

A Primer on Student Loans

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Abstract

Student loans have become a primary source of funding for students who attend open access institutions. Many of these students are the first from their families to pursue postsecondary education and have difficulty determining the most appropriate type of loan for their specific circumstances. This paper presents a comprehensive overview of student loans to enable all who interact with students—not just financial aid counselors—to provide information about financial aid.

A majority of the students who enroll in open access institutions are the first in their families to pursue postsecondary education and come from lower socioeconomic backgrounds. For this reason, both the students and their families lack a comprehensive understanding of financial aid (McDonough & Calderone, 2006). In a recent survey (Johnson, Duffett, & Ott, 2005), the majority of young people who did not continue their educations after high school cited a lack of money or a desire to earn money as two of the top three reasons they did not enroll in a postsecondary institution. Moreover, underrepresented populations have cited financial pressures as reasons for nonparticipation or attrition, and these are the students who most often attend open access institutions (Cejda & Short, 2008; Cibik & Chambers, 1991; Rendón, Justiz, & Resta, 1988).

Because of the extent of the financial challenges facing students at open access institutions, the responsibility of providing information about financial aid must move beyond the financial aid counselor to include those who recruit, advise, provide student services, and instruct. Therefore, the target audience for this article includes those who work in admissions, academic advising and support, student affairs, academic administration, and as faculty. Many individuals in these roles are familiar with the basic categories of “grants and

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scholarships,” “work-study,” and “loans.” With the rising costs of higher education, however, scholarships, grants, work-study, and other forms of free or nonrepayable financial aid often do not cover the full cost of a college education, even at open access institutions that are often less expensive (“Student loans,” n.d.).

Beginning in the mid-1970s, federal student aid shifted from a grant-based to a loan-based system, dramatically changing the way families and students finance postsecondary education (Matt & Stick, 2001). Although student loan programs have facilitated access, there is growing concern regarding the amount of student debt (Hearn & Holdsworth, 2004). Thus, with the increasing costs of higher education, low-income students face a bit of a dilemma—student loans can be good (as they facilitate access), but they can also be bad (as they produce too much debt). With the majority of assistance packaged as loans, everyone at the open access institution needs to be informed so they can help students navigate the hurdles of educational finance.

The profile of students attending open access institutions tells us they are largely loan averse, and that when facing financial challenges they are likely to work more, even if it means part-time enrollment or dropping out (Cunningham & Santiago, 2008). Anecdotal evidence from numerous institutions indicates that loan aversion is also a significant factor in stop-out decisions. Many students do not understand the opportunity costs of delaying completion, or that they can earn their degrees more inexpensively by using financial aid and appropriate borrowing to complete their course of study, enabling them to obtain better paying employment more quickly. For this reason, the entire campus community should be equipped to provide guidance to students. Students need to know the various types of loans available, and to understand their obligation to repay those loans and the impact that borrowing will have on their future finances.