

PRIVATE LOAN COUNSELING FOR UNDERGRADUATE STUDENTS:  
THE ROLE OF COLLEGE FINANCIAL AID COUNSELORS

by

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A DISSERTATION

Presented to the Faculty of  
The Graduate College at the University of Nebraska  
In Partial Fulfillment of Requirements  
For the Degree of Doctor of Philosophy

Major: Educational Studies

Under the Supervision of Professor Donald F. Uerling

Lincoln, Nebraska

December, 2008

PRIVATE LOAN COUNSELING FOR UNDERGRADUATE STUDENTS:  
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University of Nebraska, 2008

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The cost of attending college has surpassed federal financial aid limits and fewer parents are paying the balance. As private lenders have been targeting undergraduate students to obtain private (alternative) loans to fill the financial gap, many students do not have parents or other adults to help them navigate one of the largest financial investments they will ever make.

Financial aid counselors, more than anyone else on campus, are in a position to discuss quality consumer loan information with students and families. Federal financial aid requirements for counseling undergraduate students on federal student loans do not pertain to private student loans. This qualitative study examined the role of college financial aid counselors regarding private loan counseling for undergraduate students.

Participants in the study were 20 financial aid counselors at 4-year public and 4-year private, not-for-profit, colleges and universities located in 12 Middle West region states. The participant counselors were interviewed about their past and present private loan counseling practices, the reasons more undergraduate students obtain private loans, the differences between private loans and federal student loans, their perceptions of

counseling effectiveness and counseling limitations, and their recommendations for counseling students about private loans.

There were five major findings: (a) participant counselors believed that the 2007 Slate Act significantly limited their ability to counsel students on private loans; (b) many undergraduate students do not read or do not comprehend the written and online information counselors provide on private loans; (c) more parents are not willing or are unable to pay college costs; (d) counselors believed that one-on-one private loan counseling for students would be more effective than their current 'surface' counseling practices; and (e) many students and parents do not fully grasp the differences between private and federal student loan options.

## Acknowledgements

The author would especially like to thank her advisor, Dr. Donald Uerling, and her auditor, Dr. Dana Miller, for valuable suggestions and assistance. Additional thanks and appreciation go to the supervisory committee members: Dr. Larry Dlugosh, Dr. Karl Hostetler, and Dr. Jody Isernhagen.

Thank you to all the friends and family members who provided encouragement and support. Also, this study would not have been possible without the cooperation, knowledge, and experiences shared by the participant financial aid counselors.

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## **CHAPTER ONE**

### **INTRODUCTION**

The purpose of college financial aid for undergraduate students is to ensure those students have sufficient resources to enable them to attend college. Financial aid funds are provided to help with all costs of attending college, including costs of tuition, enrollment fees, books and supplies, room and board, transportation, computers, and some living expenses while in college. Colleges design financial aid offices and hire financial aid counselors to offer an array of financial support services and to assist undergraduate students with the entire financial aid process. Student loan opportunities, scholarships, and grants are available to college students who complete the application process and qualify. Eligible students are awarded financial aid through a variety of types of programs on a first-come, first-serve basis, as funding is available. Applicants are monitored for continued eligibility based on academic progress, available funds, and enrollment status (Financial Aid Glossary, 2008, p. 8).

Financial aid counselors have long played an important role in financing postsecondary education and certifying student financial aid up to the cost of attendance (COA). As stated within the National Association of Student Financial Aid Administrator's ethical statement, the primary goal of the financial aid counselor is to help students achieve their educational potential by providing financial resources. Counselors are committed to remove financial barriers for students who work to pursue postsecondary learning, to make every effort to assist students with financial need, and to educate students through quality consumer information (NASFAA, 2003, p. 1).

While the total cost of a college education has increased, financial aid offices face greater challenges as counselors package financial aid for college students. Financial aid trends show that when the combination of available grants, scholarships, federal student loan limits, and expected family contributions falls short of meeting many students' total financial needs, a growing number of students turn to private loans to fill the financial gap. Private loans are now the fastest growing component of student financial aid. Financial aid counselors are an instrumental and influential group within this escalating postsecondary challenge. Aid counselors balance their duty to encourage responsible debt management with the need to meet varying student demands and college enrollment goals. Financial aid offices counselors are held accountable through audits by the federal government to certify that the combination of all student financial aid, whether federal or private, does not exceed the total cost of attendance (Wegmann, Cunningham, & Merisotis, 2003, p. 39).

When undergraduate students and their parents began to find the process of obtaining federal student loans as slow and tedious, and when the combined federal loan options failed to meet the increasing financial demands of dependent college students, the private student loan industry boomed. Private lenders found this as an opportunity to niche market direct private loan options to fill the financial gap. Private loans even helped students attend the schools they wanted to attend rather than attending another school because of their inadequate financial resources. So while private loans helped students stay enrolled in the colleges of their choice, filled the gap for students' financial needs, and helped colleges meet enrollment goals, they also created problems when it

came to developing financial aid counseling methods for undergraduate students who obtained private loans. Some financial aid counselors, as well as the students, did not have a clear sense of either the amount or the type of private loans that were being obtained. In some cases, financial aid counselors were unaware that undergraduate students were even obtaining private loans. Unlike federal student loans, where entrance and exit counseling procedures have been required and have basically become standardized, the diversity of private student loans created problems for counselors when it came to providing private loan counseling and developing standard counseling methods for private loans (Wegmann et al., 2003, p. 44).

The need for undergraduate college students to have access to clear, unbiased consumer information will only become more important and more challenging as total federal loan limits remain relatively unchanged and the private loan market offers diverse credit-based private loan products. Meeting students' needs for information on the wide array of college financing options will continue to challenge financial aid counselors and their counseling methods.

While many financial aid offices have found some ways to streamline the private loan process for students, the majority of these same offices struggle with how to provide counseling on private loans.

### **Purpose Statement**

Financial aid counselors, more than anyone else on campus, are in a position to responsibly advocate for students' financial interests and to discuss quality consumer information with students and families. The cost of attending college has surpassed

federal financial aid limits, and fewer parents are paying the balance. While private lenders have been targeting undergraduate students to obtain private (alternative) loans, many students do not have parents or other adults to help them navigate one of the largest financial investments they will ever make. Private loans are the fastest growing component of student financial aid as more students have resorted to credit-based private loans to fill the financial gap (American Council, 2007, p. 1).

There are no academic standards for counseling undergraduate students on private loans (Wegmann et al., 2003, p. 78). The U. S. Department of Education has no authority or jurisdiction over private loans. Federal financial aid requirements for counseling undergraduate students on federal student loans do not pertain to private student loans (N. Girardi, personal interview, 2008).

The purpose of this study was to determine what role college financial aid counselors have in counseling undergraduate students on private (alternative) student loans. Counselors were interviewed about their past and present private loan counseling practices, the reasons more undergraduate students obtain private loans, the differences between private loans and federal student loans, their perceptions of counseling effectiveness and counseling limitations, and their recommendations for counseling students about private loans.

### **Definition of Terms**

*Cost of attendance*—the total costs of tuition, room and board, transportation, textbooks, computer, class fees, and miscellaneous school fees.

*Credit checks*—a record of an individual's or company's past borrowing and repaying, including information about late payments and bankruptcy.

*Direct-to-consumer private loans*—(also called DTS, Direct-to-Student loans) - private loans to finance a college education that are marketed directly to the students and their parents (consumers).

*Entrance counseling*—required federal loan counseling session to help college students develop a budget for educational expenses and loan responsibilities.

*Exit counseling*—required federal loan counseling for students on their financial rights and responsibilities prior to graduating or exiting college.

*FAFSA (Free application for federal student aid)*—application used by most colleges and universities to determine eligibility for federal, state, and college-sponsored financial aid, including grants, educational loans, and work-study programs.

*FICO*—Fair Isaac Corporation credit scoring system that measures credit risk.

*Fixed interest rate*—interest rate on a loan that is fixed and does not change until maturity.

*Grace period*—timeframe when no payments are due.

*Interest*—charge for borrowing money.

*Lending limits*—the maximum amount of loan(s).

*LIBOR*—an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

*Parent PLUS*—credit-based loan available for parents to cover full cost of attendance minus any other aid the student has received.

*Partnership loan*—Iowa-based student loan through the Iowa Student Loan Liquidity Corporation.

*Perkins loan program*—federal program that provides low-interest loans to help needy students finance the costs of postsecondary education.

*Prime rate*—variable rate index of the rate charged by major banks to their most creditworthy customers.

*Principal*—the amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest).

*Private loans*—unsecured, credit-based loans available to students for tuition and fees, room and board, school supplies, computers, and other education related expenses.

*School-channel private loans*—loans from private lenders that are certified by the school.

*Stafford loan*—common federal loan used to finance education, both subsidized and unsubsidized.

*Subsidized*—Stafford loan where the government pays interest while student is in school.

*Undergraduate students*—students pursuing a 4-year bachelor's degree.

*Unsubsidized*—Stafford loan for which the government does not pay interest.

*Variable interest rate*—interest rate on a loan that increases or decreases based on the movement of an underlying index of interest rates.



### **Delimitations and Limitations**

This study is delimited to financial aid counselors at 4-year private, not-for-profit, and 4-year public colleges and universities.

This study is delimited to 4-year private, not-for-profit, and 4-year public colleges and universities located in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Nebraska, North Dakota, South Dakota, and Wisconsin.

This study is delimited to the perceptions of participant counselors who advise undergraduate students about private loans.

This study is limited to information obtained in telephone interviews.

This study is limited to a purposeful group of 20 financial aid counselors.

### **Significance of the Study**

The cost of attending college has surpassed federal financial aid limits and fewer parents are paying the balance. Private lenders have targeted undergraduate students to obtain private loans to fill the financial gap. Private student loan volume has grown at an alarming rate. Many students do not have parents or other adults to help them navigate one of the largest financial investments they will ever make. Financial aid counselors, more than anyone else on campus, are in a position to responsibly advocate for students' financial interests and to discuss quality consumer information with students and families.

While diverse private loan options may be helpful to undergraduate students in meeting a wide array of financial needs, there currently are no academic standards for counseling students on private loans. Federal financial aid requirements for counseling

undergraduate students on federal student loans do not pertain to private student loans.

The U. S. Department of Education has no authority or jurisdiction over private loans.

This leaves the profession's ethical standards to guide the role college financial aid counselors have in counseling undergraduate students on private student loans.

Prior research specific to private student loan counseling is basically nonexistent.

This study is significant to lay the groundwork and to determine what private student loan counseling is currently being provided to undergraduate students by college financial aid counselors.

**CHAPTER TWO**  
**LITERATURE REVIEW**  
**Financial Aid Counselors**

College financial aid counselors have played an important role in postsecondary education, primarily in assisting students to achieve their educational potential by packaging appropriate sources of financial aid. Financial aid is money provided by the federal government or other entities, such as a school, state government, or private lenders, to help students pay for college. In many students' and parents' eyes, the financial aid office stands between the student's admission to and enrollment at the school. Financial aid counselors, more than anyone else on campus, are in a position to advocate responsibly for students' financial interests at the institutional, state, and federal levels and to discuss quality consumer information with students and families (NASFAA, 2003, p. 1).

The National Association of Student Financial Aid Administrators has a statement of ethical principles. Within this statement, the primary goal of the financial aid professional (counselor) is to help students achieve their educational potential by providing financial resources. Counselors are to be committed to removing financial barriers for those who pursue postsecondary learning, to making every effort to assist students with financial need, and to educating students and families through quality consumer information (NASFAA, 2003, p. 1).

While the U. S. Department of Education does not regulate how a postsecondary school packages aid, it does require that the counselor of the institution inform all

students about all federal, state, local, private, and institutional student financial assistance that is available. In addition, the U. S. Department of Education requires that the participating institutions describe the procedures and forms for application, the eligibility requirements, the selection criteria, and the criteria for determining the amount of aid awarded (U. S. Department of Education, 2007, p. 9).

Using all available federal and nonfederal aid, the financial aid counselor constructs a financial aid package that comes as close as possible to meeting the student's demonstrated financial need. A financial aid package can include only federal loans, only private loans, or a combination of both federal and private loans. Because federal funds for financial aid programs are limited, the amount awarded can be less than the amount for which the student is eligible. The counselor, in an award letter, presents the financial aid package to the student. The student may then accept or decline any of the financial aid offered (U. S. Department of Education, 2007, p. 9).

When packaging financial aid, counselors prefer to package with grants; however, given the high demand for these limited resources, aid counselors have come to rely heavily on student loans. Aid counselors prefer to package federal loans, but for many, their needs still are not fully met after packaging the maximum Stafford and Perkins loan amounts that students are eligible to receive. The hard reality is that the average family needs 20% more money to go to school after they have exhausted all federal loans and aid (Burd, 2006, p. 3). Credit-worthy parents can borrow a credit-based Parent PLUS loan to help pay the education expenses of dependent undergraduate students enrolled at least half time in an eligible program at an eligible school. Some financial aid counselors

include a Parent PLUS loan in the package, but others consider discussing private loan options with students (Wegmann et al., 2003, p. 38).

A growing number of applicants decline Parent PLUS loans for varying reasons, including some who just do not qualify. As a financial aid counselor at a private college in the Southwest stated, “When parents hear that PLUS loan repayments come due in 60 days, they find it much more appealing to cosign private loans because those loans don’t go into repayment until the student leaves school or graduates” (Wegmann et al., 2003, p. 72). Parents who had not borrowed PLUS loans were more inclined to have obtained private loans. Unlike the federal PLUS loan, a private loan is not forgiven if the parent dies or becomes permanently disabled (Wegmann et al., 2003, p. 49).

In recent years students have approached financial aid counselors and requested either different or additional options to finance their postsecondary education. Students may be ineligible for federal financial aid for a variety of reasons, including not making satisfactory academic progress, taking too long to complete their education, missing the application deadline(s), or reaching their federal loan limits. In the 2002 College Board and NASFAA, approximately 50% of students accounted for their unmet need by working, but the other half turned to private loans to fill the gap (Wegmann et al., 2003, p. 39).

Private student loan volume is growing more rapidly than federal student loan volume (Private Student Loans, 2007, p. 1). Since 2001, lenders have aggressively pursued the undergraduate market and the volume soared. Lenders recognized that marketing their private loan products more aggressively to undergraduate could bring in

large profits (Burd, 2006, p. 2). If current trends continue, annual private education loan volume will surpass federal student loan volume by 2017. There are currently many private student loan providers with products. This makes it important for students to obtain enough information to compare different private student loans. Private student loans feature faster approval rates and usually allow borrowers to withdraw larger amounts of money than federal loans (McCullough, 2007, p. 1).

Federal loan regulations require students receiving a federal Stafford loan to complete entrance counseling when school begins and exit counseling after the borrower graduates or exits from school (Littlefield, 2007, p. 1). The counseling sessions help students develop a budget for managing educational expenses and understanding loan responsibility. The counseling must be in person, by audiovisual presentation, or by interactive electronic means (SallieMae College Answer, 2007, p. 1).

According to Entrance and Exit (2007, p. 2), the required entrance counseling session reviews basic facts about student loans:

- loan terms and conditions,
- rights and responsibilities of borrowers,
- use of the master promissory note (MPN),
- repayment and consolidation plans,
- deferment, forbearance, and cancellation options,
- late payment and default consequences,
- budgeted money,
- financial responsibilities while in school, and

- responsibilities in keeping lender(s) informed.

Federal regulations also require that institutions offer exit counseling to federal student loan borrowers who are leaving school or dropping below half-time enrollment.

Exit counseling includes a number of important elements (Entrance and Exit, 2007, p.2):

- borrower's rights and responsibilities,
- loan repayment, and
- consequences of default (including bankruptcy).

During exit counseling, borrowers are also asked to provide updated personal information, such as employment, address, and telephone number (Entrance and Exit, 2007, p. 2). Schools must keep documentation that the borrower received the required exit counseling, either in person or by mail. If a borrower fails to attend a scheduled exit counseling session, written exit counseling materials must be mailed (SallieMae College Answer, 2007, p. 1-2).

Even when colleges and universities attempt to be proactive by providing literature to students and parents about financial responsibility and debt management, the materials can go unread or be introduced too late in the borrowing process. One aid counselor in a large Midwest public university explained, "Many undergraduates are surprised to see how much they actually owe when they have their exit interview" (Wegmann et al., 2003, p. 43).

Financial planning workshops and sessions at orientation have been helpful to some degree, but financial aid administrators remain concerned about students' overall lack of financial knowledge. In their opinion, students do not know the basics. In the

opinion of aid counselors, students pay little or no attention to interest rates and repayment terms when applying for private loans. What students want is the money, and they want it fast. They are most concerned about staying in school at that moment, so they end up applying to lenders known to have good acceptance rates and quick turnaround (Wegmann et al., 2003, p. 43).

There are no federal regulations requiring students to complete counseling for private (alternative) loans. There are no mandates requiring financial aid counselors to counsel students on private loans. The U. S. Department of Education has no authority and no jurisdiction over private loans (N. Girardi, personal interview, 2008).

Postsecondary institutions face new loan counseling challenges when considering the increased use of private student loans. Implementing procedures on campus is one way to make private loans manageable for both the school and student borrowers. Although some financial aid counselors question whether providing counseling for private loans would curb student borrowing, most agree that some type of counseling should be provided. While there is little consensus on what the counseling should include, most aid counselors agree that the institutions, students, and lenders should all be involved in the process (Wegmann et al., 2003, p. 44).

### **Financial Aid**

Financial aid is money provided by the federal government or other entities, such as a school, state government, or private lenders, to help students pay for college. The U. S. Department of Education's federal student aid programs deliver billions of dollars to students each year. This represents a substantial federal commitment to provide



financial assistance for postsecondary students (U. S. Department of Education, 2007, p. 11). Three-fourths of full-time, first-time undergraduates received some type of financial aid during the 2004-05 academic year (U. S. Department of Education, 1999-2000, p. 15). In fiscal year 2006 (October 1, 2005 through September 30, 2006), the federal student aid programs provided approximately \$77 billion in financial aid to more than 10 million people (U. S. Department of Education, 2007, p. 11).

Unless students meet any one of the independent student status (Appendix A) criteria or there are some exceptional circumstances, students are considered dependent students for financial aid purposes. Students are classified as dependent or independent because federal student aid programs are based on the principle that students (and their parents or spouse, if applicable) are considered the primary source of financial support for postsecondary education (Dependent vs. Independent, 2007, p. 1).

Nearly two-thirds (65.7%) of 4-year undergraduate students graduate with some debt. The average student loan debt among seniors is \$19,237, excluding Parent PLUS loans but including Stafford, Perkins, state, college, and private loans, according to the 2003-2004 National Postsecondary Student Aid Study (NPSAS). One quarter of undergraduate students borrow \$24,936 or more, and one tenth borrow \$35,213 or more. Approximately one in ten parents borrow PLUS loans for their children's college education, with a cumulative PLUS loan debt of \$16,317 (Student Loans, 2005, p. 2).

The average college senior's debt load increased 68.7%, from \$11,400 to \$19,237 from 1997 to 2004, with the help of private student loans. At the same time, the amount students were eligible to borrow through federal loan programs, which tended to offer

lower interest rates, only increased a modest amount. This resulted in more students turning to private loans. There have been recent announcements for lenders to cut back on providing loans to students with poor credit scores. And, the rate of student loan defaults is predicted to increase (Snyder, 2008, p. 1-2).

The following illustration shows the percentage of students borrowing and the average cumulative debt per undergraduate (excluding PLUS loans) for 4-year public and 4-year private, not-for-profit, colleges and universities (U. S. Department of Education, 2005, p. 11).

	<i>Percent Borrowing</i>	<i>Cumulative Debt</i>
4-year public	61.7	\$17,277
4-year private, not-for-profit	72.8	\$21,957

At a time when a college education gained in importance, paying for the college degree has had many financial challenges (Student Loans, 2005, p. 1). Few students have paid for a college education without some form of education financing, even while they worked (Student Loans, 2005, p. 1). To fund their college education, students needed a combination of grants, scholarships, federal student loans, family contributions, and alternative or private loan financing. On average, grants and federal financial aid covered 72% of students' demonstrated need for education financing (Wegmann et al., 2003, p. 37). After grants, scholarships, and federal loans, the average student still needs more money to attend the college of his or her choice (Briones, 2006, p. 1).

### *Grants*

College students receive a gift when awarded a grant. Basically, the government began offering grants to students who fell into the lower brackets of income level. Since it is a gift, students do not repay a grant. In 2003-04, public 4-year colleges awarded an average of \$1,200 in institutional grant aid to full-time dependent students from families with incomes below \$32,375 (College Board, 2005, p. 22).

### *Scholarships*

Scholarships are awards based on academic performance, talent, or like factors. Oftentimes there are certain guidelines that must be met to maintain the scholarship, such as grade point average, full time enrollment, and field of study. Schools historically offer some sort of scholarships to their students. In addition, private organizations offer many scholarships to students. Scholarship qualifications vary. Students are not required to repay scholarships when qualifications are met and maintained (Littlefield, 2007, p. 1).

Grants, scholarships, and other forms of financial gifts oftentimes do not cover the full cost of a college education (Student Loans, 2005, p. 2). Many students have had to supplement their savings with a combination of government (federal) financing, family contributions, and private student loans (Smart Student, 2007, p. 2).

### *Loans*

Historically, few students attend or pay for a college education without some form of educational loans. Loans differ from scholarship and grants. Education loans require all principal and interest to be repaid over a pre-determined timeframe. Student loans are

generally unsecured debt for the lender, meaning there is no collateral offered as security for the loan (Student Loans, 2005, p. 1).

Education loans come in three major categories: federal student loans (Stafford and Perkins loans), parent loans (Parent PLUS loans), and private student loans (Student Loans, 2005, p. 1).

Moreover, federal student loan amounts and grants have not kept up with the increases in total education costs. Federal loan limits have not changed much since the 1986 reauthorization of the Higher Education Act. College costs have risen significantly during this period, leading to growing amounts of unmet need. Nearly 80% of U. S. students rely on some type of financial aid to help fund their college education.

According to the U. S. Department of Education's data collection and analysis division, 60% of these students receive financial aid from the federal government. Private loans offer a way to fill the financial gap. Private loans can be obtained to replace part or all of their expected family contribution (Rube, 2003, p. 9). Although there are many private lender sources, students typically apply directly to banks for private loans (Wendt, 2007b, p. 1).

The average student loan debt for graduating seniors in 2006 was 8% higher than in 2005. The average debt in the class of 2006 was roughly \$21,100 (Class of 2006, 2007, p. 1).

According to the American Council on Education (2007), 75% of undergraduate private loan borrowers attend one of three types of institutions: public 4-year colleges and universities (30%); private, not-for-profit, 4-year colleges and universities (30%); and

for-profit institutions offering programs of two years or more (15%). More than 85% of private loan borrowers at the three types of institutions examined attended on a full-time basis (American Council, 2007, p. 2).

Private loan borrowers are disproportionately dependent students, with an average age of 23.5 years. At both public and not-for-profit institutions, 95% or more of undergraduate private loan borrowers are enrolled in bachelor's degree programs. A National Postsecondary Student Aid Study (NPSAS) survey suggested that 87% of private loan borrowers were undergraduates (American Council, 2007, p. 2).

### **Private Student Loans**

In the event that students have not qualified for federal financial aid, have reached their aggregate loan limit, have declined federal loan options, or need aid in excess of the amount awarded, they oftentimes apply for private student loans to fill the financial gap. Today's college affordability gap leaves many students unable to attend school without resorting to alternative sources of financial aid, often referred to as private loans (Student Loans, 2007, p. 3-4). The private lender determines the interest rates, fees, and repayment terms of private student loans. There are basically no limits on the interest rates and fees that private lenders can charge students and their parents. The market for private student loans compares to other credit-based loans, with availability and cost contingent upon supply and demand. Private loans have become an essential tool for undergraduates trying to finance their college (Burd, 2006, p. 1).

