Student Loan Debt: How Are The Funds Spent?

Janet M. Wilbert
Associate Professor
University of Tennessee at Martin
Martin, Tennessee

Mahmoud Haddad
Professor
University of Tennessee at Martin
Martin, Tennessee

ABSTRACT

The purpose for this research is to investigate the spending patterns of undergraduate and graduate students in a Tennessee, four-year, public institution. The cost of attending a college or university is often cited as the source for student loan debt spiraling out of control. Not to marginalize the impact that increasing tuition, fees, and books have on student loans; but there appears to be another, less scrutinized contributor to student loans and that is student personal spending. Shaffer (2012) argues that student loan funds that remain after tuition, books, room and board create a paradox termed "premature affluence". Money that now has no educational target or purpose is often spent on luxuries such as manicures, pedicures, and expensive vacations during breaks from school. Shaffer concluded that the lifestyle that students have while in high school becomes the expected norm in post-secondary studies without the realization that the lifestyle is piggy-backed on student loans that will have to be paid back in the future with compounded interest cost. Robert Bonfiglio (2009) concluded that students are not prepared for the financial responsibilities that graduation presents. In an impromptu blog by the financial guru Dave Ramsey (2012) his fans reported spending their loan money on TVs, a party lifestyle, a Corvette and these are only a few. The "poor" college student paradigm appears to be slipping away.

For this study a Constituency Resource Management (CRM) system was used to distribute an email invitation to participate in a survey on student loans. The email was sent to all enrolled students (n=+ 7700) requesting their participation in the survey. Data was collected utilizing an online survey tool, and data from 962 students was collected. Specific questions were asked about spending patterns practiced by the students. Students reported that 65.9% (n=613) have a smart phone, 4.8% (n=45) get pedicures/manicures or acrylic nails, 5.9% (n=55) go to a tanning salon, 7.1% (n=66) have their hair colored/highlighted regularly, 26.0% (n=242) make a car payment, 33.1% (n=308) wear brand name shoes, 27.3% (n=254) wear designer clothes and 10.5% (n=98) reported that they go to a vacation spot for fall/spring break. The follow-up question asked the students if they use any of their student loan money to pay for the items just listed. Astoundingly, 23.1% (n=215) reported that they do use loan money to pay for these items. (Survey is available upon request.)

Given the outcomes of this preliminary research, more search needs will be conducted on additional student populations to determine if similar patterns exist in other public institutions within the state and across the nation. Given future results, the implication could lead to important student loan reform and policy implications.

INTRODUCTION

Universities and colleges are handily named in the "blame game" as the cause for the increasing costs of attaining a college degree. Institutions of higher education are spotlighted for increasing tuition and fees, portraying a picture of the poor student saddled with the cost of keeping the doors of the higher education institution open (Carey, 2013). What is missing from this scenario is that the spotlight has missed the disappearing state appropriations for funding higher education (Kelderman, 2013), the losses that endowments and investments have taken, and the supporting numbers, that any respectable higher education institution can provide, showing that they [the institutions] are spending less to educate a student now, than they were spending a few years ago. With a decrease in the amount of funding an institution receives from the Federal and State governments, coupled with the poor returns

on endowments, this has caused a decrease in revenue and left few places to turn for matching revenue, that do not lead to the student and his or her support network. Institutions of higher education are, for the most part, doing more with less and doing a good job.

