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ABSTRACT

The way in which costs enter the potential college student's calculation of the benefits of college attendance is examined. In particular, the paper considers how costs not considered in financial aid need analysis can increase college attendance costs and thereby decrease net benefits of college attendance for those who use financial aid. The sixth in a financial aid research series, this report offers information on the following topics and subtopics: (1) economic theory; (2) college attendance costs (opportunity costs, financing costs, and risk costs); (3) equity of higher educational participation (females, nonwhite minorities, and low income students); (4) student financial aid policy issues (negative family contribution, student aid versus public aid, net benefits of college, and risk and loan default); (5) the shift from grants to loans (minority issues and loan defaults and the budget deficit); (6) and implications for higher education (including the specific problems of minority and low-income group enrollments in American higher education). Six figures and 7 references are included. (SM)

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Missing College Attendance Costs: Opportunity, Financing, and Risk

Thomas G. Mortenson

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Prepared by The American College Testing Program

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MISSING COLLEGE ATTENDANCE COSTS: OPPORTUNITY, FINANCING, AND RISK

Thomas G. Mortenson

SUMMARY

The investment theory of student demand for higher education holds that a potential college student will choose from among available options (college, employment, military service, crime, etc.) according to the highest net present value available to him or her from these options. The net value is the present value of the benefits minus the present value of the costs of each option under consideration by the individual. This paper examines how costs enter the potential college student's calculation of the benefits of college attendance. In particular, this paper considers how costs not considered in financial aid need analysis can increase college attendance costs and thereby decrease net benefits of college attendance for those who use financial aid to help pay college attendance costs.

The college budget recognized in financial aid need analysis is limited to direct and indirect costs of college attendance. Direct costs are costs of attending college (tuition, fees, books and supplies), and indirect costs are costs of living while attending college (food, housing, transportation, personal and medical care, etc.).

College budgets exclude three other costs faced by students while attending college, costs for which financial aid is not provided. Opportunity costs are the value of the opportunities sacrificed to be able to attend college, such as lost earnings from employment. Financing costs are the result of the conversion of student aid from grants to loans, and the resulting obligation of loan recipients to repay not only the student aid they received, but also loan processing fees and interest on the unpaid balance of that student aid. Risks, though not strictly costs, affect the perception of net benefits of college to prospective students as if they were. Loans impose risk costs on these borrowers who do not graduate from college and are hence less able to repay their loan obligations.

The paper then reviews the current status of higher educational equity for women, racial minorities, and low-income groups compared to their equity status over the last several decades. This period covers the period of the two major changes in student aid programs: enormous growth in student aid programs and funding, followed by the conversion of federal student financial aid from grant assistance to loans. The equity achieved during the 1970s for minorities and low-income groups has been eroded during the 1980s as the opportunity, financing, and risk costs of college attendance have increased.

The financial aid aspects of equity of higher educational opportunity are then reexamined in terms of opportunity, financing, and risk costs not considered in financial aid need analysis. These include the calculation of a negative family contribution in need analysis, the conflict between student aid and public aid, the reduction in net benefits of college attendance for those who use loans to finance their higher educations, and the increased risk of loan default for low-income borrowers. The implications for higher education are discussed, including the specific problems of minority and low-income group enrollments in American higher education.

ACKNOWLEDGMENTS

In developing this paper, I have been aided immeasurably by Mark Heffron's critical review. Others who have provided guidance and information at different times include Jim Maxey and Mike Simpson of ACT, Cliff Johnson of the Children's Defense Fund, Saul Schwartz of Tufts University, Sharon Cohany of the Bureau of Labor Statistics, and others cited in the References.

TABLE OF CONTENTS

MISSING COLLEGE ATTENDANCE COSTS: OPPORTUNITY, FINANCING, AND RISK

Thomas G. Mortenson

What does it cost to attend college?

This question has no simple answer. Part of the answer depends on which college the student attends, whether he lives in a dorm or an apartment or at home, what texts and course materials she must buy, whether he is enrolled full time or part time, and many other circumstances. Another part lies beyond the traditional design of student financial aid, which limits consideration of college attendance costs to direct and indirect costs. Other costs influence the thinking of many potential students as they make decisions regarding preparation, access, choice, persistence, and completion in higher education.

This paper illustrates a factor that financial aid administrators understand intuitively, but federal and state student aid policies do not address in the design of our major student aid programs: that is, three additional costs--opportunity, financing, and risk--have been omitted in the design of student aid programs. As a result, the equity of higher educational opportunity aims of student financial aid cannot be effectively addressed until student aid policy, funding, and administration adopt a broader definition of college attendance costs that fully and sensitively addresses the actual circumstances faced by potential college students who are economically marginal.

This paper, which takes an economic approach to the interpretation of college student enrollment behavior, is based on the economic theory of the individual investment decision, illustrated with examples and empirical data to highlight key points. There are other useful approaches to the study of enrollment behavior, but none are as tied to public policy making as the economic interpretation of human behavior and the selection of economic tools by government to address perceived enrollment problems.

Economic Theory of Higher Education Enrollments

Enrollments in higher education are the lesser of either student demand for higher education or the capacity of institutions to accommodate them. This is true at all levels, from the individual course to the nation's higher educational system. The number of students we count in a course, a program, a college, a state, or in the country is limited to the lesser of either the number of students seeking enrollment or the capacity of the system to accommodate them at that time and place.

The economic theory of student demand for higher education holds that an individual will choose to attend college if the perceived net benefits of college attendance exceed the net benefits of the available alternative choices. All future benefits and costs are calculated at present values. Implicit in this theory of student demand for higher education are a number of axioms:

1. Individuals seek to maximize their own welfare.
2. Pursuit of college enrollment is a matter of individual choice.
3. College attendance produces benefits to individuals, including both short-term consumption and long-term investment benefits.
4. College attendance entails costs for individuals, including direct, indirect, opportunity, financing, and risk costs.

This paper addresses the fourth axiom: the costs that establish net benefits of college attendance for individuals. Beyond the traditional concern for direct and indirect attendance costs, there are other types of costs that reduce the net benefits of college attendance. These costs are not addressed in student financial aid, yet they impact the enrollment decisions that student aid is designed to address.

College Attendance Costs

In student financial aid we generally address two kinds of college attendance costs, direct and indirect. Direct costs are those uniquely associated with going to college, such as tuition, fees, books, and supplies. Indirect costs are living expenses incurred while attending college, including food, housing, transportation, personal and medical care, clothing, recreation, and sometimes child care. Although financial aid normally makes standard allowances for these costs, professional judgment may be exercised to accommodate the unique circumstances of individual aid applicants.

