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Are Attitudes and Perceptions About Debt Related to Borrowing Habits?

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The Goal – College Success

Students enroll in college with the idea of succeeding – they are...



One Barrier – College Costs

- ▶ Some students, however, will face challenges to success because of their financial need.



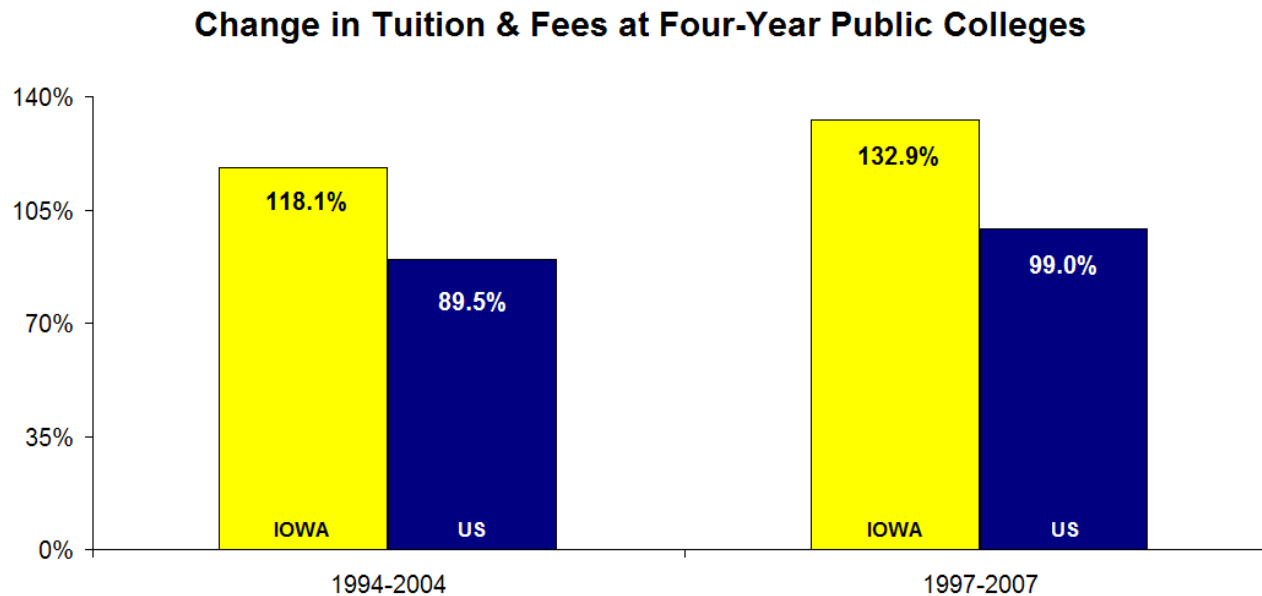
Debt Burden Variations

- ▶ Why do some students and families take on more debt than others?
- ▶ In particular, why do Iowa students have a higher average debt upon graduation than nearly every other state year after year?



Environmental Factors

- ▶ The “usual” suspects – cost of college
 - **Tuition** and **fee** charges for college have rapidly increased in Iowa



Sources: College Board Trends 2008, Common Data Set, Regents reports and university Web sites.

Environmental Factors

- ▶ The “usual” suspects – state aid
 - **State aid** programs in Iowa:
 - have not kept pace with inflation in college costs
 - are available to only a relatively small number of students

- ▶ Iowa’s rank* for:
 - Grant \$ / undergraduate FTE – 34th (\$244.59)
 - Number of state grant awards per FTE – 44th (0.099)
 - State grant \$ / state \$ – 29th (7.6%)

