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THE REVISED GUARANTEED STUDENT LOAN PROGRAM: AN IMPACT ANALYSIS

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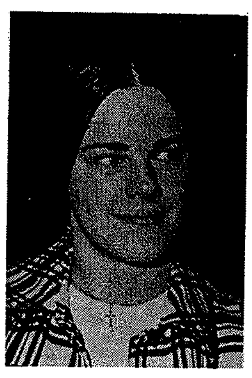
The Higher Education Amendments of 1972 (Public Law 92-318) were hailed by many sectors of the higher education community as a legislative landmark. One aspect, student assistance, received unprecedented federal endorsement. The continuation of the "traditional" student assistance programs (Supplemental Educational Opportunity Grant, National Direct Student Loan, College Work-Study Program, and Guaranteed Student Loan) was authorized in addition to the establishment of a basic education entitlement grant (Basic Educational Opportunity Grant). Seemingly, the Federal commitment to higher education was reaffirmed and advanced by this broadly based legislation. It is the intent of the authors to analyze one section of this legislation: the Guaranteed Student Loan Program (GSLP) as it has impacted on the students of one public university.

The Higher Education Act of 1965 established the GSLP to encourage the



Left: John Brugal is the Director of Student Aid at Pennsylvania State University and recently served as a panel moderator at the 1973 Convention of the American Association of Higher Education.
Right: At the time this article was prepared, Grethen Hofmann was financial aid counselor in charge of the Federally Insured Guaranteed Loan Program at Pennsylvania State. She recently became Supervisor of Employment Services at St. Joseph's Hospital in Parkersburg, West Virginia.

availability of private capital for educational loans. If the student's adjusted family income was less than $15,000 the program provided that the Federal Government would subsidize the interest on the loan while the student was enrolled. If the student's adjusted family income was above $15,000, the interest was to be assumed by the student. This form of student assistance was generally available and utilized by families who were denied institutional assistance due to insufficient funds or student ineligibility on the basis of formal need analysis. The program has, since its inception, served as a primary source of funding for middle-income families. The guaranteed loans have been most heavily utilized by students whose gross annual income is above $7,500 whereas the National Direct Student Loans have been primarily utilized by students in the below $7,500 gross annual income category.[1]

When P.L. 92-318 was passed in June, 1972, it appeared that its intent relative to the GSLP was threefold. First, it sought to eliminate some of the reported abuses to the program. In an effort to reduce the incidence of students using the loan for purchases unrelated to their educational needs, an affidavit requiring the notarized signature of the student borrower is mandated under the new law. The student must affirm that the loan is to be used solely for educational purposes.

Secondly, in an apparent effort to equitably apportion the interest subsidy benefit, the provision limiting this benefit to families with adjusted annual income of less than $15,000 was eliminated. The revision provides that any family, regardless of adjusted income level, may qualify if they show "need" utilizing formal need analysis procedures. It was felt that this revision would extend the interest benefits to those families with adjusted incomes in excess of $15,000 with unusual expenses.

Finally, the use of the need analysis was provided to reduce the flow of federal subsidy previously assigned to families who could, and would in fact finance the education of their offspring exclusive of this subsidy. The federal dollars saved in this manner could then be effectively channeled elsewhere to serve other social purposes.

The Study

A descriptive study was initiated in an effort to assess the impact of the revised GSLP on the potential student borrower at The Pennsylvania State University. The data was extracted from the GSLP applications received by the Office of Student Aid between February 15, 1973 and June 30, 1973. Only the 1,451 applications which had been completely processed were analyzed. From this population, applications not seeking interest benefits, independent student applications, and applications with incomplete information were eliminated. Thus, the data reported are applicable to a population of 1,000 dependent students seeking GSLP interest benefits.

In examining each of the applications, the investigators sought to determine the following:

1. Hartman, Robert W. *Credit for College,* Carnegie Commission on Higher Education, New York, McGraw-Hill, 1971, page 144.