Private loans became even more appealing to students after October 1, 2002, when the federal government ended its policy of allowing schools with low default rates

to disburse student loan funds to students within 30 days of approval. This 2002 change required all schools to delay disbursements of loans for at least 30 days. Once this rule was enacted and loan disbursements were delayed in getting to the students and colleges, private student loan lenders advised prospective borrowers that they could have their loan funds without delay. This proved to be a great incentive for students who needed money fast. The actual differences found when comparing loan rates and terms became distant and secondary reasons behind quick disbursements. Additionally, some private loan products offered students a nine-month grace period as opposed to federal loans' six-month grace period before repayment began (Wegmann et al., 2003, p. 41).

Attitudes toward the use of private loans to help finance postsecondary education have changed during the past several years (Inside Higher Ed, 2007, p. 1). A financial aid counselor at a large public state university in the mid-Atlantic region commented, "It was only a few years ago that we didn't want to mention private loans to students as a stop gap; it kind of was like a four-letter word. Now, we feel this is the only choice." Another aid counselor stated, "The reality is that we're living in a culture that has become desensitized to debt" (Wegmann et al., 2003, p. 38-39).

One of the largest private lenders reported these changes as leading to increases in student demand for private loans (Wegmann et al., 2003, p. 30):

1. There has been an increase in the acceptance of private loan products in the postsecondary market.
2. Students and parents are expressing less apprehension about private loans.

3. Postsecondary borrowers no longer feel like they are getting “ripped-off” by private loans’ terms and conditions.
4. It is extremely difficult for private lenders to be competitive in the postsecondary federal student loan market without offering at least one private loan product.

Private loan programs do not have the government guarantees, subsidized interest options, and repayment terms that are features of the federal student loan program. There is competition among many private lenders and private loan products, which include incentives to offer favorable terms and condition to students, their parents, and schools. Some private loans include fees, costs, and interest rates that exceed federal loan options. Many private loan programs use direct-to-consumer marketing, bypassing campus financial aid offices. This private student loan marketing example was reported in *Private Loans and Choice in Financing Higher Education* (Wegmann et al., 2003, p. 35). Both the name of the lender and the lender products have been withheld, as to not endorse a particular product or lender.

**Broadly Available Undergraduate Loan:** Students enrolled at least half-time in a degree program can borrow from \$1,000 up to the full cost of education less any financial aid received. Applicants must attend a lender-approved school, make satisfactory academic progress, and meet certain credit guidelines, including a satisfactory credit history and sufficient income to make required payments. Students may choose between a loan with no up-front fees, or a loan with origination fees but a lower interest rate. There are flexible repayment options, including deferral of payments until graduation and interest-only repayments. A fast, convenient application process is offered. Students may apply online, by telephone, by fax, or by mail, and submit information including social security number, annual income, employer, and monthly rent/mortgage (for both themselves and co-borrowers, if applicable), in addition to authorizing a credit check. Students may receive funding in as little as 5 days (Wegmann et al., 2003, p. 35).

A private lender looks at each borrower's situation individually. Applications vary and lenders look for a personal solution for each private loan applicant. This individual attention and one-on-one sales approach may add to the reasons families make loan decisions without the assistance of a campus financial aid counselor, who could offer an objective comparison of the costs and benefits on various loan options (Wendt, 2007a, p. 1).

Some private loan applicants avoid completing the standardized Free Application for Federal Student Aid (FAFSA), which is eight pages long and contains more than 100 questions (American Council on Education, 2007, p. 6). The FAFSA application collects a significant amount of personal and financial information on both the student and parents/guardians. Possible reasons why some private loan borrowers do not even apply for Stafford financing include the belief that there are comparable interest rates and repayment terms in today's private loan market, simpler application processes for private loans when compared to the federal loan application process, lack of comparative information on costs and benefits, and misunderstanding about federal student loan eligibility. Each year consumers are more reluctant to complete the FAFSA form (Wendt, 2007, p. 1). Many parents and students believe the private loan applications are easier, shorter, and less invasive than the FAFSA, especially for those who are unwilling to provide their personal financial information to the government. Both entrance and exit counseling sessions are required for students obtaining federal Stafford loans when completing the FAFSA form. Private student loans are not subject to the federal student loan counseling requirements (NASFAA, 2003, pp. 1-2).



Private student loans are credit-based, requiring students to have sufficient credit history or a cosigner. Private loans generally have higher variable interest rates and less negotiable terms. They also usually require a borrower to have reasonably good credit. The lender determines interest rates and fees. Decisions about whether a student qualifies for a private loan are typically faster than for a federal loan (Littlefield, 2007, p. 1).

Preliminary approval on a private loan can be within minutes of application. Private loan programs may or may not offer deferment options and forbearance of loan payments. Private loans are not eligible for consolidation with federal loans. They remain a separate debt throughout the lifetime of the loan. Failure to repay a private loan can seriously affect a student's credit rating and may prevent future financing to purchase a home or a car or to invest in a business (Private Loan Counseling, 2006, p. 1).

Study abroad programs, borrower demand, and favorable market conditions have encouraged growth in both the number and diversity of private loan products available. Numerous private lenders are finding that some of their private loan products, those with more favorable terms and conditions, have become more competitive with federal student loans. Declining variable interest rates have attributed to this likelihood. Many institutions seek national lenders to ease the process for geographically diverse student borrowers (Wegmann et al., 2003, p. 28).

Wegmann et al. (2003, p. 28) provided a listing of the nationwide lenders with the most private loan products in March of 2003:

Nationwide Lenders and Number of Private Loan Products - March 2003

<i>Lender</i>	<i>Number of private loan products</i>
Northstar	15 products
Southwest Student Services Corporation	14 products
Key Bank	12 products
Student Loan Xpress	12 products
Access Group	11 products
Fleet	11 products
Nellie Mae	11 products
Bank One	10 products

Higher education institutions have elected to address the use of private loans in a variety of ways, each having their own guidelines. “Private loans are a necessary evil” (Inside Higher Ed, 2007, p. 2). Students and their families are taking on private loan debt that is typically more expensive and more risky than federally backed loans. But as long as families feel that college costs are otherwise unachievable, they will continue to seek private loans. College Board data released in 2006 showed that the volume of private loans taken by students has been increasing by 27% annually since 2000-01, to a total of \$17.3 billion. In 1997 private loans made up only about 4% of student loan volume (Inside Higher Ed, 2007, p. 1). That 4% has now grown to 20% (Wegmann et al., 2003, p. 19).

Research data supports the use of private loans as a growing part of college financing. Private loan volume has been increasing since the mid-1990s. Borrowing through private student loan programs totaled \$17.3 billion in 2005-2006 and accounted for 20% of all education borrowing (American Council, 2007, p. 22). Private loans are

the fastest growing component of student financial aid (Burd, 2006, p. 1). Total borrowing through private student loan programs grew by more than 900%, in inflation-adjusted terms, between 1995-96 and 2005-06 (American Council, 2007, p. 1). In 1996-97, lenders made \$1.6 billion in private student loans. By 2006-07, private loans totaled \$17 billion, up 989% for the decade. In 2007, private loans accounted for 24% of all student loans and that figure does not include credit card charges and home equity loans that some families used to pay college costs (Smydo, 2008, p. 2).

The government does not guarantee repayment on private student loans typically made to students by a bank or finance company. Private loan lenders generally offer higher loan limits than those on federal loans, so private loans help solve the problem of education costs exceeding available federal financial aid. Unlike Parent PLUS loans with repayment generally beginning in 60 days after disbursement (prior to July 1, 2008), private loan repayment terms do not begin until after the student graduates or leaves school. Private loan grace periods are often six months, but can be as high as 12 months after students exit college or after graduation (Student Loans, 2007, p. 3-4).

It is important for students to look at the private loan interest rates to see if they are fixed or variable. In many cases, private loan rates will be variable. Variable interest rates will likely increase prior to loan maturity. Private lenders can advertise low introductory rates having hidden fees. Having a cosigner could lower the student's loan interest rate and fees and improve repayment terms (Snyder, 2008, p. 3).

Private loans can be an advantage to students and their families who do not qualify for federal student aid, since federal loans deal generally with need-based criteria

(Student Loans, 2007, p. 5). Students and families may also consider private loans an advantage to federal loans since they can obtain private loans without being required to attend entrance or exit counseling (Wegmann et al., 2003, p. 28).

While many financial aid offices have found ways to streamline the private loan process for students, the majority of these same offices struggle to provide counseling for students obtaining private loans. Financial aid offices at institutions participating in federal student aid programs are confident in counseling procedures for federal student loans, with required entrance and exit counseling becoming basically standardized. Many schools have devised consequences, such as withholding grades, academic transcripts, and even degrees, to guarantee students attend their federal loan exit interview. The large and increasing number of diverse private loan products, while helpful for meeting numerous student financial needs, creates problems when it comes to meeting the ethical code of financial aid counselors and developing counseling methods. Unlike federal student loans, financial aid offices do not have a clear sense of either the amount or type of private loans students hold. There is no academic standard for counseling students on private loans (Wegmann et al., 2003, p. 78).

There is no central clearinghouse for information about private loans (Smydo, 2008, p. 1). Private loans generally come in two types: school-channel and direct-to-consumer (Student Loans, 2007, p. 1).

### ***School-Channel Private Loans***

When comparing school-channel and direct-to-consumer private loans, school-channel loans generally take longer to process. School-channel loans are certified by the

college or university, which means the school signs off on the borrowing amount and the funds are disbursed directly to the school (Student Loans, 2007, p. 3-4).

With a school-channel private loan, the financial aid office certifies student enrollment and that the amount does not exceed the school's pre-determined total cost of attendance. Cost of attendance (also known as the cost of education or "budget") is the total amount it should cost the student to go to school, including tuition and fees, room and board, allowances for books and supplies, transportation, and personal and incidental expenses. Loan fees, if applicable, may also be included in the cost of attendance (COA). Child care and expenses for disabilities may also be included at the discretion of the financial aid administrator. Schools establish different standard budget amounts for students living on-campus and off-campus, married and unmarried students, and in-state and out-of-state students (Financial Aid Glossary, 2008, p. 8).

### ***Direct-to-Consumer Private Loans***

The school may not initially certify direct-to-consumer (direct-to-student or DTS) private loans, because schools do not interact with a direct-to-consumer private lender. Direct-to-consumer lenders communicate directly with the borrower (the student and/or parent). The student simply provides enrollment verification to the private lender, either through an acceptance letter, copy of the class schedule, or any other means that can prove attendance, without needing the help of the college's financial aid counselor. As long as the college is unaware of the direct-to-consumer loan, there is no third-party verification of the amount or terms of the loan. However, if a college becomes aware of any direct-to-consumer loans through conversation with the student or through any other

means, financial aid counselors are then required to include and certify the direct-to-consumer private loan amount in the total cost of education being financed. Failure by aid counselors to comply with government regulations that require certification that all known financial aid is within the total cost of attendance could involve penalties for the financial aid offices, their counselors, and their schools (Student Loans, 2007, p. 3-4).

Direct-to-consumer private loans generally have higher interest rates than school-channel loans. The interest rates are generally variable and are seldom fixed for either school-channel loans or direct-to-consumer loans. Although the direct-to-consumer loans generally have higher variable interest rates, they do allow very quick funding. Disbursements are made directly to the student, who is likely to be the least experienced borrower within the total equation of financial aid counselors, parents, lenders, and students. In some cases, checks are sent directly to the student within a few days (Student Loans, 2007, pp. 3-4).

Because the underwriting for private loans is similar to other forms of consumer credit, student borrowers with little-to-no credit history typically pay higher interest rates and fees. This model runs counter to the federal purpose of student aid, which is to provide low-cost financial assistance to students in need (Student Loans, 2007, p. 5).

Direct-to-consumer private loans are the fastest growing segment of education finance. There are many lenders offering diverse private loan products. Loan providers range from large education finance companies to specialty companies that finance this niche market. They are known to market directly to students by advertising the product as having “funds disbursed directly to you” (Student Loans, 2007, pp. 3-4).

### *Private Student Loan Fees*

Private loans often carry an origination fee. Origination fees are usually a one-time charge and are oftentimes based on the amount of the loan. Consumers should be aware that some private loans require substantial up-front origination fees. There are no limits to the percentage of origination fees charged by private lenders, while federal loans do have origination fee limits. Origination fees raise the real cost to the borrower and reduce the amount of money available for educational purposes. A loan with a relatively low interest rate but high fees can ultimately cost more than a loan with a somewhat higher interest rate and no fees. The lenders that do not charge fees often offset it with a higher interest rate. Lenders are legally required to provide borrowers with an annual percentage rate (APR) statement for a loan before a borrower signs and commits to the terms of the loan. An APR includes any fees charged and should be thought of as the effective interest rate. When fees are charged, effective interest rates are higher than stated interest rates. When comparing loan rates, it is best to compare the APR rather than the stated interest rate (Student Loans, 2007, pp. 4-5).

### *Variable Interest Rate Indexes for Private Loan*

Few private lenders offer fixed interest rates on private loans. The best private student loans, using the Prime variable rate index, have interest rates of the Prime variable interest rate minus 1.00%, with no fees. Many private student loans also use a LIBOR (London Interbank Offered Rate) variable rate index, for example LIBOR + 2.90%. Such loans will be competitive with the federal PLUS loan rate. However, these rates often are available only to borrowers with great credit who also have a creditworthy

cosigner. It is unclear how many borrowers qualify for the best rates, although the top credit tier typically includes about 20% of borrowers (Smart Student, 2007, p. 1).

The difference or spread between the Prime lending rate and LIBOR has been increasing over time. Over the long term, a loan with interest rates based on LIBOR will typically be less expensive than a loan based on the Prime lending rate. Some lenders use the Prime lending rate because Prime + 0% lends to a better marketing approach with consumers than LIBOR + 2.90% even when the rates are the same. Basically, LIBOR is the average interest rate paid on deposits of U. S. dollars in the London market. The LIBOR variable rate index used for private loans is typically the three-month average of the London Interbank Offered Rate, although some lenders use a one-month average. The Prime variable interest rate index, as reported by the Wall Street Journal's bank survey, is among the most widely used benchmark in setting loan rates. It is, in turn, based on the federal funds rate, which is set by the Federal Reserve. The Prime rate is published in the Wall Street Journal and it is the rate banks charge their most creditworthy customers (Smart Student, 2007, p. 1).

Comparison of Stated Interest Rates for the 91-day Treasury Bill, the Prime Lending Rate, and LIBOR Rates (reported on bankrate.com on 9-23-08):

Prime Lending Rate: 5.00%

LIBOR (1 month): 2.75%

LIBOR (3 months): 2.88%

91-day Treasury Bill: 1.42%

\*rates are variable and subject to change daily

### ***Private Loan Rates and Fee Examples***

The information presented in Table 1 is based on lender literature of private loan rates charged to actual undergraduate students (Preferred Lender Lists, 2007, pp. 1-14).



The annual percentage rate (APR) and fees may be higher, since actual rates for borrowers with inferior credit scores will be higher. Private lenders rarely give complete details of the terms of the private student loan until after the student submits an application, in part to avoid comparison-shopping based on cost. Also, lenders cannot know what loan terms the applicant could qualify for until the application is submitted for approval. Private lenders can require school certification to cap the annual loan amount at the cost of attendance less aid received (shown as COA-Aid, if applicable). In this example, the lenders are listed in alphabetical order. No significance should be given to the order in which lenders are listed. This is a very small sample of the many private lenders and private loan options that are available to undergraduate students (My Rich Uncle, 2007, p. 1).

Based on a report by [findaid.org](http://findaid.org) (Private Student Loans, 2007, pp.13-14), the two private lenders (listed in Table 1) who advertise that their private student loans do not require certification by a college are Educated Borrower and Loan to Learn. They are viewed as direct-to-consumer lenders. There are also other direct-to-consumer lenders who do not involve the college for loan certification. Funds are then disbursed directly to the student, without college involvement.

In these examples, private lender fees varied from 0 to 10.5%. As an example, a 10.5% fee on the \$130,000 cumulative loan amount could equal up to \$13,650 in cumulative fees, based on the above information. The annual percentage rate would be greater than the stated interest rate when you consider that an annual percentage rate would include the fee amount during a 20-year repayment amortization.

Table 1

*Illustration of Undergraduate Private Lenders, Rates, and Terms*

Private Lender	Loan Limits	Rates (Repayment)	Fees	Term
*Astrive	\$40,000/year	LIBOR+3.5% (low)	3-10.5%	20 years
	\$130,000 cumulative	LIBOR+7.75% (high)		
Educated Borrower	\$45,000/year	LIBOR + 3% (low)	0-6.5%	20 years
	\$180,000 cumulative	LIBOR + 5.5% (high)		
Fifth Third Bank	\$40,000/year	PRIME - 1% (low)	0-3%	15-30 years
(Private w/SallieMae)	\$100,000 cumulative	PRIME + 6.5% (high)		
**Loan to Learn	\$50,000/year	PRIME - .50% (low)	0-10%	20 years
	\$250,000 cumulative	PRIME + 7.65% (high)		
***MyRichUncle	COA-Aid - \$50,000/yr	LIBOR+3.5% (low)	0-8%	15-20 years
		LIBOR + 8% (high)		
Northstar Total	\$15,000/year	LIBOR + 4%	0%	15 years
Higher Education	\$75,000 cumulative	18% cap		
Sallie Mae	COA-Aid	PRIME - 1% (low)	0-3%	15-30 years
	\$100,000 cumulative	PRIME + 6% (high)		
****Urban Ed	COA-Aid	LIBOR + 2.90%	0-9.5%	20 years
Express	No aggregate	LIBOR + 5.55%		

\*.25% interest rate reduction for auto-debit payments. .25% interest rate reduction after first 36 consecutive on-time monthly payments.

\*\* .25% interest rate reduction for auto-debit payments. .50% interest rate reduction for first 48 consecutive on-time payments.

\*\*\*.25% interest rate reduction for auto-debit or first 48 consecutive on-time payments.

\*\*\*\*25 years (versus 20) for loan repayment if loan balance is greater than \$40,000.

The researcher compiled the following interest rate example illustrating how the annual percentage rate, also known as the effective interest rate, becomes greater than stated interest rates when loan fees are included.

### *Effective Interest Rate Illustration*

The following effective interest rate example assumes an undergraduate loan of \$40,000/year, \$130,000 cumulative, 10.5% fees, 20 year equal (principal and interest) repayment amortization, and a 3-month LIBOR + 7.75% interest rate:

- \$40,000 annual loan, 12.53% stated interest rate, 20-year monthly payments = \$455.30

However a student would have to pay the 10.5% up-front fee, which is taken right away from the total amount of the loan. So the student would actually only have use of \$35,800. Using the same assumptions, the effective interest rate now increases to 14.388% (above the stated rate of 12.53%):

- \$35,800 loan, 14.388% interest, 20-year monthly payments equals the same \$455.30
- \$130,000 cumulative loan, 12.53% interest, 20-year monthly payments = \$1,479.73

However a student would have to pay the 10.5% up-front fee for each year. This would be \$13,650 in fees taken from the \$130,000. The student would only have use and access to \$116,350 of the \$130,000 loan:

- \$116,350, 14.388% interest, 20-year monthly payments equals the same \$1,479.73

The effective interest rate, due to 10.5% in fees, is 14.388%, which is 1.858% above the 12.53% stated rate.

As illustrated, the \$1,479.73 monthly payment for an undergraduate degree is independent of any rent cost, house payment, vehicle payment, credit card debt, monthly cell phone cost, transportation, and general living expenses once the student leaves school. Also, the 14.388 APR assumes the loan is current and being repaid as agreed. It does not include higher default interest rates, should the student be delinquent with payments and default on the loan. Private lender interest rates in the examples above range from 1% under Prime, which would be 6.25% in January 2008, to an 18% cap at Northstar Total Higher Education. There really is no cap to how high a LIBOR variable

rate index or Prime variable rate index could increase. There could be a time when Prime + 6% or LIBOR + 8% is actually more than the 18% cap.

### ***Comparison on Length of Repayment Terms***

This is an illustration of how a loan results in less accrued interest during a 10-year repayment timeframe than a loan with a 20-year loan repayment term. This example features a \$40,000 loan, an 8.5% interest, and equal monthly principal and interest payments:

20-year loan	\$347.13 monthly payments	\$43,310.65 total interest
10-year loan	\$495.94 monthly payments	\$19,513.39 total interest

As shown by this example, if a student elects a 10-year monthly repayment plan on a \$40,000 loan accruing at 8.5% fixed interest, they could save \$23,797.26 in total interest in ten years by paying \$148.81 more in monthly payments for the 10-year timeframe versus the 20-year repayment amortization. Federal loan repayment terms are most often amortized for ten years, while private loans are more likely to be amortized for twenty-year repayment (Comparison Chart, 2007, p. 1).

### **Preferred Lenders**

Private loans can be made directly to students with no involvement from counselors of campus financial aid offices. However, colleges may publish lists of recommended lenders, called preferred lender lists. Usually there are several lists, with each list focusing on a different category of loans. The preferred lender lists can include providers of undergraduate Stafford loans, Parent PLUS loans, and private student loans (Private Student Loans, 2007, p. 1). Preferred lender lists, where universities endorse

certain providers of student financial aid, have been in the spotlight as Congress monitors the student loan industry. A bill passed by the United States House of Representatives would require universities to ensure the lists are compiled based on benefits to borrowers, with interest rates among the criteria used to measure benefits (Flory, 2007, p. 2).

Many financial aid counselors struggle to manage the increased workload that comes along with private loans. To manage the administrative burden, some hire additional personnel specifically for private loans. Some financial aid counselors have a preferred lender list to bring needed standardization, simplification, efficiency, and cost reduction to the student loan process (Wendt, 2007c, p. 1).

When establishing a preferred lender list, schools take a variety of criteria into consideration. Most cited criteria include: competitive pricing; timely processing; approval and disbursement of loan funds; a willingness to adapt to the school's procedures; ability to provide students electronic or web-access to their accounts; responsible marketing practices; an array of borrower benefits, rewards, and incentives; and knowledgeable customer service representatives. Some schools have turned to private loan preferred lender lists because of the overwhelming amount of information on the Internet. They are concerned about misrepresentation of certain loan products on the web (Private Student Loans, 2007, p. 1).

Each college sets its own requirements for which lenders will appear on its preferred lender list, if any. The process is intended to be objective and unbiased; however, it is not necessarily focused solely on cost. Colleges can consider other factors, such as quality customer service, speed of problem resolution, and lender counseling. The

college may also recommend lenders who ease their administrative burden. Some colleges may receive payments or other benefits from the lenders, and those should be disclosed with any publication of the preferred lender list (Private Student Loans, 2007, p. 1).

In 2007, New York Attorney General Andrew M. Cuomo became concerned that the cooperative relationship between some lenders and colleges was becoming too close, too comfortable. Lenders may have been paying referral fees or providing other benefits to colleges to compete for a place on the college's preferred lender list. College financial aid offices argued that they could use the referral fee money to provide need-based financial aid to students who would otherwise be ineligible for assistance. Since Cuomo's investigation, a College Code of Conduct created parameters concerning acceptable and unacceptable behavior for federal student loans from private lenders. This investigation eventually led to the 2007 Slate Act.

