Journal of Student Financial Aid

Volume 13 | Issue 2 Article 5

7-1-1983

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Frank S. Saurman

Norma M. Riccucci

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Introduction

The higher educational community has been vigilant since President Reagan introduced his "new federalism" program. Mr. Reagan, it may be recalled, proposed to freeze spending in Pell Grant and College Work-Study programs and to abolish the Supplemental Educational Opportunity Grant and National Direct Student Loan programs. Although Mr. Reagan's 1984 budget does not call for major reductions in financial aid programs in the aggregate, he has requested that the funding levels for various programs be shifted (see table 1 for the 1984 funding proposals and a summary of the fluctuations in student aid programs). These shifts are designed to strengthen the federal College Work-Study program. Mr. Reagan's justification is that students should pay for their own higher education by working and securing loans. Students would be "encouraged" to pay for their education by requiring them to pay for at least 40% of their educational expenses (Hook, 1983). These proposals for reform, if accepted by Congress, will ultimately reduce colleges' and universities' responsibilities for eligibility determination as well as lessen their control over financial aid programs in general.

Last year, the higher education community was concerned with drastic cuts in student financial aid programs; this year the debate will revolve around policy (Hook, 1983). Whether budget or program reform induced, the Reagan Administration's posture vis-a-vis student financial aid programs has heightened the awareness of those concerned with or affected by the continuation of these programs. It appears that the existing system of financial aid can be extremely vulnerable to an Administration that is not inclined to be totally supportive of students in their pursuit of a higher education.

The authors of this article believe that a change in the existing system of financial aid for college and university students will reduce enrollments and adversely affect society. It is essential, under these circumstances, that students and institutions should have "contingency plans" available to combat the potential federal reductions that may result from a declining commitment to higher education financial aid programs. This article seeks, through a presentation of current and proposed student aid funding practices, to stimulate financial aid administrators and students in the development of alternate sources of financial aid.

Frank S. Saurman is Associate Director of Admissions and Financial Aid at Syracuse University, Syracuse, New York. Norma M. Riccucci is a Doctoral Candidate at the Maxwell School of Citizenship and Public Affairs at the same university.

Table 1
Summary of Student Financial Aid
(millions)

	FY 1981[1]	FY 1982[2]	FY 1983[3]	FY 1984 Reagan Proposal[4]
Pell Grants	2346.0	2419.0	2419.0	2714.0
CWS	550.0	528.0	540.0	850.0
NDSL	186.0	179.0	179.0	0
SEOG	370.0	355.0	355.0	0

[1]"Student aid cuts in the Reagan Administration." Fact sheet prepared by the American Council on Education, Division of Governmental Relations, January 5, 1983.
[2]ibid.
[3]ibid.
[4]National Institute of Independent Colleges and Universities (NIICU)

Background

It should be noted at the outset that the impact of financial aid cutbacks or reforms on enrollments remains an empirical question.[1] Nevertheless, we do believe that such disruptions to financial aid programs will, indeed, limit students' *options* or *preferences* for a postsecondary education. That is to say, institutions of higher education facing cuts in federal and/or state assistance will experience difficulties in bridging the gap between the aid available to students and students' ability to pay for their education. Students who become a victim of financial aid reductions may be financially unable to enroll in the university or college of their choice if the costs of attendance are high and the financial aid available doesn't meet their full need. Under such circumstances, these students may feel forced to enroll in a postsecondary institution whose curriculum does not accommodate their academic or career needs. In this respect, financial aid cutbacks may affect enrollment patterns in higher education. As pointed out by Paley (1982):

> It is highly unlikely that students who find independent campuses unaffordable would turn away from higher education. Most would probably exercise the option of enrolling at low-tution public institutions. (p. 80)

The implications of financial aid reforms or cutbacks are also evident with regard to the national egalitarian goal of making education available to those qualified regardless of economic means and social background. The nation's system of postsecondary education provides an intermediary between an individual's social and economic class and level of influence in society. Mosher (1968) speaks of the importance of democratizing higher education by subsidizing the educational system to provide the deprived with an educational opportunity. The educational system is a principal means whereby society maintains and transforms itself; it is the gateway to upward mobility. The democratization of education is reflected in and determined by the policy direction of the federal government and, consequently, public policy can augment or thwart the educational system. Any deterrent to the acquisition of an education will vitiate the national goal of enhancing educational opportunities.