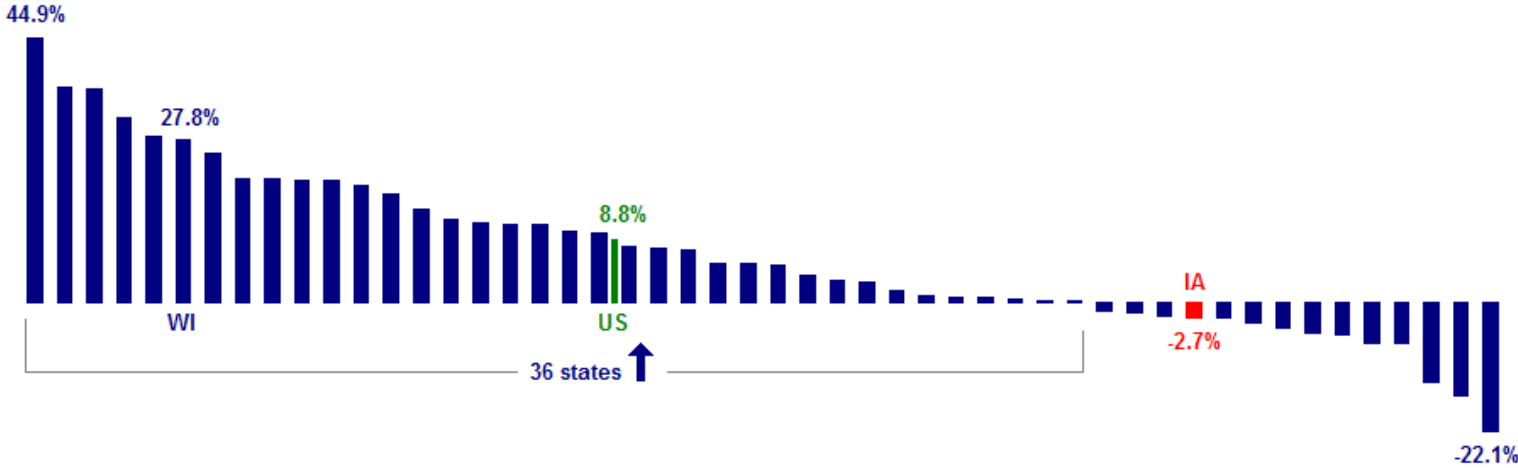
*Source: National Association of State Student Grant and Aid Programs 41st Annual Survey Report – 2009-2010 data

<http://www.nassgap.org>

Environmental Factors

- ▶ The “usual” suspects – state support
 - **State support** for higher education in Iowa has declined more than in many other states

**Percent Change in State Fiscal Support for Higher Education
FY06-FY11**



Source: Grapevine 50 State Summary (revised March 8, 2011) - http://grapevine.illinoisstate.edu/fifty_state_summary.htm