This is well and good, but such efforts may be inadequate to effectively address the financial aid needs of at least two groups of Americans: minorities and those from low-income backgrounds. Both groups have experienced severe enrollment difficulties during the 1980s. I will return to these groups later in this paper. Here, I want to focus on the missing costs of college attendance.

Opportunity costs: Let us imagine a very low-income family with an older child ready for college. Julie has graduated from high school with good grades and test scores. She has also worked until now, and her paycheck goes toward buying food and clothing, paying the rent, and otherwise supporting her parents, brothers, and sisters. She applies to college and is admitted. She applies for financial aid and her case is recognized as full need. All of her direct and indirect costs are covered by a package of financial aid including grants, loans, and perhaps some work-study. But Julie still has a problem: if she goes to college, her family will lose the financial support that income from her job has provided until now. Her family will have less money for food, clothing, rent, and other survival needs. Julie faces the awful choice of abandoning her family for the pursuit of higher education, or forgoing college. She decides to ...

Here is another example. Clarence always loved cars. He worked through high school to buy and maintain a car. When he got out of high school, he worked full time, earned more money, and bought a fancier car with the help of a bank loan. But he recognized that unless he obtained further education, his future job prospects were dim. So he applied for college, was admitted, filed for aid, and received a package that satisfied his need for financial aid to cover direct and indirect attendance costs. But this package would not permit

him to keep up payments on his prized car. Clarence faces a dilemma: if he goes to college he will have to give up the car because he will not be able to make the payments. Clarence faces an opportunity cost of college attendance. He decides to ...

While our sympathies in these cases might vary, the problem of unaddressed opportunity costs in financial aid haunts these prospective college students. Each has to sacrifice something important to them in order to attend college. For many young adults, fresh out of high school, these costs are quite low. They do not yet have family responsibilities or long-term debt obligations. So the net benefits of college look pretty good to them. Similarly, the laid-off factory worker or homemaker whose children are now in school has been relieved of responsibilities that have opportunity costs. College may seem more appealing--even necessary--than it did when job and family responsibilities precluded a commitment to higher education. But for others like Julie and Clarence, the things they would have to sacrifice to attend college may not seem worth the price. When that happens, the benefits of higher education to both the individual and society in later years may be sacrificed.

Financial aid does not address opportunity costs. In need analysis, a negative family contribution is calculated for the low-income family whose recognized needs exceed their resources. However, a negative family contribution--which would otherwise qualify an individual for financial aid beyond budgeted direct and indirect attendance costs--is zeroed out by federal decision. The basis for this is the policy decision to recognize and address only direct and indirect college attendance costs. Sometimes this policy is framed in language such as "student aid programs are not welfare programs." Clearly there are long-standing differences and friction between the philosophy and operation of student aid and public aid programs. But the low-income are growing in numbers--child poverty rates in the United States have increased by a third since the 1970s.

Financing costs: It's true that a loan dollar will buy as much higher education as a grant dollar. But borrowers know--or should, at least--that grant dollars are gifts while loan dollars must eventually be repaid. That repayment is costly. After leaving school one must repay not only what one received, but also origination and insurance fees and interest on the unpaid balance.

Here is an example. A promising but low-income student named Dale wanted to go to college. He applied and was admitted, then went through the financial aid application system. The financial aid office had good and bad news for Dale: it could meet his needs, but he would have to take out a student loan as part of his aid package. The loan would be for $2500. But an origination fee of $125 would first be deducted, then an insurance fee of $75, leaving him with $2300. He would still have to repay $2500, plus interest, after he graduated.

Dale tried to estimate how much this financial aid was going to cost him. Over four years he would probably have to borrow $10,000, of which he would receive only $9200. If he repaid these loans within five years after graduation, he would pay 8 percent interest on the unpaid balance during the first four years of repayment, and 10 percent interest after that. He would have to repay the $9200 he received, plus the $800 in fees he was charged,

plus $2192 in interest, at the rate of $203 per month during the first four years of repayment and $205 per month during the last year.

If he repaid the loans over ten years, the monthly repayment would drop to $121 during the first four years of repayment, then rise to $128. But the interest charges would more than double to $5054. Dale knew that Congress was phasing out the tax deductibility of student loan interest charges, so he added 15 percent to the amount he expected to have to earn to make the interest payments. It added $10 per month to his required earnings. He recalculated the interest rate he would eventually have to pay on the amount he received. Instead of 8 percent he figured it was actually 12.6 percent if he paid off the loan in ten years, or 13.8 percent if he paid it off in five years. Dale knew of the benefits of college, but he was not certain they were worth the cost ...

