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An Expanded View of The Role of The Financial Aid Administrator in Student Debt Management

by Marguerite J. Dennis

Education has, among its goals, the personal fulfillment of the student, the expectation of upward economic and social mobility, future employment prospects, scholarly excellence and research, and meeting the needs of society as a whole. What role does the financial aid administrator currently have in meeting these goals? Should the aid administrator assume any responsibility for achieving them?

Historically, financial aid administrators have been concerned primarily with the equitable awarding of financial aid monies and with accurately recording that data. Until now, these administrators have been in the position of reacting to the needs of federal legislators, students and institutional authorities. Few have the time to think beyond the present financial aid needs of their students and schools. Few have the luxury of projecting the future needs of the financial aid process as it relates to the student, the institution and the nation.

What can a financial aid administrator do to assist students, parents and school officials to face the future with realism and optimism? The following suggest some changes.

I. *The Willingness of the Financial Aid Administrator to Change*

The narrow interpretation of the traditional role of the aid administrator should be expanded to include a shift in philosophy from one of primarily awarding monies to one of assisting students in planning their educational and financial futures before entering college, during their undergraduate years and after graduation.

Change is evident in all segments of education, including financial aid administration. Surreptitiously, the climate is changing. Legislators and school officials now seem to be suggesting that the aid administrator not only dole out dollars but also be involved in assuring Congress and the taxpayer that monies borrowed will be repaid. The concept of being accountable for the financial aid process is taking on new and broader dimensions. As traditional sources of financing education are reduced, the institutional leadership is looking to the financial aid administrator to structure a new system of financing. Phrases, such as creative programming, innovative planning and alternative sources of funding are frequently used when discussing financial aid.

The role of the financial aid administrator has been affected by the current economic environment. The economic situation in this country has changed employment projections for the future. In educational terms, this may mean that graduates, once able to secure sufficient employment with an undergraduate degree, may now be required to pursue graduate studies in order to obtain the job they desire. In the March 30, 1983 issue of *The Chronicle of Higher Education,* it was

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reported that many graduate schools are experiencing substantial increases in the number of applicants for next fall. In a competitive environment, additional training may become a necessary component for future employment. The majority of students who enroll in graduate school are full-time. This means delayed employment. It also means additional borrowing. Twenty years ago borrowing for a graduate education was unknown. Today with fewer graduate school scholarship and grant programs available, borrowing for a graduate education is reality. The graduate degree holder will have greater debt upon completion of the graduate degree than was once the case. The social implications of greater debt as it relates to job choice, marriage, children and home buying are enormous. There has been an implied concept of the right to the "good life" after completing four years of undergraduate education. The good life may be delayed or in some cases postponed indefinitely because of high educational debt.

Once the aid administrator accepts the expanded role of the financial aid office, other school administrators should also accept the change. The aid administrator should have the ability, patience and persistence to communicate effectively to institutional officials the current problems in administering financial aid programs.

Many schools are facing several crises simultaneously: the crisis of internal control and governance; a crisis of philosophy and mission; a crisis of position in the marketplace; and a money crisis. A state of stress in any one of these areas will be communicated to the others, particularly to the financial area. Often the ability to solve problems in other areas will depend on whether money problems can be solved or at least alleviated. No school can afford to wait for legislative action to resolve its financial constraints. These constraints include the administration of financial aid programs in a time when tuition costs are escalating and traditional financial aid sources are being reduced. The aid administrator must be an integral participant in the future financial planning process of the school and the future planning of any institution should take into account input from the financial aid administrator.

II. *The Establishment of Three Programs: Financial Counseling, Debt Management and Debt Counseling*

A. *Financial Counseling*

The financial aid administrator must expand the financial aid process to include financial counseling. This process should begin prior to a student's matriculation. Applicants to colleges and universities have the right to know what the financial aid policy of the school is and what they must do to secure funding. They also have the right to know what portion of their financial aid must be repaid, what the interest rate is, what the payback procedures are and when repayment begins. Parents and high school counselors also have the right to this information. Accurate and honest information on actual educational costs should be provided to students and their families during the earliest stage in the admissions process.

Financial counseling should not be limited to pre-entrance interviews. It should include the use of computer models, which, given specific assumptions, can project the financial future of the student. However, computer counseling cannot replace personal counseling. The aid office staff is essential to any counseling program. Time constraints may limit an aid staff from personally counseling each financial aid recipient. In such cases, the use of effective video presentations can assist in educating the student to basic fiscal considerations. Financial aid counseling should also include input from other areas - banking institutions, accounting firms, and employment specialists. Such information can complement the financial aid counseling program and should include the following:

1. Assisting the student in developing a long-term plan and realizing future financial needs

2. Organizing short-term finances and developing a realistic budget
3. Developing an investment portfolio and examining investment instruments
4. Investigating accounting and financial forecasting
5. Arranging present and future loans within the framework of future career goals.

The counseling described here is an ongoing process from high school through graduate school training. Students should have at the end of their undergraduate training the financial skills necessary to continue the financial planning process.

B. *Debt Management*

As the costs of education increase and as financial aid resources decrease, greater student borrowing is inevitable. The expanded role of the financial aid administrator should include constructing debt management models which effectively help the student assess and deal with the financial future. Debt management models should be an essential component of the financial counseling process. Debt management must also explicitly outline what financial steps the student and the graduate should follow.