1. Adjusted family income
2. Number of dependent children in family
3. Amount of requested loan
4. Amount of recommended loan

Definitions and Limitations of Study

Much of this study deals with data reported in terms of adjusted income. This is the income level determined on the Lenders Report OE Form 1070 which had been used under the previous regulations to determine the applicant's eligibility for the interest subsidy. To determine the adjusted income, the gross income is reduced by 10% plus a deduction is allowed equal to the number of dependents multiplied by $750.[2]

The recommended loan amount is the amount of loan eligible for interest subsidy under the new regulations. It is calculated by subtracting expected family support[3] and other resources from the University budgets.[4]

The data have several limitations which should be noted. No control was employed to differentiate findings based on either the effect of other aid committed to the student or the utilization of different university budgets. Few students had aid committed to them during the period of this investigation and consequently this factor is considered minimal. The bias introduced by the utilization of different university budgets cannot be estimated.

Findings

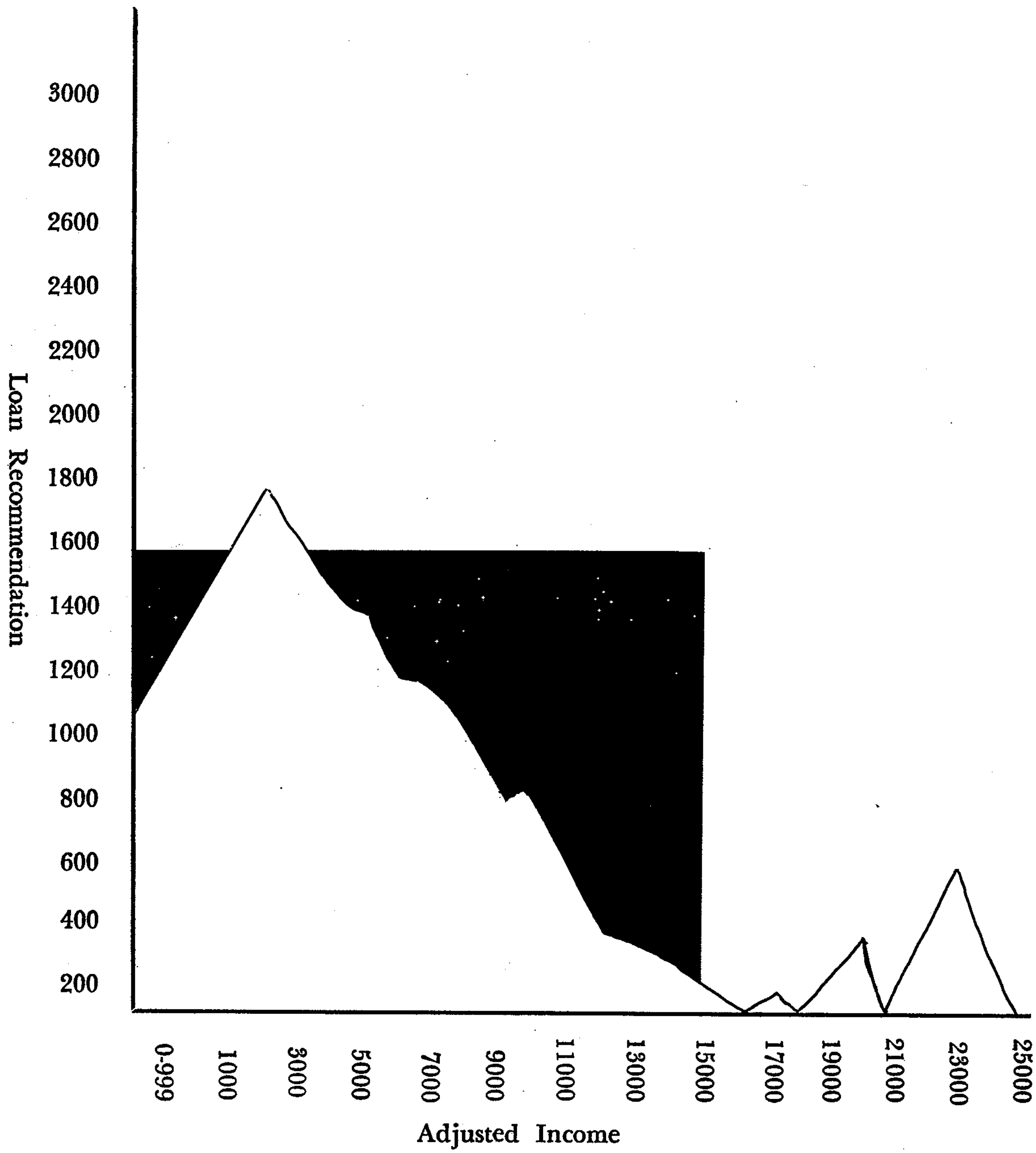
The mean adjusted family income of the GSLP applicants was $9,745. The median income for all applicants was $9,609 with the modal adjusted income category falling in the $8,000 - $8,999 range (see Table I). Of the population analyzed, 17% had adjusted incomes of less than $6,000; 75% had adjusted incomes in the $6,000 - $15,000 range, and 8% had adjusted incomes above $15,000. Clearly, the data indicate that the heaviest demand for this type of funding falls in the middle-income categories.

