

University of Nevada, Reno

**A Qualitative Analysis of Students' Experience Using Student Loans and Financial  
Literacy at a Community College**

A dissertation submitted in partial fulfillment of the requirements for the degree of  
Doctor of Philosophy in Education

by

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## **Abstract**

The research paper examines what students believe and understand about student loans and financial literacy at a local community college. Participants were interviewed using structured and semi-structured questions about student loans and financial literacy. Baxter Magolda's Theory of Self-Authorship was used to analyze the results for this study. Analyzing the results, traditional college-aged students found the in-person loan entrance counseling beneficial. However first-time loan borrowers had a different experience compared to continuing students who were previous loan borrowers on how and what kind of knowledge that was retained on student loans. Students in the research study did not know the meaning of financial literacy, and when students were asked to describe what kind of financial literacy information they received, students defined financial literacy based on their financial priorities and what specific financial literacy information was valuable to them. Students also had similar responses on what kind of financial literacy information they would like to receive which reflected student's personal financial status and what financial topics were important to them. Finally, students in the research study displayed various financial behaviors. Some students acknowledged that they needed to change their financial behavior, lacked financial understanding such as loan terminology, displayed proactive financial behaviors, and shared their experiences with other loans specifically car loans which affected students in how they managed their student loans.

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## Baxter Magolda's Four Phases of the Journey toward Self-Authorship

	Following Formulas	Crossroads	Becoming the Author of One's life	Internal Foundation
<b>Epistemological dimension: how do I know</b>	Believe authority's plans; how "you" know	Question plans; see need for own vision	Choose own beliefs; how "I" know in context of external knowledge claims	Grounded in internal belief system
	→	→	→	→
<b>Intrapersonal dimension: who am I?</b>	Define self through external others	Realize dilemma of external definition; see need for internal identity	Choose own values, identity in context of external forces	Grounded in internal coherent sense of self
	→	→	→	→
<b>Interpersonal dimension: what relationships do I want with others?</b>	Act in relationships to acquire approval	Realize dilemma of focusing on external approval; see need to bring self to relationship	Act in relationships to be true to self, mutually negotiating how needs are met	Grounded in mutuality
	→	→	→	→

## **Chapter 1**

### **Introduction**

Student loan debt can be described as a “double-edged sword” (Hodosn & Dwyer (2014, p. 2) because while student loan debt can provide students the opportunity to achieve their academic goals and earn college degrees, student loan debt can also place emotional and financial burdens on college students and delay future decisions such as family formation (Hodson & Dwyer, 2014). In addition, student debt can have a negative impact for many borrowers. Consequently, students with debt have fewer savings, more difficulty in purchasing homes, and fewer retirement savings (Hiltonsmith, 2017).

### **Student Loans Rising**

The rise in college expenses and limited grant and aid resources has led many students to take out student loans to bridge the gap of college expenses and student and family resources (Houle, 2014). State funding for higher education has declined by 25% since 2000 (Hiltonsmith, 2013) and reports on the total amount of student loan debt continue to grow. Hiltonsmith (2013) also states that over the past decade, student loan debt has increased from \$240 billion to more than \$1 trillion today, and if the borrowing patterns continue, the overall student loan debt will reach to \$2 trillion by 2025.

College students are borrowing a significant amount of student loans to cover their educational expenses; thus, staying in school and graduating on time is becoming an important factor for both students and their families (Joo, Durband, & Grable, 2008). Furthermore, students also have a lax attitude towards student debt with the understanding that student loans are just part of the college experience (McKinney, Mukherjee, Wade, Shefman, & Breed, 2015).

Hillman (2015) explains that there are a few key reasons why student debt is rising. First, federal aid policies have expanded loan eligibility to expand college access and choice. Second, enrollment in institutions of higher education has increased substantially (Schanzenback, Bauer, & Breitwieser, 2017). Third, state-funding support for higher public education has declined while tuition has increased (United States Government Accountability Office, 2014). Fourth, the family median income has remained stagnant. In fact, Kochhar (2018) explains that the median income of middle-class households in 2016 was about the same as in 2000 because of the great recession along with an earlier recession that occurred in 2001. In addition, policy analysts Gale, Harris, Renaud, and Rodihan (2014) cite that room and board for students have also increased. These reasons have made it more difficult for college students and families to pay the rising costs for a college education with savings or working income alone (Hillman, 2015).

### **Student Loan Default**

Educational policies have increased students' accessibility with student loans. The same policies have also led to many discussions on the effects of student loan borrowing particularly when students default on their student loans. Scott-Clayton (2018) explains that defaulting on student loans is a status and not a characteristic. In fact, in her (2018) report, more than half of students who defaulted on a student loan resolved their defaulted loan within a 12-year window.

Scott-Clayton (2018) also highlights the consequences of defaulting on student loans. These consequences include lower credit scores that impact the ability of an individual to access credit or rent an apartment in the future. In some states, professionals who have defaulted can have their licenses revoked, and credit histories can

be evaluated during employment applications that can make it difficult for individuals to keep a job. Furthermore, students with defaulted student loans are not eligible for federal student aid and that makes it difficult for students who choose to return to school (Scott-Clayton, 2018).

For many Americans, the impact and consequences of student loan default were not issues in higher education until the economic recession that took place in 2008. The increase in student loan default in recent years contributed to borrowers who attended for-profit schools, two-year institutions, and other non-selective institutions. During the recession, many older students borrowed student loans and enrolled in short enrollment programs such as one-year and two-year certificates and degrees, or rapidly dropped out of their short-term educational programs. These factors led to an increase of adult students entering loan repayments (Looney & Yannelis, 2015).

Historically, students who attended for-profit and two-year institutions and borrowed student loans made up only a small portion of the overall student loan portfolio. However, many non-traditional students often come from low-income family backgrounds, and attend institutions with weak educational outcomes, while also experiencing poor labor market outcomes. These factors have led to more non-traditional students defaulting at higher rates (Looney & Yannelis, 2015). On the other hand, while loan borrowers who enroll in four-year public institutions, nonprofit private institutions, and graduate schools borrow more student loans and have higher loan balances, the default rates reported for these groups have remained low. Traditional students and graduate loan borrowers are able to avoid default because these students experience

stronger labor outcomes, lower rates of unemployment, and higher earnings (Looney & Yannelis, 2015).

The great recession in 2008 impacted family's earnings, which may have been a factor as to why there was an increase in the use of debt to finance expenses (Gale, Harris, Renaud, & Rodiham, 2014). Gale et al. (2014) suspect that as more students from lower and middle-income households enrolled in college, these students could have impacted the demand for student loans. In addition, as more non-traditional students enrolled in a post-secondary institution, the rise of student loan borrowers also increased which led to an increase in default rates (Looney & Yannelis, 2015). As the great recession wended down, and the economy improved, more student loan borrowers also enrolled in repayment programs such as the income-based repayment plans. A repayment program is one factor that decreased the student loan default rates in recent years (Looney & Yannelis, 2015). However, Looney and Yannelis (2015) noted that as the recession was winding down, loan borrowers were also entering in their first years of repayment. During this time as borrowers were entering into loan repayments, loan borrowers were also just starting out in their careers with income earnings that were also low. These factors are the reasons why student loan borrowers defaulted within their first three years of repayment, and why default rates remained high from 2013 to 2015 (Looney & Yannelis, 2015).

### **Financial Stress for College Students**

*The Money Matters on Campus* report (2016) collected survey data on nearly 85,000 college students. The report compared the fiscal health of students attending two-year institutions and four-year institutions. Data from the report found that students from

two-year institutions reported slightly higher levels of financial stress towards the cost of their education. On the other hand, four-year students reported positive changes towards financial stress and college preparation; these changes were not as distinguishable with two-year students.

One survey question that was collected in the report asked student participants what caused them the most stress when they thought about finances, approximately half of survey respondents experienced a moderate amount of stress with keeping up with their peers, amount of student loans, having enough money saved each semester, applying for financial aid, the cost of school supplies, tuition increases, and finding a job after graduation. Furthermore, student participants also reported experiencing stress with their current financial situation and future financial decisions (*Money Matters on Campus, 2016*).

Baker and Sgoutas-Emch (2014) used both qualitative and quantitative methods to analyze data that was used for strategic planning to address students' financial stress at a university setting. In the focus group setting, researchers found that financial stress was the second most frequent, and severe out of the eight types of stress students experienced. Factors that caused financial stress for students were lack of personal finance management knowledge and skills, insufficient funds for daily needs, the high costs associated with attending the university with little financial assistance, unrealistic expectations, complexity of the financial aid process, and student debt post-graduation. Students also reported specific financial stressors which were lack of financial aid, the lack in flexibility with financial aid when a personal crisis occurred, lack of financial advice, the need to work while going to college, and the amount of debt that students

must take on along with the emotional stress that comes with debt (Baker & Sgoutas-Emch, 2014).

The student stress survey that was used for Baker and Sgoutas-Emch's (2014) study found that 43% of students reported experiencing financial stress at least once a week which confirmed the frequent financial stress that students were experiencing. Twenty percent of survey respondents reported daily stress due to finances. The student stress survey also revealed 48.9% of student respondents reported moderate to a lot of stress with their concern for future finances, followed by 36.3% who were worried about tuition, 33.3% who needed to work to help manage their finances, 23.9% who were confused with financial aid, 19.8% who worried about books and supplies, 17.7% who worried about rent, and 11.3% who worried about food. The student stress survey also found that students were financially stressed on factors such as more hours of work were needed for pay, lower levels of parental education, and lower levels of health (Baker & Sgoutas-Emch, 2014).

