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WHICH STUDENTS DO NOT REPAY COLLEGE LOANS?

L. Baker Pattillo, Jr.

Harry V. Wiant, Jr.

College loan programs have grown rapidly during the last decade as educational costs have increased. In 1966, the State of Texas began to offer loans to students in its institutions of higher education. The Texas Opportunity Plan Loan Program includes several requirements for qualification: legal residence in Texas, enrollment for at a half-time load at a participating institution, financial need, letters of recommendation from two persons in the applicant's home-town community, and the recommendation of the institution's financial aid officer.

A student can borrow up to \$7,500 (\$5,000 as an undergraduate, \$2,500 as a graduate student). The loan must be retired within 5 years from the last date he was enrolled for at least a half-time load. The federal government pays interest charges while the student is in school.¹

Delinquency in this loan program has been of considerable concern. The study reported here was made to determine if information provided on loan applications may be used to predict which students tend to become delinquent in loan repayment.

THE STUDY

Subjects selected for this study met the following criteria:

1. They received a Texas Opportunity Plan Loan during the 1966-67 school year.
2. They were single. (Financial data on parents were available only for single students.)
3. They attended a 4-year degree granting institution.
4. Their accounts were either current or 6 or more monthly payments delinquent as of August 1, 1970.



Right: L. Baker Pattillo, Jr., is Director of Placement and Student Financial Aid at Stephen F. Austin State University in Nacogdoches, Texas.

Left: Harry V. Wiant, Jr. is assistant Dean of the School of Forestry at Stephen F. Austin State University.

1. Guidelines for this loan program have been changed since this study was conducted.

Within these criteria, 256 delinquent and 152 non-delinquent loan recipients were selected from 38 institutions for study. Data from application forms was supplemented by information from financial aid officers regarding scholastic success and delinquency status of subjects.

ANALYSIS OF DATA

Correlation coefficients between delinquency status and each of 44 other variables were computed. Phi and point-biserial correlations were obtained. The variables that were dichotomous (including loan status) were assigned the values 0 or 1. The variables that were continuous were assigned the exact value that was on the original loan application. Rejection for each of the statistical tests of significance performed was at the .05 and .01 levels of confidence.

RESULTS

Results, ranked by correlation coefficients within related groupings, are presented in the Appendix, and discussed below.

DEMOGRAPHIC DATA

Neither the population of a borrower's home town, nor the population of his home county, nor its growth trend, were significantly correlated with loan delinquency. There was no evidence that students from rural or urban environments tended to be better or poorer risks.

BORROWER DATA (NON-FINANCIAL)

Those who were seniors when they applied for loans tended toward more loan delinquency and those who were sophomores toward less. Neither freshman, junior, nor graduate student classifications showed significant relations. Subjects who graduated were more likely to repay their loans, as was the case with younger loan applicants. Housing arrangements and sex of applicants were not significantly related to loan delinquency.

BORROWER DATA (FINANCIAL)

Students who had access to at least one automobile, as opposed to those with none, and those with higher estimated summer incomes showed less delinquency. Students with previous loans developed higher rates of loan delinquency, although other types of financial assistance, assets, and school-year estimated income were not significantly correlated with loan delinquency.

FAMILY DATA (NON-FINANCIAL)

As the number of dependent brothers in a family increased, the tendency toward loan delinquency increased. Interestingly, there were no significant correlations with whether fathers or mothers were living and employed in one position for at least a year, number of dependent sisters, or number of dependent brothers and sisters combined.

FAMILY DATA (FINANCIAL)

Those students who came from homes where parents had checking accounts, savings accounts, more family automobiles, life insurance, more real estate and other assets, and higher annual income tended toward less loan delinquency. However, delinquency was not significantly correlated with mortgages owed, homestead value, rent-free housing, authorizations to check financial standings, nor value of checking and savings accounts.

CONCLUSIONS

This study led to the following conclusions: items reflecting financial data, rather than biographical data, are better predictors of credit risks; the more financial resources a student's parents have, the less likely he is to become delinquent in repayment of his loan; and the student who graduates is more likely to repay his loan. It is ironical that students from the less affluent families, who need assistance most, are those least likely to repay their loans on schedule.