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A REVIEW OF THE LITERATURE AND RESEARCH: GUARANTEED STUDENT LOAN PROGRAM

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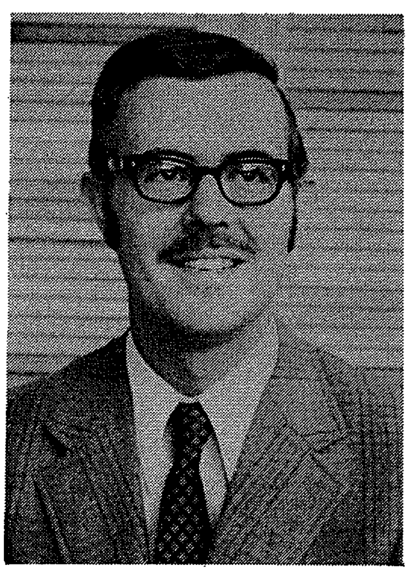
Since the growth of the Guaranteed Student Loan Program has been so very recent, there is a small amount of literature and even less available research on the subject. Some literature and research of the National Defense Student Loan Program will be included since both programs do have similarities. A chronological organization of the literature and research seems to be the best order of presentation since November 8, 1965 is clearly the starting point of the Guaranteed Student Loan Program.

It is interesting to take note of the feelings parents had about college costs prior to 1965. Lansing, Lorimer, and Moriguchi (1960) studied the expenses borne by parents for higher education of their children. The researchers interviewed 2700 families in 1959 with a cross-section sample of all spending units in the United States. The results indicated that about sixty per cent of the college costs were met by contributions from parents. About half of the families were able to draw on money set aside in advance. In about twenty-five per cent of the families, the mother took a job and about forty per cent of the families paid college costs out of their current income.



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Later, Ekstrom and Cliff (1963) of the Educational Testing Service sent questionnaires to 2800 families in 1956-57. The questionnaire encouraged parents to make written comments. The results showed that families differed considerably in the means they employed to finance college. Ekstrom and Cliff (1963) indicated that the possibility of meeting college expenses by taking a loan presented probably the greatest variety of attitudes. Some parents felt students should borrow because this would benefit the student's character and in this manner the student would appreciate his education even more. Another reason in favor of borrowing was that the college graduate could repay the loan easily by his increased earning power. Yet other parents felt that allowing a student to borrow would make it difficult for him to get off to a good start in a job or in marriage. The major result of the research indicated that, in 1962, many parents felt that the limit had already been reached for family support of higher education and wanted the Federal Government to set up programs of financial assistance.

Early in the 1960's numerous private plans developed which were available for financing a college education. In fact, the Kiplinger Association (1962) surveyed the various financing plans offered by 1500 banks throughout the country. Of the 841 banks that responded to the survey, only 117 (14 percent) had set up educational loan programs. However, another 95 were considering plans. The majority of lenders responding indicated that college loans were the most important new service offered in years and that college loans were not a high income source but they attracted A-1 business in all areas of the bank.

One of the major plans offered in the early 1960's was that of the United Student Aid Funds Inc. (USAF). The USAF was chartered July of 1960 (USAF, 1969). The program used money from colleges as a reserve fund to insure the amount a student borrowed from his hometown bank. It was a low interest, long term student loan.

According to the Kiplinger Association (1962) other financing plans that were available in the early 1960's were the College Budget Plan, the College Payment Plan, Tuition Timeplan Loan, and the Investment in Education.

Abate (1963) warned college counselors about making referrals because of the myriad of educational financing plans. He stated that one should take a careful look at the financial institution and the actual cost of credit. Abate (1963) even recommended that each counselor contact the local lending institution and present the need for such a program to the officers. It was hoped that in this manner educators would have a complete understanding of the program and would be able to make creditable referrals.

In 1964, Miller, Ivey, and Goldstein (1965) studied the student patterns of financing at Colorado State University. The questionnaire was administered as part of the registration procedure. The results indicated that loans were a less important source of aid than employment. The researchers did indicate, however, that loans were increasing in importance at Colorado State University at that time.