The average student debt upon graduation is an increasingly alarming figure. The College Board's report, Trends in Student Aid (2012) states that, of the 2010-2011 graduates, who borrowed money to pay for their education, the average amount of debt upon graduating from a public four-year was $23,800. Assuming a four-year graduation rate, this equates to an average of $5950 borrowed per year in addition to the grants and scholarships a student might receive. Contributing to this alarming student loan figure are some confounding institutional and student behaviors that need to be more thoroughly investigated. First, institutions that ascribe to a need-blind admission policy might subject a student, who is in a situation with little or no financial support, to rely on loans for paying for his or her education. Second, financial aid departments need to adopt policies that require financial counseling for no-loans or at the most, limited-loans acquisition for any student who qualifies for student loans (Monks, 2012; Shaffer, 2013). Third, student spending behaviors have received little print time in the literature or media. There is some evidence that many students expect their college experience to resemble their home environment and therefore expect the same lifestyle they had when living at home. The student expects to continue to have amenities that a "poor college student" should not have. There is a disconnected reality between the fact that their college education is not a continuation of high school, and instead, an experience that is preparing them for their future (Bonfiglio, 2009). Additionally, a student who comes from a more meager background would find a student loan that is in excess of educational needs, a "wind fall" and perhaps use the money frivolously. It is presumed that all the money borrowed, as a student loan, goes towards the cost of education, however; this does not appear to be always the case.

LITERATURE REVIEW

A part of the American dream is to send your child to college using monies that have been saved over a lifetime. Although the dream, in Sallie Mae's *How America Saves for College* 2013, this is not the reality. Families, although well-meaning, do not have a plan in place for paying for college, nor are many of them saving enough to cover the rising costs of a higher education. Compounding the problem, is that the overall rate for completing a degree in six-years is 54.1%, with 16.1% of students still enrolled after six years (National Student Clearinghouse, 2013). The six-year time to completion paradigm is outside the scope of this paper, but one should consider the reasons for this rate being higher than the expected four-year plan, could be the result of students taking fewer classes because they have to work and students coming to college without a clear educational plan and changing their major several times. Regardless of the reason for the six-year graduation rate, this time period (most likely) outlives most scholarship and grant awards, which then forces students and families to find alternative financing to complete a degree, which would include student loans.

For the 2011-2012 year, the federal government lent approximately $100-billion to students. This figure is more than double the amount lent just 10 years ago (Carey, 2013). This increase is a reflection of the ever increasing cost of higher education being passed on to the student as appropriations and investment income dwindle (Carey, 2013).

A problem exists in that students are comfortable with debt because they are raised in a society entrenched in making minimum payments as a part of the monthly bill structure (Cummins, M., Jenkins, S., Haskell, J., 2009). Therefore there is not an embedded distain for indebtedness so signing for a student loan or credit card application is not a pivotal moment for most students. However, in their work, Cummings, Jenkins and Haskell (2009) found that the lack of financial management skills was often cited as a contributor to not completing a postsecondary degree. As de Baca (2012) pointed out, parents need to be a source of financial reason for students. Students learn much of their financial abilities from their parents and in high school financial classes (Cummins, M., Jenkins, S., Haskell, J., 2009; Shim, S., Barber, B., Card, N., Xiao, J., & Serido, J., 2009).

It is imperative that Student services and financial aid departments have in place solid policies to deter students from accepting excessive student loans (Kiley, 2012; Monks, 2012; Shaffer, 2013) and providing alternative options such as work study as a replacement. In response to the need for financial aid reform, Salmon (2013) highlights a brief by Vanderbilt's, Dr. Will Doyle who stresses the importance of prudent financial aid disbursement. Financial aid should be for those who need it and who would not be able to attend college without it.