A web-based survey was also used in Baker and Sgoutas-Emch's (2014) study and addressed the financial questions of whether students had difficulty with their finances for the last 12 months. Survey groups who struggled financially in the past 12 months were female students, students of color, and students who worked more than 20 hours a week (Baker & Sgoutas-Emch, 2014).

The study conducted by Baker and Sgoutas-Emch (2014) found that financial stress experienced by students was caused by their lack of personal financial knowledge and skills. One strategy that was used to address this issue was creating a resource wheel that contained various dimensions of health and financial wellness information along

with contact information for students to utilize. Other institutional strategies that were created to address the other financial stressors for students were proposing discounted services, free products offered by the university, and the initiation of a rental book program (Baker & Sgoutas-Emch, 2014). Finally, researchers provided suggestions on how to address the confusion and complexity of financial aid. These suggestions included streamlining the financial aid process to help avoid delays and losing paperwork, making financial aid services clearer and more accessible, and providing financial aid staff training on cultural competency (Baker & Sgoutas-Emch, 2014).

In another research study conducted by Joo, Durband, and Grable (2008), researchers examined characteristics of students who dropped out of college or reduced their credit hours due to financial reasons. Personal characteristics revealed that students who experienced financial strains had lower levels of self-esteem than the non-strained group. Interestingly, students who had lower self-esteem had more favorable attitudes with credit cards that explained why these students were more likely to carry a balance (Joo et al., 2008).

Joo, Durband, and Grable (2008) defined students who were defined as financially stressed as older, working, financially stressed, and had parents who had credit problems. Empirical results from the study suggested a relationship between financial problems and academic performance. Students who experienced reduced academic course loads or dropped out were more likely to work either full-time or part time. Researchers concluded that the cycle of needing money, working, and students' academic performance interfered with students' progress (Joo et al., 2008).

## **Financial Debt and Student Financial Behaviors**

Cha and Weagley (2002) concluded that using a double-hurdle model allowed them to better understand the roles of each variable (dependent status, total income, home equity, family business, farm, parent liquid assets, student liquid assets, expected income, total costs, total grants, age, male gender, white race, and household size) which impacted students' decisions to borrow and the level of borrowing. Furthermore, the study could help financial aid administrators and policy makers to develop effective financial aid programs as financial aid administrators fear that student loan borrowing was reaching its all-time high leading a generation of college students to limit their college education opportunities, specifically, students who chose to pursue graduate degrees. Students will also limit their college education opportunities and focus more on lucrative career fields and modify their personal and family choices due to student loan borrowing (Cha & Weagley, 2002). As college expenses continue to rise, students started to consider different enrollment options for college such as the option to attend less expensive colleges such as community colleges or technical schools (Johnson, O'Neill, Worthy, Lown, & Bowen, 2016).

Aside from college selection, students must also take into consideration how college enrollment can affect their financial behaviors and their decision of graduating college with more debt or working their way through college (Johnson et al., 2016). Unfortunately, the number of hours needed for students to work their way through college has increased drastically. In the 1970s, a college student could work 14 hours a week on minimum wage to pay for their public college education, while data in 2010 showed college students needed to work approximately 35 hours a week to pay for a year

worth of their education (Hamm, 2014). The United States Census Bureau reported that in 2011, 19.7 million students age 16 or older enrolled in an undergraduate program. Students who pursued an undergraduate program comprised of 72% of college-working students. Within the 72% of college students who worked, 20% were working full-time. More than half of the college students who worked year-round worked less than full-time for more than 26 weeks, and half of these students worked more than 20 hours (Davis, 2012). As the cost of living, along with tuition and educational expenses continue to rise, researchers and educators suspected that the number of college students working more than 20 hours a week while enrolled in college had continued to increase since 2012.

### **Financial Literacy**

Financial literacy is defined as, “people’s ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions” (Lusardi & Mitchell, 2014, p. 6). In the context of financial literacy programs, financial literacy can be described as a form of human capital investment in that some will find it beneficial to invest in financial literacy while others will not (Lusardi & Mitchell, 2014).

Financial education programs in the United States have been implemented in various settings including schools, workplaces, and libraries. Assessing financial literacy can be examined through financial educational programs whose goals are to improve financial knowledge (Lusardi & Mitchell, 2014).

Researchers, Lusardi and Mitchell (2014), argue while the success of financial educational programs is measured by specific behavior changes, it should be noted that theoretically and realistically, not one program can change all participants’ financial

behaviors in the same manner. Furthermore, they also argue that programs that offer short-term exposure to basic financial topics such as interest compounding, inflation, or risk diversification do not have an impact on consumers' decision-making behaviors (Lusardi & Mitchell, 2014).

Lusardi and Mitchell (2014) highlight that while mandating personal financial education can be effective in increasing student knowledge under the circumstances that individuals are heavily exposed to personal financial concepts. They suggest that if the goal of financial education programs is to change behavior, then program efforts must focus more on targeting specific groups since people in general have different economic circumstances.

Miller, Reichelstein, Salas, and Zia (2015) explained that addressing financial literacy is critical to the global financial crisis that entails the use of financial knowledge and skills for consumers. Their meta-analysis on 188 studies examined the impact of financial educational interventions in improving financial outcomes. The meta-analysis found that financial educational interventions could help with outcomes such as savings and improved record keeping and less effective in preventing negative outcomes such as loan defaults. These results implied that financial education is only effective for improving financial behaviors that consumers have control over and can immediately address such as savings and record keeping while loan default which is imposed by external agencies can only be avoided long term if financial education focuses on sensible borrowing decisions (Miller, Reichelstein, Salas, & Zia, 2015).

Willis (2012) explains that while financial education is offered to help keep consumers informed with current knowledge, the reality is that people do not want to

spend their time nor effort on financial instruction. Furthermore, while financial surveys may highlight that consumers want more education, when such service is created and offered, the utilization of financial education is quite low (Willis, 2012).

Another reason why financial education was unsuccessful is because “consumers’ knowledge, comprehension, skills, and willpower are far too low in comparison with what our society demands” (Willis, 2012, p.128). Furthermore, financial decision making in the areas such as credit, insurance, and investments not only required financial knowledge and financial skills, but also “numeracy, linguistic literacy, and the ability to make informed predictions about the future” (Willis, 2012, p.128). In a report produced by the U.S. Government Accountability Office (2006), credit card consumer information was written at a reading level of tenth to twelfth grade. Unfortunately, in a nationwide assessment, it was determined that the reading level of the U.S. population is at or below the eighth-grade level (United States Government Accountability Office, 2006). Willis (2012) argued that reading literacy alone is a large gap “for financial literacy education to bridge” (p.128).

### **Purpose of the Study**

The purpose of this study allows students to share their voice and their student perspective and experiences of how they use financial literacy to manage their student loans. Considering various student financial variables such as the rise in student loans and student loan debt, students’ financial behaviors and knowledge in financial literacy, my research study is guided by the question: What do students believe and understand about student loans and financial literacy?

## **Methodology**

A qualitative research study was conducted using a phenomenological design to examine students' experiences, opinions, and perspectives of how they use their financial literacy skills to manage their student loans. Baxter Magolda's self-authorship theory was used to examine how students formulate knowledge and decisions related to the student loan borrowing experience and the use of financial literacy.

## **Chapter 2**

### **Literature Review**

The literature on student loans, student loan debt, and student loan default is extensive. Summaries and overviews can be found on each topic while other literature examines the different factors that impact loans, debt, and default such as the borrowing behaviors of non-traditional borrowers or the effect of completing the free application for federal student aid also known as the FAFSA.

The literature review also highlights policy reforms surrounding the issue of federal student aid and student loan debt from strategies to reduce student loan borrowing, streamlining the student loan repayment program, gaining access to more accurate student loan data, and holding more college institutions accountable with the management of Title IV aid including student loans. Policy implications on federal student aid and student loan debt is also addressed.

Researchers also examined student demographic factors that contribute to student loan debt, the accessibility of student loans at the community college level and the impact student loans have with the success of community college students. Students' financial attitudes and behaviors toward student loans are also examined along with the perception of debt and college enrollment. The academic performance of college students is also analyzed and the impact of student loan debt once students leave college. While the literature examines several factors that contribute to student loans, debt, or default, researchers also examined students who choose to be debt averse.

Other topics included in the literature review include an overview of the federal student loan repayment program, efforts on financial literacy, financial literacy, financial

knowledge and behavior, financial anxiety and financial self-esteem, students' financial health, and how financial information should be taught and received by students.

### **Student Debt**

The Institute for College Access and Success (TICAS), an independent and nonprofit organization releases an annual report on student loan debt among college graduates from four-year colleges, both public and nonprofit colleges (Cochrane & Reed, 2015). The report is released annually to educate the public on the rising costs of colleges, and the implications of student loan debt on students, families, the economy, and the society (Cochrane & Reed, 2015).

The annual report excluded data from for private for-profit colleges, since these colleges do not report on what their students owe upon graduation (Cochrane & Cheng, 2016). Data from the class of 2014 revealed that students who graduated from both public and private nonprofit colleges had an average student loan debt of \$28,950 (Cochrane & Reed, 2015). Student debt varied by each state, ranging from \$18,900 to \$33,800. High debt states were found in the Northeast and Midwest of the United States, while low debt states were found mostly in the Western states (Cochrane & Reed, 2015). The tenth annual report of the Student Debt and the Class of 2014 examined the ten-year trend in student debt from 2004 to 2014. Comparing the graduating class of 2014 to the class of 2004, 69% of the college graduates from 2014 graduated with student loan debt. In addition, the average debt rose from \$18,550 to \$28,950.