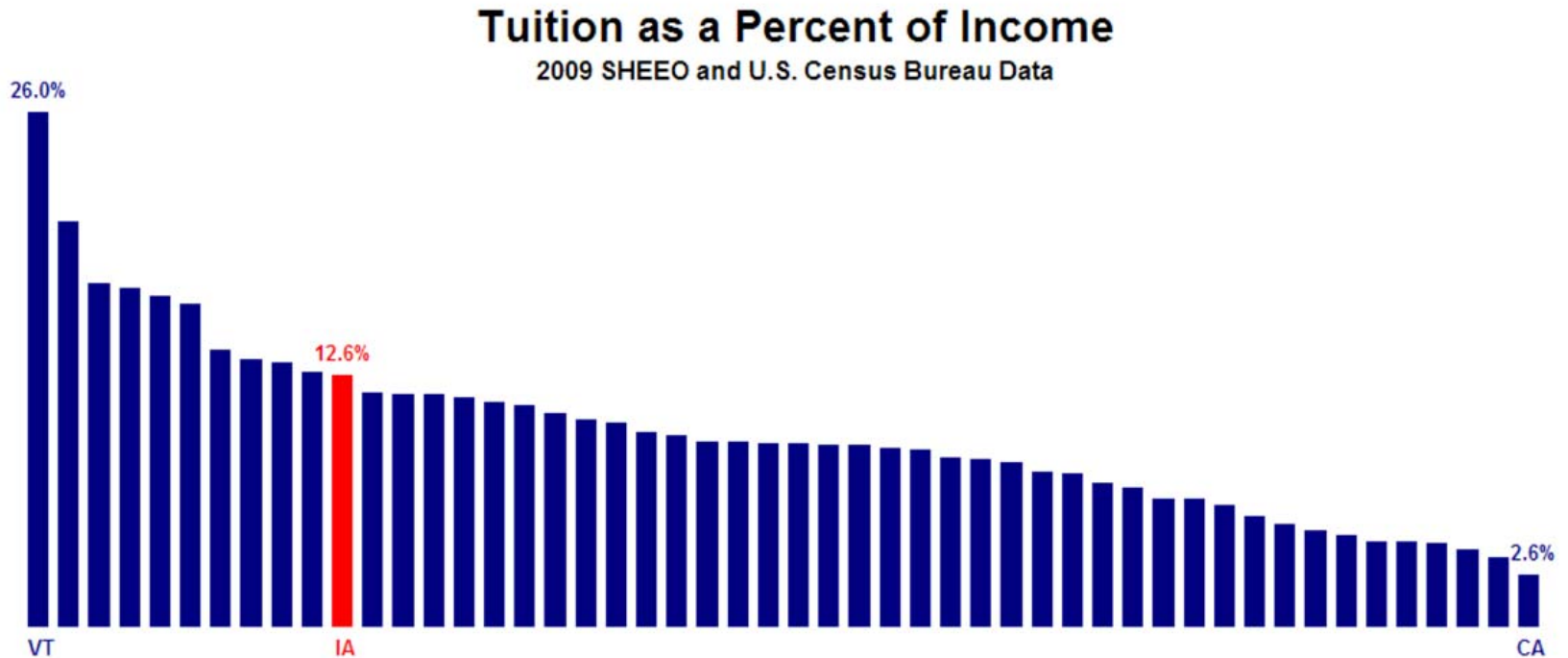
Environmental Factors

- ▶ The “usual” suspects – family income
 - Family **incomes** in Iowa trail the national average by approximately \$8,000 per year in recent years
 - Fewer **family resources** (i.e., EFC) are available for college education expenses
 - In 2009, Iowa ranked 28th in the U.S. with a weighted average **adjusted gross income** (AGI) of \$49,996; the US weighted average AGI was \$55,147*

*Source: Internal Revenue Service 2009 data - <http://www.irs.gov/taxstats/article/0,,id=171535,00.html>

Environmental Factors

- ▶ The “usual” suspects – tuition as percent of income
 - **Tuition** in Iowa is a relatively large proportion of income



Source: SHEEO and U.S. Census Bureau American Community Survey 2009 (income data)