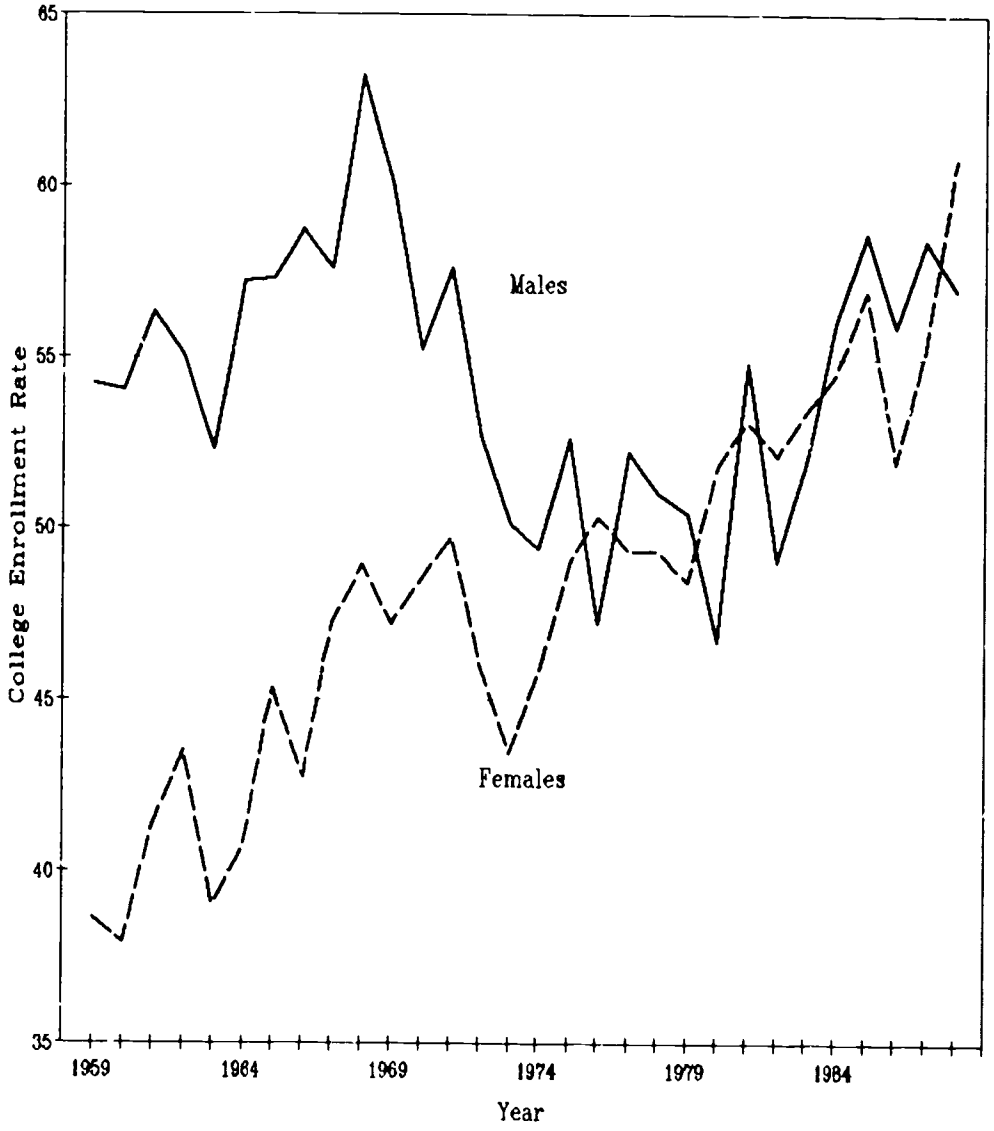
Risk costs: Again let me illustrate. Kyle was no more than an average student in high school. Getting good grades was always a struggle. But with the help of supportive parents and teachers Kyle made it through high school. Now he is faced with the prospect of college. He knows he needs a college education to improve his chances of getting his desired job, and his parents and teachers want him at least to try college. So he applies to college and is admitted, applies for aid and is told he is needy but not needy enough to qualify for grants or talented enough to get scholarship. He is offered a $1500 student loan that must be repaid after he leaves school. Believing that getting passing grades in college will be tougher than it was in high school, he is uncertain about his chances of graduating and getting a better paying job so that he can back the loan. Kyle faces a risk in taking out the loan, a risk that he will incur a debt without also receiving the benefits of a job at higher pay following graduation. He ponders the risk and calculates the odds. He decides to ...

Equity of Higher Educational Opportunity

The aim of need-tested student financial aid is to equalize higher educational opportunity for prospective students. Let us take a moment to see how three groups of Americans have fared regarding that aim. We will examine the college enrollment of females (compared to males), minorities (compared to whites), and students from low-income families. We will use data collected in the Current Population Survey and published by the Bureau of Labor Statistics and the Bureau of the Census, and the National College Freshmen Norms. When we do so we will find different results for each group.

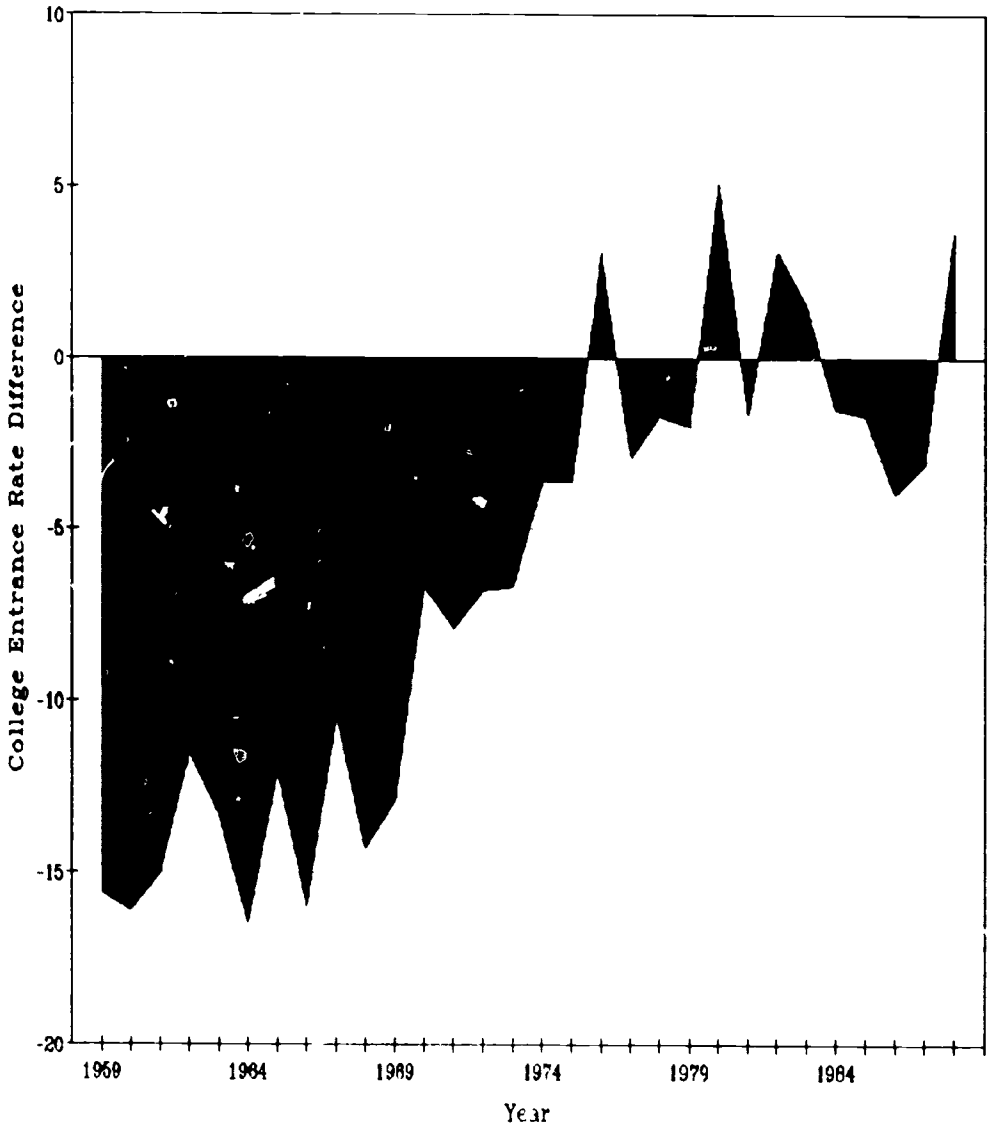
Females: The Bureau of Labor Statistics has published data on high school graduates and their enrollment in college within the following year, by gender for the years 1959 through 1988--nearly three decades (Labor Statistics, 1959-1988). From these data we can calculate college entrance rates by gender and year, and compare these rates over time. These rates are charted in Figures 1 and 2.

