Educating Students on the Benefits and Perils of Loans as Financial Aid

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Abstract

The perils of students' loans have caused a $1.2 trillion debt for those individuals who aspire for more than a high school diploma. The result has been students are making decisions regarding their financial aid without the appropriate knowledge and education when it comes to taking on student loan debt. Families, high schools, and college personnel are providing information for the students on their financial aid, yet the students are not properly educated prior to making their decisions. Furthermore, socioeconomic levels, types of loans, and repayments plans are often not fully discussed when the students are making their choices. All of these aspects of financial aid impact students and their choices for how much the student will take out regarding their financial aid package.

Purpose: To examine the need to educate students on both the benefits and the perils of student loans. Students commit to life altering decisions based off their knowledge of financial aid.

Key words: student loan, types of loans, socioeconomic levels, free community college, repayment plans.

Educating Students on the Benefits and Perils of Loans as Financial Aid

In the book, *Financing American Higher Education in the Era of Globalization* (2012), Zumeta, Breneman, Callan, and Finney highlight how the dilemma with higher education is that it is a complex system and requires students to examine the costs associated with attaining a degree, when selecting one's educational choices prior to the student attending college. A loan is defined as a borrowed amount of something, preferably money, which is required to be paid back with interest. Tuition and fees are what students must pay to the institution to be able to continue their educational endeavor. Some authors highlight how the cost of obtaining access to higher education has exploded and has caused students to rely on federal loans or private loans to pay the tuition and fees associated with earning their degree. In 2012, the individuals who obtained a degree from a public four-year institution borrowed an average amount of federal loans of $25,500 (Kim, Chatterjee, Young, & Moon, 2017). "Student loan debt is quickly becoming a problem of great national concern. More than 40 million borrowers owe a collective of $1.2 trillion in outstanding debt. Student loan debt is now the second largest consumer debt market in the United States" (Peoples, 2017, p. 1). Depending upon the loan type a student accepts, the loan may, or may not incur interest.

Students are instructed long before they reach college age, that if they want to obtain their professional goals, they must have a college education. A college education is important, but is a four-year undergraduate degree worth twenty five thousand dollars? That amount is generally financed in the form of a loan which is split into one hundred and twenty payments, continues to gather interest, and the repayment options do not account for the cost of living increases. There are multiple repayment options, but the borrower will eventually end up paying more than their original $25,500 back due to interest (Kim et al. 2017). The current method of educating students on student loans is one that is outdated and not properly working. The student loan debt has grown to more than one trillion dollars. Students are being encouraged more than ever to take out and accept loans to finance their cost of education. The individuals who are there for support and serve as a resource to convey the message of how loans function, do not provide enough time to educate students on the perils of loans. The result of not providing enough time and proper education on the perils of student loans has been a cause of one trillion dollar debt for students who are wishing to advance their education and career options. The current model is one which high schools invite admission personnel and financial aid counselors to their schools to meet with students. Though there is often not enough time to meet with each student individually and answer each student's particular question, so they answer general questions while informing students what they are required to do to receive student loans. The purpose of this paper is to educate students on the benefits and perils of loans as financial aid. Education professionals need to be aware of the current system of how students are educated on both the benefits and the perils of student loans. The students first experience the concept of financial responsibility from their parents, whether this is through the creation of saving accounts or accumulating large amounts of debt. The other factor associated with family income is the socioeconomic level. This level impacts students' feelings toward student loans. Families are only able to educate the student so much, then the high schools are called upon for continuing and expanding students' knowledge on student loans. The knowledge of student loans then focus on the type of student loans; private loans and Federal loans. The other option students possess is free tuition at community colleges. This depends on each state, but is a viable alternative. Finally, the students are given information on repayment and post-graduation options such as careers and financing businesses. Students are committing to their education plans based upon their financial aid packages offered from institutions of higher education. Students are making these decisions without possessing the proper knowledge and understanding of the impacts these loans will have on their financial well–being. When examining how students are made aware of financial aid these things need to be considered: their financial background, access to financial resources beyond financial aid, and potential ability for repayment of loans. All of these items have a large impact on the financial well-being of a student.

Implications for Practice

Parents Finances

Children learn many concepts from their parents or families, one of the concepts might be how to budget and focus on financial responsibilities especially the cost of paying for higher education. The impact of financial security and understanding can first be seen through students' parents or guardians. According to Kim et al. (2017), families who had little savings or had a significant amount of debt, worked on teaching their children about the impact of creating a savings account or some way to save their money. Many families have created college saving accounts for their student so they are able to afford attending college without having to take on a massive amount of debt. Along with this Kim et al. (2017) found that other variables created more of an impact on borrowing and finances, than family backgrounds and financial socialization when it comes to explaining why students had loans and the amount of loans a student possesses.