[1]Excluded are the data compiled and presented in the *Chronicle of Higher Education* surveys, which estimate the flow of freshmen and graduate applications to public and private postsecondary institutions. These surveys do not necessarily indicate a relationship between financial aid cutbacks and enrollment patterns.

The growth in financial aid programs has been an indication of the importance of higher education for all classes. Financial aid reforms or cutbacks, may conceivably broaden the gap in educational class distinction. Such measures could have an evanescent effect on the bipartisan, 25-year old commitment that would not deny college students entrance to a college or university because of economic circumstances (Robbins, 1982).

As was the case prior to the second quarter of the 19th century, the upper class would again, because of cutbacks in aid, have a monopoly on higher education (Mosher, 1968). Education would be limited to those economic groups that could afford a college or university education. Some indication of such a consequence has already unfolded. Wesleyan University in Middletown, Connecticut has reversed its "aid-blind" admissions policy (that did not consider student ability to pay) and has adopted one that allows the university to reject applicants who cannot meet tuition costs. A similar policy is being considered by Columbia and Cornell Universities in response to federal aid cuts (Chira, 1982).

Disruptions in financial aid programs in the long run will dismantle much of this nation's research capability by weakening trained human resources and research contributions to economic growth and productivity (Sovern, 1982). Threatened are the public good and the social benefits that result from higher education such as knowledge; economic growth; political, social, and market functionings; and social and economic mobility.

As noted earlier, this country has long emphasized the importance of higher education and has made education widely available by introducing financial aid. Indeed, the evolution of student financial aid in the United States has augmented this nation's public policy vis-a-vis higher education.

Acknowledging that education is a means for people to advance in society, the government has focused its attention on education. Rising college costs, it was felt, could deter the attainment of America's educational goal; hence, a variety of aid programs were enacted to assist students in meeting college costs.

The passage of the Morrill Act in 1862, which established the "land grant" colleges, marked a milestone for public higher education in the United States. In addition to classifying farming, engineering and business as "professions" for the first time, the Morrill Act provided low cost education by furnishing public lands to establish universities and colleges and providing appropriations to support them. According to Mosher, the Morrill Act

> ...gave expression to the ethos of the nation: equality of opportunity so that most who qualified could gain higher education; faith in knowledge, rationality, and practical research to solve the problems of society. (p. 45)

The G. I. Bill, passed in 1944 to furnish higher education to servicemen returning to school (NASFAA, 1979), is considered a cornerstone of federal student aid because of its popularity and significance.

Through the National Direct Student Loan Program (NDSL), created in 1958 to furnish long-term, low-interest loans to qualified students, loans for education are financed by direct government subsidy. The federal government provides loan capital to colleges and universities which then furnish a one-ninth matching share and issue and administer loans to eligible students (Keitel, 1981). Since its inception in 1965, the College Work-Study Program (CWSP) has promoted part-time employment of students to finance their courses of study. By subsidizing part-time employment, the CWSP contributes to the long-term goal of equality of educational opportunity (NASFAA, 1980).

The sixties and early seventies brought Social Security benefits to eligible students, the Educational Opportunity Grant (EOG) program (which became the Supplemental Educational Opportunity Grant (SEOG) program), the Basic Educational Opportunity Grant (BEOG) program (renamed the Pell Grant program in honor of Senator Clairborne Pell of Rhode Island, who introduced the 1972 legislation that established the program), and Federally Insured Student Loan (FISL) and Guaranteed Student Loan (GSL) programs.

Alternate Sources of Funding

The Reagan Administration's rhetoric indicates a lack of commitment to traditional student aid programs. This has generated concern among college and university decision makers, students, and parents about the future of financial aid programs and, ultimately, higher education opportunities for students. It is timely, then, to analyze alternatives for financing postsecondary education. Rather than lament the present situation, college and university officials, students, and state and local decision makers must analyze various methods of generating capital to provide students with financial assistance to meet college costs.