FIGURE 1
COLLEGE ENROLLMENT RATES FOR
RECENT HIGH SCHOOL GRADUATES BY GENDER
1959-1988



Source Bureau of Labor Statistics

FIGURE 2
COLLEGE ACCESS GAP
FOR RECENT FEMALE HIGH SCHOOL GRADUATES
1959-1988



Source Bureau of Labor Statistics

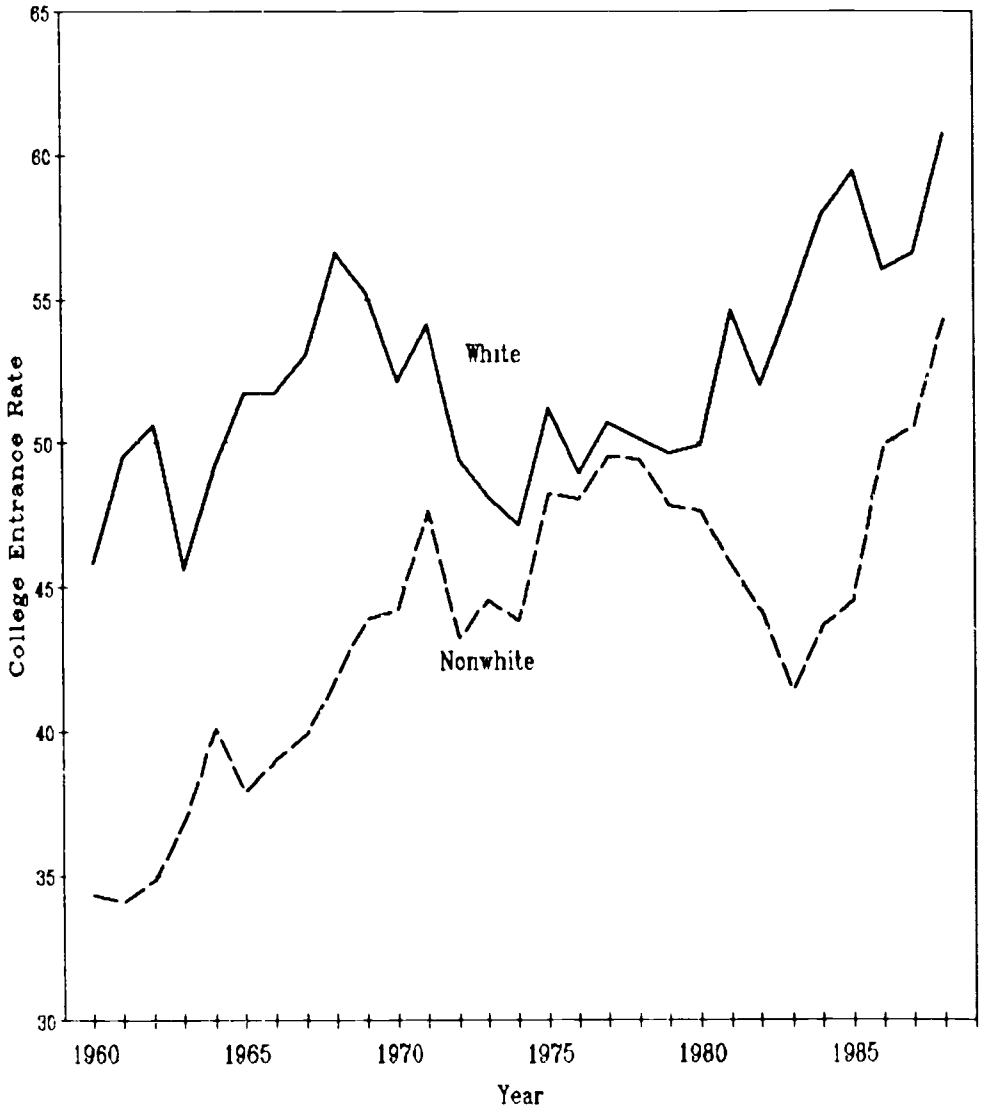
The results could not be more striking. As shown in Figure 2, the gap between male and female college entrance rates for recent high school graduates averaged 14 percent between 1959 and 1969. That is, the male college entrance rate exceeded the female college entrance rate by an average of 14 percent year after year. Then, between 1970 and 1976, this access gap was closed. Between 1976 and 1988, the rate for females averaged .3 percent below the rate for males. Overall, the picture that results is one of a very large gap in equity of higher educational participation for recent female high school graduates between 1959 and 1969, followed by five years during which the gap narrowed, followed by approximate parity with males for the last 13 years.

Nonwhite minorities: The picture of success in equity of higher educational opportunity for females is usefully contrasted with the experience of racial minorities over the same period of time. Again we will use the Bureau of Labor Statistics data on college enrollment rates of recent white and nonwhite high school graduates for the period 1960 through 1988. These data are shown in Figures 3 and 4. (To illustrate trends, the nonwhite data shown is a plot of a moving three year average. This procedure removes some of the statistical noise in the data due to sampling error, and emphasizes the underlying trend.)

Distinct eras of higher educational enrollment equity for racial minorities are evident in these data. During the first era, between 1960 and 1969, nonwhite college entrance rates averaged 13 percent below the rates for whites. Then, during the second era between 1970 and 1975, the difference between the rates for whites and nonwhites closed. During the third era, between 1976 and 1979, the nonwhite college entrance rate averaged less than one percent below the white rate. During the fourth era, between 1980 and 1983, the old gap between whites and nonwhites reemerged. During the fifth era, between 1983 and 1986, the difference between the nonwhite and white college entrance rates for recent high school graduates averaged nearly 14 percent--a greater access gap for nonwhites than the average for the 1960s. The most recent data from this and other sources suggest that the gap may once again be closing, but the trend is not yet clear. Overall, the larger picture is one of higher educational equity achieved for nonwhites compared to whites during the 1970s, but lost during the early 1980s, with partial recovery during the second half of the 1980s.