To simplify, the rise in debt from 2004 to 2014 doubled, more than the rate of inflation. Furthermore, student debt would have increased more if it were not for the increases in grant aid that was also offered during this ten-year period. However, despite

the increase in grant aid, the cost of attending college continued to outpace the ability of families to pay for college particularly for low-income families (Cochrane & Reed, 2015).

The eleventh annual report, *Student Debt and the Class of 2015* (Cochrane & Cheng, 2016) found that the average student loan debt increased four percent (\$30,100) from \$28,950 in 2014. Several factors contributed to student loan debt, and these factors varied for each student and the college they were attending. Cochrane and Cheng (2016) listed the following factors that contributed to student loan debt: differences in tuition and fees; the amount of need-based aid offered by college institutions; the policies and office practice of various colleges and financial aid departments; living expenses in the local area; the demographic data of the graduating class; and the extent and the number of federal PLUS loans taken out by parents, public colleges, and out of state enrollment.

Cochrane and Cheng (2016) discussed the misconceptions surrounding college costs. In general, students and families used the sticker price also known as the published tuition to determine college affordability. However, both authors suggested that students and families should review the full cost of attendance, minus the expected grants and scholarships students will receive. The difference between the full cost of attendance and the expected grants and scholarships was known as the net price of college expenses. The full cost of attendance included tuition, books and supplies, living expenses, transportation, and other personal and miscellaneous expenses. The net price of a college was a better estimate of the college expenses that students and families must pay for out of pocket (Cochrane & Cheng, 2016).

The eleventh annual report, Student Debt and the Class of 2015, found that high debt states were once again found in the Northeast and Midwest states such as New Hampshire, Pennsylvania, Connecticut, Delaware, Rhode Island, Minnesota, Massachusetts, District of Columbia, South Carolina, and Ohio. While the low debt states were found in the western part of the United States that were Utah, New Mexico, California, Wyoming, Florida, Hawaii, Nevada, Arizona, Washington, and Oklahoma (Cochrane & Cheng, 2016).

Data from the Student Debt and the Class of 2016 Report found that 17 states had more than \$30,000 as their average student loan debt. Additionally, high debt states remained in the Northeastern and Midwestern states, while low debt states continue to be in the Western states like the prior reports. The 2016 report also showed that the average college student loan debt at graduation was as little as \$4,600 and high as \$59,100 (Cheng et al., 2017).

The 12<sup>th</sup> annual report, Student Debt and the Class of 2016 highlighted once again the variation in student loan debt with the different states in the United States. Cheng, Cochrane, and Gonzalez (2017) noted that debt at graduation started as low as \$20,000 in Utah and high as \$36,250 in New Hampshire. Stated differently, newly graduated students from Utah were 43% more likely to have debt compared to 77% of graduating students in West Virginia (Cochrane, Cheng, & Gonzalez, 2017).

Authors from the 12<sup>th</sup> annual report highlighted the issue of not just how much debt students have borrowed, but also the types of loans students were borrowing. Cheng et al. (2017) revealed that new college level data on non-federal loan borrowing found that private and state loan borrowing occurred in only particular colleges and states. One

hundred colleges were found as having the highest rates of private loan borrowing. Eighty-five percent of private loan borrowing came from non-profit colleges, and 34 of these colleges were found in the state of Pennsylvania (Cheng et al., 2017). Many students also borrowed state loans, and 80% of the college graduates with state loan debt from the class of 2016 graduated from Texas, Minnesota, Massachusetts, and New Jersey. Collectively, these four states only produced 14% of the graduating class of 2016 (Cheng et al., 2017).

All three annual reports collected data on student debt from public and nonprofit colleges who chose to volunteer and share information with TICAS. Authors cautioned readers with the 2016 data, as the data provided are from participating institutions that understated their student debt levels. Thus, debt amount reported vary greatly among the participating colleges with average debt as little as \$4,600 to as high as \$59,100 (Cheng et al., 2017).

Cheng et al. (2017) also explained that the U.S. Department of Education (the National Postsecondary Student Aid Study, or NPSAS) would have the most comprehensive and reliable national estimate since the data is from a nationally representative sample of students in comparison with the current report which is volunteered reported data which colleges take part through a private survey (Cheng et al., 2017). Cheng et al. (2017) compared college-reported data with NPSAS data and found that college-reported data understated student debt as much as eight percent and the number of students who borrowed student loans by 13 percent. In addition, NPSAS data also included borrowing and debt level data from for-profit college graduates. This data

was usually not available since the majority of for-profit colleges did not volunteer or report their data for surveys.

### **An Overview of the Causes and Consequences of Student Loans**

Student Loans Rising, a report written by Gale et al. (2014), listed three factors that led to the increase in student debt. First, college enrollment rose 27% from 2002 and 2011. Secondly, college costs which are the sum of room, board, and net tuition increased. College costs for four-year institutions increased by 41% while private four-year institutions increased by 9%. Third, the change in supply and demand of student loans may have resulted in an increase in availability of student loans partly due to changes in federal laws. Changes in federal laws gave creditors more protection, and this may have encouraged lenders to offer loans to a wider range of borrowers with less financial credibility. Hence, student enrollment in higher education increased particularly with for-profit colleges. Students who attended the for-profit colleges were more likely to rely on their federal student aid and were also more likely to take out student loans (Greenstone & Looney, 2013).

The 2014 report also discussed the economic effects that have occurred with the rise in debt with student loans. One immediate impact that was seen with student loan borrowers was the type of academic programs undergraduates pursued. Students had selected academic programs that would have led them to jobs with higher expected wages like engineering or economics.

Gale et al. (2014) also highlighted the fact that students who carried debt were more likely to drop out of college or transfer to a lower cost school. Debt also affected students' post-graduation life decisions such as homeownership, quality and timing of

marriage, or delaying the initial contributions to retirement plans by reducing the level of contributions, or increasing early withdrawals (Gale et al., 2014). Gale et al. (2014) also noted that debt affected the mental health status of student loan borrowers with an increased amount of stress and anxiety that students experienced during their college careers.

**Money Under 35 Report.** The Money Under 35 Report (2016) conducted by Ipsos, a global independent marketing research company, was a national study providing a snapshot of the financial health of young adults (22 to 35 years old) within the economy in the United States. The report highlighted that adults who started college but left before they graduated reported lower financial health compared to adults that held a college education, or who did not attend college at all (Money Under 35 Report, 2016).

The Money Under 35 Report (2016) also examined the young adults who borrowed for college, and who had trouble making financial payments on the college debt they accrued. For Americans who decided to pursue a college education, it was the second largest purchase they made in their lifetime, and the amount of student loans students chose to borrow varied significantly among young adults. Fifty-one percent who reported having student debt owed \$10,000 or less, while 21% owed more than \$30,000. In addition, the percentage of young adults who acquired student loans for their college education ranged anywhere from 56% to 63%. Analysis from the report found that 63% of young adults between the ages of 28 to 30 years old, who attended college during the recession borrowed more often, compared to the 56% of adults from the age of 22-24 years old who attended college after the recession. In addition, it was found that young

adults from the ages of 22-24 who had attended college after the recession had fewer years of college attendance, and borrowed less (Money Under 35 Report, 2016).

Forty-eight percent of the young adults in the Money Under 35 Report (2016) reported some type of debt they had trouble making all their payments on. Some of the highest groups who reported having difficulty in paying off their debt were males (55%), individuals who made more than \$100,000 in income (56%), and unemployed young adults (68%). Young adults who stopped attending college with student loan debt and did not earn their college degree reported having trouble making loan repayments (66%), while 57% of young adults who never attended college also reported having trouble making payments on their debt, followed by 54% of young adults who held advanced degrees. Half of the young adults (49%) who reported attending some college but did not earn a college degree reported having trouble making all of their payments, while young adults with bachelor's degrees (37%) and associate degrees (41%) were the least likely groups to report having trouble making all of their financial payments.

Adults, who reported having trouble making payments, prioritized top expenses such as housing, food, utility bills, car loans, and insurance. Medium priorities for young adults were paying off their student loans first before their cell phone or credit card bills. Low priority payments were placed on business or personal loans, Internet, cable, and medical expenses ranking the lowest (Money Under 35 Report, 2016).

### **An Overview of the Literature on Student Loan Default**

Cohort default rate (CDR) is a method used by the federal government to monitor the use of federal student loans by college institutions. The policies that surround CDR are used to hold colleges accountable for the federal aid that must be managed and

disbursed. Should colleges report high numbers in CDR then their college will be faced with sanctions such as the inability for colleges to participate and offer federal student aid at their institution (Jacquette & Hillman, 2015).

Defined by the Department of Education (2018), when schools with 30 or more loan borrowers enter repayment during a fiscal year, the percentage of students who enter a loan period based on certain types of federal student loans and default within a cohort default period is known as the cohort default rate. The cohort default period is a three-year period that starts on October 1<sup>st</sup> of the fiscal year when borrowers enter repayment and ends on September 30<sup>th</sup> of the second fiscal year that borrowers are still in the repayment period. This is the period when borrowers default and affect a school's cohort default rate (Department of Education, 2018.)

The Cohort Default Rate Guide (2018) produced by the Department of Education highlights the sanctions and benefits associated with CDR. Benefits of a reported low CDR of less than five percent include the ability for schools to disburse federal student loans in a single installment to students' study abroad programs. Benefits for schools with a reported low CDR of less than 15% are also allowed to disburse loans in one single installment for a semester, trimester, quarter, or four-month period.

Sanctions exist for institutions based off an institution's three most recent official cohort default rates that exceed 30% and 40%. When an institution reports a CDR of 30%, then an institution is unable to participate in direct loans and the federal Pell Grant for the remainder of the fiscal year followed by two additional fiscal years. When an institution reports a CDR of 40%, then the institution is unable to offer student loans for

the remainder of the fiscal year followed by two additional fiscal years (Department of Education, 2018.)