The more information high school counselors, admission personnel, and financial aid counselors possess regarding their students prior knowledge of student loans allow these professionals to better understand the community they are serving. When these professional pause and reflect, this information not only fosters their understanding, but assists with advising students on their student loans options and the ability to explain how each dollar borrowed will eventually be paid back. Students are making choices which impact their financial well-being, the more knowledge the student possesses and with more information these professionals can better educate students on the myths and facts of student loans.

Socioeconomic Levels

The economy is made up of several different socioeconomic levels and families who fall in those specific categories; the socioeconomic level directly affects the resources available to help finance the students' education. The lower a student's' socioeconomic level creates an impact which leads to taking on more student loans if they wish to pursue a college degree. One issue, which is often overlooked, is the impact of a student's race and how it affects their receipt of financial aid. "Recent changes have put more of a financial burden on minority groups (African American, Latino/Hispanic) to pay their own college education." (Elliott & Friedline, 2013) A young lady whose race is Latino/Hispanic attended a Registration Day and had several inquiries regarding paying for her education. These questions included issues surrounding taking out loans or applying for financial aid. The benefit of her meeting was twofold; first the young lady was made aware of the waiver for reduced housing by graduating from a particular service area and by choosing to live in the residence halls, and second she was able to understand all that financial aid actually entails. The student learned during the meeting with the admission representative what financial aid consisted of, as well information about attending college and the costs associated. The family was skeptical of the waiver, the potential scholarship, and they believed their daughter would still be required to take on the financial burden of loans to attend school. Part of this belief was true, but the family learned that scholarships are not money that must be paid back so it was free money, the student just had to maintain her academic standing. This is an example of a positive interaction between students and financial aid representatives.

However, not all interactions are going to be positive, previous research shows students from minority races end up with more debt when compared to those students who are identified as Caucasian. Furthermore, "Jackson and Reynolds (2013) argue these differences in debt burdens between racial groups highlight potential disadvantages of the "College for All" mentality" (Kim et al., 2017, p. 101) and reinforces the variances identified between the different levels of socioeconomic classes. The results from Kim et al. (2017) study point out a few areas of concern. These areas include the cause for the disparaging amount of loans and default rates for families who are identified as the minority, and suggest those families tend to have less opportunity to provide financial assistance to their student in order to attend college. Kim et al. (2017) suggests minority students who are attending college today are often first generation college students. This often means their family does not have wealth which is passed on from one generation to the next, and they often have a lack of understanding regarding how financial aid works and the impacts it will have on their future. This information is in line with previous results and demonstrates how the variance among social classes impact financial decisions.

High school counselors, admission personnel, and financial aid counselors are often the first point of contact for prospective students. Just as important as understanding the prospective student's knowledge of student loans, the understanding of how different cultures view student loans is just as pivotal as their understanding of the loan process. Possessing these basic understandings will better help these professionals assist their students when explaining the aspects associated with student loans. The understanding of socioeconomic classes can often lead to forming a better relationship between prospective students and the college representative. The initial first point of contact in the college setting is often financial aid counselors or admission personnel, when students can feel as though they are understood and these professionals care about them, then the student is more likely to attend their respective institution.

High School Guidance

High Schools work collectively with admissions personnel, financial recruiters, and have school counselors who assist students when it comes to decision making for life after the K-12 setting. Students spend between 7 – 9 hours per day at their primary and secondary schools, during this time students are being prepared for life beyond high school whether this is in the workforce, military services, or post-secondary education. During these preparations, students are exposed to a wide variety of resources, college recruiters attend events at the school and prospective students are able to talk with the recruiters.