The New York State Office of Attorney General Andrew M. Cuomo implemented the following College Code of Conduct in 2007 (Cuomo, 2007, p. 1):

*The College Loan Code of Conduct*

1. Revenue Sharing Prohibition: Colleges are prohibited from receiving anything of value from any lending institution in exchange for any advantage sought by the lending institution. Lenders can no longer pay to get on a school's preferred lender list.
2. Gift and Trip Prohibition: College employees are prohibited from taking anything more than nominal value from any lending institution. This includes a prohibition on trips for financial aid officers and other college officials paid for by lenders.
3. Advisory Board Compensation Rules: College employees are prohibited from receiving anything of value for serving on the advisory board of any lending institution.
4. Preferred Lender Guidelines: College preferred lender lists must be based solely on the best interest of the students or parents who may use the list without regard to financial interest of the college.
5. Preferred Lender Disclosure: On all preferred lender lists the college must clearly and fully that they have the right and ability to select the lender of their choice regardless of the preferred lender list. disclose the criteria and process used to select preferred lenders. Students must also be told

6. Loan Resale Disclosure: No lender may appear on a preferred lender list if the lender has an agreement to sell its loans to another lender without disclosing the fact. In addition, no lender may bargain to be a preferred lender with respect to a certain type of loan by providing benefits to a college as to another type of loan.
7. Call - Center Prohibition: Colleges must ensure that employees of lender never identify themselves to students as employees of the college. No employee of a lender may ever work in or provide staffing to a college financial aid office (Cuomo, 2007, p. 1).

Federal law requires colleges to certify federal education loans without regard to the borrower's choice of lender or the guarantee agency used by the lender. So students can choose any lender, including those that are not on the college's list of recommended lenders. Yet, colleges may not have unreasonable delays in certifying a loan from a lender that is not on the preferred lender list. Consequently, some private loans are made directly to students with no involvement of campus financial aid offices (Private Student Loans, 2007, p. 2).

There is no legal requirement to have a preferred lender list and there are some college financial aid offices that elect not to provide a preferred lender list. Although there is no legal requirement, some financial aid counselors do include a preferred lender list that, in their opinion, offers the best loan options and offers the best opportunities for their students. Criteria for a preferred lender list may include lender reputation, local versus national lenders, accuracy of marketing materials, and the overall quality of the program (Preferred Lender Lists, 2007, p. 2).

Another benefit for financial aid offices to provide a preferred lender list is it limits the number of lenders with which a college must routinely deal. College financial aid offices have limited staff available to evaluate the many lenders and loan offerings that may change many times a year. This creates some resistance in adding new lenders

to the preferred lender lists. One of the primary attractions of federally-guaranteed loans is that it limits the number of lenders a college must work with to just one, the federal government (Private Student Loans, 2007, pp. 1-2). Through a financial literacy program, Iowa College Aid does allow additional staffing for financial aid counselors to manage the additional workload of private student loans (Iowa College Student, 2007, p. 1).

FinAid conducted a survey of college preferred lender lists in October 2005, reviewing the preferred lender lists published on 88 college web sites. The median number of lenders on a preferred lender list was 6. The range was 2 to 24, with three quarters of the colleges having between 4 and 10 lenders. The U. S. Department of Education has indicated that if a college has a preferred lender list, it must include at least three different lenders. There has been much competition among lenders to be added to a school's preferred lender list. For example, the first lender on a preferred lender list often gets 75% to 95% of the college's student loan volume, which can represent millions of dollars of education loans per year (Preferred Lender Lists, 2007, pp. 1-2).

Many private loan programs use direct-to-consumer marketing, bypassing campus financial aid offices. Loans that bypass the financial aid office and are not certified can result in overawards, which is the amount awarded above the actual COA. The student may not be held responsible for the overawards that turn up in an audit or program review, but in many cases the financial aid office can be. Financial aid counselors are responsible to certify (approve and verify) all loans, grants, scholarships, and gifts within the financial aid package.



If a school learns that a student received resources that were not included in calculating the student's eligibility for aid from the campus-based programs and those resources would result in the student's total resources exceeding his or her financial need by more than \$300, the school must take steps to resolve the overpayment. (Federal Student Aid Handbooks, 2006, pp. 5-3)

### **Federal Loans**

Many students rely on federal loans, guaranteed by the government, to finance their educations. Federal laws outline the maximum interest rates and fees that lenders can charge for federally guaranteed loans. They also have lending limits for the maximum amount of the loans. Federal student loans have fixed interest rates and do not require credit checks or collateral. Generally speaking, government loans offer the most reasonable rates and terms (Littlefield, 2007, p. 1). Seventy-seven percent of private loan borrowers also borrowed a Stafford federal student loan, which is the primary type of federal student loan (American Council, 2007, p. 2).

The two most common federal student loans include the Stafford loan and the federal Perkins loan.

#### ***Stafford Federal Student Loans***

The main federal loan for students is the Stafford loan, with two variations:

1. Federal Family Education Loan Program (FFELP) loans are provided by private lenders, such as banks, credit unions, and savings and loan associations. These loans are guaranteed against default by the federal government. What this means is that after the government has tried to collect from a defaulting student to repay on this type of loan, the lender is guaranteed to be repaid by the government should all collection efforts fail. Or if the student dies and the federal loan is forgiven, the lender will still be paid.

This encourages lenders to participate in providing low interest loans to students without a credit check and without collateral (Federal Perkins Loan, 2007, p. 1).

2. The William D. Ford Federal Direct Student Loan Program (FDSLP) loans, administered by Direct Lending Schools, are provided by the United States government directly to students and their parents (Student Loans, 2005, p. 1). FDSLP, often referred to as “Direct Loans,” is a U. S. Department of Education program that provides loans to help students pay for education after high school. The U. S. Department of Education acts as a lender, providing funds for Stafford loans and PLUS loans in the same amounts as the Stafford and PLUS loans offered through FFELP. The U. S. Department of Education allows schools to choose which program, FDSLP or FFELP, best suits the needs of its students. The U. S. Department of Education does not currently allow a student to choose a FDSLP loan if the school chooses to participate in FFELP and vice versa (Federal PLUS, 2007, p. 1).

### *Application Guidelines*

To apply for a Stafford loan, students must submit the Free Application for Federal Student Aid (FAFSA). Stafford loans are not credit-based loans. And even though the unsubsidized Stafford loan is available to all students regardless of financial need, students must still submit the FAFSA to be eligible. Students can receive a federal subsidized loan and a federal unsubsidized loan for the same period (Student Loans, 2005, p. 3).

### ***Subsidized Stafford Loans***

Stafford loans are subsidized when the government pays the interest while students are attending college. To receive a subsidized Stafford loan, students must have demonstrated financial need. About two-thirds of subsidized Stafford loans are awarded to students with family adjusted gross incomes of under \$50,000. About one-fourth of subsidized Stafford loans go to students whose families have an adjusted gross income of \$50,000 to \$100,000, and a little less than one-tenth go to students with family adjusted gross income over \$100,000 (Student Loans, 2005, p. 1).

### ***Unsubsidized Stafford Loans***

Unsubsidized Stafford loans require students to pay all the interest. Students could begin to pay the accrued interest on the loan while they are in school, or they could defer the monthly interest payment after they no longer attend college or until graduation. With the unsubsidized Stafford loan, students who deferred the interest payments until after graduation basically capitalized the interest. Capitalizing the interest adds the accrued interest amount to the principal loan balance, which results in a larger loan amount and an increased repayment cost for the total loan. All students, regardless of need, are eligible for an unsubsidized Stafford loan (Student Loans, 2005, p. 1).

### ***Stafford Loan Limits***

From July 1, 2007 to June 30, 2008, the guidelines for Stafford loans allowed dependent undergraduates to borrow up to \$3,500 their freshman year (increased from \$2,625), \$4,500 their sophomore year (increased from \$3,500), and \$5,500 for their junior and senior years. The total combined amount for the federal Stafford loan did not

increase from July 1, 2007 to June 30, 2008, but the amounts for the freshman and sophomore years increased. Independent freshman and sophomore students were allowed to borrow an additional unsubsidized amount of \$4,000 and an additional \$5,000 for their junior and senior years (Some Stafford Loan, 2007, p. 1).

The maximum Federal Stafford loan limit for dependent undergraduates remains at \$23,000. The maximum Federal Stafford loan limit for independent undergraduates totals \$46,000. Many students combine subsidized loans with unsubsidized loans to borrow the maximum amount permitted each year (Student Loans, 2005, p. 2).

#### ***Stafford Interest Rates***

Stafford loans have had a fixed interest loan rate of 6.8% whenever the first disbursement was July 1, 2006 or after. Previous to that date, Stafford loans had variable interest rates based off of a 91-day Treasury bill rate plus 1.7% during school with an additional .60% increase upon graduation, with a capped variable interest rate of no more than 8.25%. All lenders offered the same interest rate for a Stafford loan, although some gave discounts for on-time and electronic payments (Student Loans, 2005, p. 2).

#### ***Stafford Fixed Interest Rates***

The College Cost Reduction and Access Act of 2007 reduced the fixed interest rates on federally subsidized Stafford loans for undergraduate students starting July 1, 2008. These reductions, shown in Table 2, are available only to undergraduate students and only for federally subsidized Stafford loans (Current Federal, 2007, pp. 1-2).

Table 2

*Fixed Interest Rates for Subsidized and Unsubsidized Stafford Loans*

Year	Fixed Interest Rate Subsidized Stafford Loans (Undergraduate Students)	Fixed Interest Rate Unsubsidized Stafford Loans (Undergraduate Students)
2007-08	6.8%	6.8%
2008-09	6.0%	6.8%
2009-10	5.6%	6.8%
2010-11	4.5%	6.8%
2011-12	3.4%	6.8%

***Stafford Variable Interest Rates***

The interest rates on existing variable rate Stafford loans (those with first disbursements before July 1, 2006) change annually on each July 1, based on the last 91-day treasury bill auction in May of that year. The variable interest rate for Stafford loans first disbursed on or after July 1, 1998 and prior to July 1, 2006 was set at 6.62% during in-school, grace, or deferment status during the period of July 1, 2007 through and including June 30, 2008. The variable interest rate for Stafford loans first disbursed on or after July 1, 1998 and prior to July 1, 2006 was set at 7.22% for loans that were in repayment or forbearance status during the period of July 1, 2007 through and including June 30, 2008 (Student Loans, 2005, p. 1).

***Stafford Loan Fees***

After July 1, 2006 Stafford loans had a mandatory 1% default fee. Stafford loans also had origination fees. After July 1, 2007, the origination fee was 1.5%. At each

annual July 1 date, the origination fee will drop by .5% until it is phased out on July 1, 2010 (Current Federal, 2007, p. 2).

### ***Stafford Loan Repayment Terms***

Repayment terms for a Stafford loan begin six months after the student graduates or when the student drops below half-time enrollment. The standard repayment term is 10 years, although one can get access to alternate repayment terms such as extended, graduated, or income contingent repayment, by consolidating the loans (Student Loans, 2005, p. 3).

If students fail to make a student loan payment, the loan will eventually go into default. That means the loans will go to a collection agency. Professional licenses may be revoked and borrowers will no longer be eligible for deferments. The student's credit score will also be tarnished, making it more difficult for those borrowers to take out a mortgage or even sign up for a credit card (Snyder, 2008, p. 3).

### ***Perkins Loans***

A federal Perkins loan is a low interest (5%) loan for undergraduate and graduate students with "exceptional" financial need determined by the U. S. Department of Education. A federal Perkins loan, or Perkins loan, was first offered by the U. S. Department of Education to assist American college students in funding their post-secondary education. As a need-based loan program, Perkins loans have a fixed rate of 5% for the duration of the 10-year repayment period. The Perkins loan program has a nine-month grace period so that borrowers begin repayment in the tenth month after graduating, falling below half-time status, or withdrawing from their college or

university. The Perkins loan is subsidized by the government (Federal Perkins, 2007, p. 1).

From July 1, 2004 to June 30, 2005, Perkins loan limits for undergraduates were \$4,000 per year with a lifetime maximum loan of \$20,000. For graduate students, the limit was set at \$6,000 per year with a lifetime limit of \$40,000, including previous undergraduate loans (Student Loans, 2005, p. 3).

### ***Parent PLUS Loans***

The federal Parent PLUS loan is a credit-based loan designed for parents of undergraduate students. Approval is not based upon financial need. There are no income limitations and no collateral requirements. The Parent PLUS loan can be used to cover up to 100% of a student's total cost of attendance, minus other financial aid awarded to the student. This total amount can include many school-related costs such as tuition, books, supplies, lab expenses, food, housing, transportation, and miscellaneous expenses. To qualify, one parent must have a child who is an undergraduate student and that parent must be able to pass a credit check (Federal PLUS, 2007, p. 1).

Eligibility for the PLUS loan depends on a credit check to determine that the parents are not adverse credit risks. An adverse credit history is defined as being more than 90 days late on any debt within the past five years subjected to default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off. The school may also require the completion of the FAFSA application. The yearly limit on a PLUS loan is equal to the cost of the student's education minus any other financial aid received (Federal PLUS, 2007, p. 1). PLUS loan

repayment generally begins 60 days after disbursement, although there are deferred repayment options available (Introduction to PLUS, 2007, p. 1).

The interest rate for the FFELP PLUS loans first disbursed on or after July 1, 2006 is fixed at 8.5%. The variable interest rate for PLUS loans first disbursed on or after July 1, 1998 and prior to July 1, 2006 was 8.02%. Interest rates for variable-rate PLUS loans are determined annually and are generally based on the bond equivalent rate of the 91-day Treasury bill plus an additional percentage as defined in the Higher Education Act of 1965 as amended (HEA). For example, the bond equivalent rate of the 91-day Treasury bill auctioned on May 30, 2006 was 4.919%, which rounds to 4.92% (Current Federal Loan, 2007, p. 1).

### **Collection of Student Loans**

According to Burd (2006, p. 3) the federal government has quicker access to collect defaulting loans and more collection options than many private lenders. It has been known to:

- Notify national credit bureaus of your default, which will harm your credit rating, making it hard to buy a car or a house.
- Deduct loan payments from your paycheck.
- Cause you to be ineligible for additional federal student aid if you decide to return to school.
- Withhold state and federal income tax refunds and apply them toward the amount you owe.



- Assess late fees and collection costs on top of what you already owe.
- Sue individual.

What students do not understand is that private loans are a lot like credit cards. If students are late on payments, the government lender will track them down. There are no forgiveness programs and students typically cannot lock in interest rates (Burd, 2006, p. 4).

### **Discharge of Student Loans**

For federal loans, an undue hardship standard for discharge varies between jurisdictions and is generally very difficult to meet. While U. S. federal student loans are generally not discharged for total and permanent disability, private student loans cannot be discharged for total and permanent disability (Discharge/Cancellation, 2008, pp. 1-2).

For the Stafford and Perkins loans, if the student borrower experiences total and permanent disability or death, the loan is 100% forgiven. In the PLUS loan, if the parent who signs the loan has total and permanent disability or death, the loan is 100% discharged/forgiven. For the PLUS loan, if the student for that particular PLUS loan dies, then it is 100% forgiven. However, it is not forgiven if the student for that particular Parent PLUS loan is totally disabled (Discharge/Cancellation, 2008, pp. 1-2).

Federal and private student loans are practically non-dischargeable through bankruptcy. After years of lobbying, Congress approved legislation in 2005 making it virtually impossible for borrowers to avoid repaying private educational loans by filing for personal bankruptcy (Burd, 2006, p. 2). Senator Chris Dodd, during his 2007 political campaign to run for President of the United States, lobbied for the need to allow private

student loans to be dischargeable in bankruptcy, but there were no changes in the bankruptcy law (Warren, 2007, p. 3).

In very rare cases, 100% of a federal Perkins, Stafford, and Parent PLUS loan can be forgiven or canceled due to bankruptcy. Cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship (Burd, 2006, p. 2).

### **Credit Reporting (for Parent PLUS Loans and Private Student Loans)**

A credit score is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness of that person, which is the perceived likelihood that the person will pay debts in a timely manner (Student Loans, 2007, p. 1). A credit score is a number generated by a mathematical formula based on the information within a credit report. The resulting number is a trusted statistical prediction of how likely applicants will repay their financial obligations (Curry, 2003, p. 1).

The Fair Isaac Corporation (FICO) score is a popular credit scoring method. Numbers run the scale from 300 to 850. Credit scores are powerful numbers used extensively in the United States. People with high three-digit credit scores are likely to receive loan approvals, with the most competitive loan terms and the lowest interest rates and fees. (Curry, 2003, p. 1).

There are three major credit bureau reporting agencies in the United States: Experian, Equifax, and TransUnion. Each credit bureau uses their own versions of the FICO scoring method. No matter what model lenders use, it pays to have a great credit score (Curry, 2003, p. 2).

Lenders complete credit checks on parents for credit-based Parent PLUS loans and on students and parents applying for credit-based private loans. Credit checks are not required on federal Stafford and Perkins loans, as they are not credit-based loans. Financial aid counselors seldom have access to applicants' credit reports to know the results of their credit scores for counseling purposes. While attending school, if students need to rent an apartment, apply for a credit card, buy a cell phone, apply for a job, or get utilities connected, it is likely that their credit score will also be obtained for each of those purposes. Too many credit inquiries can reduce a credit score, which could negatively affect the loan approval, the interest rate, fee amounts, and the repayment terms. Non-payments, unpaid medical bills (even while negotiating with medical insurance providers), delinquencies, bankruptcy, bad checks, collections, and repossessions will also negatively affect a person's credit score (Curry, 2003, p. 2).

Lenders look at credit scores often and for many reasons. That is why a credit score is so important for a private loan student. There are five parts to a FICO credit score: 35% repayment history, 30% on how much you owe, 15% for the length of your credit history, 10% for new credit, and 10% for other factors such as the types of credit, percentage borrowed compared to the maximum amount available, and personal lines of credit (Student Loans, 2007, p. 1).

Prior to 2001, a person's credit score was not available to anyone other than the lenders and businesses that used the score for financing decisions. In 2001, that changed due to pressure from the United States Congress, industry, and consumer groups. Now people can get their credit scores at a number of websites, including the three credit

bureaus (Experian, Equifax, and TransUnion) and the Fair Isaac's website (Obringer, 2007, p. 1).

Fair Isaac reports that the American public's credit scores break out along these lines (Curry, 2003, p. 1):

Credit score	Percentage of Americans
499 and below	2
500-549	5
550-599	8
600-649	12
650-699	15
700-749	18
750-799	27
800 and above	13

The difference in the interest rates offered to a person with a score of 520 and a person with a 720 score is 4.36 percentage points (Obringer, 2007, p. 2). On a \$15,000 private college loan, amortized to be repaid in 20 years, the difference in the amount of interest alone would be \$10,442.40. In this example, the student with the 520 credit score would pay \$10,442.40 more in interest than the student with a 720 credit score. The monthly payments would be \$43.51 more for a student with a 520 credit score and 20 years would require 240 monthly payments. A private loan amount larger than \$15,000 would have an even greater financial impact. This illustration is just for interest rates. It does not include the possible differences in loan fees based on the differing credit scores.

Banks and credit card companies use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt. Using credit scores, lenders determine who qualifies for a loan, at what interest rate, and at what credit limits. Credit cards and student loans are unsecured debt and scored accordingly. The most widely known credit score in the United States is FICO (Credit Score, 2007, p. 1).

In general, traditional college-aged students have little, if any, prior experience with debt and loan amortizations to determine what their loans will cost them. An 18-month credit history is the normal timeframe that a student needs to establish on a credit-based application for a private loan. If there is an inadequate credit history on the student alone, then a co-borrower could be required (Financial Aid, 2007, p. 1).

According to the Wegmann et al. study (2003, p. 34), private lenders are making efforts to help students responsibly manage their increasing debt burden. In addition, some lenders are beginning to provide counseling resources that relate specifically to private loans and the importance of building good credit. Good credit for students will be important for future purchasing power. Good credit will allow students to continue their education, buy a car, purchase a home, and obtain lower insurance rates, interest rates, and loan fees. Good credit allows employment with those employers who complete credit checks.

Borrowers may be concerned by the possible impact of the United States credit crisis on the cost and availability of student loans. It is a fair assumption that federal loans will remain available. Private student loans will likely have stricter eligibility,

requiring a higher credit score or a cosigner. There may also be interest rate increases and more fees on private student loans (Private Student Loans, 2007, p. 1).

### **Summary and Conclusion**

Table 3 is an outline comparison, constructed by this researcher, of the literature reviewed for this study and reported in this chapter. It provides an overview comparison of federal student loans and private student loan features prior to July, 2008. Categories for comparison also include the application process, loan limits, parental involvement, repayment terms, interest rates, fees, the role of financial aid counselors, and entrance and exiting counseling requirements. The results of this comparison show significant differences in federal student loans and private student loans.

The review of literature supports an increasing trend in the sheer number of credit-based private student loans obtained by undergraduate students. Private lenders are targeting undergraduate students, college costs of attendance are exceeding federal financial aid limits, and fewer parents are paying the balance. Students are left with little choice but to obtain private loans to be able to pay for college. In general, traditional college-aged students have little, if any, prior experience with credit-based loans.