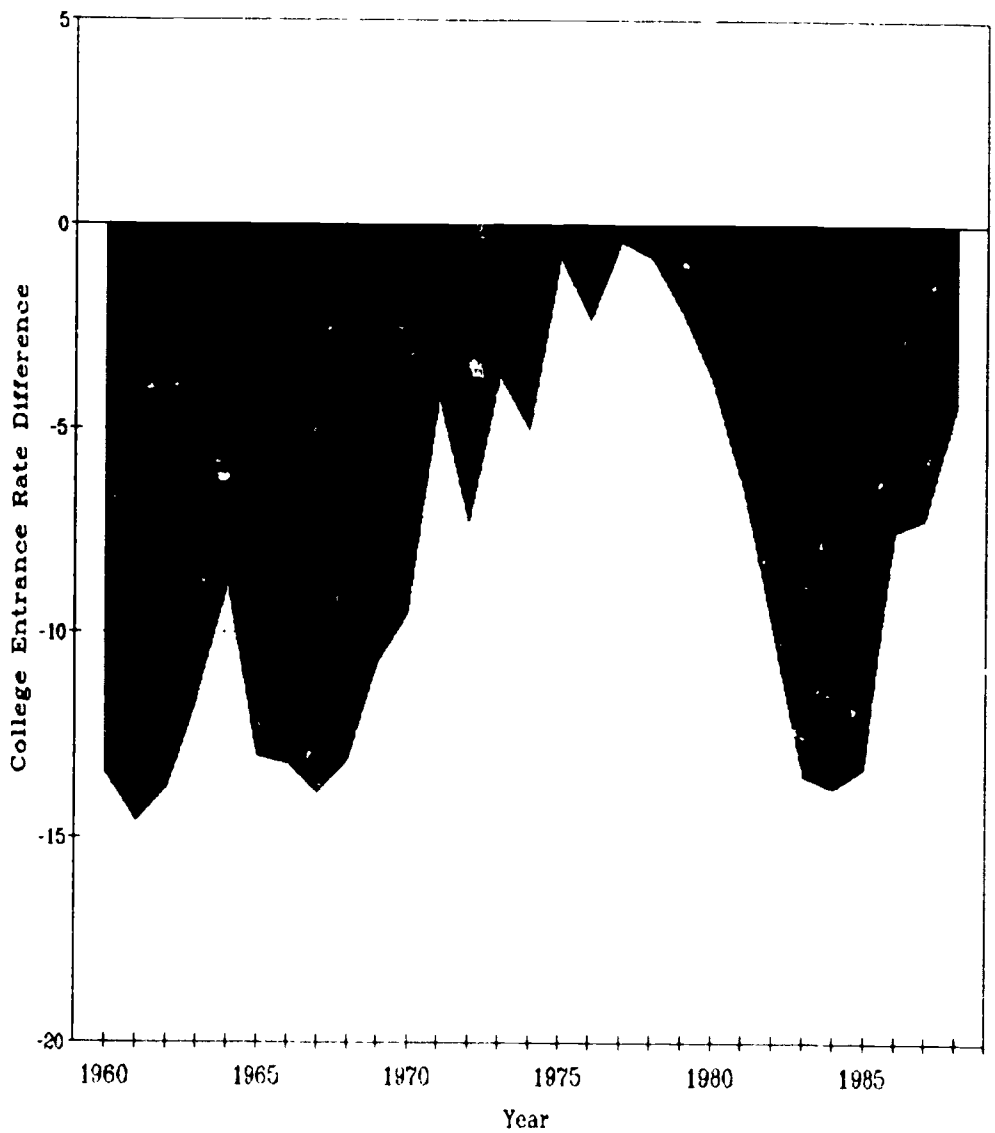
Low income groups: Analysis of college participation by students from different income backgrounds produces results that are similar to the results for racial minorities. The general pattern (shown in Figure 5 on the following page) is one of substantial improvement in college participation rates for those in the bottom 10 percent of the family income distribution for families headed by persons between 35 and 54 years of age between 1966 and the mid-1970s. The bottom 10 percent of families had 1987 incomes of from zero to $11,616. These relatively high college enrollment rates persisted until about 1981, after which they declined almost steadily through 1988 to about 77 percent of the peak participation reached in 1977.

FIGURE 3
COLLEGE ENTRANCE RATES FOR WHITE AND NON-WHITE
RECENT HIGH SCHOOL GRADUATES IN THE U.S.
1960-1987



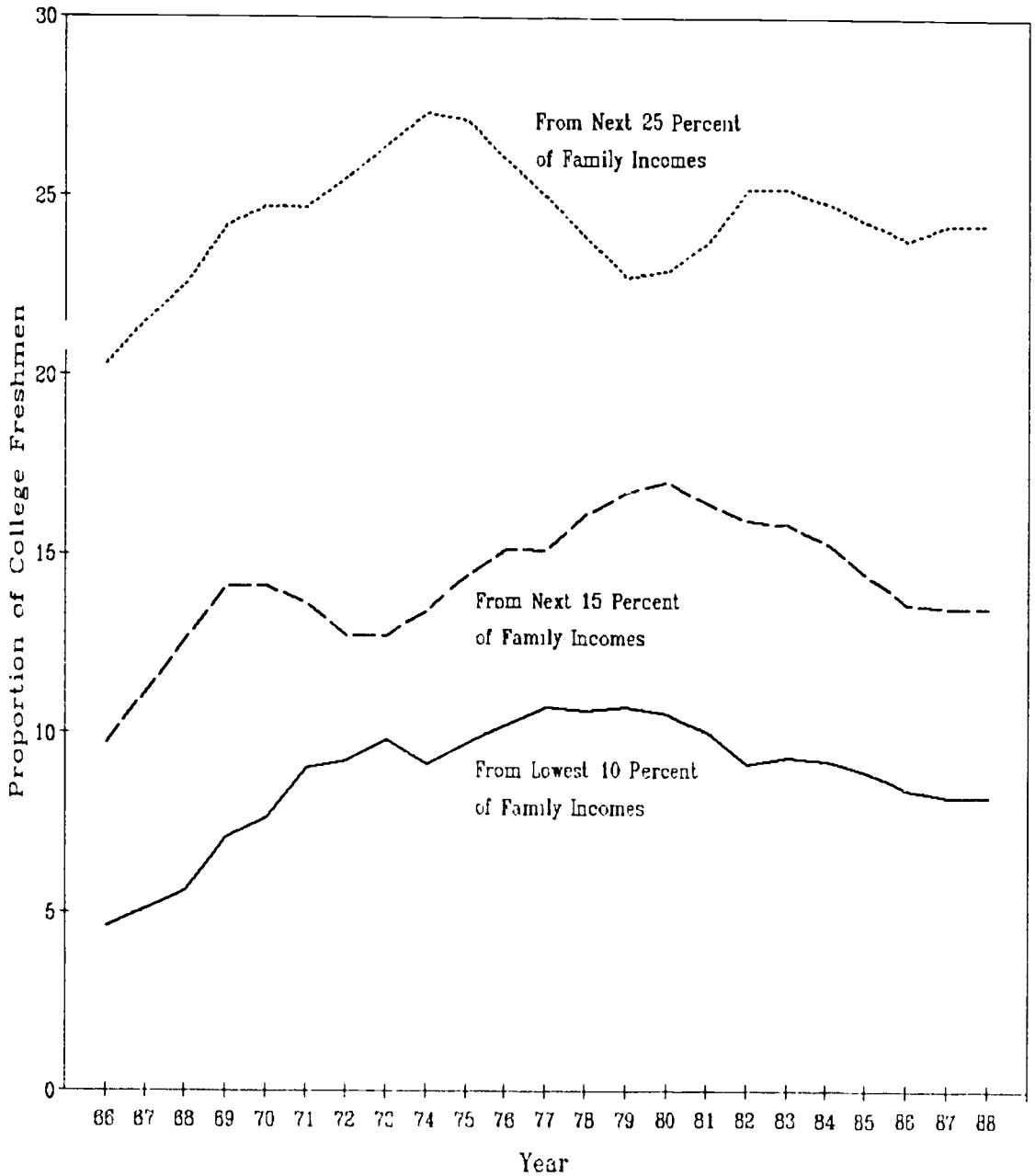
Non white data is a plot of a moving three year average.