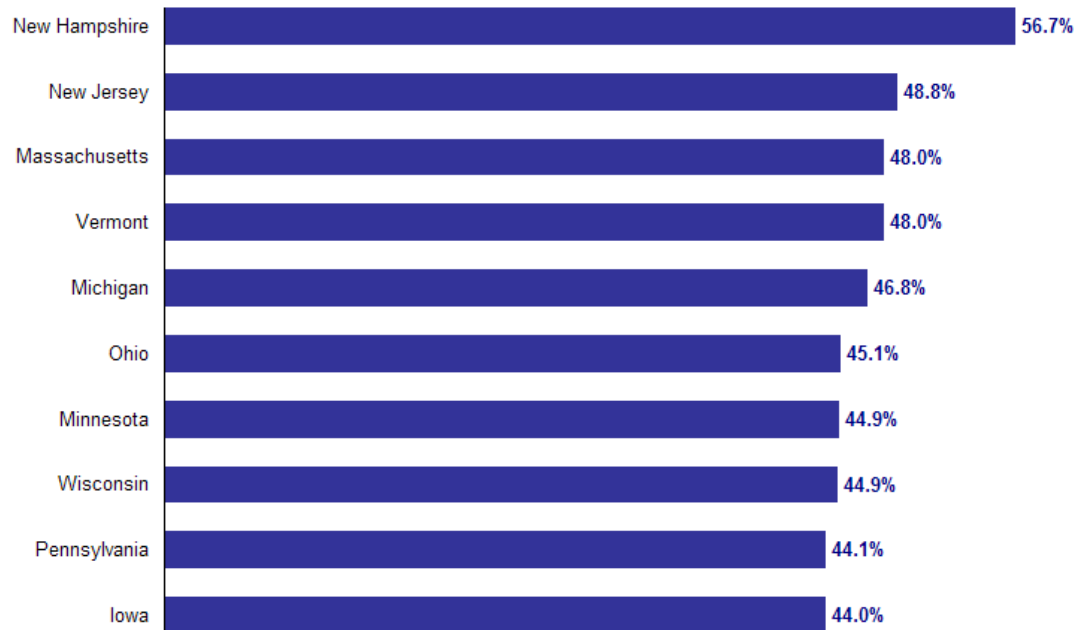
Environmental Factors

- ▶ Iowa ranks 8th in the U.S. when computing the proportion of the population classified as first-time degree seeking students in any state



Environmental Factors

- ▶ Iowa has a high rate of participation in postsecondary education by **low-income families** (44.0%)
- ▶ This is the 10th highest rate in the country



Source: Compiled from data provided by the U.S. Department of Education – reported by Tom Mortensen a www.postsecondary.org

Are Attitudes and Perceptions Related to Borrowing Habits?

- ▶ In 2009, the Iowa Student Loan board created the Student Indebtedness Task Force
 - Board members + staff
 - Collect data to understand the borrowing habits of Iowans
 - Attitudes and perceptions may be related to borrowing habits

The Study

- ▶ Surveyed five groups
 1. High school **seniors**
 2. **Parents** of high school seniors
 3. Currently enrolled **college students**
 4. **Parents** of currently enrolled (dependent) college students
 5. **College students** who had separated from their postsecondary experience
- ▶ Nationally, 67% of college students borrow*
 - Interested in this group

*Source: http://projectonstudentdebt.org/files/File/Debt_Facts_and_Sources.pdf

The Study

- ▶ Sent out 20,000 surveys
 - 2,000 to each group in each state
- ▶ Total of 3,066 returned (15% rate of return)
 - 337 not enrolled or planning to enroll
 - 410 did not borrow or did not plan to borrow

Respondents Who Borrowed or Planned to Borrow	Iowa	Wisconsin	Total
[1] College-Bound HS Seniors	408 (18%)	153 (7%)	561 (24%)
[2] Parents of College-Bound HS Seniors	422 (18%)	198 (9%)	620 (27%)
[3] Current College Students	179 (8%)	84 (4%)	263 (11%)
[4] Parents of Current College Students	258 (11%)	137 (6%)	395 (17%)
[5] Former College Students	337 (15%)	143 (6%)	480 (21%)
			2,319 (100%)

The Study

- ▶ “Low debt state” comparison - Wisconsin
 - Debt upon graduation is **21% lower** in Wisconsin vs. Iowa
 - \$22,904 (Wisconsin)
 - \$28,883 (Iowa)
 - **Geographically** close
 - Cultural geography postulate: “The closer we are geographically, the more similar we are.”
 - Similar to Iowa’s postsecondary landscape **demographically**

The Study

- ▶ “Low debt state” comparison - Wisconsin
 - Similar to Iowa on many **postsecondary characteristics**

	Iowa	Wisconsin
4-year in-state tuition (2010-2011)	\$7,154	\$7,652
Private non-profit tuition (2010-2011)	\$25,271	\$26,044
Rank: UG Grant \$ / UG FTE	34	29
Adjusted Gross Income	\$49,996	\$51,153
Public 4-year doctoral/research colleges*	3%	3%
Private 4-year colleges	69%	63%