Financial aid counselors are required to certify that all sources of financial aid, both federal and private, do not exceed their college's cost of attendance. However, financial aid counselors are not always aware of the private loans obtained by students and their parents, especially direct-to-consumer private loans. Counselors do not have access to the student's credit reports or all of the terms and conditions of their

Table 3

*Outline Comparison of Federal and Private Student Loans*

I. Federal student loans	II. Private loans - school-channel & direct-to-consumer
<p>A. 8-page written FAFSA application form</p> <p>B. slow process - money takes weeks/months</p> <p>C. FAFSA required for all federal loans</p> <ol style="list-style-type: none"> <li>1. dependent undergraduate students               <ol style="list-style-type: none"> <li>a. no credit check for Stafford &amp; Perkins</li> <li>b. no additional collateral</li> <li>c. limits (prior to July 1, 2008)                   <ol style="list-style-type: none"> <li>1) \$3,500 freshman</li> <li>2) \$4,500 sophomore</li> <li>3) \$5,500 junior</li> <li>4) \$5,500 senior</li> <li>5) \$23,000 maximum</li> </ol> </li> </ol> </li> <li>2. parent(s)               <ol style="list-style-type: none"> <li>a. credit check for Parent PLUS loan</li> <li>b. 100% of education costs less financial aid</li> <li>c. loan forgiven if parent dies</li> <li>d. loan forgiven if parent permanently disabled</li> <li>e. loan forgiven if student dies</li> <li>f. unlikely discharge in bankruptcy</li> </ol> </li> </ol> <p>D. common 15-year repayment</p> <ol style="list-style-type: none"> <li>1. students - typically 6 months after school</li> <li>2. parents - begins in 60 days after disbursement</li> <li>3. deferment &amp; consolidation options available</li> <li>4. government pays some interest on subsidized</li> </ol>	<p>A. online or phone application</p> <p>B. fast process - money in days</p> <p>C. application by student alone</p> <ol style="list-style-type: none"> <li>1. dependent undergraduate students               <ol style="list-style-type: none"> <li>a. credit check</li> <li>b. no additional collateral</li> <li>c. limits                   <ol style="list-style-type: none"> <li>1) cost of attendance - freshman</li> <li>2) cost of attendance- sophomore</li> <li>3) cost of attendance-junior</li> <li>4) cost of attendance-senior</li> <li>5) cost of attendance - maximum*</li> </ol> </li> </ol> </li> <li>2. parent(s) or cosigner               <ol style="list-style-type: none"> <li>a. credit check - all loans</li> <li>b. 100% education costs</li> <li>c. no loan forgiveness upon death</li> <li>d. unlikely discharge in bankruptcy</li> <li>e. lower interest rate &amp; fees with good</li> </ol> </li> </ol> <p>D. maximum 30-year repayment</p> <ol style="list-style-type: none"> <li>1. student - 6-12 months after school</li> <li>2. parents - 6-12 months after school</li> <li>3. few deferment &amp; consolidation options</li> <li>4. borrower responsible loans for total repayment</li> </ol>

Table 3 continues

I. Federal student loans	II. Private loans - school-channel & direct-to-consumer
E. fixed interest rates	E. interest rates
<ol style="list-style-type: none"> <li>1. unsubsidized Stafford loans-6.8%</li> <li>2. subsidized Stafford loans-6.8% &amp; declining</li> <li>3. Perkins loans - 5%</li> <li>4. Parent PLUS - 8.5%</li> </ol>	<ol style="list-style-type: none"> <li>1. majority are variable rate loans</li> <li>2. few on fixed rates</li> <li>3. higher annual percentage rates (due to fees)</li> <li>4. actual rate hard to determine until loan acceptance</li> </ol>
F. fees	F. fees
<ol style="list-style-type: none"> <li>1. 1% default fee</li> <li>2. Stafford - 1% origination fee in 2008 (.50% phase out until gone in 7/1/2010)</li> </ol>	<ol style="list-style-type: none"> <li>1. varying default fees</li> <li>2. varying origination fees - up to 10.50%</li> </ol>
G. role of financial aid counselors	G. role of financial aid counselors
<ol style="list-style-type: none"> <li>1. total involvement</li> <li>2. responsible to certify all financing</li> <li>3. control financing to not exceed cost of attendance</li> <li>4. no credit reports available for counseling</li> <li>5. duty to meet varying student financial demands</li> <li>6. duty to encourage responsible debt management</li> <li>7. duty to help meet college enrollment goals</li> <li>8. required entrance &amp; exit counseling by government</li> </ol>	<ol style="list-style-type: none"> <li>1. uninvolved on direct-to-consumer private loans</li> <li>2. aware of school-channel private loans</li> <li>3. responsible to certify all private financing</li> <li>4. no credit reports available for counseling</li> <li>5. maintain duty to meet varying student needs</li> <li>6. maintain duty for responsible debt management</li> <li>7. duty to help meet college enrollment goals</li> <li>8. no required entrance &amp; exit counseling by lender</li> </ol>
H. government required entrance & exit counseling	H. no required entrance & by financial aid counselors exit counseling by lender
<ol style="list-style-type: none"> <li>1. in person, audiovisual, electronic <ol style="list-style-type: none"> <li>a. loan terms &amp; conditions</li> <li>b. rights &amp; responsibilities</li> <li>c. repayment/consolidation plans</li> <li>d. deferment options</li> <li>e. default consequences</li> <li>f. budget money</li> <li>g. financial responsibilities</li> </ol> </li> <li>2. basically standardized</li> </ol>	<ol style="list-style-type: none"> <li>1. loan terms and conditions by lender when approved</li> <li>2. counseling by financial aid counselors unknown</li> </ol>
	*Private lender may finance total cost of attendance without subtracting financial aid amounts from other sources and lenders.



private student loans. Financial aid counselors are central to the college financial aid process. College financial aid counselors are instrumental in providing entrance and exit counseling for students who obtain federal student loans. However, there are no academic standards or counseling requirements for private student loans. This literature review did not find any prior research on the specific role that college financial aid counselors currently have in counseling undergraduate students on private student loans. The need for clear, unbiased consumer information will only become more important, and more challenging, as the private loan market continues to offer a wide array of diverse private student loan products to help undergraduate students pay for college.

## CHAPTER THREE

### PROCEDURES AND METHODS

#### Background

The purpose of this study was to determine what role college financial aid counselors have in counseling undergraduate students on private (alternative) loans.

Public 4-year colleges and universities and private, not-for-profit, 4-year colleges and universities combined make up 60% of undergraduate private loan borrowers (American Council on Education , 2007, p. 2). A 1999-2000 National Postsecondary Student Aid Study (NPSAS) suggested that 87% of private loan borrowers were undergraduates.

The subjects for this study included financial aid counselors from 4-year public and 4-year private, not-for-profit, colleges and universities. It was assumed that the counselors being interviewed had comparable duties when working with undergraduate students who obtained private student loans. Counselor's tenure or job titles were not part of the criteria selection. Counselors were contacted to determine what specific private loan information and counseling, if any, they provided undergraduate students who attend their college or university.

One assumption was that financial aid counselors currently provided private student loan information and guidance to undergraduate students on their college websites.

Based on the previous research pertaining to direct-to-consumer private loans, it was assumed that financial aid counselors might be unaware of some private loans that their undergraduate students obtain.

During informal discussions with college financial aid counselors, the researcher discovered that because there are large number of private lenders and diverse private loan products, financial aid counselors could not stay knowledge on all private loan products and product changes.

Although financial aid counselors implemented standard counseling requirements and procedures for federal student loans, it was believed that (1) these same standards and procedures did not pertain to private student loans; (2) entrance and exit counseling required by the federal government for federal student loans was the limit for all undergraduate student loan counseling; (3) the majority of colleges and universities had not implemented any standard procedures specifically for private student loans and private loan counseling; and (4) financial aid counselors were interested in how peers counseled undergraduate students on private loans.

It was assumed that New York Attorney General Andrew Cuomo's 2007 investigation and the 2007 Slate Act would have some influence over private student loan counseling for undergraduate students obtaining private loans. The extent of that influence was unknown prior to the study.

### **Research Design**

The purpose of this qualitative case study was to determine what private loan counseling financial aid counselors provided undergraduate students on private loans.

The multi-site case study included counselors of undergraduate students of public 4-year colleges and universities and private, not-for-profit, 4-year colleges and universities that could be contacted distantly, by both electronic mail and telephone.

Increasingly, parents and students are relying on private (alternative) student loans to pay for college. A national study conducted by the College Board and localized by the Iowa College Student Aid Commission demonstrated that Iowa students utilize federal loans at a higher rate than students nationally. According to the study, Iowa students use private loans at a proportion of 21.6% (Iowa College, 2007, pp. 1-2).

The United States has been divided into five regions: the Northeast, the Southeast, the Southwest, the West, and the Middle West (Welcome to the Middle West, 2007, p. 1). Because this researcher was from Iowa, the research area was focused on states in the Middle West region of the United States.

According to the American Counseling Association, the Middle West region of the United States refers to the North-Central states of the United States of America including Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Nebraska, North Dakota, South Dakota and Wisconsin. A 2006 Census Bureau estimates the population at 66,217,736. Both the geographic center of the United States and the population center of the United States are in the Middle West region (Welcome to the Middle West, 2007, p. 1).

According to the 2007 College and University Directories for the Entire United States (p. 1), there are a combined total of 599 private 4-year private, not-for-profit, colleges and universities and public 4-year colleges and universities located in the Middle

West region of the United States. Of the 599 colleges and universities shown in Table 4, 555, or 92.65%, allowed access through electronic mail. Electronic mail addresses were located on college websites for financial aid offices, financial aid directors, financial aid counselors, admissions offices, and general college contacts.

Of the entire population of 555 colleges and universities in the Middle West region that allowed electronic mail access, 76% (rounded) were private 4-year private, not-for-profit, colleges and universities and 24% (rounded) were 4-year public colleges and universities.

Table 4

*Middle West Region 4-year Public and 4-year Private, Not-for-Profit, Colleges and Universities (Information compiled by the researcher from the 2007 College and University Directories for the Entire United States)*

State	4-year, Private Not-for-Profit	4-year, Private Not-For-Profit with e-mails	4-year Public	4-year Public with e-mails
Illinois	87	82	10	9
Indiana	41	40	15	15
Iowa	35	35	3	3
Kansas	22	16	9	8
Michigan	50	50	15	14
Minnesota	34	33	12	12
Missouri	54	46	14	12
Nebraska	17	16	7	7
North Dakota	5	5	7	7
Ohio	76	67	29	26
South Dakota	7	6	7	6
Wisconsin	30	27	13	13
Totals	458	423	141	132

## **Procedures and Methods**

This study began as a census sample. The population criteria included a 100% sample of the 4-year private, not-for-profit, and 4-year public colleges and universities located in the Middle West region of the United States that had available electronic mailing addresses. This entire population was initially sent, via e-mail, an informed consent (Appendix B) and a purposeful sample questionnaire (Appendix C). The sole purpose of the sampling questionnaire was to identify a smaller population sample in which information could be collected and used to draw conclusions about the entire population. The questionnaire was designed to identify an information-rich sample of 20 financial aid counselors for follow-up telephone interviews specific to private loan counseling.

The purpose for the electronic mailing of a sampling questionnaire to financial aid counselors was two-fold: to determine which financial aid offices currently provide private loan counseling (for either or both school-channel private loans and direct-to-consumer private loans), and to identify which of these colleges and universities had individuals who were experienced in private loan counseling and willing to participate in a follow-up tape-recorded telephone interview.

This was designed as a multi-site qualitative case study. The first contact was through an informed consent (Appendix B) and a purposeful sample questionnaire (Appendix C) and was sent electronically to 100% of the 555, 4-year private, not-for-profit, and 4-year public colleges and universities having electronic mail addresses available for contact purposes. Telephone calls were then made to those counselors that

did not respond to the purposeful sample questionnaire until a total of 20 financial aid counselors met the criteria for the follow-up telephone interview.

Financial aid counselors were then given ten days (from the date of the electronic mailing) to complete the sample questionnaire and to return their responses electronically to the researcher. It was determined that the responses to the purposeful sample questionnaire were to be prioritized, for follow-up telephone interviews with 20 participants, based on the following order of criteria:

1. financial aid counselors who agreed to individual follow-up tape-recorded telephone interviews;
2. financial aid counselors who counseled undergraduate students on direct-to-consumer private loans;
3. financial aid counselors who counseled undergraduate students on school-channeled private loans through preferred lenders;
4. financial aid counselors who counseled on variable-rate and fixed rate loans, loan fees, cosigners, projected debt-to-income ratios, and/or student credit ratings;
5. financial aid counselors who had the highest percentage of undergraduate students who borrow money through private (alternative) loan sources; and
6. financial aid counselors who represented a mix of both 4-year private, not-for-profit, and 4-year public colleges and universities.

Assuming the respondents agreed to a telephone interview, the next highest priority was given to financial aid counselors who counseled students on direct-to-

consumer private loans. Based on previous research for this study, direct-to-consumer loans involved the most diverse private loan options for student borrowers. Direct-to-consumer loans are oftentimes unknown to financial aid counselors unless the student reveals the loans and terms. It was believed that the financial aid counselors who counseled on direct-to-consumer loans would have a vast amount of knowledge and that they would be information-rich individuals to interview.

Assuming the respondents agreed to a telephone interview, the third priority for interview selection was for the financial aid counselors to provide counseling for school-channel private loans. These types of loans are oftentimes obtained through the institution's preferred lender lists. The financial aid offices are informed as to the amounts and terms of school-channel private loans directly from the lenders. School-channel loans are generally from private lenders working directly with financial aid counselors. It was believed that if these same offices provided counseling for these loans, they would be considered information-rich sources for future telephone interviews. The experience and knowledge in private loan counseling took priority over any actual job titles or tenure of the individuals who agreed to be interviewed by telephone.

The next priority in the selection process was based on the counselors' basic credit counseling knowledge pertaining to variable-rate and fixed rate loans, loan fees, cosigners, projected debt-to-income ratios, and/or student credit ratings. Federal student loan standards to begin in July 2009 state a borrower's loan payments will be limited to 15% of the adjusted gross income that exceeds 150% of the poverty line, as applicable to the borrower's family size (Snyder, 2008, p. 4). There were no known repayment



standards specific to private student loans due mainly to the wide array of private lenders and diverse loan products.

If more criteria were needed, then the colleges and universities with the highest percentage of undergraduate students with private loans would be selected. Finally, the interview sample selection process would include counselors from 4-year private, not-for-profit, and 4-year public colleges and universities.

Only three out of 555 colleges and universities responded to the purposeful sample questionnaire. Due to the low response rate of financial aid counselors initially responding to the purposeful sample questionnaire, it was also necessary to telephone counselors directly to obtain the 20 counselors determined for this study. The remaining 17 counselors were obtained after the researcher made 20 additional telephone calls. Those counselors fit the criteria for experience in working with undergraduate students on private student loans and by orally agreeing to the telephone interview.

Once a total of 20 college financial aid counselors were selected as an information-rich sample, the private loan telephone interview was tape-recorded and transcribed. Both the written telephone interview guide and verbal instructions let the financial aid participants know that the telephone interview questions on private loans and private loan counseling included both school-channel and direct-to-consumer loans (Appendix D).

The follow-up telephone interview included 20 counselors of financial aid offices who counseled undergraduate students of public 4-year colleges and universities and private, not-for-profit, 4-year colleges and universities, located in the Middle West region

of the United States. The telephone interviews were tape-recorded for accuracy and transcribed for further analysis. The interview guide follows:

*Private Loan Telephone Interview Guide*

1. What type of debt counseling or other information do you provide undergraduate students who are private loan borrowers?
2. How has the use of private (alternative) loans and the information that you provide undergraduate students on private student loans changed in the past five years? What influenced those changes?
3. What primary reasons do undergraduate students give you for wanting to receive private (alternative) loans? In your experience, can you support their reasoning?
4. Generally speaking, how do the terms and conditions of private loans compare with federal loans for your undergraduate student borrowers?
5. Describe the private loan counseling that you view as most effective. What makes that counseling most helpful to students?
6. How should private loan counseling change in the next few years? How would those changes make private loan counseling more helpful to students and their families?
7. Is there any written information that you provide undergraduate students on private loans that you could also send to me? How do students gain access to written information?

**Role of the Researcher**

The researcher is vice president of a privately owned bank in Iowa, however the bank is not a federal or private student loan provider and it is not a preferred lender for any colleges or universities. She has worked in banking and finance since 1981.

The researcher attended her first college course in August of 1989. At that time, her employer reimbursed all employees their college tuition (up to the amount charged by the Iowa public universities) and 100% of books if they agreed to work full time and if they would attend classes at times other than normal work hours. The researcher attended a community college and a private university to complete her undergraduate degree in management in 1992. She obtained her master's degree in business administration in 1994.

The researcher first experienced the maze of the college financial aid process as a parent, mainly during the years of 1995 through 2005. This was a memorable decade of kids, cars, and (Iowa) colleges. It took two jobs, full-time in banking and part-time as an adjunct college business instructor, to help manage the financial burden of federal financial aid's expected family contribution. The researcher believed that a child's college education could lead them to financial independence if the child graduated with a manageable amount of college loans and their chosen degree had adequate future earning potential. It basically was a belief in the 'pay now or pay later' theory. This was, help a child pay for some college costs while they were in school so they could afford to pay for all of their own living costs after graduation, including their own house and car payments.

Beginning in 2005, the researcher noticed an alarming increase in the total amount of student loan debt on bank loan applications. Along with increasing college costs to blame, it appeared that fewer parents helped their children pay for college. If a parent did have a college student loan showing on their own credit report they oftentimes stated that it was the student's responsibility to repay it. The amount of income already required for monthly student loan repayment was limiting the future opportunity for some loan applicants to purchase their own home or even a car. A greater number of applicants struggled to meet reasonable bank repayment ratios due to their total amount of unsecured student loan debt. Student loans were part of the United States credit crisis.

Also, when asking some applicants specific questions about their student loans -- such as the lender sources, loan amounts, interest rates, repayment terms, whether they had private or federal loans, variable or fixed rates -- the research discovered they just

didn't know. Even credit reports did not provide lenders with all of the necessary loan details but it did usually provide the total loan amounts and monthly repayment terms. The rest of the loan details remained unknown unless applicants provided additional information by contacting the private loan lenders directly.

Beginning in 2008, there was a noticeable trend of more Iowa college students and parents contacting the researcher for answers and explanations as to why they were receiving notices from their college loan lenders that interest rates were increasing to double-digit figures and that their monthly payments were increasing. It appeared that students (and their parents) were totally unaware that the variable interest rate on their private student loans could actually change until they started receiving these notices. They looked to their local lenders for possible solutions.

While it was not unusual for the researcher to receive a personal telephone call for 'help' on student loans (because of the researcher's financial background), there was one call that was particularly memorable. A friend of a friend called the researcher and said she "just wanted a life." She was 23 years old, recently graduated from a 4-year college, could not afford a car so she was driving her parents' car, and she was not sure if she could continue to pay for the gas it took to drive 25 miles to work. She had many student loans to repay, knew little about the details of those loans, and she was working full time and earning about \$10 per hour. Her college majors were banking and finance. She said her parents were not involved in any of her student loans because she was the one who wanted to go to college. However, she was now back living with her parents because she could not afford to pay rent in the town where she worked.

These personal and professional experiences led the researcher to wonder how undergraduate students got to this point in the first place and who was helping them understand their student loans. It appeared these borrowers paid little or no attention to interest rates or loan amounts until it was time to repay the loan. Students now had to plan for many years of managing large amounts of college debt while maintaining the risks of variable interest rates on their private student loans. The sheer amount of debt showed that many students were basically on their own to pay for a college education, without the financial and emotional support of parents. It was not unusual to see individual undergraduate student loan debt totaling \$50,000 to \$100,000. It was more, of course, when these young adults married and each had large amounts of student loan debt. It appeared we were creating a generation of students who were leaving college with long-term debt that was similar in size to a mortgage -- only there was no house.

There were prior studies supporting the trend of alarming increases in private student loan debt, with private lenders target-marketing undergraduate students, and fewer parents were paying their expected family contribution; furthermore, counseling was only required for federal student loans. However, there was basically no research specifically on how undergraduate students were counseled when they obtained riskier variable-rate private student loans. The researcher thought the most logical place to begin looking for answers on the current private student loan process was college financial aid offices and the most logical people to talk to were financial aid counselors. While there are many questions that could be asked about credit-based private student loans, this

research was designed specifically to find out what role college financial counselors have in counseling undergraduate students on private student loans.

### **Data Collection**

The study began as a census sample. Data was collected from the 20 financial aid counselors who agreed to be interviewed on private student loan counseling. The responses to the initial sample questionnaire resulted in two financial aid counselors agreeing to a follow-up telephone interview. One, of the first two counselors who replied, included the following comment, which set the tone for what was about to happen:

You should know that for many schools on a typical academic calendar, spring is the busiest time of year and the worst time to receive a survey of this nature and hard for anyone to take time they don't have to find definitive answers. I hope you get enough responses for your dissertation and best wishes.

There were several counselors responding to the survey who replied that they did not participate in private loan counseling and several that participated in private loan counseling but declined to participate in the interview. There were also some general automatic responses to the e-mail that were not specific responses to the survey.

A reminder e-mail, with the following heading, was sent to those schools not responding to the first request:

I certainly do understand that this request comes at a very busy time for financial aid offices, but I do value your input and still need your help. If you only have just a few minutes to spare, please feel free to answer those survey questions that your time allows. Your feedback is important whether or not you currently counsel students regarding private loans. In return, I hope that this study on private loan counseling will help you when counseling future undergraduate students.

This is a quick reminder to complete and return the purposeful sample survey yet this week. If you have already responded (to the initial request), I thank you and

ask that you please disregard this reminder. I sincerely appreciate all you can do to help in this study. Thank you very much. Carol Jensen.

With this reminder, only one more financial aid counselor agreed to the follow-up telephone interview, which increased the total to three counselors agreeing to follow-up telephone interviews.

After contacting the qualitative auditor for this study, it was apparent that the electronic approach to contacting and locating financial aid counselors needed to change in order to effectively continue the study. People working in higher education who may have had access to names of financial aid counselors meeting the pre-determined criteria for this study were then contacted. This also proved unsuccessful, mainly because of rules and regulations within those financial aid counselor organizations. It ultimately became necessary to directly telephone financial aid counselors, within the pre-determined population, to orally request their agreement to participate in the purposeful sample questionnaire and the follow-up telephone interview. Shifting the approach from the initial electronic mail request to the one-on-one telephone approach did not affect the purpose of the sample survey and proved highly successful.

Financial aid counselors who did not respond to the initial survey request were contacted by telephone. Since the first three respondents who agreed were from 4-year private, not-for-profit, colleges and universities, counselors from 4-year public colleges and universities within the 12-state Middle West region of the United States were the first to be called. After making 20 telephone calls, a total of 20 counselors, who were experienced in private student loans and located in all 12 states of the population sample, agreed to the tape-recorded telephone interview.

Talking with counselors helped determine why there had been a poor response to the requests by electronic mail. Financial aid counselors, in general, were overwhelmed. At this busy time, counselors were receiving so many daily e-mails that they elected not to participate. The survey could not be given any priority within their workload. At this very same time and eventually covered by the public news media, private lenders were exiting from financing college loans for undergraduate students. These counselors were stressed with additional workloads and were working with some very unhappy college students and parents who were scrambling to find private lenders so they could finance their college attendance in the fall. Enrollment was a much greater priority for the financial aid counselors, which was readily explained and totally understandable.

Communicating more with counselors, it was then determined whether they had undergraduate students who obtained private students loans, either school-channeled or direct-to-consumer, and who would be the best counselor to participate in a follow-up, tape-recorded telephone interview on private student loan counseling. Using this process, seventeen more counselors, knowledgeable in private loan counseling, were identified and agreed to a follow-up telephone interview.

A total of 20 counselors were located within the 12 states identified in the sample population. Twelve of the 20 counselors, or 60%, worked for 4-year private, not-for-profit, colleges and universities. Eight of the 20 counselors, or 40%, worked for 4-year public colleges and universities.

Participants were notified through the purposeful sample questionnaire and through the phone conversation that the follow-up interview would be tape-recorded for



accuracy. After IRB approval was obtained in April 2008, the dates and times for each of the 20 follow-up telephone interviews were scheduled, through telephone conversations and electronic mail. The interview process was organized and efficient. It was estimated that each conversation could take 30 minutes and the average recording lasted 20 minutes. The recording device used standard-size cassette tapes and was compatible with a land phone. There were no problems in recording or transcribing the conversations. The transcription machine included a headset to ensure privacy while transcribing.

The interviewer recorded and transcribed each of the 20 telephone interviews. Each cassette tape was marked with an identifying number, the date of the interview, the first name of the person interviewed, the telephone number of the college or university, and whether it was a 4-year private, not-for-profit, or a 4-year public college or university.

### **Data Analysis**

Informally, the analyzing of the data began while transcribing the telephone conversations. This allowed for conversations to be heard again and to observe the counselor's tone of voice, their voice expression, and the energy of each interview. Formally, the analysis began with coding blocks of responses into eight separate topical categories: (a) choices by students and family, (b) comparing federal and private, (c) counseling limitations, (d) effectiveness, (e) one-on-one, (f) predictions, (g) trend, and (h) website information - written counseling. These categories were put in the right hand column of the transcribed material, either by writing out the category name or by writing the category number.

Line item responses were organized into each of the eight categories and then further divided those eight-category responses according to whether comments were from counselors at 4-year private, not-for-profit, institutions or from 4-year public colleges and universities. This resulted in a total of 16 sub-categories. The purpose of this coding approach was first to determine the trend of the responses in each of the eight categories and also to observe whether there were any material differences in private loan counseling between private and public colleges and universities. With 40% of the responding counselors from public colleges and universities and 60% from private, not-for-profit, colleges and universities, this process helped determine if sheer size and number of students enrolled would affect private loan counseling. When reviewing all 16 categories, there were no noticeable differences in responses from 4-year private, not-for-profit, and 4-year public financial aid counselors. Now the number of sub-categories returned to the original eight.