Continuing this information regarding the options after school is completed, students are meeting with school counselors and admission personnel from various colleges. However, in the article, *Community College Students' Assessments of the Costs and Benefits of Borrowing to Finance Higher Education* (2015), students are bombarded with college information and credentials. Students attend college fairs and school visits where they are presented with what each institution has to offer. Cost of attendance seems to be an area that is highlighted quite frequently. According to McKinney, Mukherjee, Wade, Shefman, and Breed (2015), most students do not understand all the particular responsibilities for how to finance their higher education (p. 3). There are myriad of reasons for this. According to McKinney et al. (2015), the results from the survey demonstrated the lack of understanding of how financial aid works. The majority of students who attend community colleges come from a lower socioeconomic background. When students have questions for their high school counselors or an institution's financial aid advisors, often there are not enough staff available to fully answer their questions and often the staff are not the most knowledgeable to the questions the students are asking. The process of determining the choice of using loans to finance the student’s education has provided the author's opportunity to examine their attitudes regarding borrowing money and found students are accepting of the borrowing money for their education and also found that students who were already open to the idea were the ones who incurred more money in loans. Along with this ideology, research has found that many students were not properly educated regarding the process of borrowing money or taking on debt to pay for their college. To put this into perspective, McKinney et al. (2015), found that students often miscalculate the necessary funds to cover their expenses and also tend to overvalue their future income (p. 5).

Students are bombarded with information regarding financial aid. Institutions often use revenue generated through tuition to continue their success of graduating students and through this revenue they flood the students with information. Along with this process, the students are being given extensive information about multiple types of loans including both private loans and Federal Student Loans. The information about all the money available through all the various sources also pressures students who are often unaware of how the process of assuming loans occurs. Students from lower socioeconomic statuses as well as students from a variety of different races can often feel pressured to agree to accept loans and often borrow excessively because of a lack of knowledge about the financial aid system and a lack of funds available from parents or guardians. As noted in 2012, on average, the graduates from public four-year institutions were finishing college with a debt of approximately $25,500 and this contributed to a collective $1.2 trillion of outstanding debt in the United States. These results also revealed four misunderstandings regarding loans as the choice for financial aid: 1. Incorrect information and wrong guidance; 2. Loans were a requirement; 3. Positive loan experience; and 4. Implications of debt and impacts on life (McKinney et al., 2015). During the times when schools allow admissions personnel and recruiters, to speak to students, or even high school counselors when they meet with the students need to be certain all students are made aware of the different types of loans.

The information regarding how High School guidance counselors, admission personnel, and financial aid counselors serves as a prime example of how the current model is lacking effectiveness. Students spend majority of their time in school, where they are supposed to be prepared for life beyond high school. Students are exposed to the classroom expectations and prepared for postsecondary success, though they are not prepared for the non-academics success of postsecondary education. The application for this section relates to community college practitioners through demonstrating how important it is to provide adequate time for students to ask questions regarding financial aid and loans. Furthermore, these professionals need to not only provide time, they should also be proactive in their preparation. They can do this by having questions and answers prepared before students arrive. The more prepared the professional is and the more time allowed for the students to inquire, the more knowledgeable they are which in turn will allow them to make informed decisions regarding their financial aid choices.

Type of Loans

There are a variety of loans available to students and unless the applicant has a strong credit score, then a co-signer is going to be required. During the college preparatory sessions, students need to include parents, guardians, or co-signers in the meetings. Co-signers for student loans are not always aware of the impact of loan stipulations.

There are two types of loans available to students; 1. Federal Student Loans or FSL which are issued through the government and 2. Private Loans which are issued through banks or other financial infrastructures. The FSL program offers student options for repayment and even provides assistance in a time of crisis, i.e. no payments if a life changing event happens; payments plans such as pay as you earn; income based options, and revised pay as you earn plans. The Private Loans are determined by the financial infrastructure of the business providing the loan and often offers little to no assistance if a life changing event happens. There are other factors to consider before signing and agreeing to requirements of private loans, they include: knowing the terms and conditions of the loan, examining how much money the student will need to borrow, determining whether the student will have to accept all the money offered or whether they can borrow a portion of the amount offered, as well as whether there are loan forgiveness programs available to the student based upon their current loans and degree program.

Authors Sullivan and Towel (2017), discuss the different aspects associated with loans and what individuals need to know before signing a loan agreement. They use the example of parents helping their students finance their education by taking out private loans, creating budgets, planning for retirement and finally a plan for repayment of the loans. However, in their scenario, a life-changing event happened, one of the parents was given a terminal health diagnosis. According to the loan policy, “if the student or the co-signer died before the loans were fully paid, the loans became immediately due.” (Sullivan & Towell, 2017, p. 1) During the crisis of a life-changing event, the family will now have to come up with $150,000 to pay off the loan. Though it is not an ideal situation, families and students need to be certain they examine all aspects of the loan terms and conditions when looking at borrowing money and determine what method works best for their family.

