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A Study of Indiana Guaranteed Student Loan Borrowers 1980-81, 1981-82

by Susan L. Pugh

Background

The Guaranteed Student Loan Program began in 1965 (PL 89-329), with its primary objective being "to promote access and choice to higher education by reducing financial barriers" (Briefing Paper on GSLP, 1980, pp. 2-3). From its inception, student eligibility was partially determined by family income level. In 1965, a student from a family with an income of less than $15,000 per year could obtain a subsidized loan for a maximum of $1,500 per academic year. A subsidized loan meant that the federal government would pay the loan's interest charges while the student maintained enrollment on at least a half-time basis as well as during a nine-month grace period following enrollment. In 1972, the student was required by Public Law 92-318 to demonstrate financial need in order to obtain a loan, regardless of family income level. However, in 1974, the original provisions were reenacted (PL 93-269); the family income ceiling was increased to $25,000, and the academic year loan maximum was raised to $2,000 for undergraduate students. As part of the Middle Income Student Assistance Act in 1978, the family income restriction was removed (PL 95-566) and all at least half-time undergraduate students were eligible to borrow up to $2,500 per academic year as dependent students and up to $3,000 per academic year as independent students. The Postsecondary Student Assistance Amendments of 1981 contained in the Omnibus Budget Reconciliation Act, PL 97-35, mandated family income restrictions of $30,000 per year, although students with family incomes in excess of the new ceiling could qualify by demonstrating financial need according to new federal requirements. Academic year loan amounts were limited to $2,500 for all undergraduate students (see NASFAA, 1981, p. 1).

By 1969, the Guaranteed Loan Program had grown nationally to over $1.5 billion, with the average student loan at $875. By 1972, when the "needs test" was first mandated, loan volume exceeded $4.5 billion per year and the average loan had increased to $998. By 1974, when the original provisions were reenacted; loan volume had increased to $6.8 billion, and the average loan was $1,215. From 1974 to 1978, loan volume increased to $13.4 billion, per year, with the average loan rising to $1,805. The Middle Income Student Assistance Act was accompanied by an increase in loan volume in excess of $21 billion, and an average loan of $2,051. This steadily increasing federal fiscal commitment resulted in the Guaranteed Loan Program being targeted by the Administration for reductions in 1981, with the political promise of further reductions if the volume continued at the previous rate.

The imposition of family income restrictions on the Guaranteed Student Loan Program certainly limited student eligibility; however, at the same time these restrictions were being imposed, more lenders were being encouraged to participate in the

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program through the provision of federal payments as incentives in 1976 (PL 94-482), and states were being encouraged to establish their own guaranteeing agencies. Prior to 1976, only 26 state and non-profit guarantee agencies were participating in the program; by the end of 1982 all 50 states had state agency programs which were responsible for over 90 percent of the current loan volume (NASFAA, 1981, pp. 4-5).

The state of Indiana introduced a Guaranteed Loan Program in January, 1979, and processed $10.4 million, with an average loan of $1,834. By the 1981-82 academic year, and prior to the Omnibus Budget Reconciliation Act taking effect, loan volume had increased to $22.7 million, with an average loan of $2,209 (Briefing Paper on Student Financial Aid Programs, 1981, p. 4). The rising fiscal commitment for the Indiana Guaranteed Student Loan Program has been accompanied by increasing interest in the program on the part of state legislators, college administrators and students, as well as on the part of the general public.

As the Guaranteed Student Loan Program has been enhanced over the years, there has been an increasing dependence on this loan program by students to pay their college costs. This dependence may lead not only to increasing student's indebtedness, but also to the student's reluctance to attend more expensive colleges, perhaps even to the extent of selecting a public commuter campus as an alternative. As a result, the ever-increasing appropriations to the Guaranteed Student Loan Program may not result in the promotion of choice to higher education, which was the fundamental objective of the loan program. If students consider that loans beyond a certain amount are indeed a barrier, both their access to and choice of higher education will become limited.