In reviewing comments in the eight sub-categories, there were five key findings and emerging themes in support of how financial aid counselors currently counsel undergraduate students on private (alternative) student loans.

### **Verification Strategies**

An attestation by an external auditor documents the trustworthiness of this study (see Appendix E). The auditor had access to the 20 audio cassette tapes used for the tape-recorded telephone interviews and the transcripts of each. The researcher transcribed the cassette tapes verbatim.

The auditor verified e-mail addresses, distribution lists, and directories for colleges and universities located in the Middle West region of the United States. The external auditor also reviewed references used for this study.

Documentation of the audit process was provided by the researcher and verified by the auditor. It included the dissertation proposal, committee approval, IRB approval, and correspondence throughout the study.

The auditor analyzed the details of the purpose of the study, the study design, proposed data collection and analysis procedures, purposeful sampling technique and questionnaire, and the individual interview protocol. The auditor read the research log and journal, and examined the documentation of purposeful sampling.

Verification was obtained through the audit of the tapes, transcripts, codes, categories, and text segments for each category. The auditor also examined the research procedures and researcher's role.

Selected participants' quotes were randomly selected for each section by the researcher. They were completed with list segments for accuracy.

The summary of audit findings reported that the process and product was trustworthy, the procedure was sound, and the findings were clearly grounded in the data.

### **Ethical Considerations**

IRB approval for this study was obtained April 9, 2008 (Appendix F).

Participation in this study was completely voluntary. An Informed Consent Form (Appendix B) was initially sent electronically to each of the participating institutions in this study. The researcher was the only person to contact the colleges and the financial

aid counselors, by electronic mail or by telephone. None of the processes in completing the interview procedures for this study were delegated or shared in order to maintain confidentiality.

The researcher conducted all of the telephone interviews using a privately owned cassette tape recorder. The telephone interview guide assured participants that no individual institutional data would be released publicly (Appendix D).

The researcher solely transcribed each of the 20 individual cassette tapes used to record counselor interviews. There is one set of cassette tapes and the only other person to listen to the recordings was the auditor for this study. The auditor's attestation supports that the proposed procedures were followed and that the findings are clearly grounded in the data (Appendix E). Since the audit, the researcher has maintained possession of the interview tapes until they are no longer needed.

Participants were from 4-year colleges and universities in 12 particular states. Because some participating states had as few as three state or private colleges, no counselors were identified in the results of this study by either their state or by the type of their 4-year institution. No additional individual identifiers were needed to support the findings. In order to maintain confidentiality, the results were analyzed and the findings were combined and presented for the entire group of 20 counselors.

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSION**

#### **Introduction to the Participants**

The participants in this study were 20 financial aid counselors selected from 555 4-year private, not-for-profit, and 4-year public colleges and universities located in the 12 Middle West states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Nebraska, North Dakota, South Dakota, and Wisconsin. Counselors from all 12 states participated in this study. This chapter examines five key findings and discusses the emerging themes that support how the participating counselors currently counsel undergraduate students on private (alternative) student loans.

Twenty financial aid counselors were selected to participate in tape-recorded telephone interviews on private loan counseling for undergraduate students. Sixty percent of the financial aid counselors selected to participate worked for 4-year private, not-for-profit, colleges and universities and 40% worked for 4-year public colleges and universities. The participant counselors had financial aid experiences ranging from one year to nearly 30 years. Thirty percent of the participant counselors were male and 70% were female.

Some of the 12 states represented in this study have as few as three private or public 4-year colleges and so, for that reason, the researcher has not introduced the participants by their state and the type of college they work for in order to keep identities confidential. Participating counselors were viewed as one 20-person entity and no additional identity was given to any one counselor. The results of this study showed a

consensus among the participating counselors and there appeared no added benefit to include more identifiers.

Five major themes emerged from the interviews. This chapter is organized according to the five key findings and supported by the emerging themes on how the participating financial aid counselors currently counsel undergraduate students on private (alternative) student loans.

***Theme 1. Participant counselors believed that the 2007 Slate Act significantly limited their ability to counsel students on private loans.***

***Findings and discussion.*** According to the participant financial aid counselors, the aftermath of New York Attorney General Andrew Cuomo's 2007 investigation and the 2007 Slate Act have significantly limited their ability to counsel undergraduate students and their families on private (alternative) loans. In fact, participant counselors unanimously found it necessary to alter, reduce, or eliminate their private loan counseling practices (since Cuomo's investigation). This is supported by the following comments from participant counselors:

Anything that we have is on our website. With everything that happened with the student loan industry, and Cuomo, and all of that, we really can't have that information. What we do have is on our website and even that is under review with our office and our general counsel to make sure that what we're doing is in compliance with what the new information act is causing us to do. Basically, we can't counsel families really on the financial aid process, especially loans, primarily because it then gives the impression that we're pushing students in one direction of one bank versus another. And, that's really not what we do but that's what the perception came out to be. And so what information we can provide students is very limited.

Now with Cuomo coming out, geez, you don't even want to recommend a lender. Five years ago I probably would have only been doing Partnership loans. Not that I was not willing to do loans with other people, and not because they gave me a

pen, or not because, you know, I got a spaghetti dinner from them or anything like that. Quite honestly, I recommended the Partnership loans five, six, seven years ago because they were just plain, the best damn loan out there, compared to private loans.” But now since Cuomo, “We did create a sheet of paper; I don’t like to call it a preferred lender list, because I don’t really see it as a preferred lender list. We just say at the top, here are about ten lenders we’ve had our students use in the past. And, hey, if students use other lenders we’ll add to them. We really only have about ten. That’s what we’ve done. And we even have, because a couple kids used them, we even have Astrive student loans on there.

We published a brochure on alternative loans and, of course, we had naughty word “preferred lenders” on there. And one of the preferred lenders even published it for us. You know, printed it for us. So a change that we’ve had to do, of course, is to no longer offer that alternative loan brochure. Because it did have the lender’s name on there; that they had published it. We now have a lot of information on our website. They should read everything on our website. It really is a counseling tool for the student. Whenever we talk to a student who is thinking about an alternative loan, we always tell them to, again, go to our website. We tell them that they should go in, do their homework; compare the various lenders that are out there.

While there were no direct interview questions asked of participant counselors regarding Cuomo’s 2007 investigation, each counselor assumed that anyone interested or knowledgeable in private loan counseling would know about Cuomo's financial aid investigation and the 2007 Slate Act. Counselors unanimously agreed that it changed their ability to counsel undergraduate students on private (alternative) loans.

One counselor shared their personal concern about the results of the 2007 Slate Act by saying, "Now we are much more general in the information that we provide to students. Because of changes in legislation, we can’t direct them to a specific lender that we have found provides a lot of incentives for students. So, we’re much more general in the information that we provide."

Another counselor added, "Everything that’s happened has not happened to the benefit of the student. It has really worked against the student. And so, what we’re trying

to do is really encourage students to be very selective and be very thoughtful of what they're doing."

On November 1, 2007, the U. S. Department of Education issued regulations on federal student loans that require colleges to include at least three lenders on a preferred lender list, restrict lender gifts to colleges in exchange for business, prohibit payments to college financial aid employees, and encourage some loan counseling by giving students information they can use to compare preferred lenders for their student loans. Further, colleges must guarantee that any benefits offered by the lender must apply to all students, including students considered a greater credit risk (Simmons, 2008, p. 41-43). This resulted after New York Attorney General Andrew Cuomo's 2007 investigation into the practices of college financial aid offices. Although the U. S. Department of Education has no authority and no jurisdiction over private loans, participating financial aid counselors were unanimous in their need to apply the new 2007 regulations to all private (alternative) student loans.

To eliminate the risk of calling their private list of lenders a 'preferred lenders' list, the colleges of participant financial aid counselors posted the following information on their websites:

- the suggested list of lenders has been made available to you as a guide only;
- if you wish to use another lender that is not on this list, you have the right to do so;
- our most popular programs are outlined in this section; and
- the following lenders offer alternative loans that could be an option.



Participating college financial aid offices also changed the titles of their previous preferred lenders to:

- alternative loan companies; and
- possible providers for alternative loans.

There was a unanimous perception by participant financial aid counselors that the compliance requirements of the 2007 Slate Act for federal student loans also pertained to all private student loans from private lenders. This has significantly reduced, and in some cases eliminated, the private student loan counseling efforts of participant counselors.

***Theme 2. Many undergraduate students do not read or do not comprehend the written and online information counselors provide on private loans.***

***Findings and discussion.*** While institutions are now focused on offering compliant, up-to-date private loan information on their college websites, participant financial aid counselors agreed that undergraduate students do not take the time to read the information or do not understand the online and written information that college counselors do provide.

One participating counselor shared that it has become prohibitive to offer students loan brochures because “we no longer pay all that money for something that is going to be obsolete tomorrow. We had a written document drawn up on Thursday morning that became obsolete that day and had to be redone for a visit day on Friday.” Another participating counselor added that they have “no written information because it is no longer correct due to the industry . . . it’s crazy.”

Participant counselors were basically in agreement with the following comments on their options for students to obtain private loan information: “Look online;” “We refer people to web sources;” “What I have is out on our website;” “Private loan information is on our website;” “We provide them only what’s online;” “We keep that information on our website;” “We really have tried to hit home on our website;” “We have information about private loans on our website;” “As far as private loans, we supply them information that we have on our website.”

One-quarter (25%) of the participant counselors interviewed for this study stated that they send out written information to undergraduate students (in addition to providing online information): “We send out a mailing to the home address each summer so that parents are also aware of that information;” “We provide one private (alternative) loan sheet of specific questions they should ask in the financial aid packet of each student that completes the Free Application for Federal Student Aid (FAFSA);” “We send information to incoming freshmen with a small section on alternative loans.”

With tech-savvy students, the majority of participant counselors prefer to use web-based online communication for ever-changing information about private loans. These counselors believed this also helped in meeting compliance requirements. There are some, but fewer, paper forms being used in the private loan communication process. Counselors indicated that their websites were updated as accurately and frequently as humanly possible. And one counselor acknowledged that even with websites, “It just became impossible to keep the website current with interest rate changes and so on.”

Ninety-five percent, or 19 out of 20, of the participating financial aid offices offered their private loan information electronically, on their college websites. Regarding the effectiveness of counseling with written materials, brochures, and websites, a majority of the participant counselors agreed with the discovery of one counselor who stated, “students are not responding very well to written materials. We will give them brochures and things and they just don’t seem to absorb that as well.”

Another counselor participating in the study admitted, “We’ve learned that students don’t necessarily read everything that we send out.” Another participating counselor added, “So much of the alternative loans . . . they apply online. They’re supposed to read all the terms and conditions, but how many 18-year-olds are gonna really sit and read page after page of all that information. So they get into this loan not realizing that they’re going to pay 15% interest, that the interest starts day one.” Another counselor showed student’s lack of private loan understanding when stating, “I had a borrower who came in and said, ‘Send it back. I have a 12.5% interest rate.’”

This participating counselor’s observation summed up the participant counselors’ concerns over the effectiveness of students understanding private loan counseling information obtained online when stating, “But, online it is very easy not to read any of it and just click: Yes, I agree. Yes, I’ve read it, and go on.”

This study began with its own problems with online communication. A purposeful sample questionnaire was initially sent electronically to 555 selected 4-year private, not-for-profit, and 4-year public colleges and universities located in 12 Middle West states. The expected result was for counselors to first read the purposeful sample questionnaire,

reply electronically to the researcher, and for a minimum of 20 financial aid counselors to eventually agree to follow-up telephone interviews on private loan counseling for undergraduate students. However, the initial responses to the online request were very limited, with only two counselors from 555 colleges and universities first agreeing to a follow-up telephone interview.

One of the first two counselors who replied to the purposeful sample questionnaire included the following comment:

You should know that for many schools on a typical academic calendar, spring is the busiest time of year and the worst time to receive a survey of this nature and hard for anyone to take time they don't have to find definitive answers. I hope you get enough responses for your dissertation and best wishes.

A reminder request to participate in the study was also sent electronically and one more counselor agreed to a follow-up telephone interview. It was evident that in order to find 17 more counselors to agree to a follow-up telephone interview, the mode of contact needed to change. It was quickly changed from online to telephone. Financial aid counselors were telephoned and this revised approach resulted in one-on-one conversations with financial aid counselors. The revised process proved efficient and effective. The additional amount of time spent to find 17 more counselors to agree to participate in the study was minimal and most of the counselors were unaware that a previous request was sent to their institutions by electronic mail. This experience supports the opinion of participant financial aid counselors that one-on-one contact is most effective and written and online information is not always read or understood.

Electronic sources for counseling information may have initially eased the frustration for participating financial aid counselors when managing the frequent changes

by private lenders and adhering to the Cuomo requirements; however, counselors revealed the likelihood that undergraduate students may not bother to read the written brochures and online information or comprehend it.

***Theme 3. More parents are not willing to or are unable to pay college costs.***

***Findings and discussion.*** Participant counselors identified parents' inability or unwillingness to obtain Parent PLUS loans and their declining financial commitment to pay college costs as primary reasons that more undergraduate students obtain private (alternative) loans.

The cost of attendance at 4-year private, not-for-profit, and 4-year public colleges and universities has surpassed federal financial aid limits and fewer parents are paying the balance. One participating counselor stated, "Part of the counseling of the private loans starts before you even talk about the private loans and that's talking to the parents about the Parent PLUS loan." One participant shared,

I'm finding so many of the parents don't want to take out a parent loan for the student. They don't want to be, I don't know if it's they don't want to be bothered, or saddled, but a lot of our families have indicated that the kid can go to school but they're going to do it on their own. They're not going to get help from the parents. So the student really has no recourse but to go the alternative loan route. And then they run into obstacles because they generally have to have a cosigner. And the parent doesn't want to cosign. So a lot of our students are really caught.

Another counselor added, "Parents have been adamant about not helping. They did it themselves; the child can do it alone." Another stated, "Parents are unwilling to supply, unbelievable as it may seem, a dime to their student's education." Yet, another counselor voiced the same attitude they felt from parents about Parent PLUS loans by

saying, “The undercurrent is there . . . they just don’t want to . . . they can’t or they just don’t want to.”

Regarding the general attitude toward Parent PLUS loans, one participant counselor added further insight,

We find that the richer the parent, the less likely their willingness to do a PLUS loan. The poorer the parent, the more willing, but also the more unable. So their willingness is there, their ability is not. The rich get rich because they don’t spend money. The rich didn’t get rich by wasting their money.

Reverend Dennis H. Holtschneider, DePaul University’s president, shared his concern in the May 2008 commentary in the Chronicle of Higher Education when stating, “Many students do not have parents or other adults to help them navigate one of the largest financial investments they will ever make.”

One counselor participating in this study observed,

Low income kids are doing okay. They seem to be able to make it with grants and the loans that they can get. Now they just barely eek by, but they can make it. The higher income kids, mom and dad can usually help them out, take out a PLUS loan or have saved and can pay it. But the middle-income kids, the parents are just making ends meet on their own and don’t have the extra money to help them. They’re the ones getting into the alternative program.

Participating financial aid counselors were consistent in their view that, although some parents are supportive, there are a growing number of parents who either could not or would not financially support their children to attend college. There was also a consensus among counselors that federal aid was not enough to cover the costs of education so many students had no choice but to resort to private (alternative) loans. Another observation shared by one counselor was that “Students and parents chose private loans over Parent PLUS loans because PLUS loans have immediate repayment.”

More students need private student loans since fewer parents agree to the terms of the Parent PLUS loan and college costs continue to increase. One participating counselor acknowledged,

Family savings has not kept up with the increase in education expenses. We get information back from the federal government and it's rare to see any substantial numbers in the savings investment section even for middle to middle-to-higher income families, which amazes me.

Another participant pointed out, "The federal government has not increased the amount that students can borrow through the federal loan programs and so additional costs have to be covered through private loans."

Along with the decline in parents obtaining Parent PLUS loans, participating financial aid counselors agreed that federal financial aid does not cover the increasing costs of attendance anymore and private loan borrowing has greatly increased. One college counselor stated, "Our volume for private loans the past five years has gone up over 500%." Another counselor shared the increased trend in private loans by saying, "The (private) loans have just increased astronomically." Another participating counselor added, "It's really taken off, jumped considerably due to the rising costs of tuition, room, and board." Participant counselors agreed that there was almost always a (financial) gap.

There was consensus among the participating financial aid counselors that grants, scholarships, and federal student aid combined were not enough to pay for the rising costs of a college education. Paying for a college education remains one of the largest financial investments undergraduate students will ever make and, for many, the decisions begin when they are 18 years old. This required students and parents to look at credit-based loans to fill in the gaps. One participating counselor shared, "Our campus-based

funding has basically been stagnant for probably almost twenty years.” In an effort for undergraduate students to be able to pay the costs to attend the college of their choice, some were left with little choice but to resort to private student loans.

Many of the participating financial aid counselors felt private student loans should be considered a family’s last resort when helping students pay for the increasing costs of a college education. However, with today’s sheer volume of private student loans increasing, one participant noted a significant trend that “student loan payments are not equaling a car payment, but a house payment.”

Based on their experiences, participating counselors gave the following reasons as to why they believe more undergraduate students obtain private loans:

*To Pay College Costs*

- to pay the cost of attendance not covered by gift aid and Stafford loans;
- only so much money is given by the federal government;
- students just want to pay their bill;
- private loans help students stay in school; and
- most students look to alternative loans because they have exhausted all other options.

*Student Choices*

- students desire to participate in study abroad programs;
- they wish to purchase a computer;
- they want to live a higher lifestyle;
- to pay the cost of flight lessons in addition to tuition, fees, and books;
- students not making satisfactory academic progress no longer qualify for federal benefits;



- it is just more convenient for the student to not involve the parents;
- having the loan in just the student's name seemed to be quite attractive;
- to offset the inability to work while attending and completing their degree; and
- to pay costs of living off campus while they're attending school, either part-time or full-time.

#### *Family Choices*

- private loan repayment can be deferred longer than Parent PLUS loans;
- families have not saved as they have in the past and there is no money available to put toward the child's education;
- families have more debt out there;
- the willingness to pay has decreased on the family's part;
- more and more parents are denied credit-based loans;
- families don't want to divulge or disclose income information required in the federal financial aid process and go directly to private (alternative) loans;
- to avoid completing the FAFSA form for federal financial aid; and
- because parents are either unable or unwilling to incur further debt for the student's education.

One participating counselor added this thought,

I think private loan counseling should start earlier, in high school. High school discussions about credit would allow students to start building their credit before they're 18. It would be helpful for many students that don't have a cosigner option or any family support.

Although several participating counselors predicted students might be forced to consider attending lower-cost community colleges, one participant gave more specific insight when stating,

Students will either have to enroll at a very low-cost local alternative, a community college or something of that nature, or simply wait to go to college until they are independent students at age 24. At that age they can borrow more from the federal government, as an independent student.

One participating counselor predicted,

I think we're going to see (loan) approval ratings go down for some; some types of loans, especially loans that are not cosigned, non-secured, where basically just the student is borrowing under their own credit for a private loan. I think that's going to be tough for those students.

Another counselor added, "Without a cosigner, they're going to be at a very high interest rate."

As far as predictions in counseling, one tenured counselor added,

Counseling is going to take up a whole new meaning compared to what it has in the past and that's going to be: 'Mom and Dad, you're either going to have to cosign for this private loan or your child's not going to school.'

***Theme 4. Counselors believed that one-on-one private loan counseling for students would be more effective than their current 'surface' counseling practices.***

***Findings and discussion.*** Participating counselors believed that one-on-one counseling is the most effective counseling considering the diversity of private student loan options; however, counselors felt limited on being able to obtain accurate private loan information, the necessary legislative support, the specific in-depth counselor training, and the additional resources needed to offer undergraduates private loan counseling beyond 'surface' counseling.

One participating counselor introduced the notion of 'surface' counseling when he shared,

We need deeper training for our counselors so that we can speak more intelligently about all the different aspects of lending rather than right now we're dealing with surface aspects when we explain interest rates and things like that. The impact of securitization and things of that nature would help us better understand how the program works.

Another participant added,

With the variety of loan options out there and all the different options available, it is hard to keep up to date on all the information out there. So, sometimes we have to send them to the bank to get information because we might not be familiar with the specific loan types.

One participating counselor stated,

There needs to be more training for our profession in that area; more banking background, know interest rates a little bit better as far as the different types of private loans more than we do, as far as interest rates on the private side. This is opposite of when we had to get more tax knowledge and do more conflicting information on verification.

One counselor noted that obtaining useful information from direct-to-consumer private lenders was difficult to obtain and that affected how deep they could counsel undergraduate students. Participant financial aid counselors felt they were quite limited on what information the students actually provide them about their private student loans. One participating counselor added, "We try to educate them and make sure they know what the interest rate is before signing the promissory note electronically."

Another participant acknowledged, "It's really hard to give a lot of information out to the student because a lot of times they don't know what the interest rate is going to be until they are in the process of applying." One more counselor agreed when saying,

There's kind of the issue that revolves around kind of an unknown of exactly what interest rate the student will qualify for until they've actually completed an application and have fulfilled all the information to the lender to actually know what type of interest rate they will be responsible for on the private loan.

“A wide range of students won’t disclose for competitive reasons . . . what sort of FICO scores would result in what interest rates,” noted one of the counselors in this study. “We won’t know what the terms of the loan are until after the student’s been approved. So, there is a limit to what we can offer in the way of counseling.” A colleague added, “In theory, we’re supposed to know about all private loans. We know about school-channel ones but it’s the non-school-channel ones that we don’t necessarily ever know about.”

In checking each of the 20 participating college websites, there were pages and pages of similar and compliant private loan information. There were no great differences in the information on their websites. There was no in-depth information on private student loans; it was mainly ‘surface’ counseling.

The following responses from participating financial aid counselors can lead a reader to first think *caveat emptor* (Let the buyer beware). This study revealed how many of the participating financial aid counselors felt the need to be Cuomo-compliant and resorted to providing what one counselor referred to as counseling on ‘surface aspects’ for students. These counselors were also provided very limited information on direct-to-student or direct-to-consumer private loans, if any, from the lender themselves, from the students, and from their families. The financial aid counselors participating in this study provided the following ‘surface’ counseling comments regarding their own current private loan counseling practices:

- They just have to do their research and find the lenders that don’t charge fees if they don’t want to pay it.

- Students should compare lender options, terms of the loan, a cosigner, the interest rate, interest accruing during enrollment, ramifications of not paying interest, and credit scores.
- Students should never sign anything without first knowing how much interest they're going to be paying.
- We have no way of tracking that information because it is shared only between the student and the (private) lender.
- Students, for federal money, are required to do entrance and exit loan counseling sessions. Hopefully some of that knowledge will also come over to the private loan sector. Private loan borrowers are not required to go through an entrance or exit counseling.
- When we prepare for financial aid each year, we ask lenders for certain information.
- We really encourage students not to go ahead and secure those loans even though they don't require an institutional certification of those loans.
- We encourage students to come in and talk to us before they go ahead and apply for a (private) loan.
- We tell them that applying for a private alternative loan without information from the institution could impact their scholarship and grant assistance.
- We make it very clear to students that if that is the process they're going to go through, especially since it is direct-to-consumer, it is very important that they contact us to let us know who the lender is, how much they're planning to borrow.
- We try to veer them away from alternative loans as much as possible.
- We let them know that they cannot consolidate the federal loan with the private (loan), but maybe can consolidate a private loan with a private lender.
- We want to counsel them out of as many (private) loans as possible.
- We tell them they're going to have to pay it back and it is based on their credit and that could impact it in the future. They usually take it out anyway, but just as long as we make them aware of how it will impact them.
- We encourage students to take out any federal loan that they have eligibility for.