Free Community College

The problem of rising tuition costs and costs associated with higher education was considered to be solved by the concept of free tuition for community college students. According to Carol Patton (2016), there were 13 states considering modeling upon a system that Tennessee and Oregon were currently examining regarding how to reduce this deficit. In the article *Is Free Tuition Working*, the state of Tennessee adopted the Tennessee Promise Program, which is a program geared towards attracting students to community colleges. The 927 students who applied for this Promise Program "represents nearly 10 percent of the schools 9,125 enrollment that semester" at Southwest Tennessee Community College according to vice president Jacqueline Faulkner. The data is still being examined, but a similar concept has spread on from Oregon and Tennessee. New York is one of the states that adopted this model; the state put its own spin on the program. The New York stipulations were:

1. Enroll as a part time student
2. Pay $50 for the course
3. Receive at least $1,000 in Promise Aid
4. Keep track of out of pocket expenses and receive a reimbursement
5. Lastly, complete at least 25 hours of community service and live within New York, which is based upon the number of years, the student receives the Promise.

These stipulations do not seem to be extensively rigorous. According to Nancy Zimpher who is the Chancellor for State University of New York, most graduates decide to live and work within the state (Patton, 2016). For those students who do not, the money borrowed would end up being a loan or debt the student would be required to pay back. Even though the Promise seems to be a big step and creates possible financial burdens for states, the results seem to indicate that the inconvenience would be worth it. It would help cut down on the cost of debt for graduating students, offers incentives to live and work within the state which results in the economic growth of the state, and this program depending on the state, would assists families who do not qualify for other need based scholarships or grants. For example, New York's plan is focused on families whose annual income is less than $125,000 because students whose family income is less than $50,000 are already awarded free tuition through other resources. These various resources do more than provide an opportunity for free education they also consider cutting education costs for students. The goal is eventually for all students to receive free tuition, if they attend public institutions and community colleges for two years. Another factor to consider is a variance between states in the design of their plan (free tuition), which could lead to some students being unable to qualify and receive funds from the program. An important characteristic for students to consider is to examine what loan assistance programs are available.

Repayment and Post College

After accepting loans and determining their degree of study, students are introduced to their future income. These numbers seem quite large, though the figures from the Labor of Statistics do not reflect costs such as repayment. For example the average income for administrators in colleges across the United States is roughly $90,000 according to the Bureau of Labor Statistics (2017). However, there are several college administrators who may fall short of this national average income. This is just one example of students being shown potential incomes, though these statistics do not take into account the location of the institution and the socioeconomics among the area.

The information available to the public through the Bureau of Labor Statistics is important and is what students are being taught about when they consider their potential income.

Though students are often not aware of what the entry level position pay is for their potential career and this aspect is not often covered within classroom lectures. Students also often struggle to fully understand educational costs and how their future incomes will be impacted by the debt accrued to finance their education because of the confusion surrounding interest rates and the accumulation of the amount of interest. In a survey conducted McKinney et al. (2015), it was found that 47% of community college school financial aid counselors in the states of Florida, Texas, and California believe students do understand the risks and aspects associated with the acceptance of loans.

The first step after graduation is entering the workforce. Employers want trained professionals, but the majority of trained professionals carry some sort of educational debt. Studies have revealed professionals who have student debt are often delaying important life accomplishments such as purchasing a home because the debt to income ratio would make qualifying for a mortgage quite difficult. There is often an increase in the cost of living upon earning a degree and entering the workforce. The potential job opportunities in metropolitan areas are higher than in rural areas. New graduates must also consider if their new employer has the ability to offer student loan repayment plans. The repayment plan may not be much, but often companies offer a small contribution, which can be applied to the principle of the loan. This reduces the overall cost paid toward the loan by the student because it reduces the principle, which in turn reduces interest charges. A research study conducted by Oliver Wyman regarding retention found that 90% of young professionals are likely to accept a position, refer a friend, or stay with an organization if the organization offers a repayment plan for student loan debt. While the offer is good for company retention, the disadvantage is no tax breaks for either the employee or the organization are being offered (Oliva, 2017).

Another option available to young professionals who have accrued student debt is the Public Service Loan Program (PSLF). This program is designed for students who are pursuing careers in military services and public education. The PSLF was enacted in 2007. The program benefits students by helping them save some money. However, in order to do this, the student must make 120 payments or a single payment a month for ten years. If a student borrower chooses the Pay As You Earn (PAYE) program option, the amount paid is determined by income, and once the 120 payments are paid the remaining balance is paid off and tax-free. Unfortunately, legislation eventually could be re-enacted and eliminate the program, and that would be devastating to the borrower, especially if the borrower had a large amount of debt. There are additional issues that concern businesses becoming classified as qualified employers. Lastly, due to a change in federal administration, the PSLF program may be cut as part of the current administration's agenda.

