecroppers, where these people always own you because you always owe them. You can't go very far from them. However, in all the loans and credit cards, cars, and so on, the one that I find least painful is actually educational loans. It's the lowest interest rate; it's the fairest; and I got something that was really of value as opposed to my car.

Taking out loans is intimidating. But I know if I sit out of school, I'll pay a lot more.

Another student expressed the fear that public policy on aid is heading in a laissez-faire direction:

They're saying, pull yourself up by your boot straps. Well, I ain't got no boots on. You're the fellow with the boots, you pull yourself up. I need some boots first.

AMEX, don't leave for school without it!

One of the most surprising things we discovered was how students used credit cards to pay for college costs, sometimes using credit to avoid a student loan:

Actually, I've charged my tuition, I've charged my books, I charged my food. [Even with] the amount of loan money I'm going to get this semester, I'm still gonna be $100 in the hole, and that's just rent, electric, and phone. That's not including food. That's how I'm eating this semester, by charging it on my credit cards. So, you get real good at playing the interest rate game on credit cards.

My loans pay for my child care. . .What am I supposed to do, leave the kids on the street? My credit cards pay for food. I can live on macaroni and cheese, but my kids can't.

Why do students use credit cards rather than student loans? Desperation. You don't have to do paperwork. Avoid the confusion and headaches. It's easier. I know one person who had to because they didn't get their financial aid in time, had to wait about two months, so they had to pay for school and charged it, and then by the time the money came around, they spent the money on something else.

Students report that it is extremely easy to receive multiple credit cards and max them out their first semester in college.

Savvy students and their parents have discovered a loophole in the bankruptcy laws. If a student receives an "educational benefit" insured or guaranteed by a governmental unit, it may not be discharged in bankruptcy unless the debt would impose "undue hardship" on the debtor or the

debtor's dependents [U.S.C. § 523(a)(8)]. However, if that same student charged tuition, fees, and other expenses to a credit card, he or she could discharge the debt in bankruptcy. Of course, in either case, the student would have to otherwise qualify for bankruptcy. This scenario does, however, raise the question of equity in how bankruptcy treats student debt. Poorer students, who only qualify for student loans, are held to a much higher standard for discharge in bankruptcy than middle class students who charge their debts on credit cards.

Trying to Avoid Loans ("Jist' a littl' Bit)

Many students enter college with the vow not to take out student loans, only to see their resolve to stay out of debt crumble:

I thought, "I'll borrow just a little bit." Now, it's like, "Oh, I'm gonna be in debt, so I'll just borrow some more."

I only had to take a loan my last year in [undergraduate] school because I totaled my car.

Almost 18 percent of the undergraduate students in this study have received no student loans, and 65 percent of the graduate students have qualified for loans, but over half reported trying to avoid loans.

University Responsibility

The students felt misled by institutional admissions and financial aid offices. Some of their statements came close to accusations of "bait and switch" tactics. Although some gave good reports, many students were disgruntled with and suspicious of their institution's financial aid office. The students believe that scholarships and other aid are plentiful, yet feel tricked when they only qualify for loans. Further, they take the rather cynical view that the universities are doing this deliberately to make money from direct loans.

Supporting a Family on Financial Aid (It's Macaroni and Cheese Again Tonight, Kids)

Students with families, especially single mothers, had a particularly difficult time living on the estimated student budget. Most took out the maximum amount of loans.

[I] went back [to school] and my loans are going to pay for my day care, which is over $700 a month.

We're both going to school and neither one of us has insurance.

When I first started out, the first two years, I tried as hard as I could not to take a loan out. My husband was going to school, too, and we are both trying to make life better for our son and after two years, I couldn't afford [it]. It's embarrassing living poor, and finally, I had to take out loans. If that's what I've got to do to make life easier for my son later, that's what I've got to do.

These poignant words indicate the very mixed feelings felt by students with children. They have limited funds and limited time. Their student loans cover the basic living expenses, child care, and at times, let them do things with their children.

Hell No, We Won't Owe

Many of the students indicated that college was so important to them, that they had to make big tradeoffs:

I sold my house to pay for school and living expenses while in school. Cost did not enter into decision making. [This major] is what I wanted to do, so I did whatever it took.