This section seeks to identify alternate sources of funding in response to financial aid reforms or cutbacks. It is not exhaustive in its treatment of ideas nor are the alternatives proposed as a set of prescriptions. Rather, they represent descriptions of innovative methods that postsecondary institutions can consider at face value or with slight variations to counteract the potential effects of reduced governmental financial aid to students. Current proposals by various states for alternate financing strategies are included in addition to suggestions for generating revenues to finance a postsecondary education.

It should be noted, since tax-exempt bond alternatives are considered as a source of financial aid funding, that the budgetary conditions of the state or municipality should be examined along with statutory-imposed limits on the indebtedness that a jurisdiction may incur through bonding. Also, the costs involved in generating loan capital through revenue bonds must be weighed against tuition revenue foregone as a result of a decline in enrollments. This approach may present difficulties, however, because the overall benefit of selling tax-exempt bonds to generate revenue for student loans cannot be directly quantified. More clearly, such costs — benefits analyses — require quantifying the *values* of higher education.

The feasibility of loan alternatives will hinge on many factors. It is fair to assume that low-interest loans made available to students may not be a revenue generating project. Foremost, then, is a commitment by states and localities in which postsecondary institutions are located to enable students to acquire student loans and grants to continue their education.

Examples of Funding Alternatives

Illinois, through the use of private financial markets and tax-exempt financing, has inititated a new approach that will assist students in independent universities in the state to finance their education.[2] The legislation allows the state to sell tax-free bonds to private investors and funnel the earnings to colleges and universities, which then make the loans to students based on need. A seven-member Higher Education Student Loan Authority issues a line of credit to each participating institution, providing it is eligible, based upon its needs. Eligibility involves a pledge of collateral or a bank letter of credit. The institution is responsible for originating the loan; however, the Authority will be responsible for determining the credit worthiness of each borrower and servicing the loans. While the institutions making the loans are ultimately responsible for the loan guaranty, the Bonding Authority will

[2] Only independent institutions can participate in the program because public institutions by law, may not put up collateral to back the loans.

maintain a reserve to cover defaults. The reserve will be set aside from 15% of the revenues acquired through bond issues. The Authority will perform general loan servicing in order to cover potential defaults. To improve the bond ratings, the Authority tentatively plans to require that each institution establish an escrow account of up to 10% of the total amount it lends . While the interest rates will vary according to bond ratings, they will be substantially below market rates. The total cost of education less other forms of financial assistance will determine the amount a student or family may borrow. The Bonding Authority receives no financial support from the state, nor are the bonds issued by the Authority obligations of the state (Keitel, 1981).

Beloit College in Wisconsin is pursuing two approaches to counteract financial aid cutbacks: cancelable loans and moral obligation scholarships. The cancelable loan program would create a revolving fund. Corporations would donate funds to institutions of postsecondary education as a means of retiring their employees outstanding student loans and attracting graduates to their corporations (Hull, 1981). The corporations presumably are willing to participate in such a program because of the potential benefits.

A variation of this program could be patterned after the "exchange program" established by the national British government. In Great Britain local educators operate postsecondary institutions to prepare students for teaching professions. When a particular locality procures teachers who have been trained outside the locality, the local government is required to contribute a predetermined amount to the postsecondary institution for every teacher trained elsewhere. This program serves two functions. It provides an incentive for the locality to hire graduates of their own postsecondary institutions and it generates revenues to finance higher education (Kirkwood and Mundel, 1975).

Moral obligation scholarships provide financial aid to students but unlike loans a moral rather than a strictly legal obligation is placed on the student for repayment of the aid. In theory, students are expected to feel morally obliged to repay the scholarship so that a revolving fund may be maintained to benefit future students. This program, however, assumes that students will indeed repay scholarships for moral reasons; and this assumption, if incorrect, can create problems. That is to say, the default risk is essentially based on a normative assumption about student morals.

Texas, Wisconsin and Rhode Island are participating as lenders in Health Education Assistance Loans (HEAL).[3] Under this program, lenders are able to charge "floating interest" of up to the 90-day Treasury Bill rate plus another 3.5% for each quarter. Hence, lenders may charge interest rates which give them the same rate of return as for loans under the GSL Program. These high interest rates have discouraged many health profession institutions from participating in this program.