Webber and Rogers (2014) who analyzed the student loan default problem and examined factors such as institutions and student characteristics that could also contribute to the student loan default issue. They stated that the economic recovery from the recent recession had financially impacted all institutions that included the assistance received such as state appropriations that were used to offer students financial aid, and the types of student services programs that were offered at each institution. Results from Webber and Rogers (2014) study found that in general, public institutions had higher default rates in comparison to private, non-profit, and non-religious institutions. On the other hand, institutions that offered doctoral programs had lower default rates compared to institutions that offered only master and undergraduate baccalaureate programs (Webber & Rogers, 2014).

Webber and Rogers (2014) suspected that default rates varied for institutions based on factors such as the mission of an institution, types of students that attend an institution, external funding, and how decisions were made to allocate resources and funding. Furthermore, they found that there was a positive relationship between the number of students who received financial aid and default. Their research also showed that the percentage of non-white students who were enrolled at an institution was also associated with the three-year CDR based on their regression analysis (Webber & Rogers, 2014).

Ishitani and McKittrick (2016) examined the relationship between institutional capacity and cohort default rates. The purpose of their research was to provide efforts

and strategies for institutions in how to reduce their cohort default rates or maintain their low default rates. Their study found that students that were encouraged to complete more credits per a semester did not reduce the CDR for an institution. However, they did find that retention rates from first year to second year were significantly associated with the variability in CDR. Institutions that were able to retain their first-year students were more successful in decreasing their institution's CDR. For the students who were not retained, it was found that a subset of college students would also not return to college, for the students who chose not to return to college, their ability to repay back their student loans was also compromised (Ishitani & McKitrick, 2016).

Ishitani and McKitrick's (2016) research also confirmed that institutions that depended on tuition as a form of revenue passed these expenses to students in the form of tuition and fees. Consequently, students were more than likely to take out student loans that increased their probability to default on their student loans. Thus, they suggested that research should focus on students who attended institutions that offered lower tuition since default rates were expected to be higher at these institutions. Furthermore, they concluded that more research needed to be conducted to understand the impact of how tuition costs related to higher default rates (Ishitani & McKitrick, 2016).

Kelchen and Li's (2017) research examined institution characteristics; however, their research focused on the effects of one-year non-repayment rates and compared data with institutional characteristics and two-year cohort default rates. They also examined institutional characteristics and loan year repayment rates at year one, three, five, and seven after students left college. Analysis of their research revealed that institutional characteristics were associated with both cohort default rates and non-repayments. For-

profit and private institutions, along with institutions that served more traditionally underrepresented students such as African American, first generation students, and students who were considered financially independent, tended to have higher rates in non-repayment and default (Kelchen & Li, 2017).

Kelchen and Li (2017) found that institutional characteristics were more likely linked with non-repayments than default rates. Thus, they suggested that institutions and loan servicers should focus on helping institutions stay out of default by offering other loan relief options such as deferment and forbearance. Furthermore, institutional level characteristics were found to be strong predictors of non-repayment despite the number of years that students left college (Kelchen & Li, 2017). As for student characteristics, their research found that higher percentage rates of students who were African American and first-generation students were associated with higher non-repayment rates consistently across all seven years post college. In addition, they found higher percentage rates of students who were female, Asian students, and students with higher family incomes despite their financial status of being independent or dependent were associated with lower non-repayment rates (Kelchen & Li, 2017).

### **Non-Traditional Borrowers and Student Loan Default**

In the early 2000s, students who attended for-profit institutions who took out student loans made up only 20% of new borrowers while two-year community college students only had 15 % of new student borrowers (Looney & Yannelis, 2015). By 2006, the number of new borrowers at community colleges spiked up to 71% and 60% at for-profit schools, then from 2009 to 2011, almost half of the new federal loan borrowers (45%) were students from for-profit schools or community colleges (Looney & Yannelis,

2015). The increase in number of non-traditional borrowers attending for-profit and two-year public institutions was the key reason for the increase in overall debt. From 2000 to 2014, the amount of debt owed by borrowers who first attended for-profit institutions quadrupled from \$40 billion to \$189 billion dollars and quintupled from \$24 billion to \$117 billion dollars among borrowers who first attended two-year public institutions (Looney & Yannelis, 2015).

Default rates were volatile for non-traditional borrowers since default rates did not capture the distress among the borrowers who used the other repayment programs or used deferment or forbearance to suspend payments (Looney & Yannelis, 2015). They estimated that half of the borrowers in recent cohorts entered forbearance in their first year of repayment to help loan borrowers avoid default due to the challenges experienced with the labor market. However, such data failed to capture the issue that students were struggling to repay their student loans, and loan balances were left unpaid while interest rates continued to accrue.

**Enrollment trends of non-traditional borrowers.** As student debt and student default rates increased, many Americans were concerned that there was a student loan debt crisis that needed to be addressed. Seventy percent of the non-traditional borrowers ended up defaulting in student loans in 2013, in contrast, a majority of undergraduate and graduate borrowers experienced strong labor outcomes, lower rates of default, and unemployment (Looney & Yannelis, 2015). With the perception that there may have been a student loan debt crisis at hand, Looney and Yannelis (2015) examined administrative records on student loan burdens and de-identified tax records and analyzed the change in federal student loans and default using various data such as student

characteristics, institutions students attended, loan balances, and loan status from 1970 to 2014, along with data on labor outcomes from 1999 to 2013. Data from this database examined a four percent sample or four million federal student loan borrowers from 46 million annual observations. This data was used to help improve budget estimates but to also assist with policies pertaining to programs that focused on spending and tax components. More importantly, this data provided a detailed examination of how student loan default by institutions impacted labor and market outcomes and other potential outcomes. They found that the number of new nontraditional borrowers increased steadily since the mid-1990s after for-profit institutions experienced a decline in enrollment early in the 1990s and then an increase again during the recession. The recession led to a weak labor market that resulted in an increase in student enrollment and borrowing rates particularly among two-year students (Looney & Yannelis, 2015). Due to a combination of factors such as short enrollment duration of new student loan borrowers, new enrollment, and the rapid turnover in student enrollment, led to a surge of non-traditional borrowers who were out of school and in loan repayments immediately after the recession (Looney & Yannelis, 2015).

**Economic trends affecting the rates of student loan default.** Looney and Yannelis (2015) discussed whether high debt burdens were likely to be a temporary or permanent issue due to a factor of low earnings. As loan borrowers left college to seek employment, loan borrowers not only experienced low earnings, but were now also required to make loan repayments. The surge in student enrollment during the recession, along with the increase in volume of student loan borrowing led to higher student default rates. Looney and Yannelis (2015) concluded that high default rates would not persist.

After the recession, student enrollment in higher education normalized, and analysis also contended that default rates with for-profit institutions had also declined due to a combination of factors such as relief from the recession, newly implemented gainful employment rules set by the Department of Education, scrutiny from the public of the for-profit sector, relief from state budgets reducing public tuition from community colleges, and improvement with loan protection rights for low-income borrowers. In addition, as more borrowers who were experiencing economic hardships, enrolled in income-based repayment programs the income-repayment program helped students avoid loan default. Furthermore, the decline in the number of new student loan borrowers, along with the increase in the number of borrowers who were paying off their student loans had already contributed to the slowdown in growth rate of student loan borrowers and the aggregated debt of student loans. A combination of these factors may continue to reduce the student loan default rates in the future (Looney & Yannelis, 2015).

### **An Overview of the Federal Student Aid Program**

**Completing the free application for federal student aid (FAFSA).** When students submit their FAFSA, students' financial aid information is processed under one of eight formulas depending on factors such as family income, student's dependency status (dependent or independent), whether students have children, whether members of students' household are receiving benefits from another federal means tested program, and the type of federal tax return families are required to complete (Dynarski & Scott-Clayton, 2013). This complex process produces students' expected family contribution (EFC) that is used to determine students' federal aid eligibility, and students and families have a difficult time interpreting the EFC. In other words, the EFC is not the amount of

money that students and families must provide for college; rather, the EFC is described as an index that colleges use to determine how much financial aid students could receive if they attended their specific institution (Dynarski & Scott-Clayton, 2013).

**The federal Pell Grant.** The Basic Educational Opportunity Grant (BEOG) was renamed in 1980 as the Pell Grant after Senator Claiborne Pell of Rhode Island who expanded the eligibility of the Pell Grant to include students that were attending college part-time, students who were seeking a vocational education, or attending community colleges. The federal aid policy that expanded the eligibility of who could receive the federal Pell Grant allowed many adults particularly students identified as independents who were 24 years of age or older, married, or with children the opportunity to pursue a post-secondary education. As such, college enrollment rose by 44% between 1972 and 1992 (Dynarski & Scott-Clayton, 2013).

While the federal Pell Grant has aided many students with their college expenses, the average Pell Grant award has adjusted through the years, and even after adjusting for inflation, the average Pell Grant award was flat or decreased from the periods of 1976-1977 and 1995-1996. However, since 2008, the average Pell Grant award has increased as high as of \$3,828 (Dynarski & Scott-Clayton, 2013). Students who are eligible for the maximum federal Pell Grant award for the 2018-2019 academic year are eligible to receive up to \$6,095 (U.S. Department of Education, 2018).

Recipients of the federal Pell Grant award vary for each student, and Pell eligibility is based off of various factors such as student's EFC, cost of attendance, student's enrollment status of full-time or part-time, and a student's plan of attending college for a full academic year or less (U.S. Department of Education, 2018).