It has taken me longer to complete my degree [because I work and go to school].

I have worked full-time since the day after my graduation from high school, and because of this, my appreciation for money and time has been enhanced. I feel that because I have worked my way through school, my maturity has greatly increased, therefore making me work harder for my academic goals.

Students had mixed emotions about student loans that clearly surfaced during the interviews:

It cost a lot, but my husband and I have a child that is 4. We are trying to make a better future for us and our son. That's what's important. That's why we take out student loans.

If student loans were not available, I could not even consider attending college.

[Loans are a] great burden with a fairly high amount of stress.

[Loans] have made me look for higher paying positions, but have also made attending college a reality for me.

My banker loves to see us. Between my wife and I, we owe $60,000.

Out of 25 grandchildren, only two of us went to college. I am the only college graduate. . .and I was able to graduate only because of loans.

I hope I pay off [my student loans] in full before I die.

I am an investment.

The benefits [of education] far outweigh the cost [in student loans].

It's Better to Ask Forgiveness

Some students long for the good ol' days when the interest rates on student loans were 2 to 3 percent. As one student stated, "Nine percent on $15,000 is not low interest." Another acknowledged that he'd give away his age and spoke of the National Defense Student Loan

program that allowed him to cancel 25 percent of his student loans for every year of voluntary service. Others had more lofty dreams, such as " no interest loans."

If they have to "mortgage their life," students would like a little help from Uncle Sam. Basically, graduate students seem to want time and options in repaying student loans. Students spoke of "work programs to gain experience and pay off loans" and "more ‘forgivable loan’ opportunities." Some want to strike a bargain, such as, "no interest upon successful graduation." If left up to graduate students, student loans would be easier to receive and offered at lower interest rates. Part-time students would be eligible for loans, and there would be a no-interest deferment period after graduation. Going even further, one student calls for "A stipend program based on the European model."

This is not to imply that many students do not realize the opportunity that subsidized loans provide them. Most realize that there is no "free lunch" and that accessing education comes with some responsibilities. One student sums it up this way, "I’m actually really grateful for the student loan program. It’s enabled me to finance my education. I just wish that I hadn’t borrowed so much!"

The Fed

Some of the strongest responses we received were the messages from the students to Congress. Students took legislators to task for their perceived shortsightedness on the student aid issue. These two remarks are indicative of student views on aid as an investment in society:

I think [student aid] is one of the best investments that they can make. They’ll get it back in taxes tenfold.

. . .if I wasn’t in. . .school, then I might be working at McDonald’s and I might be able to support myself and my daughter, but I wouldn’t ever be putting anything up above and beyond that. This way I’ll be able to support myself and my daughter and pay a lot more taxes. . .

Students were bitter when they couldn’t qualify for aid, despite their low- or middle- income levels. They argued for more generous entitlement levels:

Everybody I talked to says. . .they [the federal government] say we were too rich for a loan or too rich for [a grant].

On the grants, make it a little more equal. You have to be low income or minority to get it; . . .include everybody in that pie. Just don’t pick a segment [of students] and say. . .this [grant] is for you, but <u>you</u> can’t have it.

. . .you’ve got to put your money where your mouth is. If you’re going to value graduate work, then put your money there, too. Make it even, more balanced. Don’t make it so out of proportion that you’re killing the people . . .You’re praising people for getting there [graduate or professional school], but you’re going to kill them getting them there. It doesn’t show where your values are as a nation.

We talked to students all over the country about student loans. We learned that most students, unlike the popular image of a college student, were dedicated not only to achieving a better education, but being better citizens with that education. The majority were, however, concerned that no one really cared about what they had to offer, and no one really wanted to assist them. Their frustration and anger was not uni-directional. The institution, the federal government, financial aid directors, credit card companies, and often professors and family were the subject of their diatribes. What we did learn was that most thought the programs poorly designed and not particularly student-friendly. Graduate students wondered why there were no grant programs for them, especially since they would be making a significant contribution to society after graduation. Undergraduates, especially those in low paying fields like teaching, were equally concerned about how they would repay their loans. They perceived that all the talk about reform was only window dressing and the proposals that they were aware of only changed the delivery mechanism, not the root of the problem. Many students were concerned not only about their particular situation, but what would be facing their brothers, sisters, and children. In other words, they were extremely tired of the rhetoric and wanted to see substantive changes. The following section details many of their suggestions into workable solutions. Some are new; others have new twists to proposals advanced earlier.