FIGURE 4
COLLEGE ACCESS GAP
FOR NONWHITE RECENT HIGH SCHOOL GRADUATES
1960-1988



Source: Bureau of Labor Statistics. Plot is moving 3 year average.

FIGURE 5
PROPORTIONAL REPRESENTATION OF COLLEGE FRESHMEN
FROM DIFFERENT FAMILY INCOME RANGES
1966-1988



Sources Current Population Reports P-60 and National College Freshmen Norms

A similar pattern holds for students from families with incomes between the tenth percentile and first quartile of family incomes for heads between 35 and 54 years of age. This range corresponds to 1987 incomes of $11,617 to $23,259. College enrollment rates for these families increased substantially from 1966 to 1980, and have declined steadily since then. The 1988 college participation rate from these families is about 79 percent of the peak reached in 1980.

Student financial aid policy, especially that of the federal government, has been largely directed toward the lowest-income portions of the population. Quite remarkable gains in the participation of low-income students in American higher education were recorded between 1966 and 1980. The available evidence indicates that since 1980, 40 to 50 percent of those gains have been lost.

Student Aid Policy Issues

To the extent public policy is concerned about inequities in college enrollment patterns among different parts of the population, the preceding charts raise serious concerns. The great disparities in college enrollment during the 1960s were largely corrected during the first half of the 1970s and remained corrected until the late 1970s. Thereafter, old inequities reemerged--especially for racial minorities and the lowest-income groups.

One must be cautious in seeking to identify culprits because we know marginal college attendance is influenced by many factors. However, we do know from other studies that minorities have not left white institutions to attend historically black institutions. We know they have not left post-secondary education for the military. And we have some partial but not conclusive evidence that minorities have not left colleges for vocational postsecondary education. What we do know is that opportunity, financing, and the risk costs of college attendance have not been addressed in financial aid policy.

Negative family contribution: Student aid does not effectively address opportunity costs of college attendance. This is a serious problem for aid applicants from income levels below the family maintenance allowance. For aid applicants from these families, the loss of the contribution of income from a family member who goes off to college may jeopardize the welfare of the remaining family members.

Need analysis in student financial aid had, until recently, a way of acknowledging at least the existence of opportunity costs for very low-income aid applicants. The Uniform Methodology was administered by organizations with a direct involvement in assessing student/family ability to pay for college, e.g., ACT, CSS, NASFAA, etc. Until 1988-89, when the Uniform Methodology was replaced by the Congressional Methodology, a negative family contribution was calculated and reported to aid officers. Although student financial aid was not provided to finance the negative family contribution, the information enabled student aid officers to rank aid applicants whose negative parental contributions had all been set to zero according to federal policy. This practice acknowledged that not all zero family contribution aid applicants were identical--some were clearly more needy than others.

Beginning in 1988-89, the Uniform Methodology practice of calculating a negative family contribution was superseded by the Congressional Methodology, which does not report a negative family contribution. In the eyes of Congress, financial aid could not be used to finance a negative family contribution, and therefore there was no need to report one. Congress denied to the financial aid officer the opportunity to distinguish between zero family contribution aid applicants according to the amount of their negative family contribution--a previous professional practice.

The Congressional Methodology practice of not reporting negative family contributions for aid applicants continues the federal policy of trying to separate student financial assistance from public assistance. Federal student financial aid is limited--by federal decision--to funding only direct and indirect costs of college attendance. Opportunity costs of college are not to be financed through student aid programs. Conceptually, opportunity costs of college attendance for very low-income families are to be addressed through welfare assistance, not student financial assistance.

In practice this has not worked well. Until 1986, the receipt of financial aid was sometimes used to reduce public aid benefits, depending on the policies and practices of the public aid programs in each state. In the 1986 Amendments to the Higher Education Act, Congress attempted to address this issue by enacting the provision that federal Title IV student aid funds used to pay for tuition, fees, books, supplies, transportation and miscellaneous personal expenses could not be considered as income or resources to determine eligibility for any other program where federal funds were used. That is, federal student aid funds could not be used to reduce welfare eligibility.

This provision addresses one small but important part of the conflicting overlaps between student aid and public aid. However, significant conflicts remain between the two programs at the federal and state levels. A partial list of these conflicts includes the following:

1. Non-federal student financial aid can still be used to reduce welfare eligibility. This would include state, institutional, and private student aid program funds.
2. Non-Title IV federal student aid--e.g., health professions student aid programs--can be used to reduce welfare eligibility.
3. Financial aid to cover room and board costs from any source including federal can still be used to reduce welfare eligibility.
4. The family maintenance allowances differ between student aid need analysis and welfare eligibility formulas. A negative family contribution calculated under student financial aid need analysis will not affect public aid eligibility.
5. Because of state administration of public aid programs, students under identical circumstances can be treated very differently in different states.
6. Student aid affects welfare program eligibility differently, depending on the program (AFDC, food stamps, medicaid, etc.).

