the institute for college access & success

THE ROAD LESS FRAGILE

# FIRST STEPS FOR HELPING FINANCIALLY VULNERABLE STUDENTS SUCCEED

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## INTRODUCTION

Today's undergraduates juggle not just course schedules, late-night reading, term papers, and final exams, but also complex personal lives outside of the classroom. Six in ten undergraduates work while enrolled, and among the third of those who are older than 25, more than half care for children of their own.[1] Furthermore, persistent racial disparities in household wealth[2] generate financial insecurity for Black and Latino students, and contribute to disproportionately lower rates of college success[3] despite major gains in enrollment over the last three decades.[4] While postsecondary education can be a powerful driver of economic mobility, too many students navigate a range of unique, often changing financial circumstances that can exacerbate economic hardship and create barriers to college success at the same time as they confront total college costs that persistently exceed available resources.

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The cost of attending college continues to outstrip both available financial aid and millions of families' ability to pay. The purchasing power of the Pell Grant, the single most important federal investment in higher education that supports students with significant financial need,[5] is now at an all-time low,[6] and substantially larger investments in the Pell Grant are needed to reduce student debt burdens and close disparities in college attainment.[7]

At the same time, well-established measures of financial need used to distribute the Pell Grant and other traditional forms of financial aid target limited resources well but cannot capture the full realities of many students' lives. Low-income students not only face aid offers that fail to meet their total college costs, but also struggle with the same challenges as their non-student counterparts, including food and housing insecurity,[8] limited access to affordable childcare,[9] and often turbulent financial circumstances with little buffer to manage unexpected expenses or lost income.[10] They may also enroll in college with existing debts, including defaulted student loans[11] that carry not only monthly financial obligations but also limit their access to low cost, quality banking services that could otherwise support their path to greater financial security. These destabilizing circumstances undermine the security and livelihood of households from all walks of life, but – for a college student already confronting costs above their means – can also derail the path to academic success and greater economic stability.

Policymakers must recognize the broad array of financial circumstances and challenges impacting students in order to better address their financial needs and reduce barriers to success. In the meantime, colleges and universities should, as a first step, avoid unintentionally contributing to those barriers by participating in the federal loan program and reforming policies governing institutional fines and fees.

## FINANCIAL VULNERABILITY CAN EXACERBATE BARRIERS TO SUCCESS FOR STUDENTS WITH UNMET NEED

The federal formula used to determine student eligibility for financial aid provides an administrable standard for allocating student aid costs that is carefully designed, well understood, and widely accepted. It uses financial and other information reported on the Free Application for Federal Student Aid (FAFSA) to measure a student or families' ability to pay, and calculates a so-called "expected family contribution." Colleges in turn produce estimates of the "cost of attendance" for typical students. When available student aid, in combination with the expected family contribution, falls short of the cost of attendance, students face "unmet need."

Research shows that a student's ability to pay for the total cost of college, including basic living expenses, is directly connected to their ability to complete their degree.[12] Yet unmet need is ubiquitous in our current higher education system, particularly at community colleges where students are less likely to receive grant aid than their peers at other types of colleges.[13] Students facing expenses that exceed resources confront difficult choices about how to fill that gap, including tradeoffs between working long hours while enrolled or reducing course loads to make more time to work— both of which compromise their graduation prospects. Students with unmet need may also use federal loans, or riskier forms of debt including credit cards and high-cost private student loans, to fill the gap.

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While valuable for administering traditional financial aid, the federal aid formula does not capture many of the individual financial obligations and unpredictable costs that compound unmet need and create cascading barriers to completing a degree. As a result, it does not fully consider the needs of students facing persistent economic barriers creating both structural and one-off challenges that undermine their odds of success.

Compared to more discrete measures like unmet need, a financial vulnerability framework brings into relief a broader range of students' individualized financial circumstances that create barriers to completion. A person is financially vulnerable when they are unable to consistently meet financial obligations, feel secure in their financial future, and make choices that help them realize goals.[14] While financial vulnerability can undermine the security and livelihood of many individuals and households, the continuous struggle to make ends meet generates specific barriers to postsecondary success for low-income students by turning otherwise minor setbacks into financial emergencies. This continuously precarious state can, too often, derail these students' academic goals even when the student is fully meeting academic expectations.