Public Policy Initiatives

Students believe strongly that there should be some method of lowering their cost of attending college at both the graduate and undergraduate level. We have a series of suggestions which will benefit variously low-income students, middle-income students, and students in low-paying occupations.

State Grants

Institutions generally use a combination of federal and state grants, loans, and work study, as well as institutional aid to build a total assistance package for their students. The combination of merit- and need-based aid complicates the aid picture so that every combination cannot be examined here; however, federal funds, usually Pell grants, are considered the backbone of any financial aid package. When the Georgia HOPE program was originally implemented in 1992, a basic requirement was that students had to apply for a Pell grant before they could receive a HOPE scholarship. The state funds budgeted for the first year of implementation of the HOPE program were significantly underspent due to the increase in Pell grants. Other state-sponsored scholarship and aid programs have similar requirements, and most subtract the Pell grant from the total need before state or institutional funds are applied.

We suggest that the order of applying funds to meet demonstrated financial need be changed so that Pell grants and federal loans are secondary to state and institutional funds. This would have an effect of reducing the dependency and, therefore, the cost of the federal programs and eliminate encouraging a rise in tuition to capture the maximum available federal financial aid.

Eveready student loan: You keep paying, and paying, and paying. . .

Income-contingent loans have been on the reform agenda for student loans for the last three decades. The dramatic increases in the amount of borrowing for education raised fears that

students could not afford the rapidly escalating payments that would result from this increased borrowing. But is the current income-contingent repayment plan an improvement? Tables 2 and 3 illustrate the effects of ten-, twenty-, and thirty-year repayment plans on two different loan scenarios.

Table 2

Approximate Monthly Loan Payment for $20,000 Accumulated Debt

	10 Year Term	20 Year Term	30 Year term
Monthly Payment	$253	$180	$160
Cumulative Payments	$30,402	$43,185	$57,940
Total Interest Paid	$10,402	$23,185	$37, 940

Table 3

Approximate Monthly Loan Payment for $70,000 Accumulated Debt

	10 Year Term	20 Year Term	30 Year term
Monthly Payment	$867	$630	$563
Cumulative Payments	$106,408	$151,153	$202,759
Total Interest Paid	$36,408	$81,153	$132,759

The first scenario could represent that of an undergraduate who accumulated $20,000 in educational debt, and the second would be that of a graduate student who acquired $70,000 in loans. Alternatively, one could consider these two scenarios as the experience of a public school student and a private school student.

These tables indicate the persuasive nature of an income-contingent loan repayment. The monthly payment amounts for the extended repayment options are substantially less than that of the standard ten-year repayment plan. Conversely, total cost of loans with extended payments is, however, substantially larger. To repay $20,000 and $70,000 loans over a period of 30 years would cost an individual over $57,000, and $200,000 respectively.

Since the income-contingent plan was conceptually developed to promote employment in low-paying public service jobs, we wonder if the current program, when the full economic impact is known, will help meet its objective. We think not. We believe that a different structure for income contingent plans is needed. We propose the following: 1) a percentage of a debtor's

salary is established, by federal regulation, setting the maximum amount that can be used for repayment of student loans; 2) the ten-year repayment period is not changed; 3) after a maximum of ten years, the loan is closed, and no additional payments are required. The monthly repayment amount would float with income and could be repaid in less than ten years. We concede that items such as default, late payments, and bankruptcy would complicate this plan, but these factors complicate all repayment plans. Under this alternative income-contingent plan, an individual would not be saddled with a lifetime of debt and would, we think, be more likely to select public service employment.

Cafeteria Payment Plans

The stock of human and social capital, increased by each student's progressive educational achievement, benefits not only society and the public, but the employer of that student. Many employers offer cafeteria-style benefit plans to their employees. The majority of cafeteria plans set a maximum dollar limit and allow employees to select from a number of benefit options such as health insurance, life insurance, retirement plan contributions, and often times, cash payments.