Recently, the enactment and implementation of the Family Support Act of 1988 appears to have opened more possibilities of student aid/public aid conflicts. Under the provisions of the Act, individuals who receive Aid to

Families with Dependent Children (AFDC) incur an obligation to pursue education, training, or employment to eventually remove themselves from welfare programs. Questions that have arisen include the following:

1. Will students currently receiving AFDC be allowed to continue in college?
2. If someone has not started college, will states allow them to do so and continue to remain eligible for AFDC?
3. Will state welfare agencies pay any costs of higher education with AFDC dollars?

Because welfare programs continue to be joint state-federal efforts, the lingering problems of different standards in different states will likely persist. All of the above listed questions still remain. However, the obligation to pursue education, training, or employment to gain AFDC eligibility does move the welfare program more toward the higher educational program objectives of preparing people for socially productive roles.

Reduction in net benefits of college: The financing costs involved in student loans pose a burden--and hence decrease the net benefits of college--but only on those who use them. Due to the lack of growth in grant assistance for poverty level student aid applicants since the late-1970s, the low-income are especially burdened by the shift in federal student aid from gifts to loans. Those who do not take on debt to finance college attendance costs--the fortunate children of affluent parents--can get through college without a repayment obligation. For the rest, use of loans in student aid reduces net benefits of college attendance, and the greater the dependence on loans to finance college, the greater is the reduction in college benefits.

At some point the repayment burdens of loans could reduce the net benefits of college attendance to the point where college is no longer worth attending. If an individual discounted the promise of future rewards of a college education and focused instead on the more immediate cost issues involved in financing that education, the net benefits of college attendance would be diminished. An economist would say such an individual used a high discount rate in evaluating the college investment option. Those from low-income backgrounds might argue that a high discount rate reflects a survival strategy learned through years of meeting living situations on a day-to-day basis.

We can gain some insight into the federal shift in student aid from grants to loans by comparing the maximum student aid eligibility for very low-income aid applicants over time--the period of time corresponding to loss in enrollment shares from lowest family income levels. A student from a poverty level family income background would always have qualified for a maximum Pell Grant to attend a public two-year college as a commuter. Between 1975-76 and 1979-80, this Pell Grant would have covered 40 percent to 50 percent of direct and indirect college attendance costs. The remainder during this period could have been financed by a student loan ranging from $1385 in 1975-76 to $2269 by 1980-81. Then, during the 1980s, the proportion of college costs covered by the maximum Pell Grant dropped to about 35 percent of costs, and the remainder could not have been financed by a maximum Guaranteed Student Loan of $2500. Additional borrowing from more expensive student loan programs might have been required. Thus, since 1975-76, student financing aid became progressively more expensive to the very low-income student aid applicant. Loans went from

50 percent of the aid package to 65 percent, and the costs of the loans available to the student gradually grew as well.

Risk costs: Similarly, the risk cost issue deserves careful consideration, since the low-income have been forced to borrow ever larger amounts of money to make up for the lack of growth in gift aid programs. Inevitably, the net benefits of college are reduced for those prospective students who must borrow to finance college attendance costs. Loans are costly because eventually they must be repaid. Their costs are further influenced by the risk factor of not graduating from college. These risks are ultimately borne by the federal government and all taxpayers through the federal guarantee to the lender that his loan will be repaid--if not by the borrower then by the federal government.

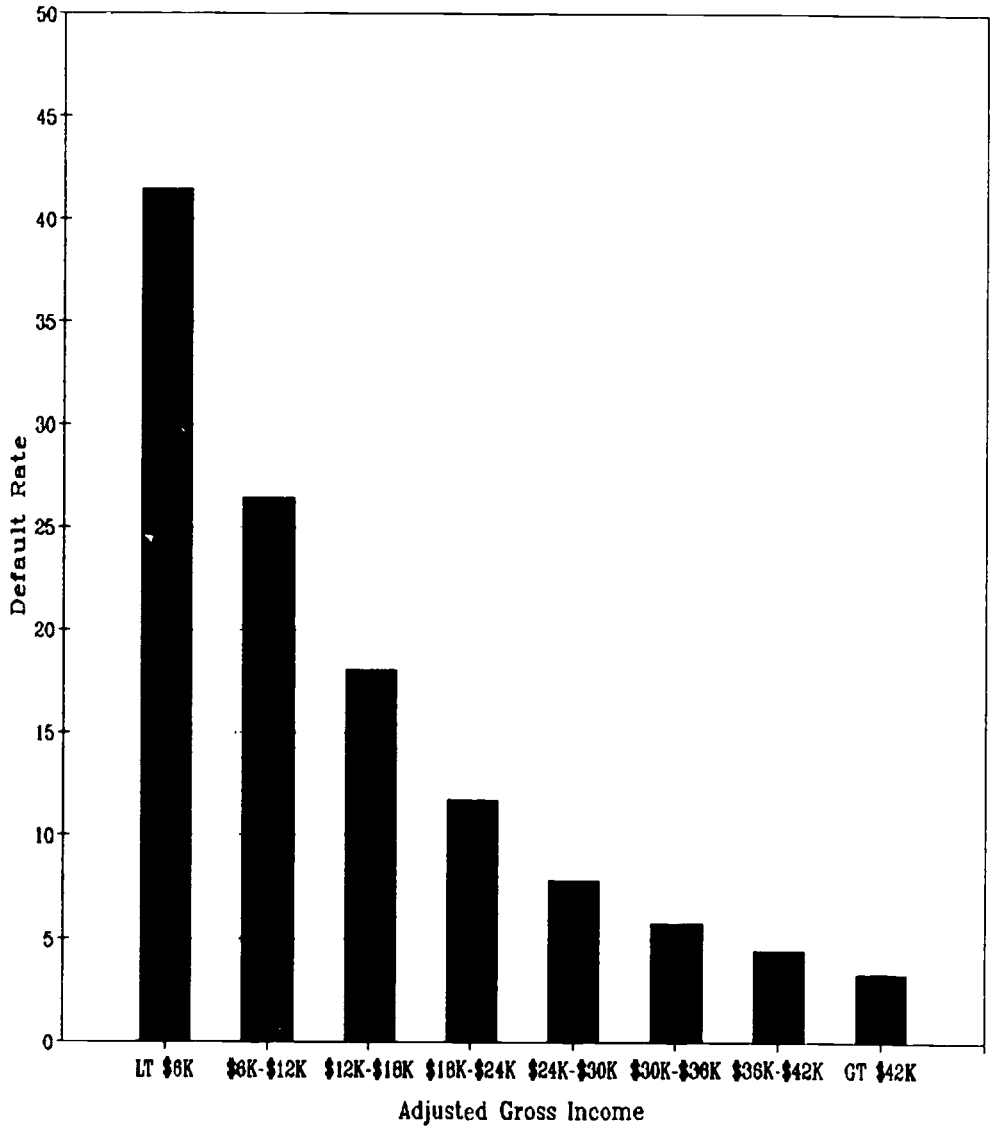
The relationship between loan default risk and income of the borrower is highlighted in Figure 6 with data prepared by Davis at the Pennsylvania Higher Education Assistance Agency. Default rates ranged from more than 40 percent for borrowers with adjusted gross incomes of less than $6000 per year, to about 3 percent for those with adjusted gross incomes of greater than $42,000 per year. While the ultimate costs of default are borne by taxpayers, federal efforts to collect from student loan defaulters will make life uncomfortable as long as a loan balance remains.