- We encourage students to find other funding options before they take out alternative loans. Alternative loans are a last resort funding option.
- If they do choose to go that route, we do encourage students to look at at least three different loan options. That way they know they're getting the best possible upfront and backend (fee) benefits on the loans.
- We felt like we had lost some opportunity to advise and counsel students because of the direct-to-consumer loans, in particular.

Participant counselors were in agreement with the following counseling comment by one of their peers, "The most effective is one-on-one with the financial aid officer, because every student has a different situation. There's not a private loan that's what I would say a 'cookie cutter' for every student's situation." Another counselor agreed when saying, "The style of one-on-one is probably going to be the most effective way of counseling students."

One participant suggested this combination was most effective for students, "Go out to the website, read the online literature, then come in one-on-one for loan counseling." Another counselor felt that "if parents are willing to come in and have that conversation with us, that's the most effective way for us to communicate to our students."

And one participating counselor shared, "I try to do at least one on-campus, all-campus, open-door, come-in-and-ask any financial aid question you may have. And, for us, that's most effective."

Participant financial aid counselors felt that they are currently limited to providing undergraduate students 'surface' counseling regarding private student loans. When these financial aid counselors were asked about the most effective private loan counseling, the vast majority of participants agreed it was one-on-one counseling that proved to be the

most effective. However, implementing one-on-one counseling remains their overall concern. In reality, it was seldom that these counselors could get both parents and students together for counseling. Also, there were no requirements for undergraduate students to obtain one-on-one counseling for private student loans at the time of the interviews. Even the federal student loan entrance and exit counseling requirements could be completed online and did not require one-on-one counseling.

One concerned counselor suggested that,

Loan amounts will increase and I think federal regulation will start to bear on it more. It would be beneficial that the family be mandated (by the federal government) to come in (for private loan counseling). Although I hate to say that because it would really burden our office, but they should have more information or at least try to grasp more information. If mandated (by the federal government), then staffing would be in place at institutions.

Another participant counselor predicted an “increase in private loan counseling, a demand for it, a requirement for it.” One counselor predicted, “There’s going to be a mandatory, standard counseling, similar to what’s required for the Stafford loan program due to increasing amounts and number of students turning to the private loan world.”

Another participant believed, “You’ll have a lot more information online.” Another counselor stated, “Everybody out there will have online counseling.” One participating financial aid counselor predicted, “I think we’re going to have a lot more to look at . . . a lot more financial literacy educating families.”

As far as state and federal government involvement, there is a consensus among the participating counselors that the government is concerned and will become more involved in private student loans. Some believe there will be more private loan regulations. “I think we’re going to see some more mandates, to make sure certain things

are covered in entrance or exit interviews. I think that's certainly a good thing. It's good for the lender if they have not created materials to help us with that, to work on those for us." A participant in this study predicted, "If the (private loan) industry doesn't regulate itself with the direct-to-consumer loans, I do see Congress stepping in."

One of the counselors interviewed observed this trend, "Federal financial aid folks are starting to step in and take a little bit closer look at, in terms of, what's going on." There is some talk going on by legislators and one counselor wondered if more interest is being shown because it is a campaign during an election year. She added, "I'm watching some of the bills that are coming up. It just might be an election year fluff. They might have introduced them intending for them to die."

Financial aid counselors for this study predicted that more legislation is going to impact private loan counseling and that we are going to see private loans more regulated. Some participating counselors believed that state and federal governments will become more involved and that federal government might even make some requirements before counselors can disburse a loan.

One participating counselor thought it would require federal government involvement to get the necessary resources in place to increase private loan counseling and offer one-on-one counseling for students. Another participant felt that involving the government could equalize the certification requirements for both school-channel and direct-to-student (direct-to-consumer) private loans.

In 2006, financial aid administrators at Barnard College became so concerned about the number and volume of private loans that they started a new program, calling



every private loan applicant (Inside Higher Ed, 2007, p. 1). It resulted in a 60% decrease in the number of students taking out private loans (Wallace, 2007, p. 1). New York's Barnard College did not wait for a federal mandate to require their private college to implement new one-on-one private loan counseling. They also found the one-on-one approach to be effective in reducing the number of students obtaining private students loans (A. Rabil, personal interview, 2008).

A revised approach to one-on-one counseling was shared by one of the participating counselors when they shared a discovery of an effective form of peer counseling by their university after one of their professors obtained grant money for a study entitled, "Cautionary Tales of the Student Debt Crisis: Students Tell Their Stories and Offer Advice." The video included interviews of college students advising future college students of college loan repayment responsibilities and student loan debt requirements (Blackburn, 2007, video). This type of counseling could enhance the efforts of those financial aid counselors who offer one-on-one counseling to undergraduate students.

***Theme 5. Many students and parents do not fully grasp the differences between private and federal student loan options.***

***Findings and discussion.*** Participant financial aid counselors believed that students and their parents did not fully understand the differences between credit-based private loans and federal student loans and the overall risk differences between variable-rate versus fixed-rate loans.

One participating counselor noted the general lack of understanding for private student loans early in the telephone interview and stated, “A big part of school loans these days is confusion. You know, what do I have, where do I have it, how much do I have, what’s going on?” Participating financial aid counselors agreed that 18-year-olds were too young to have established good credit ratings and to make wise private loan choices. One counselor shared, “They’re clueless . . . when you’re 18 years old and you have no credit history.”

Private student loans have also been called alternative loans, credit-based loans (because approval is based on an applicant’s credit history), school-channel loans, preferred loans, debt-to-student (DTS) loans, and debt-to-consumer loans. The differing names alone can be confusing. This can be viewed as a marketing ploy, with the possibility that some names were used for intentional confusion and some were introduced as new and improved marketing buzzwords.

*The application process.* Federal student loan approval requires parents and students to complete a Free Application for Federal Student Aid (FAFSA) form. Some parents see no benefits in completing over 100 questions on the 8-page FAFSA form.

One participating counselor acknowledged,

It’s going to be much quicker (to apply for private loans) than applying for (federal) aid. But I think so many of them are caught up in the old days of applying for aid when it did take several months for things to go through, but now with the web application . . . if it’s a clean application and they’re not chosen for verification, we can offer them money within probably two weeks of their application.

However, students and families compare the federal financial aid process to the private loan process whereby private lenders niche market and advertise online, by telephone, by

television, and through direct mail. Online applications can be available 24 hours a day, 7 days a week. Private lenders advertise that private loan approval can be within minutes. Students can have their private loan money within days. It is not a wonder then that some students think it is easier to obtain private loans than to involve their parents in the federal financial aid process.

One counselor observed a recent change in private student loan availability:

With the credit crunch, I certainly have noticed that lenders are tightening their credit criteria and so it's making it more difficult for students, with limited or no credit, to obtain private loans . . . limiting their educational opportunities.

The following experience happened for several participating financial aid counselors but was shared by one participating counselor.

A fairly prominent provider decided to exit the (private loan) business. They basically told us that day and that was the last day they were doing business; no warning, no anything. We received a letter that they were no longer doing business because they wanted to focus money on the federal loan volume.

Another participant added, "A lot of private lenders, a lot of Stafford loan lenders, have gotten out of the private loan business."

One concerned counselor stated,

Unless the market turns, it is going to be more critical and more important that we share FICO and credit score information, as opposed to prior years, where students could go with their parents, cosign, and get an interest, a fairly low interest rate. That's just not going to happen, I don't believe in the next few years.

One participating counselor added, "I think we're going to be more apt to counsel students specifically when they want a credit-based loan, letting them know what they're doing, do they really need to do it." Another participant predicted their school will

“provide more in-depth counseling rather than just (counseling) the ones that come in to talk to us.”

National news media shared that private lenders, such as Iowa Student Loan, were leaving the private loan market during the actual time that the telephone interviews were conducted for this study. This led to frequent private loan changes and for participant counselors to determine what was available, what private lenders were left, and at what cost?

One participating counselor added, “Now the question is, can they get a private loan without a cosigner? If they have a cosigner then that opens up a lot of doors. Now which lender has the best one? So counseling this next year will be real interesting.”

***Repayment terms.*** A participant counselor added this comment about private loan repayment terms, “They’re fairly comparable. Most of them offer grace periods and they don’t start repayment until after they’re out of school, which is the same as federal loans.” All that needs to be added for further clarification is that credit-based Parent PLUS loans would not have been included in that analogy, because there typically was no grace period on the PLUS loan (prior to July 1, 2008). This comparison on private student loan repayment would have been comparing both subsidized and unsubsidized Stafford federal loans to private student loans.

Here is a statement by one experienced counselor participating in the study when comparing most everything but the interest rate: “Federal loans are much more attractive: the terms of the loan, repayment options, deferment benefits, forbearance benefits, loan forgiveness options, loan is canceled if the student is totally and permanently disabled or

deceased. Private loans don't offer that." A few more details add to those facts. After students graduate or leave school or drop below half-time enrollment, they have the following grace periods: six months for Stafford loans and nine months for the federal Perkins loan. As far as repayment options, borrowers may elect repayment terms on Stafford loans and Parent PLUS loans that best fit their financial repayment situation, and those repayment terms can vary from 10 years to 25 years. Federal Perkins loans allow up to 10 years for repayment. Federal loans also allow students to combine all the federal student loans received, but no private loans, into a single loan.

Some of the counselors participating in this study found similarities when comparing federal and private loan repayment obligations: "I think they're (private loans) comparable to an unsubsidized loan, I think most of them are anyway. The student would be responsible for the interest while they're in school;" "They're similar . . . the repayment term is similar. Repayment terms are typically six months after graduation;" "Most private loans are a 0 fee loan - many federal loan lenders are absorbing the fee."

Prior to July 1, 2008, Parent PLUS loan repayment usually began sixty days after disbursement, while the student was still in school. There was no repayment grace period (without special circumstances). Interest also began accruing on the day the loan was disbursed. Ironically, the participating counselors stated that the immediate repayment requirement was one of the main reasons parents decided not to agree to a Parent PLUS loan. It is the immediate repayment that is ultimately being avoided. The counselors interviewed for this study agreed that some parents cannot afford immediate repayment and then there are some parents who feel repayment is not their responsibility, that it is

the sole responsibility of the student. Parents realize that it is unlikely for a full-time college student to be able to repay a loan while in college so they will ultimately be the ones having to repay the loan. Rather than agree to those immediate repayment terms, they turn to private student lenders who oftentimes defer payments until at least six months after the student exits college. Some private lenders even defer loan repayment requirements up to twelve months after students exit school. Not all private lenders defer payments; however, deferring student and parent loans is one distinct way that the private student loan industry can even begin to compete with federal student loan options.

For varying reasons, there are some parents who decline a Parent PLUS loan but then agree to cosign a private student loan:

1. Parents have already experienced a longer timeframe for their credit histories (a longer credit history than the student, that is), which could result in a lower stated variable interest rate;
2. Repayment could likely be deferred on private student loans anywhere from six to 12 months after students exit school; and
3. The child is cosigned on the private student loan and has total financial responsibility with the parents versus having the parents be solely responsible to repay the Parent PLUS loan.

This overview analysis on interest rates is based on a combination of interview results, literature reviewed for this study, and a review of information from the lending services industry.

Table 5 was compiled by the researcher and is a simple calculation example of time value of money (Note: Repaying a \$20,000 loan, at an 8% fixed interest rate, for 20 years will result in a total principal and interest repayment amount of \$40,148.43. This amount is more than double the original principal amount of \$20,000.)

Table 5

*Comparison of Repaying \$20,000 at 8% Interest in 10, 15, 20, and 25 years*

Loan Amount	Interest Rate	Number of Monthly Payments	Monthly Payments	Total Interest	Total Principal Plus Interest
\$20,000	8%	120 (10 years)	\$242.66	\$9,118.32	\$29,118.32
\$20,000	8%	180 (15 years)	\$191.13	\$14,403.55	\$34,403.55
\$20,000	8%	240 (20 years)	\$167.29	\$20,148.43	\$40,148.43
\$20,000	8%	300 (25 years)	\$154.36	\$26,311.11	\$46,311.11

***Variable interest rates versus fixed interest rates.*** When comparing only the federal student loan and private student loan interest rates, a number of counselors shared some conflicting information that was possibly due to the lack of private loan details. As one participant counselor stated: “We have no way of tracking that information (on private loans) because it is shared only between the student and the (private) lender.”

The first counselor believed that “Private loan rates can be almost double what the federal loan program is.” (Note: the federal loan program includes Parent PLUS loans); a second counselor stated that “Private loan interest rates are more favorable (than Parent PLUS loans).” The third counselor added, “The Prime rate was much lower (than the 8.50% Parent PLUS loan rate).”

One participating counselor said, “The federal loans are fixed rate interest rates, whereas the private ones are variable.” Another counselor agreed, “It’s very hard to compare because right now the private loans are generally a variable rate.” And one counselor shared the observation, “The interest rate of the alternative loan is fairly similar to the federal loans but the interest obviously starts accruing upon disbursement.”

At first glance, readers may assume some confusion on the part of the college financial aid counselors when reading the above comments about the differences in federal student loan and private student loan interest rates. It really has more to do with understanding the details of differing loan products and basic lender jargon. When dissecting responses, it became evident that loan choices and terminology could, at times, be confusing for students, families, and even some counselors. Comparing federal and private loans led to confusion, especially in understanding how variable interest rates differ from fixed interest rates. Some undergraduates did not even know the interest rates of their private loans. Students did not know whether their student loan rates were variable interest rates or fixed interest rates. Sheer lack of accurate loan information from undergraduate students and private lenders resulted in counseling limitations for financial aid counselors.

Here is support for the one participating counselor who stated that some private loan rates are almost double (that of federal student loans) and for those counselors who heard of students having private variable interest loan rates of 12.5%, 15%, and 21%. Federal Stafford loans currently have a fixed rate of 6.8%, but this example will use the 8.50% Federal Parent PLUS fixed loan rate (the higher of the two rates) for comparison



purposes. Just averaging the three variable interest rates (12.5%, 15%, and 21%) equals 16.17%. The 8.5% Parent PLUS rate doubled is 17%. That counselor made a fair comparison when stating private loan rates are almost double. Lenders remind us that those rates are stated interest rates, not effective interest rates that result when there are also fees being paid.

The student loan market has many loan choices, and those borrowers that compare only stated interest rates might not even consider the additional risk when comparing a stated variable interest rate to a stated fixed interest rate. Variable rates can actually decrease, but the main risk is that the variable rate can increase. Variable interest rates vary. Fixed rates are just that, the interest rate remains fixed.

The second counselor said, "Private loan interest rates are more favorable than Parent PLUS." There could be private student loans with stated variable interest rates less than the Parent PLUS loan fixed rate of 8.50%. A fair assumption at this school is that their applicants had good credit scores and good credit ratings, they likely had cosigners who were good credit risks, and the private loan interest rate was variable. Borrowers assume the risk of changes in variable interest rate loans. The lender assumes less interest rate risk with variable rate loans than on fixed rate loans. So, stated variable interest rates are typically lower than stated fixed interest rates, especially long-term fixed interest rates.

For the third counselor who stated, "The interest rate of the alternative loan is fairly similar to the federal loans, but the interest obviously starts accruing upon disbursement." This counselor recognized that the variable interest rate on an alternative

loan could be fairly similar to the fixed rates on federal loans. Few students qualify for the 5% Perkins loan, so it is a fair assumption the counselor was not considering the Perkins loan but was comparing private student loan rates with the current federal Stafford fixed loan rate of 6.8% and the Parent PLUS loan fixed rate of 8.50%. There could be some variable private loan rates ranging from 6.8% to 8.50%. The July 2008 Prime rate of 5.00% + 2.00% = 7%, fits this example (the loan papers would likely state Prime + 2.00%). Today's declining variable rate indexes for the Prime rate and LIBOR rate could very likely result in stated interest rates near today's federal loan fixed rates and some could even be lower. Again, it is assumed that the applicants, students, or students and cosigners, had good credit scores and were good credit risks. Another counselor supports this analogy when saying, "A student, especially if he or she has a parent or a cosigner with excellent credit, can actually see a private loan with better (stated) rates and better terms than a federal student loan." However, the private loan likely has a variable interest rate and the federal student loan has a fixed interest rate.

This final clarification supports the third counselor's comment that "the interest obviously starts accruing upon disbursement." That is certainly true for all student loans, both federal and private. According to the May 2008 commentary in the Chronicle of Higher Education by DePaul University's president, Rev. Dennis H. Holtschneider, their university's chief financial aid officer noted the fact that students will accrue interest on those (private) loans before graduation and it is stated in the fine print of the loan papers. Interest begins accruing at the time the loan is disbursed. Loans accrue interest daily and lenders are in business to loan money, and then are repaid the principal plus daily-

accrued interest. What was logically intended here and what needs to be understood is that some students qualify for subsidized Stafford federal loans. What the word subsidized means, in federal aid jargon, is that the federal government pays the entire accrued interest amount up until the time the student is required to begin repayment, which is generally six months after exiting school. Students exit school for many reasons, but the most common reason is graduation. So, interest has been accruing since the day the loan was taken out, but the federal government repays the lender the interest until six months after the student leaves college. Students, parents, and counselors may 'feel' like the interest did not start accruing at disbursement, but that is only because the federal government was paying for it. Once that timeframe passes, the student becomes responsible for the interest that accrues daily on the remaining principal loan amount. When that monthly repayment amortization starts, student borrowers are repaying both the principal and the interest amounts.

If a student has an unsubsidized federal student loan, the interest still starts accruing the day the loan is disbursed. However, students now have a choice of paying the daily-accrued interest on a monthly basis, while they are in school, or they can defer the interest until the principal and interest loan repayment terms begin six months after leaving school. If interest was deferred and was not repaid monthly while the student was in school, that interest is then 'capitalized' and added on to the principal amount of the loan. The amount of interest that accrues and is eventually capitalized, after typically four years of college and assuming normal borrowing, results in a larger total loan amount for students to repay. Students then begin principal and interest loan repayments six months

after leaving school on that larger principal loan amount (which is the original principal plus the capitalized interest amount over four years or the number of years in school).

***Iowa Student Loan variable interest rate examples.*** Many variable rate private loans would have either a Prime index or a LIBOR index, however there are other variable rate indexes. Iowa Student Loan's cost of funds index (COF) is another example of a variable rate index. These are several Iowa Student Loan (ISL) variable rate examples using the COF index:

A participating counselor shared his expertise on Iowa Student Loan (ISL) and their use of a variable rate index that was called the cost of funds (COF) index on private loans obtained prior to 2006. This was different than the Prime variable rate index or the LIBOR variable rate index. The COF index became more public in 2008 when borrowers were notified that the variable interest rates on any student loans they obtained through Iowa Student Loan (ISL) prior to 2006 that had the variable cost of funds (COF) index would be increasing. A Des Moines Register article (Jacobs, 2008, pp. 1-2) supports this notification and relates to the particular story of an Iowa resident who contacted his lawmaker to complain that the interest rate was repriced (rescored) to 11% on April 1 (2008) on two of his Iowa Student Loan private loans. The frustrated student's charge to the private lender was that "if you can't manage your costs and just pass it along, it's mismanagement at best and a ripoff at worst." He turned to his legislators for help.

Here is actual wording from another Iowa Student Loan (ISL) interest rate change notification, changing the stated variable interest rate on that loan to 11.59%. The

following details are from an actual Iowa Alternative Loan Program Repayment Schedule provided by the Iowa Student Loan Liquidity Corporation:

Date: 6/24/08

Lender Information: Iowa Student Loan Liquidity Corporation  
6775 Vista Drive, Ashford Building  
West Des Moines, IA 50266-9305 (Telephone: 1-800-243-7552)

Annual (Variable) Percentage Rate 11.59%  
(the cost of your credit as a yearly rate, which is subject to change.)

Amount Financed \$18,951.96 \*  
The amount of credit provided to you on your behalf

Finance Charge: \$28,822.20 \*

Total of Payment \$47,774.16 \*  
The amount you will have paid after you have made all payments:  
\*Actual amount changed for privacy and illustration purposes.

“If you have chosen a variable rate loan, the following is applicable to your loan:  
The annual percentage rate may increase during the term of this transaction if the Index described below increases. There is no limit to the amount that the interest rate may increase at one time. If your loan is a Scholar’s Advantage/NALP loan, the interest rate will not exceed twenty percent (20.00%). If your loan is any other type of loan, the interest rate will not exceed twenty-one percent (21.00%). The rate will not increase more than once every calendar quarter. Any increase will take the form of higher payment amounts or accrued unpaid interest being added to the balance of your loan. Example: If you borrow \$10,000 for 20 years at 7.00% interest on January 1, and the interest rate increased to 8.00% on April 1, your payment for the quarter beginning April 1 would increase by \$6.06.

Indices: Check your promissory note to determine which Index is applicable to your loan. If your note uses Cost of Funds (COF) to determine the rate, the lender will use Iowa Student Loan’s Cost of Funds Index, which is defined as Iowa Student Loan’s applicable cost of debt for the previous calendar quarter. If your note uses the London Inter-Bank Offered Rate (LIBOR) to determine the rate, the lender will use the daily average three (3)-month LIBOR (currency in U. S. Dollars) published on the British Banker’s Association’s website for the next business day of the preceding quarter.

Security: This is an unsecured transaction.

Prepayment: If you pay off early, you will not have to pay a penalty, and you may be entitled to a refund of part of the prepaid Finance Charge.

Late Charge: If a payment is late, you may be charged an amount not to exceed 5% of the unpaid amount of the installment or a maximum of \$15.00.”

Consider this additional example to help one think about double-digit variable interest rate loans. Parents of these students may not even remember the days of double-digit variable interest rates in the 1980s, and their college student may not have even been born yet. In the 1980s, many Iowa farm loans had variable interest rates, when loan funds came from third-party lenders. For example, Federal Land Bank had a variable interest rate of 13.75% in 1985 for their large land loans. Federal Land Bank did not offer fixed interest rate land loans in 1985. What they could offer, due to a volatile credit market, was a variable rate loan that could change daily. As creditworthy applicants were approved, they signed a variable interest rate note. It was not unusual to see farm operating notes and machinery and equipment loans near 20% at this time. For anyone remembering the 1980s credit crisis, some borrowers were forced to eventually sell their land because rising variable interest rates kept them from making their loan payments. Variable interest rates were a risk back in the 1980s, and variable-rate loans will remain a risk now in 2008 and into the future. The risk is that the stated loan rate can increase.

After locating more of the ISL details, what Iowa Student Loan borrowers need to understand and be reminded of is that ISL borrowers agreed to repay variable-rate private student loans, signed promissory notes with variable rate terms, and the interest could change anytime prior to maturity. Again, the risk of variable rates can be greater for the borrower than for the lender, so typically variable interest rates are lower stated rates than fixed interest rates (because they can change on a moment's notice). The stated interest rate was acceptable when the loan was taken out, but since it was a variable rate loan the

interest rate could increase or decrease. It is very likely that a variable interest rate will change some time, and likely more than one time, before the loan maturity date.

It took the experience of one participating financial aid counselor to offer additional insight and information contained in a cover letter sent to Iowa Student Loan (ISL) borrowers. These are the details of the counselor's ISL analysis and the details make sense when analyzing the risks of variable interest rate loans. Iowa Student Loan, in the past, sold bonds and then determined a margin above those bond prices for their interest rate. It is a variable rate index plus a margin (which varies by lender), and it is subsequently written all over the signed loan papers, whether signed electronically or in person. As far as the ISL letter, this pertained to loans prior to 2006. Since 2006, ISL uses the LIBOR variable rate index. As an example, assume that ISL sent a letter to a borrower (student, parent, or both) who had Iowa Student Loan financing for 2004, 2005, 2006, and 2007. This means that the loans in 2004 and 2005 were scored using the cost of funds (COF) variable rate index. The loans in 2006 and 2007 were scored using the LIBOR variable rate index. Iowa Student Loan used two different variable rate indexes from 2004 to 2007, the cost of funds (COF) index and the LIBOR index.