Shaffer (2012), in a paper, *"Live Like the Affluent in College, Live Like a Student After Graduation"* describes the paradigm for this research, "*premature affluence*". Premature affluence comes in two forms and can be traced to the misuse of student loans. The first form of premature affluence comes from the students who worked while in high school and were allowed to spend the money earned on luxuries that the parents could not (or would not) provide. These were items such as nice cars, boutique clothing, personal pampering, smart phones, etc. These students expect to have these same amenities when they leave home and go to college, therefore; they must work or seek out loans to maintain these amenities. The second form of premature affluence described by Shaffer (2012) comes with excess student loan money. Instead of a student returning the loan money above that needed for education, the extra money is received by the student, with little thought of having to pay the loan back in the future. Money is often spent to maintain the lifestyle the student had in high school or for purchasing things the student never had the money to purchase in the past. Of the items outlined by Shaffer (2012) as luxuries, are: "comfortable accommodations, cars, cell phones, computers, entertainment, apparel and footwear, food, personal care products and services and travel". Dave Ramsey, the financial guru on many television stations and radio programs, in a program on debt from August 2012 asked *Dave's Facebook fans* about their spending behaviors with their student loans. Respondents posted, "party lifestyle", "spring break trips", "bunches of clothes" and most startling was "I took the student loans to buy a Corvette. I sold the car a year and a half later and I still have the loans". Not surprising, a *Time: Health and Parenting* magazine article (de Baca, 2012) also reported similar findings with a warning to parents to be vigilant over their students. An educational digital editor for *Telegraph* in the United Kingdom, Andrew Marszal, reported that one in six students spend all their money within the first month of being at school and spend their money on drinking and beauty treatments.

These spending behaviors are alarming and although not widely researched, appear to be a global and very real problem. As a response to the growing epidemic of excessive student loan debt, institutions of higher learning are adopting programs that will educate students and regulate student loan debt. Two such programs are at the University of Tennessee, one on the Knoxville campus and one on the Chattanooga campus. In Chattanooga, they are emphasizing living cheaply and to resist the urge for gratification that must be paid off over time. As of December 2012, Chattanooga was in its second year of a program they named, "Live Like a Student" that really stresses to the students financial responsibility (Flaherty, 2012). In Knoxville, they have created an online course that every freshman will have to complete. The course will cover financial aid, budgeting, credit catches and alcohol education (www.wbir.com).

In a response to the expected lifestyles that students have, universities are attempting to respond to this more "expectant" student by creating a more inviting atmosphere. They are building recreational facilities that go beyond the "pick-up" basketball game, and instead contain lazy rivers and climbing walls. Campuses are wireless and dormitory living has become lavish and "homelike". Additionally, colleges and universities are maintaining expensive, often money-losing, sports programs and expensive building projects to maintain the recruiting edge (Carey, 2013)

It should be the goal of any institution to produce graduates who are independent and autonomous from their parents and the community where they grew up. Bonfiglio (2009) challenges this often cited institutional goal as tenuous at best. Many students leave the "all inclusive" environment of campus housing or local student housing where utilities, internet, recreation and other amenities are included in a monthly fee and enter a world were all these items come with a return envelope and a due date. Now, in addition to these "must haves", there also are the student loan payments that become due and payable. This new paradigm of independence and accountability drives many students back to the comfort of their parent's home for a reality check.

METHODOLOGY

Seeking to understand the student population at a rural four-year public institution an online survey was created using SurveyMonkey (www.surveymonkey.com). The survey was designed with questions covering student demographics (year in school, major), student loan selection behaviors, working behaviors, spending behaviors, use of student loans, quality of life, and satisfaction with the current cost of education.

Once the survey was launched, a campus Constituency Resource Management (CRM) system was used to distribute an email invitation to participate in the survey. The email was sent to all enrolled students (n=+ 7700) requesting their participation in the survey. Data was collected over a two month period.

RESULTS

At the time the survey was closed, a total of 962 students had attempted the survey with 925 (96.2%) completing it. Students were asked to identify what year they were in school, as defined by academic standing. Figure 1 shows the response rate by academic standing. Of the 962 respondents, 24.8% (n=239) were freshman, 18.3% (n=176) were sophomores, 18.0% (n=173) were juniors, 29.4% (n=283) were seniors and 9.5% (n=90) reported their academic standing as a graduate student.