Current Resolution

Though many in Congress hope to continue to offer this program, students should be aware of this change, and not rely on the PSLF to repay their debt (Oliva, 2017). As studies have shown, admission and financial aid counselors believe students are not aware of the consequences and impacts their loans will have on their financial future. Students do not comprehend the magnitude of financing college through student loans; they often overvalue their expected income upon graduation. Race and socioeconomic status both have impacts on students borrowing behaviors. There are two effective ways to ensure students are aware of the impacts financial aid could have on their financial futures. Student and families, who may need to utilize financial aid options, need to ensure they become knowledgeable in all available options; 1. Attend the student and parent sessions when recruiters and financial aid departments visit high schools. 2. Follow up by doing the following: ask questions, confirm all the information received, read and understand the fine print and consider the impacts of the loans, do not over borrow or under borrow, and ensure the student or borrower understands all that is involved and is able to make adequate payments on the money which was borrowed.

Knowledgeable Reasons for Community College Practitioners

Types of Loans, Free Community College, Repayment Plans and Post College careers, and Current Resolutions are essential components for practitioners as well as students. Students' first point of contact regarding post-secondary education starts with high school guidance counselors, then admission personnel, and then financial aid counselors. These professionals need to go beyond providing the short period of interaction and basic information regarding what the institution of higher education has to offer in regards to programs and how much money the institution reward to students in the previous year. These professionals need to offer adequate time, explain how loans function, the different types of loans, the benefits and perils of loans, if their state or even institution offers free community college, what the repayment options are after graduation, the career outlook and if those careers qualify for potential loan forgiveness programs. These components can greatly impact how students view what post-secondary institution to attend. The information associated with each one allows the students to make a knowledgeable decision one which impacts both their financial well-being and their future selves. Students are often not aware of the different loans and the perils associated with each type of loan.

As for Free Community College, Repayment Plans and Post College, and Current Resolutions these areas provide another important characteristic for students. Students are given a great deal of information regarding their future school and then deadlines on when information must be turned in. This information is often not covered and often the students do not become aware of these components until after they start school or until they graduate. By setting up appointments, allowing time for students to ask the questions, and the professional being prepared, the students can be given the necessary information to better make their choice. Institutions often state, they are there for the student, though by not setting the student up to be successful, they are placing the student in an unsuccessful situation. By covering all of these components, institutions are setting students up to make educated decisions on their financial well-being and future selves.

Conclusion

Parents or guardians, college and high school personnel, loan officers, free tuition states, and careers all provide a similar message of we are here to assist the student to provide information geared toward finances. Whether the information is directly related to creating an account for college costs, offering employment for those college expenditures, or tips on how to receive “free money”, the message is not as clear as one would hope. Through research of the topic of the perils of student loans, authors mentioned the current methods being used as: one on one financial counseling for incremental time, offering workshops, parent and student nights, and adoption of free college. Students are still over-borrowing and are lacking the appropriate information about how to finance their higher education.

Recommended Resolution

Prior to making choices, students need to examine the type of institution in which they desire to attend, what type of degree the student wishes to pursue, what financial offerings the institution has to offer, what the career outlook would be for their degree of choice, and what their future earnings potential would consist of. Students are going to have to have some sort of loan to pay for their education. High schools and institutions offer different educational sessions focused on finances for which students and parents or guardians may attend. During these educational sessions, questions can be asked, information is delivered, and then the audience is sent on their way. Since institutions would not exist without students, students need to be thought of more. Instead of viewing students as a whole, there needs to be a class offered prior to the students graduating the K-12 setting. By having a mandated class starting in each grade level in the K-12 setting, students will be taught the information regarding finances over their entire educational lives. Through starting at a young age, students will learn and be exposed to knowledge regarding saving accounts, checking, budgeting, and loans. Furthermore, this development of the student will reach the end of the process when the student is in high school and determining which institution of higher education the student will choose. This class incorporates all the aspects in which the authors discussed the way colleges and high schools expose students to loans and the understanding of loans. The difference relates to the aspect of time and students are exposed to finances at an early age. Through exposure and knowledge students can then and only then make appropriate decisions on their future educational endeavors and understand what it means to finance one's education.

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