Furthermore, despite the efforts throughout the years to increase both the average Pell Grant award and expanding eligibility, the federal Pell Grant does not keep pace with the rise in tuition or other college expenses (Dynarski & Scott-Clayton, 2013).

**Federal student loans.** The U.S. Department of Education federal student loan program is the William D. Ford Federal Direct Loan (Direct Loan) Program. The direct loan program is the largest federal student loan program. The federal loan program is made up of subsidized and unsubsidized loans and can sometimes be referred as Stafford Loans or Direct Stafford Loans (U.S. Department of Education, 2018).

The Federal Direct Loan program was created in 1992 under the Higher Education Amendment and is now the main federal lending program. Since 2010, the Direct Loan program has accounted for all federal student loans. Under this program, college institutions who process Title IV student loans must adhere to the federal lending rules. Loan servicing is organized by the Department of Education who has contracted with private loan servicing companies (Looney & Yannelis, 2015).

***Subsidized loans.*** The Stafford loan was named after a senator of Vermont and education advocate Robert T. Stafford in 1988. The student loan program dated back to 1965 when the guaranteed student loan program was introduced (Dynarski & Scott-Clayton, 2013).

The federal student loan program emerged from the 1965 authorization of the Higher Education Act (HEA) and is also referred to Title IV loans. Since 1965, eight authorizations of the HEA have addressed loan policies pertaining to: loan eligibility; interest rates; and borrowing limits which have expanded the federal student loan

program giving loan accessibility to all undergraduate and graduate students (Hillman & Orosz, 2017).

***Unsubsidized Loans.*** In 1992, the unsubsidized version of the Stafford Loan was created. The loan program became accessible to all students regardless of financial need. One distinction between the subsidized and unsubsidized student loan program was that under the unsubsidized loan program, the federal government does not pay for the loan interest while students are enrolled in college, but both student loan programs offer interest rates, forbearance protections, and flexible repayment options in comparison to private student loans (Dynarski & Scott-Clayton, 2013).

### **Policy Reforms on Federal Student Aid and Student Loan Debt**

Policymakers have always proposed several policy changes on the issue of student loan debt; however, most policy proposals focus on three goals: the reduction of the after-tax cost of tuition; allocate aid to students to help decrease the supplement and use of student loans; and limit federal support to institutions that do not prepare future students for gainful employment (Gale et al., 2014).

**Expanding education tax credits.** One strategy that has reduced the after-tax cost of tuition is to provide students and families with tax credits with the expansion and change of the Hope Tax Credit into the American Opportunity Tax Credit (AOTC). Students and families who utilize the AOTC can receive a maximum tax credit of \$2,500 a year. The tax credit can provide a partial refundable 100 percent tax credit on the first \$2,000 qualified expenses, plus an additional 25% credit on the next \$2,000 in expenses (Gale et al., 2014).

**Increasing the federal Pell Grant and state assistance.** Policymakers and researchers suggested a strategy to assist students with college affordability, and that is through a restructuring of the federal Pell Grant program. McKinney et al. (2015) revealed that student participants who were also student loan borrowers explained that the federal Pell Grant alone was not sufficient to cover expenses related to their college education; thus, more students were left with no choice but to borrow student loans to pay for college. One solution suggested by the authors, who have produced annual reports on the student debt project, was a policy recommendation to double the maximum federal Pell Grant award. A change in such policy could reduce the burden of student debt for all current and future college students (Cheng et al., 2017; Cochrane & Reed, 2015; Cochrane & Cheng, 2016). While a policy proposal to double the maximum federal Pell Grant award to students was ideal and yet to be seen, likewise, Gale et al. (2014) also made the same argument that policymakers have also suggested the expansion and improvement of the federal Pell Grant program.

Since the published report produced by Gale et al. (2014) on Student Loans Rising, the maximum Pell Grant award increased incrementally over the past several years. In a recent 2018 Dear Colleague Letter, the Department of Education issued a statement that stated the president signed under Public Law 115-141, the consolidated Appropriations Act 2018 to increase the maximum Pell Grant award for the 2018-2019 academic year to \$6,095. Under this act, student's EFC, that is an index number used to determine their federal Pell Grant eligibility, was also increased to an EFC of 5486 (Manning, 2018). Finally, it was suggested that additional money could improve the Pell Grant program through incentives. A \$250 bonus could be issued to a student for the

completion of their associate degree in two years, and \$500 for the completion of their bachelor's degree in four years (Baum & Scott-Clayton, 2013).

Aside from federal policy changes like the increase in amount of Pell Grant awards to eligible financial aid students, Cochrane and Cheng (2016) suggested that congress should create a new federal and state partnership with a focus to reduce the net price for students and families who have low to moderate income that attend public colleges. In the Student Debt and the Class of 2015 report, Cochrane and Reed (2015) highlighted the recent trends and proposals of debt free, or free colleges to help with college expenses. Furthermore, they also expressed that policymakers should create new federal dollars to help states provide additional aid for students. New aid dollars provided to states should not supplant state or any other type of financial aid or higher educational funding that states receive.

### **Streamline the Loan Repayment Program**

A challenge that students must face after college graduation is to pay back their student loans. Thus, proposed policies to help students with loan repayment are to make income-based repayment as the defaulted option. Income- based repayment plans are based off students' reported income that can help ease the burden of paying back student loans (Gale et al., 2014).

Cochrane and Cheng (2016) also shared their suggestions in how to keep loans manageable for the students who do need to borrow. They suggested that the array of multiple income driven repayment plans available should be streamlined into one single and improved plan. Under the new and improved income plan, payments would be capped at 10% of income and loan forgiveness after 20 years. In addition, to help

borrowers maintain monthly payments, the Department of Education should improve their renewal process. If borrowers give the Department of Education access to their required tax information, then the government can automatically access borrowers' required tax information, rather than having borrowers submit new income information yearly (Cochrane & Cheng, 2016). Cochrane and Cheng (2016) also suggested that the student loan service system should be improved. They expressed their concerns on the effectiveness in communication between federal loan servicers and students. Data found that students were unaware of the income driven plans available to them due to low enrollment in income repayment programs. More importantly, data also revealed that enrolled borrowers in repayment programs also missed their annual income recertification deadline (Cochrane & Cheng, 2016).

### **Accessible Data**

Cheng et al. (2017) emphasized the importance for students and families to have easy and accessible data, along with accurate information that can be easily understood. They also argued that student debt data is not always accessible which makes it difficult for students to compare college affordability between different colleges. Thus, they suggested that improvements be made with the consumer information that is available through resources such as the college scoreboard, net price calculators, financial aid shopping sheet, and the mandatory loan entrance counseling all provided by the Department of Education.

Data accessibility is also a problem for researchers. Hillman (2015) argued that researchers have poor access to rich, quality, and timely loan data since research data is usually retrieved from the National Center for Education Statistics which takes years to

collect, verify, and report official data from the National Student Loan Data System. In such cases, researchers rely and use other data from survey information which sometimes is self-reported. Furthermore, it is sometimes difficult to conduct research and separate deduction and correlation from causation since students self-select to participate and borrow student loans (Hillman, 2015).

### **Student Loan Requirements**

Students receive federal student loans through the completion of the FAFSA. Students must also complete an online entrance counseling video, and master promissory note (MPN) through the webpage provided by the U.S. Department of Education. The MPN is a legal document that students must complete acknowledging that they will repay student loans that are borrowed along with any accrued interest and fees back to the U.S. Department of Education (U.S. Department of Education, n.d.). Administrators and educators in higher education are disturbed by the simple required steps to access federal student loans, and some argue that the required steps should be modified (McKinney & Burrige, 2015). It has been suggested that in order to improve the mandatory loan entrance counseling process, future loan borrowers should be informed with early and accurate information on student loans and receive personal counseling. The approach towards the student debt problem should use proactive measures. It is also a more responsible way to support students rather than intervention during the repayment period where loan borrowers are already faced with financial difficulties (McKinney & Burrige, 2015).

### **College Accountability**

The goal to reduce the student loan debt burden is not only a responsibility shared with federal policymakers and student family consumers, but also a shared responsibility for colleges who participate in the Title IV federal student aid program. Reports produced by Cochrane and Reed (2015) and Cochrane and Cheng (2016) suggested three policy recommendations to strengthen college accountability. First, they suggested that policy makers establish a threshold of unacceptable performance for colleges who participate in the Title IV federal student aid program. Colleges who do not meet the federal standards should lose their school's eligibility to offer and disburse federal student aid. Secondly, more incentives should be provided for schools to improve their student outcomes, and reward colleges who do serve low-income students as well. Finally, it was also suggested that current policies should be enforced such as the federal gainful employment regulation which not only holds colleges accountable but ensures that the career education programs students are enrolled in are preparing them for employment (Cochrane & Cheng, 2016).

### **Policy Implications on Federal Student Aid and Student Loan Debt**

The policies around student loans are complicated, taking into account that some student loans have originated under loan programs that no longer exist. The rules on lenders, borrowers, or repayment of student loans do not apply across the board for all student loans since there are different types of loans that students can use. Furthermore, student loans are also based on students' level of enrollment status such as undergraduate or graduate student, or freshman, sophomore, and so on (Hillman, 2015).

**Loan accessibility.** Policy changes such as amending the Higher Education Act of 2005 increased loan limits for specified student loan programs (S. Res. 1614, 2006). After the act was enacted, data from 2007-2008, show that there was a clear increase in loan borrowing. The increase in loan borrowing has allowed borrowers to accrue more loans quickly over the past few years (Looney & Yannelis, 2015).