Iowa Student Loan did not use the variable Prime index or the variable LIBOR index prior to 2006, but used what was called the variable COF index. Here is what Iowa Student Loan is doing to serve their borrowers. Rather than make them stay with the agreed-upon COF variable rate index that increased substantially due to the recent credit crunch, students defaulting on ISL student loans, and the current credit risk of ISL bonds, they decided to offer student borrowers an alternative variable rate index for their student

loans with the COF index prior to 2006. ISL intended this to be a financial advantage for their borrowers, an added service. ISL also wanted their borrowers to be able to repay their loan(s), at a lower stated variable interest rate. The alternative that was offered was for students to switch from the variable COF index to the variable LIBOR index. The LIBOR index, the London index, is the same index used by ISL since 2006 and was not increasing at the same alarming rate as the COF index and at the time of the ISL letter.

ISL also included a relatively small sheet of paper with a graph, an Excel spreadsheet, which basically explained to the borrower: The interest rate was currently at 8.6% (depending on if they paid the fee or no fee). The interest rate was going to increase to between 11% and 13% using the same variable COF index. However, if borrowers wanted to switch to the LIBOR variable index rate, the rate could now be between 5.50 and 7%, or some lower rate (there were other variables to consider). The only question to ISL borrowers (the students and cosigners, if applicable) was whether they wanted to switch the cost basis on the existing variable-rate loan to the LIBOR index or keep the current COF index. If borrowers wanted the LIBOR index, they were to sign the enclosed sheet as an addendum to their loan, return it, and ISL would switch the COF variable rate index to the variable LIBOR rate index. (In this example, switching the variable-rate index would actually decrease the loan's stated interest rate.) ISL did not force anyone to change anything but they are provided an added service by allowing borrowers one opportunity to change their minds, to change their variable rate index option. That was the offer ISL gave to their borrowers. That was it.



In using the example of the Iowa student who contacted his legislators, the participating counselor believed that the ISL borrower should have received two sheets of paper to sign, one for each of his two ISL private loans, and could sign and send both back for the index change and a lower stated variable interest rate. Instead, he contacted his lawmakers and possibly allowed the variable interest rate to increase to 11% on his two Iowa Student loans. It is unknown at this time, but if he allowed the variable interest rate to increase to 11% and also decided not to repay the loan due to the increased rate, then his credit rating and the credit rating of any cosigner would be compromised and eventually declined due to nonpayment. More repayment defaults could cause the ISL COF index to continue to increase, which could eventually result in even more variable interest rate increases (up until the time that the loan matures).

It is questionable whether the Iowa Student Loan borrower fully read or fully understood what ISL was really trying to offer him and other students when changing their COF variable-rate interest index to a more favorable LIBOR index during the volatile credit market of 2008. It appears he may have set the letter aside, (by doing nothing) agreed to an 11% variable interest rate, and contacted legislators. One-on-one direct counseling may have been more effective in helping him and his parents understand the opportunity to revise the terms of the loan agreement, before going to the lawmakers. If he is still paying an 11% variable interest rate on two student loans, really nothing was solved by the first approach. He is still frustrated, he is obligated to repay the loan, and it could possibly happen again. If he does not repay the loan, as agreed, it could

negatively affect his credit rating and the interest rates and fees charged to him anytime in the future. This could escalate his current frustration to a whole new level.

Private lenders and credit card companies both offer unsecured and variable interest rate loans. The variable rate indexes for loans are agreed upon between the lender(s) and the borrower(s), at the time when loan terms and loan papers are signed. A variable interest rate loan maintains the ability to decrease as well as increase. The loan repricing problem in the ISL example could reoccur, and likely will, because the risk of a variable rate index has not changed. Private student loans are likely to be variable rate loans, having rates that can change (daily, monthly, quarterly, semi-annually, or annually) as often as the terms of the loan allow.

*Lender risk assessment for interest rates.* Private lenders can be a provider of fixed-rate federal student loans (with guaranteed repayment by the federal government) and also be a provider of variable-rate private student loans, all at the very same time. This same lender just has two very different risks to assess. Their risks are probably very low on the federal student loans (when the United States federal government repayment guarantee is involved) and their risks are likely higher for individual private loans. Consequently, interest rates can vary with each and every loan risk. This explains why one student may be getting one private loan rate while his/her roommate, friend, or cousin is receiving a different private loan rate from the very same lender. Higher credit risks result in higher interest rates and fees (Kantrowitz, 2008, p. 1).

Private loans require borrowers to be creditworthy or have a creditworthy cosigner to be eligible for the funds. Private loans typically have a tiered interest rate

structure: the better the borrower's credit, the better the rate. The opposite is also true. The lower the credit rating, the more students will pay in the long run (Holtschneider, 2008, p. 2).

Based on the results of the telephone interviews, participating financial aid counselors had very limited time with the student borrower and were offered very little, if any, accurate information from the private lender. In addition, students sometimes were not sure exactly what interest rate they had. It could even become somewhat of a personal issue as to 'who got what' interest rate.

There could be times when the most financially needy student could receive a higher interest rate due to analyzing the repayment risk criteria for that applicant. It really is nothing personal and basically boils down to the financial repayment risk assessed and scored within the guidelines of the private lender. Interest rates cannot be totally determined until after a lender receives a complete loan application. That is why a student does not know his or her interest rate, for example, until the loan is approved. That is when the risk of the entire application has been assessed and scored by the lender. According to DePaul University's chief financial aid officer, the sample repayment options displayed online by private lenders usually apply to students with stellar credit. Most student borrowers with average or poor credit pay more (Holtschneider, 2008, p. 2).

Low-risk federally guaranteed student loans have fixed interest rates. For example, government Stafford loans did not always have fixed rates, but they do now and have since July 1, 2006. The Stafford loan fixed interest rate is the same for every student because the federal government bases those loans on need, not on credit risk.

There are few fixed rate private loans, likely due to the varying risks of the applicants. The bottom line for any approval is for the lender to determine whether or not the loan will be repaid as agreed. Student loans are generally unsecured debt. This means there is no home or vehicle to sell if the lender needs to collect a defaulting loan. There is a cost incurred for accepting higher repayment risks and those costs are ultimately transferred to the borrower(s) through interest rates, fees, and repayment terms.

*Certifying private student loans.* As more students and parents obtain private loans financial aid counselors face greater challenges in certifying all aid sources and the total amounts of financial aid. Private lender amounts are expected to be limited to the school's budget or cost of attendance. One counselor explained circumstances of finding out students' loan amounts and being left with what the profession refers to as 'conflicting information.' "I am required to resolve conflicting information. If I discover there is a private direct-to-student (direct-to-consumer) loan, then it needs to come out of the other funding. The total amount cannot be more than budget."

One participating counselor voiced his frustration over what can happen as all counselors work to certify that all combined student aid amounts are within a school's cost of attendance (within budget). The counselor's starting point was to reiterate that direct-to-student loans are private, personal loans. Basically, some private lenders think their private student loan limits should fit within budget (the cost of attendance), but nothing else has to. "They don't subtract any grants or anything." If the student gets money from other sources (i.e. federal student loans, grants, scholarships), then they

could get more than budget when they add together those fund sources with the direct-to-consumer loan amount.

The participating counselor proved his point through this example: “So, this student can have a budget of \$27,000. They could have a \$3,500 Stafford, \$1,500 in Perkins, \$10,000 in a Partnership loan and they could turn right around and they could borrow Astrive.” What he means is that a student could borrow another budget amount of \$27,000 directly from a direct-to-consumer lender, as well as the \$3,500 Stafford, \$1,500 Perkins, and \$10,000 in a Partnership loan because the direct-to-consumer lender is a private lender and there is no legislation requiring them to subtract off other financial resources. They are only limited to the budget amount of \$27,000. “Because they don’t subtract anything off, they think their loan should fit within budget but nothing else.” In this example, the student could obtain \$42,000 to attend a school costing \$27,000. There currently is no legislation to stop this from happening. This is all possible if the private lender is willing to take the financial risk of the unsecured student loan and the student does not notify the financial aid counselor about any direct-to-consumer private loans.

The participating counselor added that, with some private lenders, students can get up to \$40,000 a year to go to school, up to the cost of attendance or up to the school’s budget amount. His frustration was, “How in the heck are you going to pay over \$100,000 being a \$30,000 a year teacher and try and have a house. I mean, that’s tough.”

To even the playing field this counselor recommended that, “the federal regulations have to come back that says if you’re a lender out there and you are giving a

loan to a person because they are a student, it must fit within budget along with all other financial aid.”

### *Summary*

The 2007 Slate Act, resulting from New York Attorney General Andrew Cuomo’s 2007 investigation, significantly affected the private student loan counseling efforts of all twenty financial aid counselors participating in this study. This resulted in participant counselors resorting to provide what they believed to be Cuomo-compliant private student loan information mainly on their college websites. Some participating counselors provided counseling on ‘surface aspects’ and none of the participating counselors provided in-depth private loan counseling to avoid the perception that they were out of compliance or that they were recommending one private lender over another to undergraduate students.

As colleges and universities worked to offer compliant, up-to-date private loan information on their college websites, participating financial aid counselors agreed that undergraduate students do not take the time to read it or do not totally understand the online and written information they provide. According to the counselors who were interviewed, undergraduate students just do not seem to absorb or respond to written materials very well. Although most counselors for this study resorted to offering online counseling on their college websites, many of those counselors felt one-on-one private loan counseling was the most effective type of counseling.

Participating financial aid counselors were consistent in sharing their experiences that, although some parents are supportive, there were a growing number of parents who

either could not or would not financially support their children to attend college. With limited federal financial aid amounts below the total cost of attendance (budget), this left undergraduate students little choice but to obtain private (alternative) loans.

There was considerable confusion by borrowers about the differences of credit-based private loans and federal student loans and the overall risk differences of variable-rate versus fixed-rate loans. Some of this had to do with understanding the lender jargon used for student aid and some had to do with the limited opportunities for participating counselors to obtain accurate private loan information on the terms and conditions of private loans obtained by undergraduate students.

Most of the counselors interviewed for this study felt restricted in the amount of private loan counseling they could provide undergraduate students due to their interpretation of current legislation, lack of in-depth private loan training, inadequate human resources to be able to offer more effective one-on-one counseling, and lack of accurate private loan information from student borrowers, parents, and private lenders.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

#### Summary

This qualitative study was completed to identify what role college financial aid counselors have in counseling undergraduate students on private (alternative) student loans, both school-channel and direct-to-consumer. Financial aid counselors from 4-year private, not-for-profit, and 4-year public colleges and universities located in each of the 12 Middle West region states of the United States were interviewed for the study. Twenty financial aid counselors were questioned about various aspects of their counseling; the current information and private loan counseling they provide undergraduate students; the private loan counseling changes they experienced in the past five years; the reasons undergraduate students shared with them for wanting more private loans; the differences in the terms and conditions when comparing private student loans with federal student loans; the private loan counseling practices they have found to be the most effective and helpful to undergraduate students; and their recommendations for future improvements in private student loan counseling.

Financial aid counselors, more than anyone else on campus, are in a position to responsibly advocate for students' financial interests and to discuss quality consumer information with students and families. While there are federal mandates and college guidelines for how financial aid counselors are to provide entrance and exit counseling on federal student loans, there are no academic standards or federal requirements to guide financial aid counselors in counseling undergraduate students specifically on private



student loans. The U. S. Department of Education has no authority and no jurisdiction over private loans. There is no central clearinghouse for private student loans. In fact, financial aid offices can be unaware of private loans obtained by undergraduate students, especially direct-to-consumer student loans.

There were some noteworthy trends and prior research on private student loans that led to the purpose of this study: the cost of attendance at 4-year private, not-for-profit, and 4-year public colleges and universities has surpassed federal financial aid limits and fewer parents are paying the balance; private lenders have been target-marketing undergraduate students, in particular, to obtain private loans to fill the financial gap; the volume of credit-based private student loans has grown astronomically for undergraduate students in the past several years; the investigation on the practices of college financial aid counselors by Attorney General Andrew Cuomo gained national attention in 2007; college-aged students are generally confused about the financial aid process and the details of their credit-based private student loans; many students do not have parents or other adults to help them navigate one of the largest financial investments they will ever make; and the increased amount of college debt is leading this generation of undergraduate students to combined student debt the size of a mortgage, only without the house.

Financial aid counselors continue to manage increasing college costs, juggle their duties to certify all financial aid sources, and work to maintain college enrollment goals. Their role in meeting undergraduate students' needs for greater understanding of diverse private college loan options will continue to challenge aid counselors and their

counseling methods. With professional ethical standards as guidance, this study was completed to determine what role financial aid counselors have taken in counseling undergraduate students on private student loans.

Financial aid counselors in the 12-state Middle West region of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin were initially contacted to participate in this study. College websites were found for 555 (or 92.65%) of the total 599 4-year private, not-for-profit, and 4-year public colleges and universities located in the Middle West region of the United States.

A purposeful sample questionnaire was mailed electronically to all 555 institutions to identify a smaller population of 20 financial aid counselors who were experienced in private student loans and could provide pertinent information specific to private loan counseling for undergraduate students. The responses from the initial purposeful sample questionnaire combined with responses from direct telephone calls made to the financial aid counselors resulted in identifying and obtaining 20 financial aid counselors who agreed to a follow-up tape-recorded telephone interview.

Financial aid counselors, both male and female, were interviewed from each of the 12 Middle West states. Forty percent of the financial aid counselors agreeing to be interviewed by telephone were from 4-year public colleges and universities and 60% were from 4-year private, not-for-profit, colleges and universities. The in-state cost of attendance for undergraduate students was posted on the websites of 15 (or 75%) of these 20 participating institutions and averaged \$23,177.80 per year. After four years of college

and assuming no annual increases, the total cost of attendance for an undergraduate student would total \$92,711.20. The maximum Federal Stafford loan limit for dependent undergraduates remains at \$23,000. In this example, the balance of \$69,711.20 would need to be obtained from other sources in order to fill the financial gap. Credit-based private loans are one of the sources undergraduate students obtain to be able to stay enrolled at the college of their choice.

The interview questions were designed for participating financial aid counselors to describe their current role in counseling undergraduate students specifically on private (alternative) student loans; past and present trends of private loans and private loan counseling; the reasons more undergraduate students obtain private loans; a comparison of the terms and conditions of private student loans and federal student loans; the effectiveness of current private loan counseling practices; and private loan predictions based on the participant counselor's knowledge and experiences.

No particular counselors were identified in this study by their state or by the type of their 4-year institution because some participating states had as few as three state or private colleges. There were no significant advantages to disclose additional identifiers of the participants. For those reasons and to maintain confidentiality, the results were analyzed based on the findings of the entire group of 20 counselors who agreed to the follow-up telephone interview.

## **Results**

There were five key findings and emerging themes obtained from interviewing the 20 financial aid counselors participating in this study:

1. Financial aid counselors unanimously agreed that the 2007 Slate Act, resulting from New York Attorney General Andrew Cuomo's 2007 investigation, significantly limited their ability to counsel undergraduate students and their families on private (alternative) student loans. While there were no questions asked of the participating counselors that were specific to Cuomo's 2007 investigation, the participant counselors either directly stated or implied that this was a key issue in how they were currently able to counsel undergraduate students on private student loans. In fact, counselors unanimously agreed on their need to alter, reduce, or eliminate the private loan counseling practices they had prior to the 2007 investigation.

Participant counselors agreed that the counseling changes since Cuomo have not benefited the students and have worked against them. Participant counselors stated that they could no longer direct undergraduate students to a specific lender that they found would provide incentives for students and their families. They felt they could not counsel students and families on the financial aid process, especially loans, primarily because it could lead to a false perception that they were pushing students in the direction of one lender over another. This resulted in participating counselors providing very limited private loan information to undergraduate students, if any.

For private student loan information to be Cuomo-compliant, much of the written information and many of the college brochures were replaced with postings of carefully worded private loan information on the participants' college websites. Most of the participating counselors decided they could no longer invest the time and money needed to create new brochures that could be obsolete tomorrow. Participating counselors stated

that their college websites were updated, as often as humanly possible, with accurate information on private lenders and private loans options. They also stated that their websites were under constant review for compliance purposes.

Participants in the study believed that college websites were the best centralized sources for their efforts to remain in compliance and to provide accurate private loan information due to the frequent changes in private lenders and the varying private loan options. Several colleges struggled with just how to post the information on their websites but elected to post it, nonetheless, in an effort to assist undergraduate students interested in obtaining private (alternative) loans.

2. Nineteen of the 20 participating counselors stated that they have resorted to posting private (alternative) loan information on their college websites and directed their undergraduate students to their college websites for private loan information. However, participant counselors also agreed that students are not responding very well to online and written materials. They learned that students do not necessarily read all of the information that they provide. While much of the private loan information and application process is available online and students are supposed to read all of the terms and conditions, participating counselors noted that few 18-year-olds are really going to sit and read page after page of all that information. Participating counselors believed that undergraduate students, while tech-savvy, could likely click 'yes', they understand the (private loan) information, and move on.

According to the counselors who were interviewed for this study, undergraduate students either do not take the time to read or do not comprehend the online and written

information they provide. The counselors in this study also shared that while federal student loans do have specific entrance and exit counseling requirements even those are oftentimes available online and completed on their college websites. While online access simplified the process for financial aid counselors to provide their college's private loan information to undergraduate students, those same counselors agreed that it could be misunderstood or go unread.

3. Participating private loan counselors identified the trend of parents' inability or unwillingness to obtain credit-based Parent PLUS loans for their children. The participant counselors also agreed that they felt an undercurrent whereby more parents were removing themselves from responsibility and shifting the financial burden back to the student to pay for their own college education. This supports prior research stating that many students do not have parents (or other adults) to help them navigate one of the largest financial investments they will ever make.

Financial aid counselors participating in this study noted that many undergraduate students felt they had little choice but to resort to private loans, as the cost of attendance surpassed federal financial aid limits and fewer parents are paying the balance. Participating counselors agreed that private loans for undergraduate students have increased astronomically, with one college's increase as high as 500% in the past five years.

A key issue shared by participating counselors was that some parents refused the Parent PLUS loans because of the immediate repayment. Prior to July 1, 2008, repayment on Parent PLUS loans typically began 60 days after the loan was taken out and while the

student was still enrolled in college. As an alternative to PLUS loans, students and parents turned to private loans that allowed repayment to be deferred until after the student exited college. Also, participant counselors stated that more parents are being denied credit-based Parent PLUS loans. Counselors acknowledged that family savings amounts have not kept up with the increases in education expenses. Financial aid counselors in this study were consistent in sharing their view that, although some parents are supportive, there were a growing number of parents who either could not or would not financially support their children to attend college. This, along with increased college cost of attendance, resulted in more undergraduate students resorting to private student loans to fill the financial gap.

When discussing the trend for obtaining more credit-based private loans, the financial aid counselors in this study agreed that traditional-aged undergraduate students were too young to make wise credit-based loan choices. Their consensus was that 18-year-olds without a credit history were basically clueless when obtaining private student loans. Participating financial aid counselors also acknowledged that students oftentimes did not even know the interest rates charged on their loans or if the interest rates were fixed or variable. This lack of accurate private loan information limited counselors in their ability to provide effective counseling to undergraduate students.

4. The financial aid counselors in this study agreed that one-on-one counseling was most effective when counseling undergraduate students due to the diversity and frequent changes of private student loans. However, participating counselors felt they could provide counseling only on the 'surface aspects' of private student loans due to the

lack of accurate private loan information from private lenders, students, and parents, lack of legislative support, lack of in-depth counselor training, and lack of the human resources necessary for counselors to provide more effective one-on-one counseling.

Several participating counselors introduced the notion of the ‘surface’ counseling when explaining the need for deeper training for counselors to be able to speak more intelligently about all the different aspects of private student loans rather than dealing with the ‘surface aspects’ of interest rates, advising students not to sign loan papers until they knew the interest rate, advising students to read all the fine print of the private loan terms and conditions, reminding undergraduate students that they will need to repay the entire loan (including interest), and advising students and parents to only consider private student loans as a last resort.

While nearly all of the participating colleges and universities posted general information about private lenders and private student loans on their websites, financial aid counselors were in agreement that one-on-one counseling was their most effective loan counseling method for students and their families obtaining student loans. They believed this to be especially true for undergraduate students obtaining private loans since there is a greater diversity among private lenders and private loan options than there are federal student loan options. With the various private loan options and frequent private lender changes, participating counselors found it difficult to keep up to date on all the private loan information for undergraduate students. In theory, participating counselors felt they should know about all private loans. In reality, they stated they do not know about all private student loans. Counselors agreed that there are times when they are



unaware of the private loans that their undergraduate students are obtaining, especially direct-to-consumer private loans.

While there are no requirements for financial aid counselors to provide private loan counseling, several counselors stated that they hoped that the federal standardized entrance and exit loan counseling requirements carried over for students to understand their private student loan obligations. Even though participating counselors considered one-on-one counseling to be most effective, it is not required for federal student loans.

When asked about particular ways to improve private loan counseling one participating counselor stated the need to start loan counseling at the high school level. Without family support or cosigner options, students will need to have at least 18 months of credit history before entering college to have an opportunity to obtain credit-based private loans on their own. As the counselor noted, longer credit histories could also result in better private loan rates and terms.

In order to provide effective one-on-one counseling another participating counselor suggested that, although it could burden financial aid offices, there should be federal mandates to require more private loan counseling for undergraduate students so that the students and their families can at least try to grasp more information and for the colleges to be able to get the staffing necessary for counselors to be able to provide more counseling on private student loans.

5. Participating counselors uncovered confusion by undergraduate students and their parents in understanding the differences in the terms and conditions of credit-based private loans and federal student loans, as well as the overall risk differences of variable-

rate versus fixed-rate loans. One participant counselor shared that deciphering student loan differences was just very difficult and it was somewhat like trying to compare cell phone plans. Sheer lack of accurate private loan information from the students, parents, and private lenders resulted in counseling limitations for the participant counselors.

While paying for a college education will be one of the student's largest financial investments, participant counselors stated that undergraduate students oftentimes did not know what student loans they had, where they had them, or how much they had.

According to participant counselors, students did not differentiate between whether their loan interest rates were variable rate or fixed rate. Students did not understand variable rate indexes, how interest accrued daily on their loans, and how a variable interest rate could change during the life of the loan. In some cases it even became a personal issue among students as to who got what interest rate on credit-based private loans. Students did not understand credit scoring, how unsecured credit-based student loans were scored, and how interest rates were determined based on their own personal credit histories and an assessment of their individual repayment ability.

A financial aid counselor in this study identified one distinct problem with private lender loan amounts. While private lenders may limit the amount of private loans an undergraduate student can obtain based on the college's budget or cost of attendance, there is no legislation requiring those same private lenders to subtract off all other sources and amounts of financial aid from the lender's private loan amount. In fact, the private loan amount and other financial aid could result in an amount greater than the cost of attendance. The increased loan amounts could make it even more difficult for

undergraduate students to repay their loans after leaving college. One counselor noted that the monthly loan payments on student loans are no longer the size of a car loan but the size of a house loan. We are creating a generation of students who are leaving college with long-term debt that is similar in size to a mortgage; only there is no house.