Unpredictable changes in income, or income volatility, is a common reality that generates or exacerbates financial insecurity for millions of households,[15] many students among them.[16] For example, 30 percent of college students' households have experienced an unexpected, large drop in income in the last 12 months,[17] and survey data suggest that 35 percent of part-time students do not "find it 'very or somewhat' easy to predict their incomes for the next month" – a rate nearly 50 percent higher than the general population.[18] Navigating tincome volatility in the absence of a financial cushion can escalate a precarious few months into a financial wreck. Just one-third of part-time students report they could make ends meet for three months or less in the face of a sudden drop of income.[19] Furthermore, the fact that the average household wealth of Black and Latino families is one-seventh and one-fifth of White household wealth[20] means students of color typically have significantly less resources to fall back on during an unforeseen financial hardship. In fact, a typical White household has enough liquid assets to cover 31 days' worth of income if necessary, compared to just five and 12 days' worth available to Black and Latino households respectively.[21]

Students may confront additional, individualized, and unexpected expenses, arising from anything from a medical bill to a flat tire. For example, students lacking resources to pay a traffic fine may have their driver's licenses suspended, making it impossible to get to class or work, and turning a shortcoming in cash into a spiraling financial hardship. [22] In fact, almost half of students attending community colleges are not confident that they could come up with $2,000 if an unexpected need arose within the next month.[23]

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In response, policymakers and college administrators are increasingly identifying promising strategies to respond to the most well documented challenges students face: hunger, homelessness or unaffordable housing options, and a lack of affordable childcare. These include:

- Providing low to moderate dollar emergency grants;[24]
- Directly providing resources like childcare and food banks;[25]
- Connecting students with additional services like tax preparation and other federal safety net benefits, for example by embedding evaluations and support within existing campus services and touchpoints;[26]
- Reducing barriers to federal safety net programs by reforming student-specific eligibility exclusions;[27] and
- Further aligning federal financial aid with existing public benefit programs.[28]

As schools develop and deepen strategies to more holistically meet their students' financial needs, they must also assess existing practices that may themselves exacerbate their students' financial insecurity and create barriers to completion. Specifically, colleges that choose not to offer federal student loans and colleges that routinely impose disproportionately harsh consequences for institutional fees and fines may undermine other efforts to support students navigating the challenges of financial vulnerability.

## OFFERING FEDERAL STUDENT LOANS

Student loans provide critical and tangible benefits to students who need to borrow to fill the gap between total cost of college and available resources. Federal student loans can enable enrollment in more courses per term and support increased academic success in those courses, increase the likelihood of transferring from a two- to a four-year school and of completing a degree, and reduce the overall cost of attending college by helping students graduate sooner.[29]

For those who need to borrow to complete school, federal student loans are far and away the safest form of debt, offering fixed interest rates, deferments for unemployment and economic hardship, and flexible repayment options that can allow monthly payments based on a share of income. Federal loans also help students avoid private loans from banks, which typically have higher interest rates, often require co-signers, and lack consumer protections including payment flexibility. Private loans are generally regarded as one of the riskiest ways to finance a college education.

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Nearly 1 million (about one in ten) community college students lack access to federal student loans because their school has chosen to not make them available.[30] Colleges put financial strain on students by choosing not to offer federal loans, forcing students to work more hours at the expense of studying or take on more costly forms of debt.[31] Unlike federal student loans, which schools must proactively choose to make available to their students, private loans are available to students at all colleges and are sometimes directly advertised to students by both lenders and schools. Perhaps most troublingly, some community colleges that do not offer federal student loans also promote private loans or even specific banks and lenders on their websites.[32]

Colleges that do not offer federal student loans typically point to concern over potential penalties resulting from high student loan default rates as the reason for their choice. However, a variety of strategies have been shown to both reduce risk of default among student borrowers and improve student success. Colleges can and do use a range of strategies to reduce defaults while continuing to offer federal student loans.[33] These include using regular data queries to help financial aid advisors target outreach to students most at risk, focused academic counseling for students who are struggling in class, and implementing early advising or student success courses for underprepared students.