The Study

The study described in this article was designed to investigate student borrowing in the Indiana Guaranteed Student Loan Program and to determine the impact that loan amounts have on college choice and other resources to pay educational costs.

The specific objectives of the study were:

1. To determine the relationship between institutional choice and other resources.
2. To determine the relationship between institutional choice and Guaranteed Student Loan amount.

The population of the study was limited to traditional Indiana college undergraduates who borrowed under the Indiana Guaranteed Student Loan Program for both the 1980-81 and 1981-82 academic years. A random sample of 20 percent of the designated population of 11,170 borrowers was extracted from the computer files of the United Student Aid Fund, Inc. Of the survey instruments which were mailed to the 2,234 students within the sample, 1,117 were returned for a response rate of 50 percent. Information on the defined population concerning the guaranteed loan eligibility limits and amounts borrowed on the Indiana Guaranteed Student Loan program was also analyzed, utilizing data provided by United Student Aid Funds, Inc.

The objectives of the study were considered important enough that the project was sponsored and encouraged by five organizations: the State Student Assistance Commission of Indiana, which mailed and collected all of the survey instruments; the Higher Education Commission of Indiana, which analyzed and filtered all of the computer tapes provided by the United Student Aid Funds, Inc.; the United Student Aid Funds, Inc., which provided the mailing labels for the survey instruments as well as the computer tapes; the Independent Colleges and Universities of Indiana; and the Indiana University Office of Scholarships and Financial Aids at Bloomington, which provided additional funding for the study.

To achieve the objectives of the study, answers to the following questions were sought:

1. What sources of income do students and famlies pursue in order to meet college costs?
2. How do the sources of income vary, based on institutional choice and family income level?
3. What factors influence the amount borrowed under the Indiana Guaranteed Student Loan Program?
4. How do the factors affecting decisions regarding the amount borrowed under the Indiana Guaranteed Student Loan Program vary, based on institutional choice and family income level?

The data collected from the survey instruments provided the primary source of information related to the variables being investigated. These data were keypunched and a computer program was compiled from the Statistical Package for the Social Sciences in order to calculate the frequencies and cross-tabulations of the defined variables and to calculate statistics concerning the relationships between the defined variables and parental income and between the defined variables and institutional choice.

The following scale was used to evaluate the strength of both positive and negative relationships that were calculated by the statistical tests (significant beyond .05 level):

Weak Relationship	.01 to .30
Moderate Relationship	.31 to .70
Strong Relationship	.71 to .99
Perfect Relationship	1.00
No Relationship	0.00

When the cross-tabulations resulted in larger than 2 x 2 tables, but one of the variables was nominal, eta was calculated. The following list represents the nominal variables:

Group I:	Title
	A. Institutional Choice
	B. Dependency Status
	C. Limitations on Borrowing
	D. Receipt of State Financial Aid

The following list represents the variables that were in intervals:

Group II;

Title	Number of Intervals	Length of Intervals
A. Parental Income Levels	9	$5,000
B. Family Contribution Levels	11	$ 500
C. Student Contribution Levels	11	$ 500
D. College Cost Levels	6	$2,000
E. Aggregate Borrowing Levels	5	$2,500
F. Academic Year Borrowing	5	$ 500; below $1,000; $2,500
G. Influence Exerted on Borrower	7	1

If any of the variables in Group I were defined as independent and compared with any of the variables in Group II, eta was calculated because (1) the data sets were asymmetric, (2) the independent variable was nominal, and (3) the dependent variable was defined by intervals. The 2 x 2 tables created for comparisons within Group I were accompanied by calculations of the contingency coefficient.

If any of the variables within Group II were compared to each other, Kendall's tau was calculated. If the intervals of the data sets were of different lengths (the number of columns did not equal the number of rows in the cross-tabulation), then tau c was calculated. The square tables were accompanied by a calculation of tau b.