We propose that "student loan repayment matching" be included in employer-offered cafeteria plans. Employees would be offered the option of taking a portion of their total fringe benefit package in the form of a match to their monthly loan payment. We found that many students with loans were marrying other students with loans. In two-wage-earner families, health insurance is taken by only one partner. Under this plan, the second partner could take loan repayment as an option. This option would encourage additional education of employees and establish an alternative to tuition payment plans. Companies would be free to set maximums and partial matching options. To encourage employees to implement these options, special tax deduction provisions for employers could be established.

Tax breaks

Generally tax incentives benefit middle- and upper-income students, while providing less help for the neediest students. So, tax breaks are only part of an overall strategy to provide access and choice to postsecondary education to all students, regardless of financial circumstances. As our interviews indicate, there is a "lost generation" of angry students who did not receive any tax breaks during their college education. Therefore, tax incentives should be for more than currently enrolled students.

It is easier to ask forgiveness

Early federal financial aid programs, like the National Defense Education Act of 1958, limited choice by targeting specific academic disciplines. Debt cancellation was provided for those who became teachers after college, and graduate scholarships were established to encourage study in disciplines such as science and engineering. We believe in student choice and believe a targeted approach to repayment is a viable option; we suggest a plan of debt forgiveness for specified high-demand and low-supply occupations. A student would not be given additional consideration for majoring in math and science teacher education, but would be given repayment consideration after they became a math or science teacher in the public schools. Repayment plans would be the

focus of this reform, not targeted disciplinary aid. Repayment consideration could take the form of forgiveness of a portion, or all, of an existing federal loan.

Bankruptcy law changes

Recently the Bankruptcy Review Commission (1977) issued its report and recommended that students be allowed to discharge federal student loans if they otherwise qualify for bankruptcy. The current rules allow, if a person is otherwise eligible, for the discharge of federal student loans only in cases of undue hardship.

However, three factors make a mockery of the current bankruptcy laws on student loan discharge. Courts have widely differed in their interpretation of "undue hardship." A standardized and compassionate definition is necessary. Secondly, conciliatory bankruptcy judges often take the approach of "splitting the difference" regardless of the law. Third, and most compelling, savvy students and parents have discovered that students who charge their tuition and other college costs to credit cards can discharge these debts in bankruptcy. So, the current law works perversely. Students who can qualify for credit cards have the luxury of discharging their debts in bankruptcy. Poorer students, whose only option is loans, have much harsher restrictions.

Vocational training

Several proposals have been advanced over the last decade to address the growing concern over the issue of proprietary schools. The most common proposal has been to call the problem a job training issue and shift the responsibility to the Department of Labor. However, the proprietary school problem is both a quality issue and a budget issue; the Department of Labor solution does not adequately address either.

From a cost standpoint, Table 4 illustrates the problem. In 1992-93, students at private, for-profit institutions, with less than a two-year program, borrowed more than students at a four- year public institution and almost the same as those at a four-year private institution, on average. Gladieux, Hauptman, and Knapp (1994), using 1990 data from several sources, compared the

Table 4

Average Annual Amounts of Federal Aid for Undergraduates 1992-93

Type Institution	Any Federal Aid	Federal Grants	Federal Loans
Public, 2-Year	$2,213		

	$1,375
	$2,578
Public, 4-Year	
	$3,792
	$1,780
	$3,011
Private, Not for Profit, 4-Year	
	$4,696
	$2,040
	$3,607
Private, for Profit	
less than 2-Year	
	$3,559
	$1,739
	$3,289

Source: NCES, NPSAS:93.

average federal award per aid recipient for the same four types of institutions as in Table 4. They reported that public two-year, public four-year, private nonprofit, and proprietary students received $286, $891, $1,535, and $2,722, respectively.