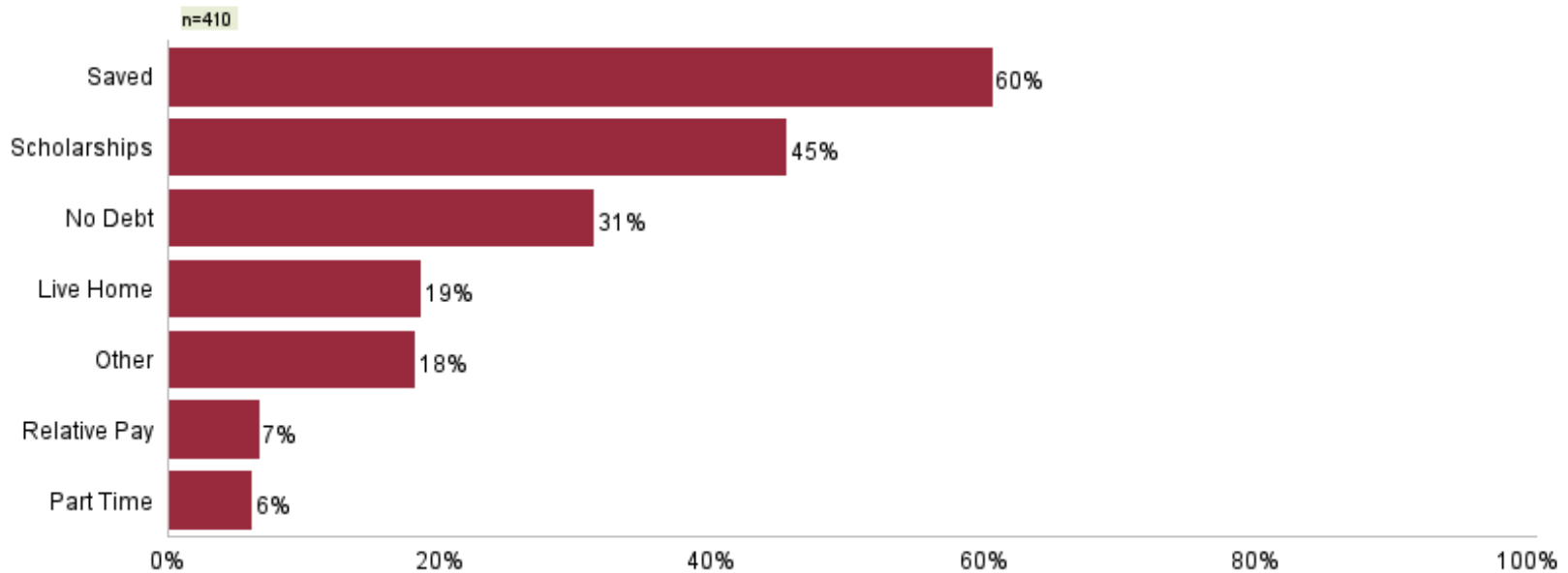
Attitudes and Perceptions

- ▶ For the purposes of this study, an **attitude** was defined as the “feeling” that the respondent has toward a particular item. **Attitudes** represent affective (emotional) response sets.
- ▶ For the purposes of this study, a **perception** was defined as the “understanding” that the respondent has of a particular item. **Perceptions** represent cognitive response sets.

Reasons for Not Borrowing

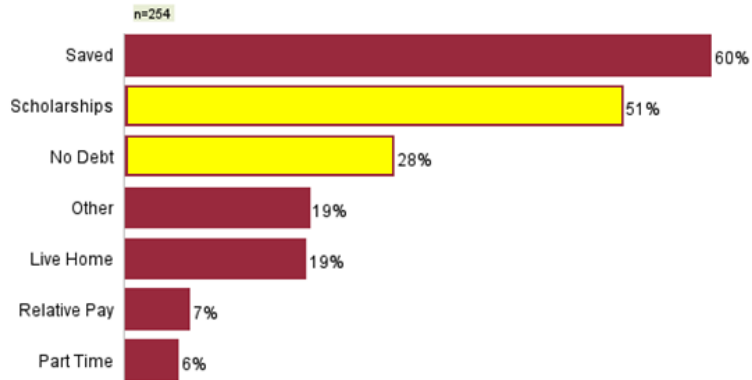
- ▶ There were 410 respondents who did not borrow