Texas and Wisconsin, in response to the high interest rates charged under HEAL, are financing loans with tax-exempt bonds so that students are charged a considerably lower interest rate than would be charged by private lending institutions. Proceeds of the revenue bonds available from prior sales enable Texas, for example, to make fixed rate 10% loans. State agencies are encouraged to participate in this program by an attractive feature — the federal government fully guarantees these loans in the event of default (Keitel, 1981).

State Representative Kidder of New Hampshire in 1981 introduced legislation that permits educational institutions within his state to form loan corporations for the purpose of issuing low-interest student loans. The legislation enables the New Hampshire Higher Education and Health Facility Authority to issue bonds and other obligations for the purpose of financing these loan programs.

[3]The Act was established in 1976 to provide loans guaranteed by the federal government to health profession students.

Proceeds from the sale of bonds are earmarked by the loan corporations to purchase and originate loans to eligible students. All expenses incurred are payable by the respective loan corporation, and no liability or obligation is incurred by the New Hampshire Authority or other state agency. The revenue bonds issued are payable from the revenues or other funds derived from student loans (House Bill #631FN).

Smith Barney, Harris Upham, and Company (1981) has proposed a loan program for the State of New York that would set up a New York State Dormitory Authority similar to the Illinois Bonding Authority. The Dormitory Authority would issue tax-exempt bonds, the proceeds from which would be used to make loans to colleges and universities in New York State for student loans. A program provision, as with the Illinois plan, requires the postsecondary institution to pledge collateral or obtain a letter of credit from its bank to insure payment of the principal and interest on these loans. The key issues of the program include the demand for loans by institutions, the debt capacity of institutions, and the ability of institutions with low credit ratings or no ratings at all to obtain bank letters of credit to secure loans. For institutions rated AA or better, the institutional loan would constitute a general obligation, additionally secured by the portfolio of student loans. However, to ensure the timely payment of principal and interest on the loans, institutions with low ratings or no ratings would be required to obtain a letter of credit from a bank whose corporation rating is AA or better. Another key issue which may determine the success of the program is the ability and willingness of the New York State Higher Education Services Corporation to service the student loans on behalf of the colleges and universities collecting repayments from students.

The University of Southern California (USC) has initiated a Tuition Prepayment Plan, which allows students and their families to hedge against inflation by prepaying in full a four year educational program at tuition rates in effect the previous academic year. Students and their families benefit, in the long run, by avoiding increasing tuition costs.

There are two options for prepayments under the USC plan — cash payments or loans. The loan program, arranged at local banks, includes: (1) homeowner equity loans, which allow California homeowners fifteen years to repay the tuition prepayment, and (2) unsecured loans, which allow qualified borrowers seven years to repay the tuition prepayment. This plan, in its first year, has enabled a number of students and parents to cope with the rising costs of a college education.

Yet another alternative approach to providing financial assistance to students would be for a municipality to establish non-expendable trust funds in which resources are contributed to cities for the purpose of providing low-interest educational loans. Here, the municipality would act as trustee or custodian for the resources (Henke, 1977). These funds would be established upon receipt of money or other assets to be invested by the trustee to produce income for student loans (Hay, 1980). Since the loans are expected to be repaid, the fund is not expended when the loans are made.

The United Trust for Higher Education and Some Variations

The New York State Financial Aid Administrators Association (NYSFAAA) is perhaps at the "cutting edge" of plans for new funding alternatives with its proposal for the United Trust for Higher Education (UTHE). Under its terms, contributions to the trust fund would be sought from the federal and state governments, the private sector, and students and their families. Resources from the fund would be distributed to postsecondary institutions in a block grant which would be used to provide students with grants, employment, and loans ("Draft Proposal for a United Trust," 1982).

Alternately, the college or university could set up an endowment fund, similar to a trust fund, through which loans are made from assets that are provided by gifts, grants, income from endowments, and transfers from other funds. This loan fund would be operated on a revolving basis — repayments and interest received would be deposited and loaned to other students. Interest earned on the loans and investment earnings from unexpected loan fund cash would offset the costs of administration and loan default.