Participant financial aid counselors noted that undergraduate students obtained private students loans for various reasons: to pay their bill; to stay in school; to cover the increasing cost of attendance not covered by gift aid and government loans; to participate in study abroad programs; because they are not making satisfactory academic progress to qualify for federal benefits; as a convenience to not involve the parent(s); because they are unable to work while completing their degree; to live off campus; due to the decreased willingness by families to pay the balance; because more parents are denied credit-based loans; applicants do not want to divulge or disclose personal information required for federal financial aid; and for parents and students to avoid completing the 8-page Free Application for Federal Student Aid (FAFSA) form.

### **Conclusions**

Based on the findings of this study, financial aid counselors unanimously agreed that the 2007 Slate Act and the College Code of Conduct for federal student loans, resulting from New York Attorney General Andrew Cuomo's 2007 investigation, significantly limited their ability to counsel undergraduate students and their families on private (alternative) student loans. This resulted in participating counselors altering, reducing, or eliminating the private loan counseling practices they had in their financial aid offices prior to Cuomo's investigation.

The financial aid counselors in this study believed that the financial responsibility to pay for the increasing costs of a college education will not be absorbed by the parents or by changes in federal financial aid limits. Participant counselors believed that college costs will continue to increase and that more undergraduate students will be left with little choice but to obtain credit-based private (alternative) student loans solely on their own in order to pay for their college education. Counselors believed that minimal credit histories may result in undergraduate students obtaining less favorable loan repayment terms and higher variable interest rates and fees on credit-based private student loans.

To be able to provide effective, one-on-one counseling to undergraduate students regarding private student loans, participant financial aid counselors collectively agreed that they need more legislative support, in-depth training specific to diverse private student loans, additional human resources for their financial aid offices, and accurate private loan information from students, families, and private lenders.

## **Recommendations**

### ***Recommendations for Practice***

Three recommendations for practice are based on the experiences and information shared in this study by the financial aid counselors:

1. Financial aid counselors voiced the need for more staff resources, in-depth training, and legislative support for their schools to be able to provide personal, one-on-one, private loan counseling for their undergraduate students obtaining diverse private student loans.

Colleges need to provide the resources their financial aid offices would require to be able to offer one-on-one private loan counseling for undergraduate students and their parents. In particular, FICO credit score training should be available for financial aid counselors, students, and their parents in one-on-one counseling sessions. One counselor suggested that FICO credit score counseling begin sooner, in high school. It is that important for future credit-based loans.

For people using credit in the United States, their credit score and their credit report basically becomes their 'report card for life.' It follows them everywhere. A good credit score allows them to rent housing and to obtain additional credit to buy a home or car. It affects the insurance rates they will pay for a lifetime, it affects future college options, it affects interest rates, loan fees, and repayment terms, and it could affect whether they would be hired for a job. If students do not learn how to obtain and maintain a good credit rating, parents may need to provide housing or cosign for them well beyond the days of college. Good credit scores result in financial freedom and independence.

This study showed the results of having too much debt or bad credit, with parents who were willing to obtain Parent PLUS loans or cosign for their children but could not because of being a poor credit risk. Timely in-depth credit counseling could help applicants understand the details surrounding good and bad FICO credit scores and how those details are applied to individual credit-based private student loans.

2. Based on the findings by counselors that parents decline Parent PLUS loans due to immediate repayment or can't obtain credit-based loans, federal financial aid should change and automatically defer Parent PLUS loan repayment requirements until

six months after the student exits school, much like the unsubsidized federal loan repayment option. Also, any parent should be able to obtain a Parent PLUS loan and it should no longer be a credit-based loan decision. Guaranteed approval could encourage more parents to obtain Parent PLUS loans. These changes would allow parents a fixed rate loan and better loan terms, should the parents become permanently disabled or should the student or parent die. This would help eliminate the risk of parents declining fixed-rate Parent PLUS loans and then having those parents or students resort to obtaining variable-rate private student loans.

The total costs of a 4-year college degree in 2008 are becoming too large for many undergraduate students to be able to repay alone. These Parent PLUS loan changes could result in more support from the parents who want their children to attend college. College students and their parents could benefit with a Parent PLUS loan grace period and a loan that is no longer credit-based.

3. To be able to effectively counsel students and parents on their total amount of private student loans, one counselor recommended new federal regulations that would require all lenders, who give loans to a student (or parent) for college use, to include their private loan amount within the college's total budget amount, along with all other financial aid.

Financial aid offices could be targeted to become central clearinghouses for all forms of financial aid, including all private student loans, for financial aid counselors to be able to obtain accurate private loan information and provide effective private loan counseling for undergraduate students. This change should also require private lenders to

disclose the details of private loan terms and conditions and to provide one-on-one support to college financial aid counselors. Accurate information and support from all private lenders would allow counselors to be able to provide in-depth one-on-one counseling to undergraduate students and the families who obtain private (alternative) loans. This change, to have financial aid offices as central clearinghouses, would also limit the combined amount of all financial aid to the college's cost of attendance.

While there is little consensus on what the private loan counseling should specifically include or whether private loan counseling would reduce the amount of private student loans obtained by undergraduate students, most aid counselors agree that the combined efforts of lenders, borrowers (students/parents), and financial aid counselors should all be involved in the process. Most importantly, legislators need to let them do it.

### *Recommendations for Future Study*

Existing data and the results of this qualitative study support the need for private student loan counseling due to the increasing number of private loans obtained by undergraduate students. Nevertheless, this report was unable to resolve all the questions surrounding private loan counseling for undergraduate students.

Further research is necessary to help policymakers, financial aid counselors, lenders, students, and parents make informed decisions concerning private student loans. A number of important questions should be addressed, including these five:

1. How effective are the current federal student loan entrance and exit counseling requirements and would the same criteria and distribution channels be effective in counseling undergraduate students on private (alternative) loans?
2. How has New York Attorney General Andrew M. Cuomo's 2007 investigation, which led to the College Code of Conduct and the 2007 Slate Act, specifically changed the ways in which financial aid counselors can counsel undergraduate students on private loans?
3. How can financial aid offices offer effective one-on-one counseling to parents and undergraduate students regarding credit scoring for credit-based loans such as Parent PLUS and private student loans?
4. How can college financial aid offices become reliable central clearinghouses for all information pertaining to private student loans?
5. What private loan information, resources, and in-depth training should financial aid counselors obtain to be able to offer effective private loan counseling for undergraduate students?



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**Appendix A**

**Independent Student Status**



### Independent Student Status

The Independent Student Status criteria requires that a student be one of the following:

1. 24 years of age or older by December 31 of the award year;
2. married;
3. enrolled in a master's or doctoral program (beyond a bachelor's degree) during the school year;
4. have children who receive more than half their support;
5. have dependents (other than their own children or spouse's children) who live with them, receive more than half their support, and continue to receive more than half their support through June 30th of the school year;
6. is an orphan or ward of the court (or was a ward of the court until age 18);
7. is a veteran of the U. S. Armed Forces. "Veteran" includes students who attended a U. S. service academy and were released under a condition other than dishonorable. (Dependent Vs. Independent, 2007, pp. 1-2)

**Appendix B**

**Informed Consent Form**

## Informed Consent Form

IRB 8738

Title of Research Project: Private Loans for Undergraduate Education: The Role of College Financial Aid Counselors

Purpose of the Research: This is a doctoral research case study to determine how financial aid offices counsel undergraduate students on private (alternative) loans. You must be 19 years of age or older to participate. You have been selected to complete this sampling questionnaire because your financial aid office can be contacted electronically and because your institution is either a public 4-year college or university or a private, not-for-profit, 4-year college or university located in the Midwest region of the United States. The Midwest region includes the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

Purpose of the Sampling Questionnaire: The purpose of this questionnaire is to determine if your college or university currently provides private loan counseling to undergraduate students and, if so, to identify financial aid offices who are experienced in private loan counseling and have individuals willing to participate in a follow-up telephone interview.

Procedures: Participation in completing this one-page purposeful sample questionnaire will require approximately 15 minutes. Questionnaires should be completed within 10 days of receipt and returned by electronic mail to Carol Jensen (researcher) at [cjensen@alpinecom.net](mailto:cjensen@alpinecom.net).

This sampling questionnaire is first being sent electronically to 555 institutions that meet the study's criteria and from that population there will be 20 financial aid offices selected for individual telephone interviews. The 20 individual telephone interviews will be tape-recorded for accuracy. Participation in the follow-up telephone interview will take approximately 30 minutes.

Risks and/or Discomforts: There are no known risks or discomforts associated with this research. In the event of problems resulting from participation in completing this purposeful sample questionnaire, the IRB office of the University of Nebraska-Lincoln can be contacted by telephone at 402-472-8196.

Benefits: The information gained from completing this questionnaire may help locate 20 individuals of Midwest financial aid offices who are willing to share their private (alternative) loan counseling practices.

**Confidentiality:** Your response to this questionnaire will be completely confidential and will be used only by the researcher to determine eligibility for a follow-up telephone interview.

**Compensation:** There will be no compensation for completing this questionnaire.

**Consent:** You are voluntarily making a decision whether or not to participate in completing this questionnaire for this research study on private student loans.

**Name, Phone Number, and E-mail Address of Investigator:** Carol Jensen, Doctoral Candidate and Principal Investigator, 563-422-5752, [cjensen@alpinecom.net](mailto:cjensen@alpinecom.net)

**Appendix C**

**Purposeful Sample Questionnaire**

### Purposeful Sample Questionnaire

Please respond to the following questionnaire within ten days of receipt.

Responses can be sent electronically to: [cjensen@alpinecom.net](mailto:cjensen@alpinecom.net)

1. What percentage of your total undergraduate student enrollment comes to the financial aid office for student loans? \_\_\_\_\_
2. Of the undergraduate students who come to your financial aid office, what percentage:
  - a. obtain both private (alternative) loans and federal loans? \_\_\_\_\_
  - b. borrow only using private (alternative) loans? \_\_\_\_\_
  - c. borrow only using federal loans? \_\_\_\_\_
  - d. are considered financially needy students? \_\_\_\_\_
3. Does your financial aid office offer undergraduate students private (alternative) loan counseling regarding school-channeled loans from preferred lenders? \_\_yes\_\_ no
4. Does your financial aid office offer private (alternative) loan counseling to undergraduate students obtaining direct-to-consumer private loans? \_\_yes\_\_ no
5. Do you counsel private loan undergraduate students on the following:
 

a. variable-rate loans versus fixed-rate loans?	_____	yes	_____	no
b. loan fees (origination, default)?	_____	yes	_____	no
c. cosigners?	_____	yes	_____	no
d. projected debt-to-income ratio?	_____	yes	_____	no
e. student credit ratings?	_____	yes	_____	no
6. Does your financial aid office have someone who is experienced in private loan counseling and who is also willing to participate in a tape-recorded telephone interview? \_\_\_\_\_ Yes \_\_\_\_\_ No

If yes, please provide the best person's name to interview, school name, and telephone contact information. \_\_\_\_\_

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Thank you for your participation.

**Appendix D**

**Private Loan Telephone Interview Guide**

### Private Loan Telephone Interview Guide

Hello, my name is Carol Jensen and I initially sent a questionnaire for you to complete on private loan counseling for undergraduate students. Thank you very much for completing the questionnaire and for agreeing to this follow-up telephone interview. You have been selected for this telephone interview based on your responses within the questionnaire about private (alternative) loan counseling at your (4-year public or 4-year private, not-for-profit,) college or university, which is located in the Midwest region of the United States. The purpose of this qualitative study is to determine what information and counseling you provide to undergraduate students on private (alternative) loans. As you answer the questions, please consider both school-channel and direct-to-consumer loans.

No individual institutional data will ever be released publicly. Responses to this telephone interview will be tape-recorded to ensure the accuracy of each response. If there is any part of any question that you would like further clarification, please do not hesitate to let me know. Again, I thank you for agreeing to this telephone interview which will now begin. Please answer each question with as much detailed information as possible.

1. What type of debt counseling or other information do you provide undergraduate students who are private loan borrowers?
2. How has the use of private (alternative) loans and the information that you provide undergraduate students on private student loans changed in the past five years? What influenced those changes?



3. What primary reasons do undergraduate students give you for wanting to receive private (alternative) loans? In your experience, can you support their reasoning?
4. Generally speaking, how do the terms and conditions of private loans compare with federal loans for your undergraduate student borrowers?
5. Describe the private loan counseling that you view as most effective. What makes that counseling most helpful to students?
6. How should private loan counseling change in the next few years? How would those changes make private loan counseling more helpful to students and their families?
7. Is there any written information that you provide undergraduate students on private loans that you could also send to me? How do students gain access to written information?

Thank you for your participation.

**Appendix E**

**External Audit Attestation**

External Audit Attestation  
by Dana L. Miller, Ph.D.

Carol Jensen requested that I complete an educational audit of her qualitative dissertation titled: Private Loans for Undergraduate Education: The Role of College Financial Aid Counselors. The audit was conducted between June 24 and July 7, 2008. The purpose of the audit was to ascertain the extent to which the results of the study are trustworthy.

In their book Naturalistic Inquiry, Lincoln and Guba (1985) suggest that the audit “may be the single most important trustworthiness technique available to the naturalist” (p. 283). The educational audit is “based metaphorically on the fiscal audit” (p. 317). The role of the auditor is to carefully examine both the process and product of the inquiry. In order to accomplish an audit, it is imperative that the researcher maintain careful, detailed records throughout the inquiry.

Lincoln and Guba (1985) delineate two tasks in the audit process:

1) examination of the PROCESS of the inquiry to ensure that study participants are represented fairly in recorded accounts, and 2) examination of the final PRODUCT to ensure accuracy; and in particular that the findings are supported by the data.

To meet the outlined purpose of this audit, numerous materials were carefully reviewed. The following materials were submitted for the audit:

- 1) A cardboard box containing 20 audio-cassette tapes documenting one-on-one interviews recorded from April 21-April 28, 2008. Each tape was labeled with the date of the interview, the participant’s name and college, the type of school, the participant’s phone number(s), and the interview number.
- 2) A 1 ½” binder labeled “Private Loan Telephone Interviews and Transcribing, 2008”.

The binder contents included:

- A list of the 20 schools where interviews were conducted, along with the name of their state and the type of institution (4-year private, 4-year public). The researcher noted that 12 participants represented private colleges and eight represented public colleges.
- Clean copies of the transcripts for each interview. Transcripts were typed single-spaced and each line was numbered. The researcher completed verbatim transcription. Each transcript was numbered with the interview number, date of the interview, participant’s name and the type of college. The transcripts accurately matched the 20 labeled audio-cassette tapes. Transcripts were between three and sixteen pages in length, for a total of 126 pages.

External Audit Attestation – Page 2 (Carol Jensen)

- A one-page cover page labeled “Categories,” identifying eight key categories that emerged during the data analysis.
  - Copies of the 20 verbatim transcripts with handwritten codes identified in the right margins and text segments underlined. The category numbers were written by the codes, identifying the categories that the text segments related to.
  - A section labeled “8 categories 4-year private/8 categories 4-year public”. This section consisted of 21 pages (typed, single-spaced) of verbatim quotes, organized by category and compiled in one location for easy retrieval.
  - A tabbed section labeled as Midwest 4-year private and public colleges and universities, 2008. This included a list of 12 states with nine checked (Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin), with the number with e-mail addresses identified per state, divided into two columns for public and private institutions. One hundred thirty-two public institutions were identified and 423 private institutions were identified, for a total of 555 (handwritten by the researcher). This number became the sample size for institutions accessible by e-mail to receive the purposeful sample questionnaire. This section also included 78 pages of distribution lists and directories for colleges and universities located in the U.S. and Midwest region. The lists included highlighted and numbered institutions and the researcher’s hand-written notes that included contact names, phone numbers and e-mail addresses.
- 3) A 3” binder labeled “References” containing documents the researcher used for her study, including:
- issue briefs from the ACE Center for Policy Analysis
  - student loan information that identified alternative student loans for college education (for specific states and in general)
  - related newspaper articles focused on college loans, student debt, and trends in student aid
  - numerous financial aid and student loan articles
  - college and university directories
  - an extensive 17-page ERIC document titled “Private Loans and Choice in Financing Higher Education,” prepared by the Institute for Higher Education Policy in July 2003.

External Audit Attestation – Page 3 (Carol Jensen)

- 4) A 1” binder labeled “Dr. Dana Miller, 2008 Audit.” The contents included:
- A copy of the researcher’s dissertation proposal (77 pages).
  - An e-mail from the researcher’s advisor dated Monday, March 24, 2008, informing her that all members of the committee had approved her proposal.
  - Written notification of IRB approval from the IRB chair, dated Wednesday, April 9, 2008, and related correspondence with her advisor about proposal approval.
  - Distribution lists for colleges and universities in Midwestern states.
  - Duplicate copies of the informed consent forms, purposeful sampling questionnaire and telephone interview guide.
  - Copies of email correspondence labeled “out of office auto replies,” dated between April 10-17, 2008.
  - Copies of e-mails from colleges declining participation in the study or not meeting the study criteria, dated between April 10-17, 2008.
  - Purposeful sampling questionnaires returned, from schools that declined to be interviewed.
  - Six pages of 26 short, hand-written journal entries, recorded by the researcher, dated February 18-June 3, 2008, documenting research process steps and thoughts.
  - Purposeful sampling questionnaires returned by individuals who agreed to participate in an interview.
  - A two-page, typed single-spaced research log, documenting research activities from February 18-May 14, 2008, with a total of 50 entries. These entries documented key activities including committee meetings, revising and submitting research methodology, obtaining IRB approval, inputting financial aid email addresses into the computer database, sending the purposeful sampling questionnaire and reminder, correspondence with the auditor, contacting potential interview participants, conducting interviews, transcribing interviews, coding data, and updating the researcher’s journal.
  - Copies of the email correspondence noted in the research log.
  - Copies of correspondence with an IRB representative, regarding the researcher’s completion of CITI training and review of research protocol.
- 5) A 2 ½” binder labeled “thematic analysis.” The binder’s contents included:
- A list of the 20 interview sites (duplicate copy).
  - A copy of the researcher’s dissertation proposal (duplicate copy).
  - A copy of the data (text segments) related to each of the eight major categories identified during the analysis process, organized by category and by public and private institution (duplicate copy).

External Audit Attestation – Page 4 (Carol Jensen)

- An updated dissertation section titled, “Data Collection Procedures,” that reflected the researcher’s revised methods based on the evolution of her study.
- A copy of the dissertation section titled, “Researcher’s Role.”
- Additional documents and references on financial aid/student loans, pending legislation, debt and bankruptcy.
- A 59-page report published by the California Research Bureau titled “Student Loans for Higher Education,” by Charlene Wear Simmons, dated January 2008.
- Documents on preferred lenders and alternate funding sources.
- An overview of data recording and transcription procedures.
- A section with updated data analysis procedures that describe how the researcher analyzed data and identified the eight sub-categories.
- Narrative descriptions of each of the eight sub-categories, with direct quotes integrated into them (19 pages).
- A sub-section titled “Cross-cutting themes” that described “two major themes... (that) permeated through each of the eight sub-categories” (33 pages).
- A sub-section titled “What do the finding suggest?” (1 ½ pages).
- A sub-section titled “Unanswered questions for further research” (5 pages).

The audit consisted of the following steps:

- 1) I cataloged and reviewed all materials submitted for the audit and recorded nine pages of notes as I examined them.
- 2) I read the introduction and procedures sections of the dissertation proposal, paying particular attention to the purpose of the study, study design, proposed data collection and analysis procedures, purposeful sampling technique and questionnaire, and the individual interview protocol. I recorded key procedures in writing for later comparison with the dissertation to ascertain whether or not the researcher’s proposed focus and procedures were consistent with what she originally proposed.
- 3) I read the research log, journal, and examined the documentation of purposeful sampling.
- 4) I examined the tapes, transcripts, codes and categories and read the text segments extracted for each category.
- 5) I examined the revised research procedures section and read the Researcher’s Role addition.

External Audit Attestation – Page 5 (Carol Jensen)

- 6) I read the descriptive narrative for the categories. I randomly selected participants' quotes from each section and checked them against the lists of text segments for each category to ensure that the quotes were accurately reflected in the final product.

Summary of the audit findings:

After careful examination of both the process and product of this researcher's work, I believe that the trustworthiness of the study can be established in that the research procedure was sound and the findings are clearly grounded in the data. The purpose of the dissertation remained consistent with the study the researcher originally proposed. The unit of analysis (financial aid counselors at four-year public and private colleges/universities) and sample size (for purposeful sampling questionnaires and individual interviews) remained consistent. Her research plan, including sampling procedures, was well documented. The researcher needed to amend her procedure for identifying 20 interview participants from the purposeful sampling questionnaire, due to the low response rate from the initial e-mail request and reminder. The rationale for the change in procedure was clearly recorded and the change was appropriate and enhanced the study.

Although the issue of "reliability" is problematic for qualitative researchers and generalizability from specific cases may be limited, the results of this audit demonstrate that the researcher maintained an excellent audit trail. It was apparent in reviewing the materials that the researcher was rigorous and systematic in her data collection and record keeping. The materials presented for the audit were detailed, complete, well organized, clearly labeled, and easy to follow. The researcher's research log, dated materials, and correspondence allowed me to follow the research process from beginning to end. The coded transcripts, overview of categories, and extracted text segments for each category not only made the data analysis process clear but also allowed me to assess the trustworthiness of the descriptive narrative (in the dissertation) as I examined how the raw data (i.e., direct quotes) was used to support each category. Based on the materials reviewed for the audit, I believe other researchers could follow this researcher's clear audit trail.

Attested to by Dana Miller this 7th day of July, 2008.

/s/ Dana L. Miller, Ph.D.

Director of The Leading Edge and Thesis/Portfolio Capstone Programs  
Doane College – Lincoln Campus – Master of Arts in Management Program

**Appendix F**

**IRB Approval**



April 9, 2008

Carol Jensen  
Department of Educational Psychology  
303 Hall St West Union, IA 52175

Donald Uerling  
Department of Educational Administration  
134 TEAC UNL 68588-0360

IRB Number: 2008048738EP  
Project ID: 8738  
Project Title: Private Loans for Undergraduate Education: The Role of College Financial Aid Counselors

Dear Carol:

This letter is to officially notify you of the approval of your project by the Institutional Review Board (IRB) for the Protection of Human Subjects. It is the Board's opinion that you have provided adequate safeguards for the rights and welfare of the participants in this study. Your proposal seems to be in compliance with this institution's Federal Wide Assurance 00002258 and the DHHS Regulations for the Protection of Human Subjects (45 CFR 46).

Date of EP Review: 04/09/2008

You are authorized to implement this study as of the Date of Final Approval: 04/09/2008. This approval is Valid Until: 04/08/2009.

We wish to remind you that the principal investigator is responsible for reporting to this Board any of the following events within 48 hours of the event:

- Any serious event (including on-site and off-site adverse events, injuries, side effects, deaths, or other problems) which in the opinion of the local investigator was unanticipated, involved risk to subjects or others, and was possibly related to the research procedures;
- Any serious accidental or unintentional change to the IRB-approved protocol that involves risk or has the potential to recur;
- Any publication in the literature, safety monitoring report, interim result or other finding that indicates an unexpected change to the risk/benefit ratio of the research;
- Any breach in confidentiality or compromise in data privacy related to the subject or others; or
- Any complaint of a subject that indicates an unanticipated risk or that cannot be resolved by the research staff.

For projects which continue beyond one year from the starting date, the IRB will request continuing review and update of the research project. Your study will be due for continuing review as indicated above. The investigator must also advise the Board when this study is finished or discontinued by completing the enclosed Protocol Final Report form and returning it to the Institutional Review Board.

If you have any questions, please contact the IRB office at 472-6965.

Sincerely,  
Dan Hoyt, Chair  
for the IRB