The average loan request was $1,382 while the average loan recommendation was $812.50. Thus, following the revised Federal procedures, the applicant population studied received a recommendation equaling 59% of the amount requested. An increase in family size did not in itself have a substantial effect on the recommended loan amount. In general, for the population studied, an increase in family size was associated with an increase in gross income. This finding is reflected in the small differences of adjusted income apparent in Table II. These data appear to indicate that when controlling for family size, loan requests were submitted from families with comparable adjusted income levels.

2. Gross income X—.10X—Y dependents ($750) = adjusted income.
3. The Pennsylvania State University utilizes the need analysis services provided by the College Scholarship Service (CSS). The data reported by the CSS was employed for all cases examined.
4. The Pennsylvania State University student budgets for a three-term, nine-month period are as follows: Pennsylvania resident - $2,865, Non-resident - $4,065, and Commuter - $2,379.

The average recommended loan amount, associated with adjusted income levels is illustrated in Graph I. The clear area under the curve represents the flow of recommended loan dollars under the revised provisions requiring need analysis.[5] The shaded area represents the flow of federally subsidized loan dollars which would have occurred under the original adjusted income regulations.

GRAPH 1
AVERAGE LOAN RECOMMENDATION
BY INCOME LEVEL



5. It should be noted that the average in the $0-999 income category was biased by one case which received a 0 recommendation (due to other resources such as Social Security and/or Veterans Benefits). This is also true in the $23,000 category where three applicants received a 0 recommendation and one received a recommendation of $2,400 due to extraordinary emergency expenses.

The data indicate, as one would expect, that the recommended loan amount decreases as the level of adjusted income increases. However, as the shaded area indicates, the reduction in eligibility for interest benefits is most pronounced in the adjusted income categories from $10,000 - $15,000. One of the benefits of the revised program is apparent in that some applications from the above $15,000 adjusted income categories did qualify for interest benefits. However, the incidence rate is low.

The recommended loan data when reported as averages mask and are affected by the number of $ 0 recommendations. These $ 0 recommendations occur when the resources available to the student and/or family are assumed to be adequate to meet the institutional budget. As is evident in Table III, these $0 recommendations occurred in even the lowest income categories [due to resources available to the student such as Social Security Benefits and/or Veterans Benefits.]

The average adjusted income for this sub-population calculated from the midpoint of the adjusted income classes is $12,860. The median adjusted income for all applicants receiving a "0" recommendation was $12,850 with the mode falling in the $12,000 - $12,999 adjusted income class.