By August of 1965, Freeman (1965) stated that attitudes seemed to be changing and that college loans were now starting to come into their own. Freeman (1965) indicated that it was the National Defense Student Loan Program which broke the ice and made borrowing for college expenses not only acceptable but popular in wide circles. Freeman (1965) further explained that banks and other organizations had begun to take a greater interest in student loan programs and that state loan programs were beginning to multiply.

Before the Higher Education Act of 1965 was passed there was much non-supportive testimony. In fact, Kirkpatrick (1968) indicated that when the hearings started in February of 1965, representatives from the AFL-CIO and USAF testified against the legislation. Kirkpatrick (1968) then indicated that the next steps in the evolution of the Act were quite obscure.

On November 8, 1965, the Higher Education Act of 1965 was signed into law establishing the Guaranteed Student Program.

In 1966, the Special Subcommittee on Education conducted a study of the United States Office of Education (United States Congress, 1967). The report indicated that problems of implementation had arisen in two areas. The first area was the distribution of program information and the second major problem was the difficulty of selling the program to the credit community during a period of tight money. From the questionnaires of the study, the problem of lender participation seemed to stem from the following areas (United States Congress, 1967):

1. Return on investment was insufficient.
2. Credit period was too long which caused a liquidity problem.
3. The lenders felt that there should be a needs test.

The study indicated that 44 percent of the institutions indicated that they had problems in locating a bank which would advance the funds. The lack of institutional control over student eligibility was also mentioned as a serious problem in the Guaranteed Student Loan Program.

Later, John I. Kirkpatrick edited the *Study of Federal Student Loan Programs* which was done by the College Entrance Examination Board and published in March of 1968. Kirkpatrick (1968) recommended that the state guarantee agencies be strengthened, that financial need be required, that the maximum loan be increased to $2,500 per year, and that the grace period be shortened to four months. He also indicated that the large participation on the part of the banks reflected the promotional activities carried on by the American Banking Association (ABA). The ABA conducted an extensive educational campaign and distributed brochures and kits to every bank in the country. As part of the study, Kirkpatrick (1968) reported that 95 percent of the lending institutions agreed that financial need should be required. He went on to say that the Guaranteed Student Loan Program was the only extensive student aid program outside college control. Because of this, attitudes on the part of the colleges were often quite resistant and even hostile.

During the summer of 1968, Allen D. Marshall, President of USAF, listed some of the problems facing the Guaranteed Student Loan Program. According to Marshall (1968) the Guaranteed Loans were loans of convenience because there was no needs test. He then stated that it was erroneous to assume that the Guaranteed Student Loan Program was for the middle income groups, while the NDSLP (based on need) was for the poor. He demonstrated that 54 percent of the NDSL borrowers versus 52 percent of the USAF borrowers were from families whose incomes were less than $6,000. Marshall (1968) indicated that a major deterrent to wider participation by lenders was the massive paper work imposed by Federal regulations. He concluded by saying that the Guaranteed Student Loan Program is basically sound.

A drawback often mentioned of the Guaranteed Student Loan Program was that borrowing adversely affected the female student. However, Cox and Van Dusen (1969) studied 450 female graduates of Barnard College who had borrowed more than $250 and compared their responses to students who did not borrow. The results indicated that borrowing seems to have had little effect on further graduate or professional study. The effect of borrowing did not interfere with plans for marriage or children. The results also indicated that the loans did not adversely affect the borrowers' standard of living nor did the loans influence the borrowers' choice of career.

Freeman (1970) noted that there had been a steady increase in the female enrollment from 31.6 percent in 1950 to 40.5 percent in 1968. He indicated that girls appear to be more reluctant to borrow because of the "negative dowry" aspect.

Similar issues were raised by Hanford and Nelson (1970) when they asked what would be the impact of debts on marriage choice. Hanford and Nelson (1970) felt that student loans would slowly undermine the educational and career aspirations of women. They summarized their view and then said that discussion about the issues was almost fruitless because of the lack of adequate data.