## GENERATING AND RESPONDING TO INSTITUTIONAL DEBT

Institutional debt, which includes fines, fees or other unpaid charges a student owes to their college, is both ubiquitous for students and underexplored by research and policymakers. All schools have students with past due amounts, yet there are no data on the types and amounts of institutional debt carried by students, or the consequences they face when institutional debt goes unpaid. Small debts can arise from a range of circumstances—for example, a library book returned late, an unexpected parking ticket, or the cost of broken classroom equipment added to a student's account—and anecdotal evidence suggests that registration and transcript holds for small debts are commonplace. [34]

A seemingly small past due amount can create an insurmountable financial challenge for a student already struggling to cover basic needs like food, housing, and transportation. The stacking of late fees and other penalties on top of small fines can turn a relatively small fine or fee into a significant balance, including through the use of external debt collections agencies charging fees as high as 30 percent.[35] Collection can also negatively impact a student's credit, generating significant consumer costs and additional longer term financial insecurity.[36]

Students may also unexpectedly find themselves with large unavoidable debts for tuition, for example, if they fail to complete FAFSA verification requirements and do not receive the financial aid they were expecting.[37] Other students who withdraw late as a result of an unforeseeable change in life circumstances— such as a lost job or reduced wages, change in family status, or other medical or family emergency— may find themselves required to pay back a Pell Grant or other financial aid they already received.[38]

> **Both small and large institutional debts may prevent students from continuing their education and earning a degree, even when they are otherwise performing well academically.**

Both small and large institutional debts may prevent students from continuing their education and earning a degree, even when they are otherwise performing well academically. Moreover, students with an outstanding balance, who have successfully completed their coursework and degree requirements, may be denied access to their transcript or diploma, shutting them out of employment and further educational opportunities.

Colleges need to bring more focus and attention to the impact of penalties that exacerbate overall financial insecurity and lock students out of higher education, and need to ensure that students have a viable way to make good on their past due balances. For example, through its Warrior Way Back program, Wayne State University offers former students a path to forgiveness of up to $1,500 in past institutional debt.[39] All colleges should examine the circumstances under which a student is prevented from registering for courses, re-enrolling, and obtaining a transcript. While some registration and transcript holds may be appropriate in some cases, such penalties can not only block educational opportunity, but can also cost colleges net tuition revenue because the lost tuition far exceeds the student's outstanding balance. In some cases, colleges may need to consider relevant state laws and seek legislative solutions.[40] State action may be necessary to ensure institutions wishing to work with students with outstanding balances have the flexibility and authority to do so, serving state goals for increasing degree completion and closing racial and income gaps in educational attainment.

## CONCLUSION

Postsecondary education is more necessary for economic advancement than ever before. College certificates and degrees provide a pathway to economic mobility for millions of students each year. But a lack of financial security creates a tenuous road to success for millions more, and the compounding consequences of financial vulnerability can thwart graduation and prevent too many students from realizing the benefits of a certificate or degree. For students facing college expenses that regularly exceed available income and resources, existing financial aid programs not only often fall short of meeting expected costs of attending college, but also do not account for many unique circumstances and unexpected expenses students must navigate. Schools are uniquely positioned to understand the myriad needs of their students and develop appropriate, holistic supports that help students with limited financial means attain college success at the same rates as their higher income peers. At the same time, many policies and practices left unexamined in the broader context of student financial constraints can themselves generate or exacerbate financial insecurity that can undermine their best laid plans.

As a first step to developing holistic financial and academic supports that better serve financially vulnerable students, schools should reconsider their existing policies. Many schools and states are appropriately focused on developing meaningful interventions and deepening pathways to success for financially vulnerable students, and these efforts must continue. At the same time, practices such as denying students access to federal student loans, and imposing non-negotiable and disproportionate penalties for students with outstanding balances undercut otherwise well-meaning and thoughtful efforts to increase student success.

## ENDNOTES


1. Calculations by TICAS on data from the U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS), 2015-16. Figures include all undergraduates. Work status while enrolled excludes work-study.

2. In 2016, White families' average wealth was $919,000, compared to $140,000 and $192,000 for Black and Hispanic families respectively. Urban Institute. 2017. *Nine Charts about Wealth Inequality in America (Updated).* https://urbn.is/1Vj06A3.

3. 64 percent of White first-time, full-time BA seeking students graduate within six years, compared to 54 percent of Hispanic students and 40 percent of Black students. Data from U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS) 2016–17, Graduation Rates survey. Data include 4-year degree-granting postsecondary institutions participating in Title IV federal financial aid programs. Graduation rates refer to students receiving bachelor's degrees from their initial institutions of attendance only.