**Community college students.** Federal financial aid policies apply to all students despite the type of school, college, or university students decide to pursue, and the type of programs or degrees they decide to complete. McKinney, Roberts, and Shefman (2013) stated that counselors have emphasized the need to modify the current policy that has enabled part-time students to borrow the same amount in student loans as students who are enrolled full-time. Generally, students who attend community colleges should be able to complete their associate degrees in two years; however, in one report written by Johnson (2011), data from 2003-2004 show that 52% of community college students completed their associate degrees between two to four years, while 26% of students took more than four years to complete their associate degrees. The duration of time it takes for community college students to complete their degrees, and the ability for part-time students to borrow student loans as much as full-time students, led part-time community college students toward slow progress with college completion with a large amount of student loan debt (McKinney, Robberts, & Shefman, 2013).

McKinney and Burrige (2015) discussed the policy implications that affect financial aid departments at the community college level. They explained that the federal policies in place for federal student loans confine the efforts of institutions to prevent students from taking out more loans. Yet, institutions were held accountable for their

cohort default rates. In a report conducted by the National Association of Student Financial Aid Administrators (2013), they highlighted a disconnect in federal policy. Federal policies placed the responsibility for default among institutions participating in Title IV federal student loans but did not provide practical methods to prevent institutions from having high cohort default rates.

### **Accountability Tools**

Hillman and Orosz (2017) analyzed the work of Kelchen and Li (2017), who compared the strengths and weaknesses of two different federal accountability tools, which are the Cohort Default Rate (CDR) and the loan repayment rate. While both tools were used to monitor college performance and sanction colleges who performed poorly, Hillman and Orosz (2017) shared concerns that while such tools were used to help measure and prevent certain student outcomes such as student loan default, the same tools also worked against other efforts that were in place such as outcome improvements of repayment rates.

Looney and Yannelis (2015) explained that different reporting tools yield different results, and college enrollment data does not capture the true number of non-traditional loan borrowers. The National Student Loan Data System (NSLDS) is the primary system to monitor and manage federal student loans to students. The NSLDS contains several key pieces of information that pertain to students' loan eligibility, and the status of their federal student loans. Financial aid administrators use NSLDS to determine students' loan eligibility status, disbursement of student loans based on students' academic level, track students who withdraw or graduate which determine when

students enter loan repayment, students loan status such as deferment or forbearance, student's loan balance, interest accrual, and so forth (Looney & Yannelis, 2015).

The National Center for Education Statistics (NCES) is the primary public source to report college enrollment, and Looney and Yannelis (2015) argued that data for non-traditional borrowers who enrolled in part-time certificate or programs that fall outside the traditional academic year may not be collected nor reported since they do not meet the standards to be reported for NCES. Looney and Yannelis (2015) further explained that data from NCES may actually underestimate the number of non-traditional borrowers in comparison to the data that can be found on non-traditional borrowers in NSLDS. While Looney and Yannelis (2015) highlighted the discrepancy in reporting information on non-traditional borrowers, the literature on reporting student loan information came from various and different sources which produce different loan and college enrollment information.

### **Loan Repayments**

Hillman and Orosz (2017) reviewed several questions related to student loan borrowing, and with their work, they addressed student loan policies that may have policy implications for students. For starters, Dynarski and Kreisman (2013) argued that America does not have a debt crisis but rather a repayment crisis since the burden of repayment can prevent young adults from financial independence. Hillman and Orosz (2017) also addressed this issue and suggested that policy makers should address the repayment problem to ensure against the long-term risks associated with repayment that go toward student loan debt. Hillman and Orosz (2017) also analyzed the work of Di and Edmiston (2017) on long-term policy implications on federal loan policies that focused

on the loan repayment plan. An implication found with programs such as the repayment plan and loan forgiveness revealed that additional costs were incurred due to rules on debt forgiveness. Another concern with long-term policies included the effect of behaviors toward loan borrowing. Students' behavior toward loan borrowing gave students the impression that taking out additional student loans was acceptable because student loan debt may be forgiven in the future (Hillman & Orosz, 2017).

### **Student Demographic Factors that Contribute to Student Loan Debt**

Federal policies such as the Middle-Income Assistance Act of 1978 expanded the Pell Grant and Stafford Loan Program to include more middle-income families (Fuller, 2014), while the 1992 reauthorization of Higher Education Act introduced the unsubsidized Stafford loans (Heller, 2011) that ultimately gave students more access to federal student loans. Since the enactment of these policies, the profile of students who are borrowing student loans has also changed (Hillman, 2015).

**Ethnicity.** More students and families rely on student loans to cover college expenses; however, there is evidence that heavy debt can have a negative impact on the education of minority students in comparison to nonminority students (Zhan, 2014). Hillman (2015) argued that whether college students graduated or not, debt is still concentrated among students with low-income and racial/ ethnic backgrounds, and this trend has occurred since the early 1990s where Pell Grant recipients have historically accrued more student loan debt compared to non-Pell Grant recipients (Woo, 2013).

African American students are more susceptible to student loan debt and Houle's (2014) research study found a consistent black and white disparity in student loan debt with African American students being at greater risk for student loan debt compared to

Caucasian students. Houle's (2014) model found that African American students had 51% more student loan debt than Caucasian students before taking into account other variables such as parents' socioeconomic status and assistance from family and scholarships. Ratcliffe and McKernan (2013) reported that African American and Hispanic students are twice as likely to have student loan debt compared to Caucasian students, and with the large racial wealth gap with families of color who have less income and wealth, students of color were more likely to borrow student loans to pay for their college expenses. Houle (2014) highlighted the importance of how future research should examine the disparities in student loan debt among student ethnic groups which can also produce racial wealth gaps among the college educated population as well. McKinney et al. (2015) also noted that little research exists on the borrowing behaviors of African American students at the community college setting (McKinney et al., 2015).

While research shows that African American students are more likely to accumulate more student loan debt, the literature on student loan default also shows that African American students are also more likely to default on student loans than any other student group. Scott-Clayton (2018) found that African American students are three times more likely (38% versus 12 %) to experience a default compared to Caucasian students, and while African American students are more susceptible to student loan default, Kelchen and Li (2017) found other data that showed which group of students had lower default rates. Institutions who enrolled a higher percentage of Asian students, female students, and students whose families had higher incomes, tended to have lower non-repayment rates and lower default rates (Kelchen & Li, 2017).

Research showed there were still gaps in the literature with students of color in particular how students of color were more prone to student loan debt and default.

Hillman (2015) stated that there continues to be a large gap in research on how students of other racial and ethnic groups utilized student loans, while Gross, Cekic, Hossler, and Hillman (2010) also found that little research existed as to why students of color were more likely to default than Caucasian students.

While the federal student loan program provided access for many college students, several studies and reports showed that students of color and low-income students carried an excessive amount of student loan debt. Unfortunately, the inequities experienced by these subset groups of students were difficult to address through policy changes alone (Hillman, 2015).

### **Age**

Researchers who have studied student loan debt have examined how age can affect the amount of debt students decide to borrow, and the abilities of students to repay their student loans. Ratcliffe and McKernan (2013) used data from the FINRA Investor Education Foundation's 2012 National Financial Capability Study (NFCS) and examined individuals with student loan debt who worried about paying off their student loan debt. They reported that 27 % of Americans with some college education had student loan debt. Fifty-six percent of adults in the age group of 20-29 had student loan debt, while 6% of adults aged 60 years and older had student loan debt (Ratcliffe & McKernan, 2013).

The NFCS data also revealed that age is significantly associated with who has debt, but not related to loan repayment concerns. Interestingly, data found that 24% of

the people over the age of 60 were concerned about repaying their student loans.

Ratcliffe and McKernan (2013) suspected that this age group would have had greater concerns to repay their student loan debt, yet they also acknowledged that this age group may also have less student debt, making them less concerned about loan repayments.

Contrary to Ratcliffe and McKernan's (2013) analyses, Gross et al. (2010) found different reasons of why there is a negative relationship between age and student loans. First, they found that non-traditional students who borrowed student loans from for-profit institutions and two-year schools came from disadvantaged backgrounds, were older, independent, and struggled with the labor market during the recession (Looney & Yannelis, 2015). Gross et al. (2010) also highlighted the issue that older students were more likely to default than younger students because older students owed more, and did not have the financial means to repay their student loans. Similar results demonstrated that age should be positively correlated to burden based on Baum and Schwartz's (2006) life-cycle model because older students have more family responsibilities. In general, while traditional college aged students are taking out more student loans; adult students or non-traditional students are expected to have a harder time repaying their student loans. However, Gross et al. (2010) also noted that overall, all students are faced with financial challenges in how to repay back their student loan debt.

### **Gender**

The number of men and women enrolled and pursuing a higher education particularly students in the age group from 18-24 years have changed for the past two decades (Schanzenbach, Bauer, & Breitwieser (2017). Since 1980, the number of men enrolled in college has increased by 11 percentage points, but the number of women who

have been enrolled in college has also increased by 18 percent. However, since the early 2000s, the enrollment growth for women at both two-year colleges and four-year colleges has been six percentage points higher than men (Schanzenbach et al., 2017).

An analysis conducted by Ratcliffe and McKernan (2013) demonstrated that women may be more impacted with student loan debt and repayment. In their 2013 report, *Forever in Your Debt*, Ratcliffe and McKernan (2013) argued that both men and women were equally susceptible to student loan debt; however, women were more likely to worry about repaying their student loans in comparison to men. Data from the NFCS study found that eight percent of women reported that they were more likely to be worried in how they would repay their student loans, despite controlling for variables such as household income and structure, and the number of dependent children. These results were consistent with the 2012-2013 Prudential Research Study that showed that women had lower confidence in meeting their financial goals and were less prepared in making sound financial decisions. Furthermore, women and men made decisions differently and had different concerns with finances. The 2012-2013 Prudential Research Study found that women had a collaborative approach when making household decisions and would usually involve their partners. Women also worried about household expenses such as the household debt, and not becoming a financial burden to their family. For women who were also the breadwinners of their family, they also worried about job security and their ability to pay their mortgage.