Findings

In order to evaluate the data collected, the questions of the study were translated into four null hypotheses that could be tested. The investigation of the null hypotheses was divided into two steps. First, frequencies of all related variables were calculated and analyzed; second, cross-tabulations of each variable with parental income level and with institutional choice were completed. The following observations resulted in the rejection of each null hypothesis:

Null Hypothesis: There is no relationship between sources of income which students and families pursue in order to meet college costs and parental income levels.

1. Frequencies
   - A. Parental income: over 41 percent of the students would no longer qualify for Indiana Guaranteed Student Loans unless they could demonstrate financial need. Parental income data was collected for over 90 percent of the sample, although approximately one-third of the students indicated that they were financially independent from their parents and not claimed as tax deductions.
   - B. Student contribution: there were two broad categories of students to consider, (1) those with no student contribution and (2) those with an average student contribution of at least $2,177.
   - C. Receipt of state financial aid: there were relatively few students receiving awards from the general funds of the public institutions. In contrast, there were a number of students attending private institutions who were receiving Freedom-of-Choice Grants in addition to State Grants and Scholarships.
2. Cross-tabulations
   - A. Relationship between parental income levels:
     - And amount of family contribution = moderate positive
     - And tax dependency = moderate negative
     - And student contribution = weak negative
     - And receipt of state financial aid = weak positive
   - B. Relationship between student contribution levels:
     - And parental income level = weak negative
     - And tax dependency = weak negative
     - And receipt of state financial aid = none

Null Hypothesis: There is no relationship between sources of income which parents and families pursue in order to meet college costs and institutional choice.

1. Frequencies

A. Institutional choice: although there were four public institutions and 28 private institutions represented, the public institutions shared over 72 percent of the loan volume. Of the private institutions represented, six colleges shared over 55 percent of the loan volume for the private sector.

B. Institutional migration: student migration patterns were divided into two categories: public school both years of the study and private school both years. There were no students who attended a public school one year and a private school one year.

2. Cross-tabulations

A. Relationship between private college attendance:

And amount of family contribution	= weak positive
And student contribution	= weak positive
And receipt of state financial aid	= weak positive

Null Hypothesis: There is no relationship between factors influencing the amount borrowed under the Indiana Guaranteed Student Loan Program and parental income levels.

1. Frequencies

A. College costs: average cost estimated for 1980-81 was $5,846, and for 1981-82 costs were estimated to be $6,375. The 1980-81 figure was compared to the mean of institutional cost estimates reported to the State Student Assistance Commission for 1980-81. The mean of institutional responses was $4,843, which was $1,003 lower than the students' estimates of college costs.

B. Limitation placed on amounts borrowed: 73 percent of the students were restricted in their borrowing; however, 70 percent did not feel that they were limited by the college. About half the students responded that they were limited by the lender, and 80 percent felt that they had been limited by the federal restrictions of $2,500 per academic year.

C. Borrowing levels: the average student had borrowed $7,105 under all loan programs, and planned to borrow $3,981 additional to complete a bachelor's degree. The average borrowing for all years under all loan programs was calculated to be $9,327. This information was then compared to borrowing levels within the Indiana Guaranteed Student Loan Program only, as reflected on the computer tapes provided by the United Student Aid Funds, Inc. The typical student borrowed the maximum for which he or she was eligible, or $2,500, whichever was the lesser amount. The mean borrowing level for 1980-81 was $2,118 for the academic year; for 1981-82 the mean was $2,175 for the academic year.

D. Influence of certain individuals on the students' borrowing decisions: the groups could be ranked into four categories, with the student's own role in the process ranked first, followed by family influence; the influence of the lender would be third, followed by the influence of the college staff fourth. The employer's influence, as well as the influence of individuals associated with the church would follow, although neither group exerted an effect on the decision-making process.