Educational institutions should examine the investment policies of funds acquired as endowments from private donors and outside sources. Revenues earned by scholarship endowments are earmarked for or restricted to providing scholarships to students, while earnings from general endowments are unrestricted and can therefore be used to finance general operations. Earnings from general endowments can be earmarked, of course, to provide scholarships (Henke, 1977).

Other alternatives for supplemental loan funding might include federal legislation to establish a national tax-exempt funding vehicle. Legislation would create a National Student Loan Authority empowered to issue tax-exempt bonds to finance low-cost student loans. Postsecondary institutions or special-interest groups might wish to form consortiums which would establish student loan finance companies (or bonding authorities). A finance company, whether profit or non-profit, could be established with initial capitalization contributed by each member of the consortium. The finance company would issue taxable bonds to leverage the equity which would be used to provide an interest subsidy for student loans. Colleges and universities would be responsible for repurchasing their student loans which went into default.

Colleges and universities could act as revenue authorities (Lamb and Rappaport, 1980) and themselves issue tax-exempt bonds to provide low-interest loans to students. The municipality in which the institution was located would benefit not only by receiving a percentage of revenues from the investment, but also a percentage of the proceeds from bond sales. The end result of such an effort would serve a "public purpose."

Another alternative would call for a collaborative relationship between the college or university and the municipality in which the university is located. General Obligation bonds, backed by a "full faith and credit pledge" could be issued to provide student loans to local residents. Here, the local residents would have the opportunity to approve of the bond sale. However, once a relationship was established between the institution and the municipality, the incentive to students would be to attend "home town" postsecondary institutions. That is to say, these loans would presumably not be available to out-of-town residents.

It is important to recognize that under this program, the opportunity for students to select a college or university of their choice would be undermined. If a municipality were to issue bonds or act as agents/custodians for trust funds established to provide low-interest loans, this financial assistance would be restricted to residents of that municipality and would not provide non-resident students with financial aid. Independent research institutions such as Syracuse have a large population of out-of-state students and, hence, these alternatives may not benefit students attending such institutions (New York State University System, Albany, 1979).

This program, as its name implies, is a collaborative effort for generating revenues for student loans and grants, where the "public" assumes responsibility for financing students' higher education. Other options for generating financial aid would be the responsibility of individual students and parents.

Educational IRAs

General Education funds set up by individual students or parents could be patterned after Individual Retirement Accounts (IRAs), which were created by Congress to assist individuals to supplement social security benefits during retirement. A general education fund would conceptually operate much in the same fashion. Parents might consider such a plan concurrent with family planning. When the child reaches college age, parents would tap the fund to finance the student's education. Independent students might consider such a plan for future educational purposes. It seems possible that an individual might wish to open a general education fund account and make yearly contributions with the objective of returning to school ten years later.

Under such a plan a designated amount of the worker's earnings would be placed into a general education fund account. The contribution and interest would be exempt from taxation until benefits are received. Just as with an IRA, contributions would be invested in a variety of high interest-bearing savings accounts and time deposits.

President Reagan, in his budget proposal for 1984, has made a move in this direction. He has called for legislation to provide tax incentives for lower- and middle-income families who save for their children's education. Interest and dividends earned on these "educational savings accounts" would be tax exempt (Weisman, 1983). Individuals concerned with the present value of such an investment must weigh the economic feasibility of such a plan against the value of higher education. As was discussed earlier, generating revenues to finance higher education requires not only an economic commitment, but also a value commitment or judgment about the importance of higher education.

Closing Remarks

The changes that have occurred and are yet to occur in federal and state financial aid programs and their funding have the potential to drastically affect students and postsecondary institutions in this country. Reforms and cutbacks in financial aid represent a turning point in the ethos of this country's higher educational system. Reducing the aid available will most assuredly prove an obstacle to a student's pursuit of higher education.

The preceding pages have outlined past contributions to financing higher education, as well as identified various means for providing access to higher education. This article is intended to call attention to the importance of postsecondary education and stimulate creative response to the portentous retrenchment in financial aid programs in this country.

While it is too early to determine the effects of financial aid reforms and cutbacks on enrollments, this topic has generated a good deal of concern among college administrators and does warrant further research.

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