The incidence of these $0 recommendations increases as the adjusted income level increases. Of the cases examined, 29.6% received $ 0 recommendations. Thus, nearly 30% of the population seeking this type of aid are found to be ineligible for interest subsidy benefits. This figure is due primarily to need analysis findings rather than aid committed. Under the previous adjusted income guidelines, 7.7% would have been ineligible for an interest subsidized loan. Of the 77 applicants who would have previously been ineligible for the interest subsidy, 13 (17%) qualified for some degree of interest benefits. However, of the 923 students previously eligible for an interest subsidized loan of up to $1,500 (Pennsylvania maximum for undergraduates) we find that 232 (25.1%) are found to be totally ineligible for interest benefits and the remaining students in many cases receive a loan recommendation which is less than they feel is necessary to meet their educational expenses.

Discussion

Our colleagues, lending institutions, and students have been aware of some of the problems caused by the revised GSLP for some time. However, no one seems to be addressing how these revisions contrast philosophically rather than operationally with the original legislation. The Higher Education Act of 1965 which established the GSLP sought to encourage higher education "consumption" through the provision of a subsidy for middle-income families. The higher education consumer acceptance of this concept of post-financing is well illustrated by the growth curve of the GSLP. The dollar volume has increased from 77 million in 1966 to its pre-revision level of almost 1 billion dollars. The degree of annual federal support required to maintain the interest subsidy of the GSLP has grown to nearly 300 million dollars in a nine year period.

The findings of this study suggest that the GSLP, as revised, substantially withdraws the federal subsidy previously available to middle-income families.

The law does provide "flexibility" in making recommendations and further provides that the bank may override recommendations or grant loan dollars on an unsubsidized basis. However, the experience of educational and lending institutions with these provisions has been less than satisfactory. In spite of the well meaning intentions of a number of people, a great deal of confusion still exists with regard to making this program work effectively. Many lending institutions are reluctant to override the institutional recommendations or to grant a non-subsidized loan. For their part, many educational institutions are reluctant to exercise their "flexibility" by overriding the need analysis findings.

Aside from the substantial operational difficulties of this program, a serious question must be raised relative to the degree of federal commitment to the support of the educational endeavors of the middle-income family. The whole issue of individual versus social benefits deserves to be examined relative to the summary withdrawal of substantial support for middle-income families. The operational difficulties of the GSLP, in conjunction with need analysis and a tight money situation, has placed an inordinate degree of financial stress on many middle-income families.

The authors contend that the GSLP as currently regulated, is inadequate. Conventional need analysis has the ability to fairly and accurately isolate the higher education "purchasing power" of the low income and the high income families. However, when it attempts to identify the appropriate parental contribution for middle-income families, it taxes these families for the post-financing life style which our economy encourages. Basically, many families in the middle-income groups have substantial monthly commitments to installment purchases. Need analysis introduces an *ex post facto* penalty. The analysis procedures do not recognize the reduction of disposable income or assets which are the result of time payments on consumer items.

Recommendations

The following recommendations are based on the authors' assumptions that there are substantial social benefits derived from higher education and that American middle-income families do have a *bona fide* need to post-finance higher education costs. These recommendations are directly related to the apparent threefold intent of Congress when the GSLP was revised in 1972.

(1) Retain the affidavit of educational intent. This, in conjunction with a review of other aid committed from institutional and external sources, should adequately control for the abuses which reportedly have occurred.

(2) Provide the interest subsidy benefit for families with adjusted incomes less than $15,000. It should be noted that the 1965 purchasing power of this income, (when the original legislation was passed), has been considerably reduced over the intervening years. This income level should be examined in light of the inflationary erosion which has occurred.

(3) Provide the opportunity for families with adjusted incomes above $15,000 (or perhaps a higher level) to apply for the interest subsidy by submitting to formal need analysis.

