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Philip C. George

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SHARED INDEBTEDNESS — A CONCEPT FOR CONTROLLING STUDENT EDUCATIONAL DEBT

by Philip C. George

Testimony of excessive and burdensome borrowing for an education is seldom heard by the aid officer, who is faced with student financial needs which cannot be met without a heavy emphasis on loans. Students often grapple with unrealistic debts for their education long after they leave the campus, and unless the aid officer is intimately involved in the collection process, this administrator is generally not aware of how well or badly his or her loan recipients are shouldering their debt burden. Many aid officers feel powerless about these rising educational debts and fear that they have worn the cloak of the lender poorly. Somehow they were cast to play a wicked part in the creation of a new generation of debtors.

There are provisions in the federal Higher Education Reauthorization Act of 1980 which yield to the aid officer new authority for award packaging. The increased flexibility in the Supplemental Educational Opportunity Grant (SEOG) program offers the aid officer a chance to implement fully a program of debt control on his/her campus. No longer fettered by matching requirements, extraordinary need definitions and initial or continuing designations, it is now possible to use the SEOG program, along with the College Work-Study program, as a tool to restrict unreasonable borrowing for the vast majority of students who need financial assistance.

At the University of Wisconsin-Stevens Point, we first became aware of the potential of a shared indebtedness approach to aid packaging in the summer of 1972. We were exploring ideas of how to deal with a shortfall in anticipated College Work-Study program funding which created an unreasonable overcommitment situation in that program. In effect, we needed to withdraw a number of job offers and needed a methodology to identify for whom we should rescind jobs. It was at this time that the concept of shared indebtedness had its origin. We determined the educational indebtedness level of all students who had been offered work study jobs and withdrew job offers from students having a lower-than average debt for their class level, offering them a loan instead. It worked beautifully, and the students who lost their jobs, having been told how we did it, accepted our adjustments as fair — there was virtually no outcry over the changes.

During that year we began to examine our aggregate data of student need on our campus juxtaposed with our limited gift and work resources. We noted with dissatisfaction that the old procedure of serving early applicants well and later applicants with what remained was an oversimplified approach to a matter of far-reaching consequence. Often the later applicant had greater need than the earlier one, and many applications were repeatedly tardy, year after year. In many instances these students were at their threshold of tolerance with respect to their educational indebtedness. We began to feel that unbridled borrowing carried with it an inherent danger that some students would terminate their course of study because further indebtedness was simply unacceptable to them.

Mr. George is director of financial aid at the University of Wisconsin-Stevens Point

In 1973-74, we launched a new aid packaging methodology which sought to steer our limited work-study jobs to those who needed them the most. We used a simple manual formula which was designed to award upperclass jobs only to needy students who had previously borrowed for their education.

Over the years we have developed a more sophisticated approach utilizing a priority ranking system which ranks all students on our file according to their needs, educational debt, class level and grant assistance. The ranking system provides an "Overall Priority Factor" (OPF) for each student. We utilize this system to determine a given student's eligibility for work under the College Work-Study program or for a grant under the Supplemental Educational Opportunity Grant program.

When we began computerized packaging in 1974-75, we first realized the full power of this concept to assure that, within any group of students to be processed, we would assist the neediest first (utilizing prior debt as a factor of prior need deferred) according to individual OPF's. Furthermore, the computerized packaging routine provided us with a mechanism whereby we could simulate where the OPF cutoff should be for each individual program to insure consistency in packaging well into the academic year (avoiding running out of work-study and grants in mid-spring).

We augmented this process with a listing of people who had wanted work but were denied the opportunity in their aid package because their OPF was too low. This list presented us with the names of these students and appropriate need and aid data in OPF order (highest first). We could then write to them offering employment in descending priority order as the jobs opened. This listing has been useful especially when an unanticipated funding supplement has become available or when our payroll projections indicate that we can afford to add a few more people on the payroll.

Finally, we found it fruitful to incorporate the student's indebtedness into a formula which determined the actual award the student should be given in the Supplemental Educational Opportunity Grant program. In this manner, larger grants were awarded to students who had above-average indebtedness than to those who had controlled or average debts.

The Overall Priority Factor Formula

Over the years our formula for determining the Overall Priority Factor has evolved through philosophical meanderings and trial and error testing to its present state. The separate components deserve discussion before the formula is viewed in its totality. The components are total need, external grants, prior debt, annual maximum debt level, and class level.