Borrowing should be viewed within the context of future employment. Students should be advised to consider their educational debt in light of income potential. Indirect costs, or those earnings relinquished because of graduate studies, must also be factored into the future financial prospects of each student.

Debt management models should also take into account the following:

1. Marital status
2. Spouse income
3. Spouse debt
4. Loss of spouse income for childrearing
5. Tax reductions for interest payments
6. Inflation rates
7. Federal, state, and city tax rates
8. Amortization of debt
9. Retirement plans
10. Investment portfolios

Aid administrators must look at the student not in terms of four years, but rather for as many years as it will take to complete each student's educational goals. This does not mean that financial aid awards should be made according to future income potential. However, the aid administrator and the student each have the responsibility of looking not just to the present but to the future. It is the responsibility of the aid administrator to play an active role in educating students about the financial and social ramifications of their educational goals and educational debts.

C. *Debt Counseling*

Financial aid administrators also have the obligation to alert students to the consequences of excessive borrowing and default. It must be remembered that a student borrower is not the same as a consumer borrower. There is nothing tangible at the end of four years of undergraduate study, as is the case with the purchase of a consumer item. Educational borrowing cannot be treated in the same manner as consumer borrowing. Student expectations about repayment must be aligned with reality. Students must be aware of the obligation to repay their loans. They have not simply signed pieces of paper at the time of registration, but rather have assumed responsibility to repay on time a specific amount of money. Students should be counseled at the time the loan is made that they have a legal and moral obligation to repay the loan. This concept cannot be adequately developed if left to the exit interview. Rather, it must be developed at the earliest time possible in the financial aid process.

Excessive debt introduces the issue of default. High default rates create a public image of education to the taxpayers as a burden. As suggested by the Carnegie Commission in their 1980 report, default tarnishes the image of education and creates a negative view of students and loan administrators.

A financial counseling, debt management and debt counseling checklist should include the following questions:

1. Is there an institutionally-approved, written financial counseling and debt management program at the school?
2. Are the appropriate institutional administrators, faculty and students involved in the development of a financial planning and debt management model?
3. Are applicants to the school being advised of the financial aid policies of the school prior to matriculation?
4. Are students advised of potential educational debt and how to creatively structure that debt to meet their educational and employment objectives?
5. Is regular and efficient counseling conducted annually for each financial aid recipient?
6. Are students counseled about excessive borrowing and unmanageable levels of debt?
7. Is there a relationship with a local bank which facilitates the presentation of seminars about money managemnt?
8. Are outside lecturers, such as employment specialists or accountants, invited to participate in financial aid counseling sessions?
9. Is there a videotape financial aid orientation program available?
10. Are alternate ways of meeting educational costs being explored by a group of school officials, including the financial aid administrator and the business officer?
11. Are loan repayment terms clearly understood? Do students sign statements indicating that they understand the terms of their loans?
12. Does the financial aid administrator prepare annually the average debt levels for specific academic disciplines - business, arts and sciences, etc.?
13. Are students who plan to attend graduate or professional school counseled about future debt?
14. Are students prepared to continue their financial planning program at graduation and for the years they will be in repayment?
15. Do students have a clear understanding of the implications of excessive debt on their future borrowing ability?

III. *Exploration of Creative Ways to Finance Educational Costs*

It is the challenge and task of the financial aid adminstrator to work with other school officials to develop creative and alternate ways of financing education. The following alternatives can be explored by the aid administrator:

1. Investigation of loan consolidation programs. Consolidation can have a major impact on educational borrowing.
2. Development of a loan interest subsidy program based on need.
3. Consultation with the career placement specialist and development officer. Contact between the development officer and the financial aid administrator is particularly important. Such a relationship can influence future fundraising campaigns and help target funds for specific student financing needs.
4. Exploration with the business officer of alternatives to tuition increases. The aid administrator has the opportunity to present data which will illustrate the

effect of increased tuition costs on the financial aid process.

5. Consideration of the availability of student employment and the feasibility of such employment as an increased portion of the financial aid package.
6. Investigation of the possibility of selling bonds to create loan capital. Proceeds from the sale of tax exempt bonds can provide the capital for a private loan corporation. The educational institution would guarantee the loans and students would pay the interest charges.
7. Consideration of the more effective use of internal resources and scholarship funds. One possibility is the development of a low interest loan program from internal grant funds.
8. Solicitation of professional advice about counseling students. The aid administrator should meet with bankers, investment counselors and accountants to learn how to creatively manage the student's debt "portfolio."
9. Contact with other aid officers to learn how other schools are meeting their students' financial needs.
10. Exploration of financial assistance through private or corporate services.

Summary

It is necessary to place the problems of education today in global, national and societal perspective. The problems are not isolated. Neither are their solutions. Change provides an opportunity to grow. The current financial aid system addresses itself to the present, not to the future. What is needed are financial aid administrators who are effective leaders willing to suggest changes and seek solutions to problems. Aid administrators are needed who, in understanding today, can predict what our tomorrow is likely to be. It is the new role of the aid administrator to educate other school officials about the need to change previously held impressions about financial aid. The administrators should inform students and their families of the need to work with the aid staff in meeting the costs of attending school and to learn the future implication of debt for the student and family. In this way, the aid administrator shifts from being simply an implementor of policy to a creator of policy and in this way assists in meeting the future educational needs of this country.

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