4. From 1970 through 2017, the share of enrollment of Black and Latino students increased from 23 percent and 18 percent to 37 percent and 36 percent respectively. Calculations by TICAS using data from National Center for Education Statistics, available at https://bit.ly/2E1OeiA. Calculations include 18- to 24-year-olds enrolled in degree-granting institutions.

5. TICAS. 2018. *Pell Grants Help Keep College Affordable for Millions of Americans.* https://bit.ly/2Ekzlcu.

6. In the 1980s, the maximum Pell Grant covered over half the cost of attending a four-year public college. In contrast, the $6,195 maximum Pell Grant in 2019-20 will cover just 28% of the cost of college, the smallest share of college costs in the program's history. College costs are defined here as average total in-state tuition, fees, and room and board costs at public four-year colleges. Calculations by TICAS on data from the College Board, 2018, Trends in College Pricing 2018, Table 2, https://bit.ly/2is8e4i, and U.S. Department of Education data on the maximum Pell Grant.

7. TICAS. 2018. *How to Secure and Strengthen Pell Grants to Increase College Access and Success.* https://bit.ly/2trMqe2.

8. Goldrick-Rab, Sara, Jed Richardson, Joel Schneider, Anthony Hernandez, and Clare Cady. 2018. Still Hungry and Homeless in College. Wisconsin HOPE Lab. https://bit.ly/2SECGrD; Chase Sackett, Sara Goldrick-Rab and Katherine Broton. 2016. *Addressing Housing Insecurity and Living Costs in Higher Education: A Guidebook for College and Universities.* U.S. Department of Housing and Urban Development. https://bit.ly/2V2OsNk.

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10. Geckeler, Christian, Carrier Beach, Michael Pih, and Leo Yan. 2008. *Helping Community College Students Cope with Financial Emergencies: Lessons from the Dreamkeepers and Angel Fund Financial Aid Programs.* MDRC. https://bit.ly/2NhUA1v.

11. TICAS. 2018. T*he Self-Defeating Consequences of Student Loan Default.* https://bit.ly/2PThD2A.

12. Dynarski, Susan, and Judith Scott-Clayton. 2013. "Financial Aid Policy: Lessons from Research." Working Paper 18710. National Bureau of Economic Research (NBER). https://bit.ly/2tytSZm; Association of Community College Trustees (ACCT) and The Institute for College Access and Success (TICAS). 2017. *Aiding Success: The Role of Federal and State Financial Aid in Supporting California Community College Students.* https://bit.ly/2U7e8Is.

13. Calculations by TICAS on data from the U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS), 2015-16. Community college students are defined as undergraduate students who attend public 2-year and less than 2-year institutions. Grant aid includes federal, state, institutional, and outside grants (includes employer tuition reimbursements and grants from private sources).

14. CFPB. 2017. *Financial Well-being in America.* https://bit.ly/2kkUFUL.

15. Smith-Ramani, Joanna, David Mitchell and Katherine Lucas McKay. 2017. *Income Volatility: Why It Destabilizes Working Families and How Philanthropy Can Make a Difference.* Asset Funders Network. https://bit.ly/2IZ0Ufn

16. Garon, Thea and Tanya Ladha. 2018. *Financial health and Community College Students: Choosing and Using Quality Products and Services.* Achieving the Dream and Center for Financial Services Innovation.

17. Calculations by TICAS using data from FINRA Investor Education Foundation, National Financial Capability Study, 2015. Community college students are defined as students who reported they were attending a two-year community college.

18. Garon, Thea and Tanya Ladha. 2018. *Financial health and Community College Students: Choosing and Using Quality Products and Services.* Achieving the Dream and Center for Financial Services Innovation. https://bit.ly/2J1gbwr.

19. ibid

20. Urban Institute. 2017. *Nine Charts about Wealth Inequality in America (Updated).* https://urbn.is/1Vj06A3.

21. Liquid assets include funds in checking and savings accounts, unused balances on prepaid cards, and cash saved at home. Pew Charitable Trusts. 2015. *The Role of Emergency Savings in Family Financial Security: What Resources Do Families Have for Financial Emergencies?* https://bit.ly/2STy70T.

22. Geckeler, Christian, Carrier Beach, Michael Pih, and Leo Yan. 2008. *Helping Community College Students Cope with Financial Emergencies: Lessons from the Dreamkeepers and Angel Fund Financial Aid Programs.* MDRC. https://bit.ly/2NhUA1v.