Further evidence of ineffective quality control is revealed by examining the default rate at proprietary schools. Even though the statistics show that default rates at proprietary schools have dropped fairly significantly (College Board, 1997), the results are deceiving. In 1990, the borrower default rate for proprietary schools was 41.2 percent, and the overall default rate was 22.4 percent. Corresponding default rates for 1994 were 21.1 percent and 10.7 percent. However, 514 proprietary schools dropped out of the program between 1990 and 1994. Probably a large portion of those institutions were forced out of the program because of high default rates. Mathematically, the loss of a large number of high default rate schools would necessarily force the average default rate down. Therefore, the drop in default rates for the proprietary schools may be more a function of the calculation than of any definitive action by these schools.

Maintaining a vocational training program within the postsecondary framework for those youth who are not prepared or choose not to participate in a traditional college experience is imperative. The question is, "How is vocational training preserved and quality assured?" We believe that the issue is where training is provided, not if training is provided. Public community colleges and technical colleges provide high quality vocational training and are accredited by their state and regional accrediting agency. Proper supervision of students, faculty, finances, and quality is important for solving the vocational, technical training question. We suggest that all federally-supported vocational training should be provided only by public two-year community colleges and vocational/technical colleges that have appropriate state and regional accreditation.

Educational HMO

McPherson, Shapiro, and Winston (1993) claim that higher education and medical care are the two commodities in American society where the quality of service is severed from the ability to pay. Rawls (1971) referred to these two commodities as "basic goods" that are needed in a post-modern society to pursue a reasonable plan of life. The analysis should be taken to the next step - How have we addressed the health care problems, and can those initiatives be transferred to higher education financing issues?

The health care industry, like higher education, was faced with rapidly increasing costs when it tried to satisfy the twin objectives of access and choice. During the decade of the 1970's and 1980's the costs of health care, and ultimately health insurance programs, were facing annual double digit price increases. Employers, both public and private, were eliminating health insurance plans because of the ever escalating costs.

A major change in the health care industry was the elimination of absolute choice in the selection of doctors, hospitals, and treatment plans, and broad use of contractual discounts. A number of health insurance plans are typically offered: an indemnity plan, a point of service plan, and an HMO-type plan. Each plan has successively tighter restrictions on choice of doctor and hospital, but similar access provisions. In other words, an employee can go to any doctor they choose any time they choose under the indemnity plan, but they can go to only one of fifty designated doctors any time they choose under the HMO-type plan. The fifty doctors in the HMO-type plan and their corresponding hospitals are contractually obligated, at a significantly reduced fee, to treat the individuals in the university's plan.

The analogy to higher education is obvious. The expanded choice offered through the changes to HEA beginning in 1978 have increased the costs of the program to the federal government and society. Furthermore, the original purpose of HEA, which was to provide access to all students, regardless of their socioeconomic status, has been obscured through these actions. By attempting to serve two goals, access and choice, low-income students cannot afford even a moderately priced public institution without borrowing, and middle-income students cannot attend a private institution without excessive borrowing.

Applying the health care solution of limiting choice and not access, an "Educational HMO," could be developed in two steps. The first would be for the Department of Education to develop a schedule of costs for different types of postsecondary institutions. There would be a reasonable cost rate for public four-year and two-year institutions, and a reimbursement rate established for

private institutions. As stated earlier, vocational education should fall under the purview of public higher education; however, if it does not, separate reasonable costs need to be developed for specific types of vocational training. Different rates would be established for diesel mechanics and cosmetology or barber school, etc. Gladieux, Hauptman, and Knapp (1994) outlined a similar plan, and suggested ". . . that such reasonable cost standards would be similar to the cost containment provisions in Medicare and Medicaid" (p. 144).

Secondly, Pell grants would be limited to a percentage, debatably 75 to 80 percent, of the four-year public college standard cost. Subsidized loans would be offered up to the standard cost at all types of institutions, based on demonstrated need. Arguably, the devil is in the details of such plans, but this two-step program would establish a strong basic philosophy upon which to develop a full "Educational HMO."

Epilogue

What we have suggested here is not meant to be an all-encompassing reform plan to solve all federal financial aid problems. We have suggested a number of reforms that will help the students and several that could help the entire program. The suggestions are not interrelated and can be implemented singularly or collectively without jeopardizing effectiveness. What we do know, after talking to a large number of students, is that they are angry, bitter, and upset. We expect that they will continue to sing the student loan blues in many venues, including voting booths and state legislatures.

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