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# How Minority Students Finance Their Higher Education. ERIC Digest.


All types of financial aid have been shown to have a positive influence on college enrollment, regardless of the students race or ethnicity (St. John & Noell, 1989). Today, financial aid is central to the successful enrollment and retention of low-income students. For the majority of these students (90 percent), receiving financial assistance is critical in paying for college. Moreover, the availability of funds to meet tuition and other college-going costs not only impacts students decisions on whether to attend college, but it also greatly influences their choice of college. Surveys indicate that student loans, specifically, play an enormous role in all student decisions regarding college (e.g., Baum & Saunders, 1998). For minority students, whose financial aid does not meet college costs, the difference can be problematic. Having sufficient funds enhances college students academic performance, facilitates their social integration on campus, and increases their chances of persistence to graduation (Nora & Cabrera, 1996).

This digest examines the various financial sources minority students use to meet the costs of a higher education, some of which were created with the specific goal of promoting their college attendance. It concludes with recommendations for public policy to increase the availability of aid for college attendance based on student experiences with existing practices.

# SOURCES OF FINANCIAL AID

Federal Student Loans. It has been estimated that more than 50 percent of students earning degrees have had their education at least partially financed through Federal student loans (American Council on Education, 1997). That figure has been confirmed in a study reporting rapidly escalating financial aid awards as the major source of financial assistance, which also confirms a strategy of emphasizing grants in the early year packages and shifting to loans in the later years (Fenske, Porter, & DuBrock, 2000). Among borrowers, students (mostly minorities) attending community colleges and other two- and three-year colleges have relied heavily on Federal Stafford loan programs, available to those from lower-income families. Many of these students are also able to meet their costs through Federal Pell grants and some additional resources (e.g., family savings, current income). Pell grants are a resource for students whose annual family income is no more than $40,000 enrolled in, or accepted for enrollment in a college. Student loans are the most common source of aid for low-income students, as 73 percent received Federal student loans, and 35 percent had loans from other sources (O'Brien & Shedd, 2001).

Pre-College Programs and Grants

A study conducted by The Institute for Higher Education Policy on the impact of pre-college programs on student success found that for those who participated in pre-college programs such as the Federal TRIO programs or institution-sponsored programs the impact was positive with regard to several performance indicators (O'Brien & Shedd, 2001). Minority students and Pell Grant recipients, both largely low income, had some of the highest participation rates in pre-college programs. Study findings were consistent with other national data indicating that 49 percent of low-income students nationwide receive a Pell Grant. Approximately 66 percent of financial aid recipients reported that their financial aid met the cost of attending college. However, for those whose financial aid did not meet the costs of attending college, the financial gap was a hardship.

### College Prepaid Plans

As of October 1999, 20 states offered a new mechanism for financing a students college education: College Prepaid Plans (Olivas, 1999). These programs work on a very straightforward principle: parents place a lump sum in a contract (or make monthly payments) that guarantees the money will be sufficient for an equivalent of tuition and fees in a set period of time in the future. Some states have now also established similar programs--savings program trust funds (SPTF)--which have gained tax exempt status in recent years and make it possible for individuals to invest in a state-operated investment fund for college tuition and related expenses such as room and board. The funds permit parents to defer the gains made from their investments and to delay and transfer the earnings to the beneficiary children, who are taxed at lower rates than are wage-earners.

Olivas (1999) underscores the fact that it is very unlikely that middle- and low-income families will profit from such ventures, however. Even as early as 1990 evidence indicated that not all sectors of society (and specifically those most in need of financial assistance) were benefiting from prepaid plans or savings program trust funds; it was, in fact, the richest population with children that purchased the majority of monthly payment option contracts (Lehman, 1990).

### Student Credit Cards

One of the most disturbing means of paying for college expenses, from tuition to books to meals, is through student credit cards (e.g., Blair, 1997). The abundance of credit cards offered to all college students, along with the ease with which they can be acquired, make it possible for today's college students to have more opportunities for making credit purchases than any prior generation of students. Included in the lure to attract students to credit card use are minorities and low-income students. Evidence that credit card usage is a means for them to meet college-related finances is seen in O'Brien and Shedds (2001) study which found that low-income college students in New England not only used money earned from working or savings to help them pay for college, but that 50 percent of those students received money from their parents and nearly 25 percent used credit cards.

# IMPLICATIONS FOR FEDERAL POLICY ON

# HIGHER EDUCATION

Historically, Federal policy related to the goals and financing of higher education have been affected by political cycles that exist for various public policy issues--cycles which alternate between concerns to improve quality and concerns to improve access, according to Nora and Horvaths 1989 review of the impact of financial assistance on minority enrollments and persistence. Further, Campaigne and Hossler (1998), in their report on the impact of financial aid programs on student achievement and success, found that financial aid policies have not been judicious or focused, and that no clear goals were evident from the decisions, although [i]t would be appealing to report that changes in federal financial aid policy have been driven by data, rational planning, and clear policy objectives.
It is difficult to ascertain the influence of Federal student aid programs, and student loan programs in particular, for numerous reasons. Campaigne and Hossler (1998) concluded that the consequences of economic, social, and public policy trends differentially affect students and families from different income groups. To effectively study the effects of Federal loans on student access, institutional choice, and persistence, perceptions and subjectivity cannot be disregarded. For some families, and college students, the impact of cost and subsidies is simply more important than for others.

Given the various patterns of financing a college degree as shown above, policy recommendations, grounded in current policy and data, should reflect the following (e.g., Wolanin, 2001):

* Increased stress on grant aid resources at Federal, state, and institutional levels that lower dependence on loans for low-income students.

* Growth in work-study programs that help integrate working students into the institution and help them finance their education.

* Reassurance to students regarding the availability and timing of student aid to lessen the potential negative impact of paying for an education on their ability to persist in higher education.

* Targeted financial aid programs for students whose need is not met by current financial aid programs, specifically part-time and minority students.

* Continued state support through need-based grants.

Efforts to address the issue of subsidizing the costs of attaining a higher education degree have overlapped with important political concepts of the 1980s and 1990s that focused on accountability and efficiency. The result has been a shift in the old argument over who benefits from a higher education: the individual or society. Federal grants, more indicative of the belief that society benefits, have been reduced substantially. They were replaced by an emphasis on Federal loans, tax exemptions, and prepaid college plans, which place the burden on the individual who is to benefit from a college degree. One outcome of this shift has been an increase in student indebtedness and a desperate search for alternative means of financing a college education, namely, credit card usage. The upshot has been that graduates from low-income families, and students who withdraw from college, find themselves in debt not only to the Federal government but also to private credit card companies. While those fortunate enough to earn a college degree have letters following their names, repayment of huge debts incurred while in college almost totally negates any rewards.

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