Reasons for Not Borrowing

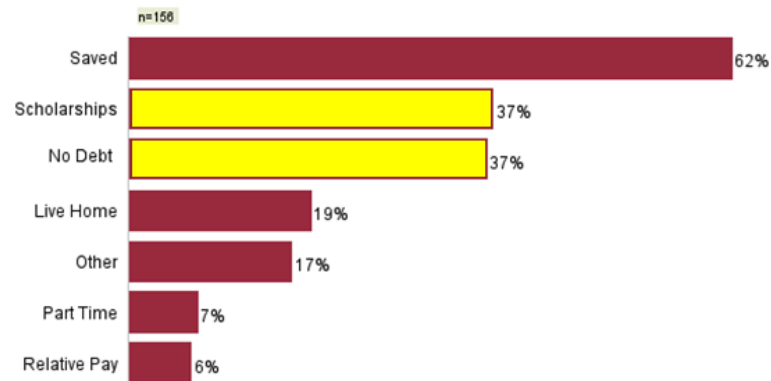


Interesting Differences

Reasons for Not Borrowing (IA)



Reasons for Not Borrowing (WI)



Borrow “Whatever It Takes”

- ▶ Students in **Iowa** were more likely to agree (83%) that they are willing to borrow “whatever it takes” to complete their degree compared to students in **Wisconsin** (78%)

Borrow “Whatever it Takes” Agreement Rates	Iowa	Wisconsin
[1] College-bound high school seniors	84%	80%
[3] Current college students	85%	83%
[5] Former college students	82%	72%

Factor Analysis

- ▶ Important **factor** created in the analysis
 - **Challenge** factor
 - Represents the inherent need to borrow and the level of **future challenge** presented by having to borrow
 - Four-point scale of “Strongly Disagree” – “Strongly Agree”
 - I may have difficulty making payments on my student loans in the future. (+)
 - My need to borrow may be an obstacle to completing college. (+)
 - I know that my future earnings will allow me to comfortably manage payments on my student loans. (-)

Challenge Factor

- ▶ In **Wisconsin**, higher levels of challenge were associated with less “willingness to borrow”
 - Wisconsin residents tend to only be willing to borrow when their level of **financial challenge** is relatively low
- ▶ In **Iowa**, the level of challenge is *not* related to the “willingness to borrow”
 - Iowans are more willing to borrow *without consideration* of the level of challenge they face in their ability to finance college now or pay off loans in the future

College ⇒ Success in Life

- ▶ Respondents in **Iowa** were more likely to agree (87%) that it is important to go to college in order to be successful in life than those in **Wisconsin** (83%)
 - Statistical difference, but not a difference that merits attention

Other Student Differences* Across States

- ▶ Going to college is important in order to be successful in life
 - Iowa students (88%), Wisconsin students (84%)
- ▶ As a group, lenders are generally trustworthy
 - Iowa students (80%), Wisconsin students (72%)

*Statistically significant differences, $p < 0.05$

Other Parent Differences* Across States

- ▶ As a group lenders, are generally trustworthy
 - Iowa parents (85%), Wisconsin parents (80%)
- ▶ The future benefits of college outweigh the burden of future loan payments
 - Iowa parents (68%), Wisconsin parents (74%)
- ▶ It is never OK to borrow from a friend
 - Iowa parents (77%), Wisconsin parents (70%)
- ▶ It is never OK to borrow from a relative (not parent)
 - Iowa parents (60%), Wisconsin parents (52%)

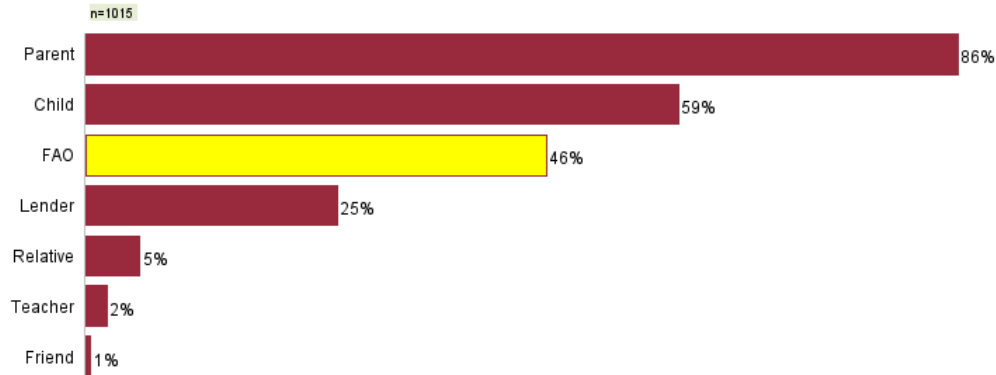
*Statistically significant differences, $p < 0.05$

