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The Challenge

Low-income people of all backgrounds – including students – live on the financial edge. We frequently worsen their financial problems by forcing them to take loans for an education. We know that a significant percentage of people in this group will face critical problems of a personal or family nature, such as health care, either as students or in the period immediately following their schooling. These problems often cause students to drop out and ex-students to default on their loans. In admitting low-income students who have the needed aptitude for education, we cannot identify specific individuals who will have critical personal problems, though we know that a significant percentage of the low-income group will, and that pushes up dropout rates and defaults. The only way for a school to avoid this is to deny admission to low-income students. There are no public announcements of such a policy, but when schools shift their location or their emphasis from the central city to the suburbs, this is part of a pattern that a well-intentioned but flawed policy encourages.

A decade ago the federal student loan program was a program in crisis. Years of neglect at the Department of Education had loosened the administrative and fiscal controls. The most obvious barometer of a problem was the soaring student loan default rate and the costs that the federal government incurred to pay off defaulted student loans. Congress and the Executive Branch took strong action. A student loan default rate cut-off was instigated. Schools with a default rate above a specified threshold were eliminated from the federal student aid program. One whole class of schools – correspondence schools – was eliminated from eligibility. Standards to participate in the loan program – academic and financial – were tightened.

The harsh medicine worked. During the same decade that the amount of money borrowed increased from 12 billion to 30 billion, the default rate fell. The federal government tightened loan default laws, and fiscal controls. The most obvious barometer of a problem was the soaring student loan default rate and the costs that the federal government incurred to pay off defaulted student loans. Congress and the Executive Branch took strong action. A student loan default rate cut-off was instigated. Schools with a default rate above a specified threshold were eliminated from the federal student aid program. One whole class of schools – correspondence schools – was eliminated from eligibility. Standards to participate in the loan program – academic and financial – were tightened.

The Recommendations

The following are recommendations of a small group assembled at Carbondale, Illinois, by the Southern Illinois University Public Policy Institute. A list of the participants follows the recommendations. Not every recommendation is necessarily supported by each of the participants nor by the groups or institutions with which they are affiliated.

Long-Term

• The shift from heavy reliance on student grants to heavy reliance on student loans needs to be reversed. Gradually increasing the Pell Grants is in the nation’s interest and will lessen the prospect that students from low-income families will accumulate unmanageable debt. Increasing funding for Pell Grants will encourage more students from families of limited income to attend post-secondary institutions and remain in school through graduation. Lowering debt...
burden would also allow students to choose the lower-paying service professions. Congress should expand eligibility for Pell Grants to more students and increase the amounts of Pell Grants to fund a greater portion of the student’s financial need.

• The Pell Grant should be shifted to a year-around period for students who pursue summer studies. The traditional student, ages 18 – 22, who takes the summer off is a shrinking segment of the post-secondary education student population. Frequently an older student or one from a low-income family wants to get through school quickly. That need should be accommodated. Students should not be required to assume a larger debt burden due to the unavailability of Pell Grants for the summer session. Congress should fund Pell Grants for any period of student attendance.

• Eliminate the Pell Grant tie-in to the default rate cut-off. Schools need to provide Pell Grants to enable low-income students to attend and remain in school. The increased Pell Grant will be partially cut-off. Schools need to provide Pell Grants to enable low-income students to attend and remain in school.

Short-Term

• Financial counseling, including financial planning, budgeting and debt management should be provided to all students and families, and particularly to low-income students, before and during college and through repayment of student loans after leaving school. Financial counseling should include responsible credit card management, utilization of banking resources, and financial training for school personnel to develop counseling skills to assist students. Whenever possible, schools should follow through with students after they leave school — either upon graduation or when dropping out — to encourage debt payment and offer counsel and assistance when necessary.

• The Department of Education’s “Plain Language” warning on student loan disclosure statements is not written in plain language. Improve the accurately and difficult to understand legalese.

• The Department of Education should examine the possibility of having training opportunities for student financial counselors in the area of debt management and debt counseling. The typical aid officer at traditional institutions does not have much understanding or training in this specialty area.

• The Department of Education should explore means other than default rates to assess and enforce accountability for the quality of schools. Effectively informing the public of educational opportunities and particularly reaching the minority communities is a need. The Department of Education, schools and other agencies should improve communication to the public and more effectively utilize the media outlets that serve the minority communities, often composed of low-income families.

• Many students need advice after receiving loans. Financial counseling should include respon- sible credit card management, utilization of bank- ing resources, savings and investments, as well as the traditional financial aid and student loan coun- seling. The banking industry and guarantee agen- cies as well as the Department of Education should be required to partner with schools to provide di- rect financial services to students and families in- cluding printed and web-based financial planning

factory to the Secretary of Education and there are no outstanding audits or limit, suspend or termina- tion agreements pending against the school.

• Immediate research is needed assessing the total debt burden that students are assuming when they end their schooling and how that burden impacts a student’s career choices. It should include a look at the amounts that students borrow by field of study and the burden this will impose on them in light of income they are likely to earn. This study should also look at successful repayment plans and the effectiveness of exit counseling. Congress needs to appropriate adequate funding to conduct this study authorized in part during the last reauthori- zation of the Higher Education Act. Results can be used to make necessary policy changes. Congress should authorize the study and appropriate funds for the study. The amount of funding needed for this research is a tiny fraction of one percent of what we now spend for student loans.

• At present, all student loan borrowers receive exit and entrance counseling to make certain that they understand the obligations they face by borrowing under the student loan program. Such counseling is often done in a routine fashion. The Department should conduct research into the most effective prac- tices and should promulgate the results to campuses.

• The default rate threshold mechanism for continued eligibility for federal financial aid programs has served as a means for the Department of Education to elimi- nate low-quality schools from the federal programs, but it has also decreased educational opportunities for many students from low-income families. Good-quality schools have changed locations away from the inner cities and poor rural areas to avoid default rate problems that are inherent to serving at-risk populations. The Department of Education should explore means other than default rates to assess and enforce accountability for the quality of schools.