23. Calculations by TICAS using data from FINRA Investor Education Foundation, National Financial Capability Study, 2015.

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27. For example, see Goldie Blumenstyk. "While Congress Squabbles, Some States Take Their Own Steps to Help Hungry Students." The Chronicle of Higher Education, May 24, 2018, https://bit.ly/2VfHkxt.

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29. Marx, Benjamin and Lesley Turner. 2018. *Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment.* https://bit.ly/2T8RNNB; Mark Wiederspan. 2016. *Denying Loan Access: The Student-Level Consequences When Community Colleges Opt Out of the Stafford Loan Program.* Economics of Education Review 51 (2016), pp. 79-96. https://bit.ly/2U0ws6f; Erin Dunlop. 2013. *What Do Stafford Loans Actually Buy You? The Effect of Stafford Loan Access on Community College Students.* National Center for Analysis of Longitudinal Data in Education Research. Working Paper 94. https://bit.ly/2BM584r.

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31. TICAS. 2016. *On the Verge: Costs and Tradeoffs Facing Community College Students.* https://bit.ly/2IBzTPk.

32. TICAS. 2016. *States of Denial: Where Community College Students Lack Access to Federal Student Loans.* https://bit.ly/2Gxn99U.

33. For additional examples of ways schools can improve student loan outcomes, see TICAS. 2016. *States of Denial: Where Community College Students Lack Access to Federal Student Loans.* https://bit.ly/2Gxn99U; and TICAS. 2014. Protecting Colleges and Students. https://bit.ly/2EPu6Pp.

34. For example, students at City University of New York (CUNY) with any outstanding balance of $10 or more are prohibited from registering for a future academic period and receiving transcripts or diplomas; accounts outstanding for 30 days or more incur a $15 late penalty fee. https://bit.ly/2EnwjnZ. Students at University of Maryland University College (UMUC) who have an outstanding balance of $250 two weeks after start of courses may be disenrolled. https://bit.ly/2GGd3oj. See also Michael T. Nietzel, "College Completion Grants: The Financial Aid Every College Should Offer." *Forbes,* January 9, 2019. https://bit.ly/2tpQong; David Scobey. "The Other Student Debt Crisis." *Inside Higher Ed,* December 4, 2017. https://bit.ly/2IZjkNf; Jeremy Bauer-Wolf. "Cut Off." Inside Higher Ed, July 7, 2017. https://bit.ly/2sU3SoP; Mikhail Zinshteyn. "The Mindboggling Barriers that Colleges Create—and That End Up Hurting Their Own Students." *The Hechinger Report*, September 19, 2016. https://bit.ly/2d374aK.

35. Virginia requires public institutions to send balances less than $3,000 that are 60 days outstanding to private debt collectors; balances over $3,000 are sent to the state attorney general's office. https://dpo.st/2BKsTtH. Ohio state law requires state institutions to send outstanding balances to the state attorney general to the later of either 45 days after the amount is due or within 10 days of the next academic session. If the debt remains outstanding after 120 days, the attorney general sends the account to a third party vendor, who has 270 days to collect the debt, after which point if the balance is still outstanding, the account is transferred to another third-party vender. If neither vender collects the debt, the account is transferred to a special counsel who "is able to use a variety of legal collection strategies, such as obtaining a judgment from a court to garnish

wages or other legal methods to recover the funds." https://bit.ly/2NhpyHg. Maryland requires transfer of accounts outstanding for 90 days to collection, at which point a 17% collection fee is also assessed. Robyn Dorsey and Marceline White. June, 2018. *No Exit: How Maryland's Debt Collection Practices Deepen Poverty & Widen the Racial Wealth Gap.* Maryland Consumer Rights Coalition. https://bit.ly/2GEo0GK.

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39. Kim Kozlowski. "Wayne State University: Re-enroll, we'll forgive your debt." *The Detroit News*, May 30, 2018. https://bit.ly/2E1VsDe.

40. For example, New York state law states that "except where otherwise authorized, no person shall receive credit or other official recognition for work completed satisfactorily, or be allowed to re-register, until all tuition, fees and all other charges authorized by State University have been paid or University student loan obligations have been satisfied." Section 302.1 (f) of Chapter V, Title 8 of the Official Compilation of Codes, Rules and Regulations.

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