The Shift from Grants to Loans

In many important public policy respects, the problems resulting from lack of attention to opportunity, financing, and risk costs in the design of financial aid programs have been magnified by the federal shift from grants to loans since the mid-1970s. Because opportunity, financing, and risk costs were subordinated to concern over the federal budget deficit in this transition, a number of very serious problems have emerged. I will identify two.

Minority issues: Blacks, Chicanos and the low-income are seriously under represented in American higher education. At least some of the reasons are obvious. In general minorities approach higher education less well prepared to meet the academic challenges of college life. So they face a greater risk if they choose to attend college, and that risk affects their perception of the attractiveness of student loans compared to grants. They are characteristically low-income, and the low-income are far less likely to view student loans favorably than are students from more affluent backgrounds. In low-income families potential college students often play supportive roles that they cannot easily abandon. And if they receive welfare benefits, going to college and getting financial aid may jeopardize those benefits. Minority males get jobs after graduation that pay far less to them than to white males, yet they are likely to have a larger loan burden than whites if they persist through four or five years of college. All of these very real considerations of the special kinds of opportunity, financing, and risk costs of college attendance work extraordinarily on the populations most dependent on financial aid. Yet financial aid, somehow, manages to exclude these costs from program design and execution. The result is that now, in the late 1980s, we are no longer serving the most vulnerable populations as well as we did in the 1970s.

FIGURE 6
DEFAULT RATES FOR GUARANTEED STUDENT LOANS
BY INCOME OF THE BORROWER
1985



Source Pennsylvania Higher Education Assistance Agency.

Loan defaults and the federal budget deficit: The problem of guaranteed student loan defaults is sufficiently large that, in the context of other federal budget problems, it poses a threat to all federal student financial aid programs. And federal student aid dwarfs all other sources of student aid combined. Partly, student loan default is a budget problem, but partly it is a perceptual problem with political consequences. Under the climate of the federal budget deficit, with budget cutters looking for program funding to reduce or eliminate, the adverse publicity surrounding guaranteed student loan defaults is unwelcome--and with forethought would have been unnecessary. We know who defaults and why. As the Belmont Task Force (1988) found:

> Contrary to popular perception, the typical defaulter is not a "deadbeat" who refuses to pay, but appears to be a dropout who is unable to pay. Defaulters tend to be first year students, from low-income and minority backgrounds, with a small loan balance (90 percent less than $5,000) who did not complete much more than the first year, have borrowed only once, receive little or no assistance from parents in repaying, are likely to be unemployed when the loan comes due, and never make a first payment. The present default problem is thus predominantly structural. These costs are not likely to be recovered under the current terms of the program.

The Belmont Task Force ended its examination of the student loan default problem with the following conclusion:

> The only way to accomplish a major reduction in the default rate is to restrict access to high-risk students until they have had a chance to demonstrate their ability to make satisfactory academic progress. However, this would result in a denial of educational access for such students, unless substantially higher appropriations for Pell Grants and SEOGs are assured for them, as well as increased funding for special service programs which encourage their retention.

Implications for Higher Education

The United States is undergoing demographic and economic changes that require extraordinary investments in our human resources to preserve the political system that leads the world. On the one hand, an aging white human capital stock must be replenished, not just with more whites, but with better educated minorities. On the other hand, the leadership role requires domestic peace in addition to prosperity. The path we are now on assures us neither.

Our college-age population is shifting toward minorities, and in some parts of the United States the minority population is now the majority. The performance of minorities on standardized tests (e.g., the National Assessment of Educational Progress and the ACT Assessment) has recently improved. So too have the rates at which minorities persist through high school to graduation. By these measures minorities are better prepared to undertake college than they have ever been. But that same minority population has moved away from

higher education during this decade. College enrollment rates for Blacks and Hispanics have dropped. The consequences for the human capital resources of the United States are clear and compelling: unless and until the growing minority population is capitalized to replace the declining white human resource supply, the productive potential of the human resources of the United States will almost certainly deteriorate. The role of global leadership may pass to other nations because we have not prepared ourselves to address the complex and competitive challenges of the world community.

The second problem confronting our place in the world derives from the surge toward economic inequality that has occurred in the United States over the last two decades. This inequality contributes directly to domestic instability, and instability diverts attention, energy, and resources from productive activities. The signs of growing inequality are everywhere in socioeconomic indicators of our nation's health. There are more rich families and low-income families--and consequently fewer middle income families--than at any time in our post World War II history. Child poverty rates in the 1980s are a third higher than they were during the 1970s. Life expectancy is growing for whites while shrinking for blacks. The proportion of the population in prison in 1986 was twice the rate that held between 1950 and 1975, and it is rising rapidly.

Many, including this author, view education as the ladder by which those with the talent and ambition to succeed may improve their condition in life. By their efforts they add to our collective standard of living. The ladder of socioeconomic mobility has many rungs on it, one of which is student financial aid. If the ladder is to continue to perform its function of fully developing human potential in American society, each of its many rungs will require continuous scrutiny and nurturing support.

Student financial aid needs that attention now. Two growing proportions of our population--low-income and minorities--are not being adequately served by the present array of student aid programs. Closer attention to the actual college attendance costs faced by these populations could add to the human resources upon which our future depends.

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