2. Cross-tabulations

A. Relationship between parental income levels:

And college costs	= weak positive
And borrowing limitations	= weak positive
And aggregate borrowing	= weak positive

	Influence of family on borrowing decision	= weak positive
	Influence of lender on borrowing decision	= weak positive
	Influence of employer on borrowing decision	= weak positive
	Influence of student on borrowing decision	= weak negative
	Influence of college staff on borrowing decision	= weak negative
B.	Relationship between student contribution levels	
	And influence of family on borrowing decision	= weak negative
	And influence of student on borrowing decision	= weak positive

Null Hypothesis: There is no relationship between factors influencing the amount borrowed under the Indiana Guaranteed Student Loan Program and institutional choice.

1. Frequencies
   - A. For 1980-81, administrators at public institutions underestimated college costs for the defined population when reporting expense calculations to the State Student Assistance Commission of Indiana. The average cost as determined from the students' estimates was $4,823 for public college attendance, and the mean of the responses from the public institutions was $4,084.
   - B. For 1980-81, the college costs reported by administrators of private institutions to the State Student Assistance Commission of Indiana were calculated to be $6,787 as the average. The average cost based on the students' estimates was $5,922 for private college attendance, which was $865 lower than the institutional estimate.
2. Cross-tabulations

Relationship between private college attendance:	
And Guaranteed Loan amounts	= weak positive
And Guaranteed Loan eligibility limit of $2,500	= weak positive
And college not limiting borrowing amount	= weak positive
And aggregate borrowing levels on all loans to complete degree	= weak positive
And influence of college staff on borrowing decision	= weak positive
And influence of employer on borrowing decision	= weak positive
And influence of family members, lender, church, or student on borrowing decision	= none

Conclusions

Based on the findings, the study suggested a number of conclusions concerning undergraduate borrowers under the Indiana Guaranteed Student Loan Program.

1. Most of the borrowers were from upper middle income backgrounds with parents who assisted in meeting college costs of attendance, if the borrower attended a private college and was a tax dependent. The amount contributed by the family was directly related to the size of parental income.

2. Most of the borrowers who were not claimed as tax deductions received little family financial support; in addition, the amount of student contribution was inversely proportional to the size of family income for this group of students.

3. The student contribution, like the parental contribution, was proportionately higher for those students attending private institutions.

4. Students borrowing a Guaranteed Student Loan to attend a private college were

more likely to receive higher family and student contributions, and to receive need-based financial aid awards from the state of Indiana.

5. The students' borrowing levels and eligibility limits for Indiana Guaranteed Student Loans very closely approached the federal maximum allowances . For all years under all loan programs, students reported that they borrowed more than $9,000; an analysis of the 1980-81 and 1981-82 computer files for the defined population suggested that students were borrowing to the limit on the program. Further, student eligibility limits exceeded the Guaranteed Loan amount limitation of $2,500 per academic year.

6. Parents exercised the greatest influence on dependent borrowers in the decision-making process related to loans. In contrast, independent students relied primarily on their own judgments.

7. The estimates of college costs calculated by the students were dissimilar to those calculated by the institutions.

Recommendations

The original purpose of the Guaranteed Student Loan Program, as defined in the legislation, was "to promote access and choice to higher education by reducing financial barriers." In order to re-affirm the stated objective, the following recommendations are offered:

1. A needs analysis system should be implemented to evaluate all loan applications, in order to insure that loans do, indeed, result in the reduction of the financial barriers of inadequate student and family resources.

2. A standardized set of cost allowances should be used to evaluate the student's loan requests, so that an institution or a student cannot overestimate or underestimate the reasonable costs of attendance.

3. A task force should be appointed to investigate student borrowing levels at traditional Indiana colleges and should make recommendations to the state legislature concerning appropriate fiscal commitments to the State Grant, State Scholarship, Freedom-of-Choice Grant, and Indiana Guaranteed Student Loan Program. The task force, after analyzing the fiscal adequacy of the existing programs, should investigate the funding of a state student employment program that would result in enhanced student contributions to meet college costs.

4. Finally, further studies should be conducted concerning the variables affecting student migration and initial college choice. Some of the variables to consider would be identical to those included in this study: family income, student income, availability of various forms of student financial aid, and the net price of attendance, which is defined as the college cost after all non-loan resources are subtracted.

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