Other Results

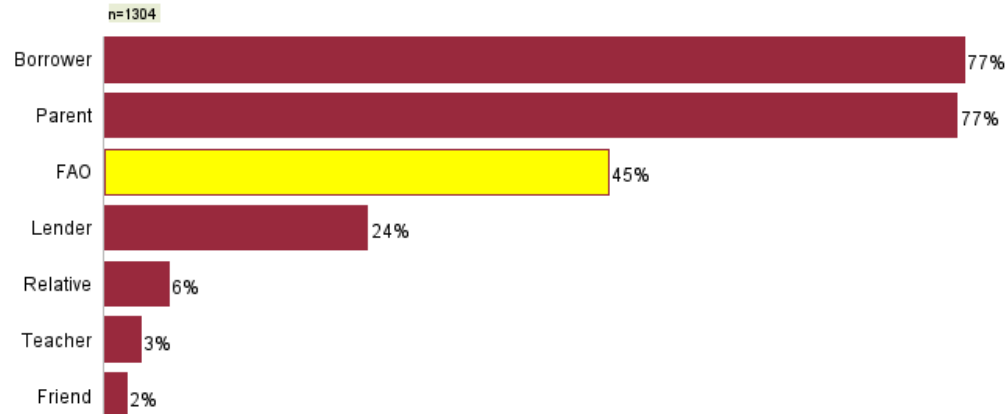
- ▶ There were some additional findings that did not help explain why Iowa students borrow more than others but were, nonetheless, interesting...

Biggest Influence? You!

Influences on Amount Borrowed (Parent)



Influences on Amount Borrowed (Student)



NASFAA's Model Concept for Award Letters



Factor Analysis

- ▶ Important **factor** created in the analysis
 - **Committed** factor
 - Represents the **level of commitment** to success, even if it means borrowing to achieve it
 - Four-point scale of “Strongly Disagree” – “Strongly Agree”
 - Borrowing for college is an investment in my future. (+)
 - I know that borrowing for college will pay off in the long run.(+)
 - I will borrow whatever it takes to complete my degree. (+)
 - The benefits of a college experience outweigh the burden of making student loan payments after leaving college. (+)

Committed Factor

- ▶ **Parents'** “willingness to borrow” was **positively** related to their commitment to their child’s success in college
- ▶ **Students** were willing to borrow **regardless** of their commitment to college success.

Who Should Borrow?

- ▶ Opposing views from parents and students
 - **Students** believe they **alone** are responsible for borrowing (55% selected this option), while only 2% of the parents selected it
 - Many **parents** felt they **alone** are responsible for borrowing (31% selected this option), while only 1% of the students selected it

Who Should Repay?

- ▶ Opposing views from parents and students
 - **Students** believe they **alone** are responsible for repaying any student loans (84% selected this option), while only 1% of the parents selected it
 - Many **parents** felt they **alone** are responsible for repaying any student loans (62% selected this option), while less than 1% of the students selected it

Other Factors and Their Outcomes

- ▶ Parents' **level of education** related to willingness to borrow
 - 57% of those who borrowed had an associate degree or lower compared to 41% who did not borrow
- ▶ Parents who borrowed for their **own college expenses** tended to have students that borrowed or plan to borrow
- ▶ The **amount of savings** built up over the years by parents and students appeared to be related to borrowing habits
 - More saved, less inclined to borrow

Other Factors and Their Outcomes

- ▶ Some factors appeared to have **no influence** on willingness to borrow
 - Race/ethnicity
 - First-generation students

Conclusions

- ▶ Borrow whatever it takes to get a degree (Iowa had a stronger agreement rate – statistically different)
- ▶ College is important to succeed in life (Iowa students had a stronger agreement rate – statistically different)
- ▶ Benefits of college outweigh burden of future loan payments (Wisconsin parents had a stronger agreement rate – statistically different)
- ▶ Parents felt they had sole responsibility for college expenses (Wisconsin parents had a stronger agreement rate – statistically different)

These two shift the burden to students...