The fact that women worry more in their ability to repay their student loans could be that women are more likely than men to manage the family bills. Fonseca, Mullen, Zamarro, and Zissimopoulos (2012) found that women reported the responsibility of

paying the household bills. Fonscea et al. (2012) also explained that men and women process and approach financial household decisions differently with men acquiring the financial knowledge, while women specialized in other household functions. For these reasons, women are generally more aware of the daily and monthly expenses that occur in their household, and how other types of debt, like student loans, can impact their family's income and expenses.

### **Income**

Ratcliffe and McKernan (2013) found that student loan debt affects people at all income levels. Their briefing found that 20% of households with an annual income of less than \$25,000 have student loans that are only two percent more than those with annual incomes of \$100,000 or more. Grinstein-Weiss, Perantie, Taylor, Guo, and Raghavan (2016) examined student-debt burden among a sample of low and moderate (LMI) households and found that their sample of participants had a low adjusted gross income of less than \$31,000.

Ratcliffe and McKernan (2013) found that 72% of participants who had incomes of less than \$25,000 were concerned with their ability to repay back student loans, while 36% of participants with incomes above \$100,000 were also concerned about repaying their student loans (Ratcliffe & McKernan, 2013).

While data from Ratcliffe and McKernan (2013) shared concerns on participants' abilities in repaying their student loans, one Prudential Research Study, highlighted the differences in income for college graduates who were paying off their student loans, college graduates who paid off their student loans, and college graduates who never borrowed student loans. Chadwick Martin Bailey (n.d.), who conducted the 2016 online

survey on behalf of Prudential Financial for the Prudential Research Study, found that graduate students who were paying off their loans reported a median income of \$48,568 compared to graduate students who had paid off their student loans (\$71,467) and graduates who never borrowed student loans for college (\$65,739).

Finally, while concerns and changes in median incomes were affected by students who needed to repay their student loans, the employment status of individuals also impacted earnings and students' abilities to repay their student loans. Ratcliffe and McKernan's (2013) regression analysis found that people who were self-employed, employed part-time, or disabled/ sick were 30% more likely to be worried about repaying their student loans, while 21% of people who were unemployed were also concerned about repaying their student loans.

### **Socioeconomic Status**

There continues to be a gap in literature on student groups who have different racial and ethnic backgrounds and their use, management, and repayment towards their student loan debt. There also continues to be a gap in the literature with students who come from lower SES backgrounds (Grinstein-Weiss, Peranite, Taylor, Guo, & Raghavan, 2016).

Houle's (2014) study brought new evidence with SES disparities with student loan debt. First, Houle (2014) addressed the risks associated with students from lower and middle SES backgrounds who go into student loan debt. Risks associated with student loan debt included a greater risk for students to drop out of college and take on more debt. Houle (2014) also explained that young adults who come from low-income backgrounds with families who have little education were more likely to take on debt

greater than \$30,000 and were at greater risk to drop out (Houle, 2014). Students with low-income backgrounds were also more likely to file for bankruptcy due to the financial problems they experienced in an attempt to repay their student loan debt along with other debt they also accrued (Houle, 2014).

The flipside in SES disparities for students who are low-income and middle-income was that the tradeoff in taking on student loan debt would give students more opportunities including the choice to attend more elite institutions, gain better credentials, and earn higher paying jobs (Houle, 2014). However, Houle (2014) argued that if these reasons were the tradeoff for student loan debt, disparities in debt should disappear after variables that were excluded such as price and type of institution students attend. Unfortunately, Houle's (2014) study found that middle-income adults and students from less educated backgrounds did not take on debt as a tradeoff for higher income or for greater wealth.

### **Community College Students**

Student loans are intended to assist students with financial concerns that may prohibit students from access and opportunities to pursue their educational interests. Unfortunately, the research in student loans has been inconsistent (Widenspan, 2016). In addition, people are alarmed at the increased number of community college students who have borrowed student loans and the massive debt these students have accrued. Furthermore, community college borrowers are reported to have high default rates, which may be a signal of a warning crisis. For these reasons, conversations have been controversial and have focused on whether community college students have the ability to access and borrow student loans (McKinney et al., 2015).

McKinney et al. (2013) made the argument that community college students who have borrowed private loans with high interest rates were more likely to take on high amounts of debt, and in the long run have created financial hardships for students. Yet, students who chose not to borrow student loans were more likely to dropout or failed to pursue all together a postsecondary education due to the lack in financial assistance. On the other hand, reasonable amounts of federal or private loans that students borrowed provided students the opportunities to complete certificates or associates degrees (McKinney et al., 2013).

**Accessibility to federal student loans.** “Community colleges have very limited control to prevent students from over-borrowing, but the schools are then held liable for their cohort default rates” (McKinney & Burrige, 2015, p. 112). The federal student loan policy has allowed part-time community college students to borrow the same maximum loan amount as students who are enrolled full-time. This policy has allowed thousands of part-time enrolled students at community colleges to take on more debt each semester, despite their slow progress towards degree completion or low transfer rates (McKinney & Burrige, 2015). In addition, students who are academically unprepared at community colleges are even allowed to borrow the maximum federal loan amount despite their efforts to demonstrate they have successfully completed college-level course work (McKinney & Burrige, 2015). Furthermore, students have easy access to thousands of federal student loan dollars through a completed FAFSA, completed online entrance counseling video provided by the Department of Education, and a signed and completed master promissory note (McKinney & Burrige, 2015).

In McKinney et al.'s (2015) research study, first-time student loan borrowers reported having little knowledge or understanding about borrowing student loans and described the process of applying for a student loan "fairly painless" (McKinney et al., 2015, p. 340). However, students also expressed the need for more loan information before borrowing student loans. Students confessed they have little understanding of the loan responsibilities they have as borrowers such as the interest rates on their student loans or the loan repayment terms and options (McKinney et al., 2015). McKinney et al. (2015) argued that the federal student loan policy should be modified before students can have access to thousands of dollars in federal student loans. In addition, policy modifications should have more of a proactive approach in addressing the student loan debt problem, rather than intervening when students are experiencing financial hardships (McKinney & Burrige, 2015).

**Opting out of the federal student loan program.** While research on student loan debt addressed concerns such as students' ability to over borrow and accumulate debt, researchers also examined the effects of colleges who chose to opt out of the federal student loan program. Wiederspan (2016) examined 50 student loan community college policies within a statewide community college system (SCCS) and interviewed six financial aid directors for reasons why they opted out of the federal student loan program, or never offered student loans. Reasons why community college administrators did not offer student loans were the concern that colleges would be held liable for high cohort default rates that could lead to sanctions in awarding the federal Pell Grant to students. Should sanctions occur, institutions would see a drop in their student enrollment that could ultimately impact their ability to stay open as a college (Wiederspan, 2016). The

second reason why student loans were not offered was because low tuition rates were offered to all students across the board of the SCCS. Furthermore, the financial aid packages received by community college students have consisted a combination of federal need-based aid grants, state aid programs, and institutional grants to cover student's college expenses. Finally, administrators were concerned that offering student loans at their college would allow students to potentially over-borrow and take on debt beyond students' financial capability means to repay back their student loans (Wiederspan, 2016).

Wiederspan (2016) suggested that colleges who chose to exclude the federal student loan program from their campus should have other financial practices in place to help their students academically succeed and reduce financial challenges. Wiederspan (2016) also explained that a combination of federal, state, and institutional aid was sometimes not sufficient to cover the amount of aid that was lost if student loans were offered. McKinney et al.'s (2015) study echoed Wiederspan's concern which was while students may receive a Pell Grant, the reality was that these funds alone were not enough to cover all college related expenses, rather loans were used in place to address the unmet financial need after the Pell Grant has been exhausted. Such arguments suggested that colleges may want to modify their existing financial aid programs to supplement existing aid. Finally, Wiederspan (2016) noted that colleges should also be aware that students might reduce their enrollment intensity in the absence of loans, and institutions should have academic resources available (Wiederspan, 2016). Wiederspan's (2016) claim was supported by McKinney et al.'s (2015) study which found that if student loans were not available to students, students were left with no other choice but to either withdraw from

college, reduce the number of credits they attempted each semester, and/or work more hours.

While some community colleges chose to elect out of the participation in the federal student loan program, community colleges are also choosing the option to opt back in to the program citing reasons such as the demand from students to offer student loans especially in the reductions of state need based aid grant (McKinney & Burrige, 2015).

### **Student Persistence at Community Colleges**

Few studies have examined the relationship between financial aid and the persistence of community college students. There are even fewer studies that have examined the relationship between loans, debt levels, and enrollment behaviors of community college students (McKinney & Burrige, 2015). While many community college students have access to federal student loans, questions remain unanswered of how loan borrowing can benefit or impede the abilities of community college students to stay enrolled while completing their educational goals (McKinney & Burrige, 2015).