Total Need is defined as the student's demonstrated need for the period of enrollment (excluding the summer session if the student did not attend). Therefore the need only reflects the costs associated with the time of actual attendance. For independent students, for whom a twelve month budget is used, a minimum contribution equal to the cost of living expenses for the non-enrollment period reduces the need to an enrollment-relevant period. The Total Need figure serves as the base amount to the formula.

External Grants refers to the student's Pell Grant scheduled award (full-time amount) and the student's determined award under the state Wisconsin Higher Education Grant program. These amounts are subtracted from the formula because they, in effect, reduce the need and lessen the demand for assistance under other programs.

Prior Debt is the aggregate of all of the previous educational loans about which we know. We only include known vouchered amounts of loans prior to the current year from our own historical records or from the student's financial aid transcript

from another school. Included are National Direct/Defense Student Loans, Federal Insured Student Loans or any other loans made by legal contract solely for educational purposes. Not included are personal loans, informal cash advances, car loans, mortgages or obligations not contractual and educationally-related. These amounts are added to the formula as an exhibition of past need which was deferred and not fulfilled currently.

There was considerable discussion at the time we adopted this approach as to whether "loans of convenience" or non-need-based loans should be included in the formula as part of the prior debt component. We chose to include them because we believed that the vast majority of them were in fact repaid by the student and not by their parents. We reminded ourselves that we were talking about a priority system, not need analysis. Students with limited need would still receive limited assistance. We believed that the family desire to borrow for an education, even if beyond assessed need, should be recognized as probable testimony of "real need," which is as much a factor of parental will as economic strength. This was a method by which we could recognize the factor of parental will in the awarding process without being so obvious about it as to encourage indiscriminate borrowing in the hope of a higher priority for a grant in later years.

Annual Maximum Debt Level (AMDL) is a parameter adjustment figure which sets a boundary beyond which debt is considered potentially excessive. It is a formula control amount which we have kept at \$1,000 for undergraduates and \$1,200 for graduate students. In effect, we are establishing, somewhat arbitrarily, \$1,000 as the amount of educational debt which appears reasonable for one year of college at the undergraduate level and \$1,200 as the corresponding amount for someone studying at the graduate level. The actual amount established here is not vital to the overall concept since it is applied equally to all students within a degree category. The real significance appears later when the OPF cutoffs are determined. If higher AMDL's are utilized, the OPF cutoffs will likewise be higher.

Class Level is included in the formula as a moderating influence against debt. It is used in conjunction with the Annual Maximum Debt Level to average out the debt factor on a class basis. The current class level is reduced by one-year to establish the number of years during which the prior debt accumulated. The adjusted class level (class less 1) multiplied with the AMDL yields a product which, in turn, is subtracted from the formula to remove a class-weighted, reasonable level of debt from the calculation.

Overall Priority Factor, which is derived from the components described above, has been described as an economic measurement of an individual student's relative level of need, weighted by class-sensitized average prior debt. In some respects the added dimension of debt as an exhibition of prior real need builds a cumulative need perspective into the awarding process.

The formula for deriving the OPF is shown below. It includes an adjustment of 5,000 points to eliminate problems with negative numbers (which carry the hazard of losing their negative status in the ranking process).

$$\text{OPF} = \frac{\text{Total}}{\text{Need}} - \frac{\text{External}}{\text{Grants}} + \frac{\text{Prior}}{\text{Debt}} - [\text{AMDL} \times (\text{Class} - 1)] + 5,000$$

As examples, four students are presented with varying circumstances to show how they are ranked. An analysis follows of how their awards might be affected by their rankings.

$$\text{CASE A: OPF} = 1,820 - (1,162 + 270) + 4,500 - [1,000 \times (3 - 1)] + 5,000 = 7,888$$

This student's total need was \$1,820 for the academic year, and he had a Pell Grant of \$1,162 and a state grant of \$270. He had a debt of \$4,500 and was in his junior (3rd) year.

$$\text{CASE B: OPF} = 2,900 - (976 + 410) + 2,390 - [1,000 \times (4 - 1)] + 5,000 = 5,904$$

The total need of this student was \$2,900 for twelve months (attending both academic year and summer school), and she had a Pell Grant of \$976 and a state grant of \$410. Her debt was \$2,390 and she was a senior (4th) year.

$$\text{CASE C: OPF} = 5,540 - 1,750 + 1,272 - [1,000 \times (2 - 1)] + 5,000 = 9,062$$

This non-resident student had a total need of \$5,540 for the academic year and a Pell Grant of \$1,750. Of course, she was not eligible for a state grant. She had a debt of \$1,272 and was in her sophomore (2nd) year.

$$\text{CASE D: OPF} = 3,060 - 526 + 0 - [1,000 \times (3 - 1)] + 5,000 = 5,534$$

The total need of this student was \$3,060 for the academic year, and he had a Pell Grant of \$526, no state grant and no debt. The student was in his junior (3rd) year.