After identifying academic standing, students were asked about the types of amenities (luxuries) they have. The data is reported in Figure 2. The question was, "do you currently: (check all that apply)", so students will have selected more than one item on the list. The most common

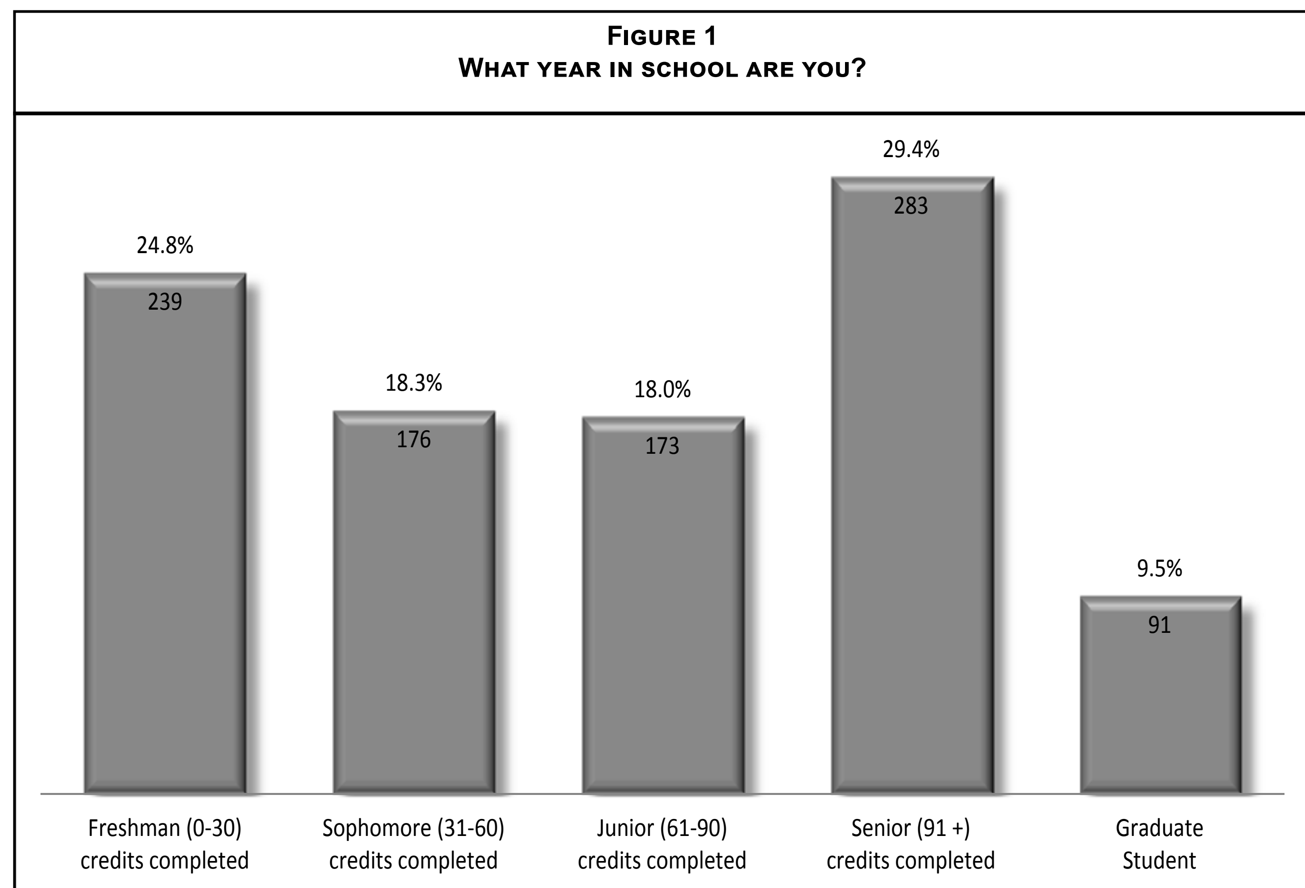


Figure 1
What year in school are you?