Early in 1971, research concerning the National Defense Student Loan Program was included in the Hearings for the Higher Education Amendments of 1971 (United States Congress, 1971). Because the programs are so very similar, research of the NDSLP can be applied to the Guaranteed Student Loan Program. The National Defense Borrowers Study of Richard Tombaugh was outlined for the hearings. Tombaugh conducted the study from July of 1969 to June of 1970. He studied students who terminated their education during the fiscal year of 1965 because this allowed the students to be out of school for five years. Tombaugh had four purposes: (1) to evaluate borrower attitudes; (2) to evaluate repayment performance; (3) to evaluate teacher cancellation provisions; and (4) to evaluate the importance of good institutional administration. Tombaugh mailed 6,962 questionnaires and received a 73 percent return. The results indicated that 77 percent of the students had a favorable attitude about borrowing and that there was no loss of favor as the amount borrowed increased. The later in his undergraduate career that the student borrowed, the more favorable were his attitudes. Those students with high grade point averages had more favorable attitudes than those with lower grade points. Tombaugh indicated that there was no significant difference in the attitudes toward borrowing between males and females. The attitudes toward borrowing appeared to be highly correlated with the borrower's perception of the quality of loan administration. Men and women were almost identical in repayment performance. Tombaugh noted that the delinquency rate jumped when the amount borrowed exceeded $5,000. Tombaugh found that if a student's spouse borrowed, 33 percent repaid the loan with their joint income and 23 percent repaid the loan with only the spouse's income. It is interesting that 65 percent of the students felt that the NDSL did not influence their choice of college or curriculum and that 89 percent felt it did not influence their marriage plans.

Bergen, Bergen, and Miller (1972) sent questionnaires to 1,374 NDSL borrowers who had terminated their education at Kansas State University prior to September of 1966 and who had established repayment patterns based on at least 18 months. The purpose was to determine if the grade point average and loan size affected the NDSL payments. The results indicate that the loan size did not predict repayment habits as clearly as grades. Bergen, Bergen, and Miller (1972) felt that loan officers might be justified in using grades as a factor in granting loans.

Cleary (1971) indicated that although his saving and loan association disbursed more than $325,000 in Guaranteed Student Loans, the association received in new savings more than half of what they disbursed in student loans.

Pickering (1971) reported that under the Guaranteed Student Loan Program, defaults and bankruptcy filings have required the Department of Health, Education, and Welfare to pay about $26 million. Pickering (1971) indicated that there was a general attitude to either file bankruptcy or to default. Pickering (1971) stated that many students did not feel the obligation to repay their loan. The article included a number of students who felt this way.

As a means to lessen defaults, Johnstone (1972) proposed that the Guaranteed Student Loan Program be modified to an income-contingent loan program. If the school or the guarantee agency were to agree, they could, under existing regulations, develop graduated repayment schedules that correlate with the increases in the student's income.

Many other proposals have been made to stem the tide of rising defaults. However, few if any of these proposals were based on research of what has happened in the Guaranteed Student Loan Program. Many are mere conjecture.

SUMMARY AND NEED FOR MORE RESEARCH

Although student financial aid may have had its start before the Civil War, massive Federal Programs in Student Financial Aid did not begin until the early 1960's. Since then, the growth of these programs has been dramatic. However, the most significant growth with student financial aid has occurred in the Guaranteed Student Loan Program which started in November of 1965.

Since then, the Guaranteed Student Loan Program has made three and one-third billion dollars of loans available to three million students in only five and one half years. The program is now guaranteeing student loans at the rate of one billion dollars per year.

With the significance of the Guaranteed Student Loan Program in mind, it is appalling to find such a small amount of literature and almost no research available which directly concerns the Guaranteed Student Loan Program. It appears that almost everyone is willing to publish his own theoretical views on how the program should be changed but they provide little supporting research to warrant such changes. It is hard to completely understand how a nation could operate such a massive program of student financial aid without knowing a great deal about the effects upon student borrowers. To administer the program properly, it is imperative that this void of research be filled.

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