Because an OPF cutoff for the SEOG program was 6,340, only Case A and Case C were considered for this grant. Case B and D were ruled out because they had an OPF which was below the cutoff.

The College Work Study program OPF cutoff was set at 5,860. That meant that Cases A, B and C could be given work-study.

When it was not possible to offer the student either a grant or a job the student was directed to loans and his or her own devices to find off-campus employment. Case D was in this category, although there remained the possibility that the priority might be lowered later in the year so that a work study job might become available.

SUMMARY COMPARISON OF EXAMPLE CASES

Case	Total Need	External Grants	Prior Debt	Class Level	Overall Priority Factor	Eligible For SEOG	Eligible For CWS
A	1,820	1,432	4,500	3	7,888	YES	YES
B	2,900	1,386	2,390	4	5,904	NO	YES
C	5,540	1,750	1,272	2	9,062	YES	YES
D	3,060	526	0	3	5,534	NO	NO

The Impact of Shared Indebtedness

The statistics of the indebtedness of graduating seniors as presented in Graph 1 reveal that student debt has been positively influenced by reducing the frequency of cases to the right of the mode (those with higher indebtedness). It is assumed that the optimum result would be a display of indebtedness which ascends from the vertical axis to the mode (highest point) and then drops vertically to the horizontal axis. In effect, the optimum result would reveal a debt cutoff or ceiling at an acceptable preestablished level.

The lack of a control group restricts us to a hypothesis of how debt might plot for students on a campus where no effort is made to control student indebtedness. On a graph depicting the total debt amount of graduating seniors on the horizontal axis and frequency of borrowers on the vertical axis, the plot line will illustrate the degree of control achieved at a given campus. How successfully the shared indebtedness concept is implemented can be illustrated in this manner. It is a function of available

resources for debt containment (grants and jobs) and campus procedures for channelling these resources to share the debt among many students rather than disproportionately loading the debt onto the later applicants. At a campus where no effort is made to control student indebtedness, we suspect that the plot line of graduating senior debt would reveal a random, bell-shaped curve skewed to the left as exhibited in the dotted line in Graph 1.

It is our contention that the optimum circumstances would occur when student debt was absolutely held at an acceptable ceiling level (\$3,000 for graduating seniors, for example). In this situation the curve would rise on an inclined plane as a function of need, halt at the acceptable ceiling level of absolute control, and fall abruptly to the horizontal axis. This is shown as a dashed line in the graph.

At UW-Stevens Point, where we were controlling student debt to the extent of our resources, using 1976-77 as an illustration (one of our better years), we like to note that our curve more nearly resembled the controlled optimum than the hypothetical norm of the uncontrolled campus. The majority of our borrowers were kept within the acceptable debt ceiling set for that year.

In the ensuing years our ability to continue this trend has been hampered somewhat by increased restrictions on how our grant funds were to be administered. The SEOG extraordinary need rule and matching requirement and state centralization of the institutional grant program limited our ability to control debt with these resources, but wherever possible we have worked in the manner described to curb excessive indebtedness.

One of the more positive outgrowths of this approach to the packaging of financial assistance is the acceptability of the rationale by financial aid applicants. Students denied the opportunity to work or wanting a reason for their not having received a Supplemental Educational Opportunity Grant always accept our explanation with an appreciation of the fairness of our procedures.

The changes to the Supplemental Educational Opportunity Grant program in the Reauthorization Act remove the old artificial restrictions regarding student eligibility for this grant in favor of a simple need criteria. This provides new hope that in the decade of the 1980's we can implement the shared indebtedness concept fully on our campus and approach the optimum performance level of totally controlled indebtedness.

We plan to utilize fully both the supplemental grants and the work-study jobs to package aid for our students in a consistent, debt-sensitive manner. We will continue to use these programs as tools to curtail excessive borrowing and keep our students from crossing the threshold of burdensome debt.

Graph 1