item selected by the students was a smart phone (65.9%, n=613). The second most selected items was discount clothing and shoes at 52.9% (n=492). Other luxuries that the students selected included, having a basic cell phone 34.3% (n=319), designer clothing 27.3% (n=254), name brand shoes 33.1% (n=308), car payment 26.0% (242), going out to eat more than 2 times per week 27.3% (n=242), commuting 46.5% (432), live off campus with roommates 22.9% (n=213) and a television gaming system 23.8% (n=221). Reported in Figure 2 as "All other responses", are the results of personal pampering items such as pedicures/manicures 4.8% (n=45), tanning salon use 5.9% (n=55), hair cut/weave hair 19.2% (n=179), color/highlights 7.1% (n=66), live off campus without roommates 21.5% (n=200) and going to a vacation spot for school breaks 10.5% (n=98).

A reporting of these items is further broken down in Table 1. Each of the luxury items was reported by academic standing.

The follow-up question to the selected items was a question asking, "Do you use your student loan money to pay for any of the items listed in the previous question?" The students reported that 23.1% (n=215) use their student loan money for these items.

In reviewing the data by academic standing, clearly a phone (n=932) is an amenity that is of high priority for all the students regardless of standing. Additionally, across the standings, the following spending behaviors increased from the freshman to senior year, having a car payment (n=37 to n=75), going to a vacation spot (n=20 to n=31), buying clothing from a discount store (n=119 to n=144), commuting (n=69 to n=163), living off campus without a roommate (n=35 to n=66), living off campus with a roommate (n=17 to n=90), having a gaming system (n=52 to n=68) and eating out (n=57 to n=81). The spending behaviors that decreased across the freshman to senior years are, getting regular haircuts and/or weaves (n=51 to n=46), having hair colored/highlighted (n=22 to n=16), purchasing clothing with a designer label (n=80 to n=66), purchasing name brand shoes (n=91 to n=85).

It appears that the spending behaviors that reflect convenience, such as a car, phone, eating out, living off campus and going to a vacation spot during breaks from school, all increased from the freshman year to the senior year. The spending behaviors that appear to have decreased are those that relate to outward appearance such as haircuts, hair coloring, and buying designer clothing. Supporting this theme is the data that clothing purchased at a dis-

Table 1
Use of Luxury Items by Academic Standing.

	Freshman	Sophomore	Junior	Senior	Graduate
Total	227	170	169	274	90
Smart phone	154	114	115	169	61
Basic phone	75	55	57	103	29
Pedi/Mani	10	8	9	8	10
Tanning salon	16	6	9	16	8
hair cut	51	26	25	46	31
hair color	22	11	9	16	8
Car payment	37	37	47	75	46
Vacation spot	20	17	16	31	14
Design clothes	80	44	40	66	24
Design shoes	91	51	51	85	30
Disc clothes	119	89	96	144	44
Commute	69	78	92	163	30
Off w/o room	35	35	41	66	23
Off w room	17	39	58	90	9
Eat out	57	34	51	81	31
Gaming	52	42	37	68	22
Use loans Yes	30	38	43	89	15
Use loans No	113	86	81	118	54

count store increased from the freshman year to the senior year, lending one to believe that outward appearance became less important as the student progressed through his/her degree program.