TABLE I
AVERAGE LOAN RECOMMENDATION
BY INCOME LEVEL

Adjusted Income	Average Recommendation	N
0- 999	$1,011	9
1,000- 1,999	1,580	15
2,000- 2,999	1,662	13
3,000- 3,999	1,423	35
4,000- 4,999	1,302	44
5,000- 5,999	1,239	54
6,000- 6,999	1,017	58
7,000- 7,999	1,025	90
8,000- 8,999	886	118
9,000- 9,999	781	105
10,000-10,999	821	90
11,000-11,999	571	93
12,000-12,999	286	77
13,000-13,999	296	67
14,000-14,999	273	55
15,000-15,999	161	18
16,000-16,999	6	16
17,000-17,999	162	13
18,000-18,999	0	5
19,000-19,999	40	8
20,000-20,999	350	6
21,000-21,999	0	2
22,000-22,999	0	4
23,000-23,999	600	4
24,000-24,999	—	—
25,000-25,999	0	1

TABLE II

N	Children	Average Adjusted Income	Average Recommendation
227	1	9,090	620
311	2	10,130	720
235	3	10,342	774
120	4	9,450	940
72	5	8,972	1,010
35	6	10,486	811

TABLE III

RATIO OF NUMBER OF ZERO RECOMMENDATIONS TO THE NUMBER OF APPLICANTS WITHIN INCOME CATEGORIES BY NUMBER OF DEPENDENT CHILDREN IN FAMILY

Adjusted Income	Number of Children in Family 1	2	3	4	5	6	Total 0 Recom.	Percent
0- 999	1:2	0:1	0:2	0:4	0:1	0:0	1:9	11%
1000- 1999	0:6	0:7	0:2	0:0	0:0	0:0	0:15	—
2000- 2999	0:1	0:6	0:4	0:1	0:1	0:0	0:13	—
3000- 3999	0:8	0:7	0:6	0:8	0:4	0:2	0:35	—
4000- 4999	3:18	0:8	2:7	0:5	0:4	0:2	5:44	11%
5000- 5999	6:15	1:12	1:13	0:5	0:8	0:1	8:54	15%
6000- 6999	3:19	0:14	1:13	1:6	1:4	1:2	7:58	12%
7000- 7999	3:12	1:31	3:23	1:18	0:5	0:1	8:90	9%
8000- 8999	3:30	9:41	2:28	1:7	2:8	0:4	17:118	14%
9000- 9999	7:27	3:30	2:22	0:17	1.7	0:2	13:105	12%
10000-10999	9:21	6:26	5:20	0:9	1:6	1:8	22:90	24%
11000-11999	10:14	11:33	3:21	2:12	1:11	0:2	27:93	29%
12000-12999	18:19	14:30	10:17	3:6	2:5	0:0	47:77	61%
13000-13999	18:19	10:17	10:17	2:6	2:4	1:4	43.67	64%
14000-14999	7:9	14:18	7:16	3:6	2:2	1:4	34:55	62%
15000-15999	1:1	8:10	1:2	3:4	0:0	0:1	13:18	72%
16000-16999	3:3	7:8	4:4	0:0	1:1	0:0	15:16	94%
17000-17999	0:0	4:5	4:5	1:2	1:1	0:0	10:13	77%
18000-18999	0:0	2:2	2:2	1:1	0:0	0:0	5:5	100%
19000-19999	1:1	0:0	6:7	0:0	0:0	0:0	7:8	88%
20000-20999	0:0	1:1	2:4	1:1	0:0	0:0	4:6	66%
21000-21999	1:1	1:1	0:0	0:0	0:0	0:0	2:2	100%
22000-22999	1:1	1:1	0:0	2:2	0:0	0:0	4:4	100%
23000-23999	0:0	2:2	0:1	0:0	0:0	1:1	3:4	75%
24000-24999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	—
25000-25999	0:0	0:0	0:0	0:0	0:0	1:1	1:1	100%
26000-26999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	—
27000-27999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	—
28000-28999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	—