DISCUSSION

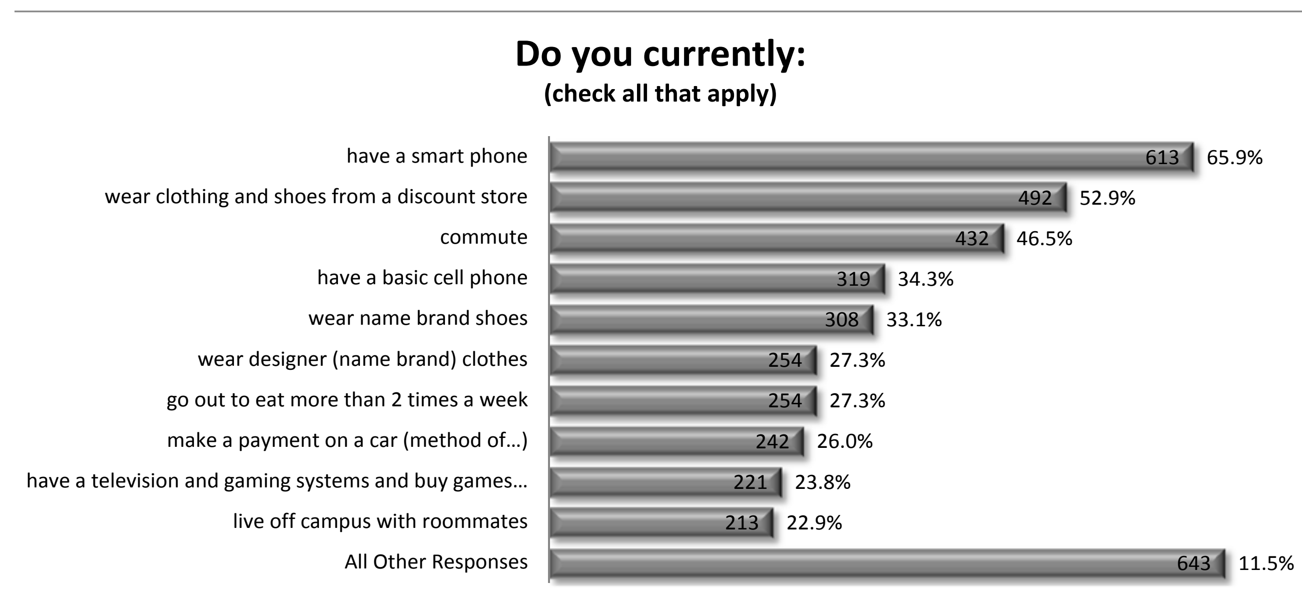
Although the data for this research comes from a limited representation of college students, the results are startling that student loan money is being used by some students to pay for amenities and luxuries that are not tied to educational success. Student loans, as the name implies, should be used to support educational efforts. Students are living outside their means, seeking to maintain a lifestyle that is not realistic for a person who is in a post-secondary education. Students are seeking the quick gratification and not considering the long term financial burden that excessive student loans will present in the future. Parents need to become the pace setters for students and prepare them to "live like a student" and forego all the luxuries that they had before. It will be important that the parents emphasize financial responsibility and not encourage the use of excessive student loans to maintain an amenity filled lifestyle. If the parents cannot provide this type of counseling, then the university should. All attempts should be made to keep the students as close to debt free as possible.

Institutions of higher education are being "blamed" for the excessive student loan debt that students are graduating with. They need to take an active role in curtailing this debt, educating the student about financial responsibility, and spending less on costly buildings and athletic programs.

President Obama's recently proposed sweeping changes to the federal student aid program brings this discussion to the table. This plan links federal dollars to a new Education Department, which would be responsible for ranking colleges and universities and providing students who are attending better-ranked schools with less expensive loans or bigger grants.1

President Obama's plan represents only one part of what is needed to work in a coherent fashion to carve down higher education costs. Educational institutions need to

Figure 2



refrain from luring more students by providing luxurious living quarters, sports arenas and recreational facilities. They also need to educate prospective students and their parents about the benefit and cost of loans. The Federal Government alone cannot solve the students' loan dilemma; we need everyone to tackle this problem.

Last, but certainly not least, is a need for further research to be done on student spending behaviors. Should the behaviors found in this study be prevalent across the nationwide student population, one would be hopeful that the regulation and use of student loans would be revisited and new policy proposed. Recommendations would include financial education beginning before college for students, that would emphasize responsible spending and the real cost of paying back loan and credit card debt. Also explore opportunities at the educational institutions and government levels for alternatives to loans. And last, hold financial institutions accountable to lending only what is needed for the "real" cost of education.

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