McKinney and Burrige's (2015) study was to understand how loans can impact persistence rates among community college students. Data used for their study followed a cohort of first-time college students who started their college education in 2003-2004 at a community college while enrolled in an associate degree program. The cohort of students was followed up to the academic year of 2008-2009. Results from the (2015) study found 8.7% of borrowers dropped out by the first year, 14.6% of the sample earned an associate or certificate degree after six years from their initial enrollment, and 34.2% dropped out by the sixth year (McKinney & Burrige, 2015). Data also found that Pell

Grant recipient students had higher odds of dropping out by the third and sixth year compared to students who did not receive the federal Pell Grant. Students who enrolled exclusively part-time were also more likely to drop out by the third and sixth year compared to full-time enrolled students. Furthermore, students who borrowed federal student loans during their first year of college had higher odds of dropping out than non-borrowers, thus researchers cautioned students who were enrolled part-time and using student loans to finance their education. Researchers also concluded that the relationship between student loans and the first year of enrollment for community college students' attributes to first year attrition rates (McKinney & Burrige, 2015).

The analysis conducted by McKinney and Burrige (2015) demonstrated that students during the third and sixth year yielded more accurate results on the type of effects student loans had on community college students who persisted. They explained that by the third year, students who had borrowed student loans encountered several non-successful academic experiences which included the unsuccessful attempt to complete their remedial coursework, failed or dropped courses, followed by the slow accumulation of college credits. Students realized, through many unsuccessful attempts, they might not be able to complete their degree or successfully transfer as planned. Furthermore, students realized the amount of financial resources and/or assistance that was needed to complete a college degree. Thus, by the third year, students had assessed the costs and benefits of what was needed to complete and earn a college degree. At this stage of their college education, students came to a crossroad of making the decision of whether to take on additional student loan debt to continue with their college education, or drop out of college (McKinney & Burrige, 2015).

Wiederspan (2016) analyzed the effects of participation in the federal student loan program that can impact students' educational outcomes. He found that community colleges that offered student loans had Pell eligible students who attempted and completed a quarter of a credit more in math and science courses. Wiederspan (2016) also found that Pell eligible students, who borrowed student loans, were also more likely to be enrolled in intensified science, technology, engineering, and math related courses which were more aligned with occupations that were in demand and offered higher pay. Furthermore, data found that for the Pell students who borrowed student loans, there was an increase of almost four credits attempted and completed. Finally, Wiederspan (2016) highlighted that Pell eligible students who had access to federal student loans were 7.6 percentage points more likely to borrow and increase their loan amounts by \$386.

Wiederspan's (2016) study highlighted the benefits and successes associated with student loan borrowing, and his data shadowed McKinney et al.'s (2015) study. In the 2015 study, students expressed the benefits of borrowing. For community college students, student loans reduced their financial stress, allowed students the opportunity to study more, allowed students to be involved on campus, and to work fewer hours each week. Students were also able to take on more credits each term that allowed many students to change their enrollment status from part-time to full-time (McKinney et al., 2015).

Finally, while the research data produced by Wiederspan (2016) demonstrated the positive effect of student loan borrowing with credit completion and course enrollment, his data also found that for the community colleges that participated in the federal student loan program did not have a significant effect on degree attainment or on transfer rates to

four-year institutions. Furthermore, male students who borrowed loans at the community colleges were 8.6 percentage points less likely to receive an associate degree (Wiederspan, 2016).

### **Student Loan Borrowers at Community Colleges**

“Community college borrowers do not need the full amount that a person at a four-year college does. We should be allowed to control the amount they borrow so that they still have funds to use when they transfer. And, so that the salary of an associate degree would support payment required for repaying these student loans” (McKinney et al., 2013, p. 12). McKinney et al.’s (2013) study examined the perspectives and experiences of financial aid counselors working in community colleges with behaviors of student loan borrowing. They found that the perceptions of counselors with loans and borrowing were that 92% of counselors agreed or strongly agreed that the level of loan debt was a problem for community college students, 86% of financial aid counselors agreed that students at their colleges borrowed more loans now than ever, and 53% of counselors agreed or strongly agreed that students should avoid using student loans at community colleges.

Counselors also reported their experiences with loan borrowers at their colleges and reported that 52% agreed or strongly agreed that students were fully aware of the consequences of borrowing, and half of counselors agreed or strongly agreed that their students understood the difference between federal student loans and private loans, or between subsidized and unsubsidized loans (McKinney et al., 2013). Fewer financial aid counselors reported that the rise in student loan debt was a potential reason why students dropped out (22%) or that excessive debt prevents students from borrowing student loans

(26%). Furthermore, 72% of financial aid counselors reported that the number of students who defaulted on their student loans was a major concern for their college (McKinney et al., 2013).

McKinney et al.'s (2013) study examined the perspectives of financial aid counselors and supported the research of McKinney and Burrige (2015) which suggested that financial aid offices in community colleges should be given more authority and access to limit loan amounts for groups of students who are at risk of default, and reduce the number of students who request the maximum annual loan amounts while making slow progress. Furthermore, if financial aid offices were given the authority to prorate students' loans based on their enrollment status, then these efforts could help students reduce their total loan debt which prevents students from financial hardship who drop early or do not complete their credentials. More importantly, if financial aid counselors could prorate student loans for part-time students, this would also encourage part-time students to pursue college full-time (McKinney & Burrige, 2015). Contrary to what financial aid counselors perceived, students expressed their uncertainty in the differences between subsidized and unsubsidized federal student loans and that borrowing was a necessity to stay enrolled as day to day financial expenses were what drove students to borrow student loans. Transportation costs were also barriers for students, and many community college students who were interviewed expressed how transportation expenses including gas or bus pass were a significant barrier towards continued enrollment at their college (McKinney et al., 2015).

### **Non-Traditional Borrowers**

Non-traditional students are often described as older students who enroll less than full-time and live independently from their parents. As independent students they also can borrow loans with higher limits (Looney & Yannelis, 2015). Independent students are usually over 25 years of age and have different educational goals than traditionally college age students who are under 24 years of age (Wiederspan, 2016). Non-traditional borrowers are faced with many challenges such as poor labor market outcomes from previous years, fewer family resources, living in poor neighborhoods and, are more likely to be first-generation, and enroll in programs that they are less likely to complete. These factors have led to high default rates (Looney & Yannelis, 2015). Aside from a student's family characteristics and labor outcomes, Looney and Yannelis (2015) highlighted other variables which could be observed such as the quality of education that non-traditional borrowers receive, students' satisfaction with their institution, and other financial and economic variables which may also contribute to the increase in default rates.

McKinney et al. (2015) explained that older students who decided to pursue higher education often started at the community colleges. Non-traditional students, who decided to attend community colleges, tended to work full-time or part-time with the financial mentality of pay as you go strategy. Since older students were more likely to be enrolled part time, their risk of dropping out was also higher before their completion of some type of college credential. If students decided to borrow, they were faced with heightened financial risks (McKinney et al., 2015).

The recession led to an increase of non-traditional student loan borrowers to enroll in one-year or two-year programs, certificates, or short-term enrollment programs. This also led students to suddenly drop out, these factors led to a surge of borrowers who suddenly found themselves in the loan repayment period as the recession dwindled down. Students found themselves in a difficult financial situation in how to repay their student loans (Looney & Yannelis, 2015).

Looney and Yannelis (2015) argue that default rates are volatile for non-traditional borrowers since default rates do not capture the distress among the borrowers who use the other repayment programs or use deferment or forbearance to suspend payments. For example, Looney and Yannelis (2015) estimate that half of the borrowers in recent cohorts are entering forbearance in their first year of repayment to help students avoid default due to the challenges experienced with the labor market. However, such data fail to capture the issue that students do struggle with the repayment of their student loans. Thus, loan balances are left unpaid while interest rates continue to accrue.

### **Families and Parents**

Family dynamics such as family culture, income, and the number of dependents are a few examples that have been examined in research to determine how families can influence students' decisions with student loans.

**Family household composition.** Ratcliffe and McKernan (2013) examined the FINRA Investor Education Foundation 2012 National Financial Capability (NFCS) study to understand who had student loan debt and who was worried with their ability to repay their student loans. They used a regression model which examined the characteristics of educational attainment, household income, age, race/ethnicity, number of financially

dependent children, gender, living arrangement, employment status, and region to determine who was most worried about student loan debt.

**Parents socioeconomic status (SES).** McKinney et al. (2015) proposed that parents and families' limited understanding of the overall college process cannot provide students the valuable information or guidance that is needed to determine if student loans should be borrowed.

**Household income.** Houle (2014) argued that low-income students with less educated backgrounds were more likely to take on very high levels of debt, and financial aid policies created usually focused on these students. Johnson, Cook, and Cuellar-Meja (2014) explained that legislators and education policy makers should focus on making college more affordable and accessible for low-income students. Furthermore, researchers recommended that there should be more focus on providing additional financial assistance for low-income students (Johnson, Cook, & Cuella-Meja, 2014). The policy recommendation by Johnson et al. (2014) was an example that Houle (2014) highlighted in his study that explained that financial aid policies were centered mostly around low-income students than students with middle-income backgrounds. Houle's (2014) study focused on middle-income families and student loan debt. He explained that young adults from middle-income families make too much money to qualify for student aid packages, yet do not have the financial resources to pay for college expenses. Thus, students from middle-income families were more likely to experience student loan debt in comparison to students who were low-income or high-income families (Houle, 2014).

Houle (2014) developed and tested the middle-income squeeze perspective and how the impact of parents' income and education affects the amount of student loan debt students incur. Under the middle-income squeeze perspective, the assumption was that students from the top and bottom of the family income distribution were less likely to take on student loan debt compared to students from middle-income families.

Results from Houle's (2014) study found that there is no relationship with parents' income and student loan debt. Houle's (2014) study found that young adults from lower-middle income whose parents earned \$40,000 to \$59,999 reported 59% more debt in comparison to young adults whose parents had the lowest income of less than \$40,000. In fact, young adults whose parents had higher middle income of \$60,000 to \$99,000 reported 30% more debt than students whose parents had the lowest income. Other data results found that young adults with middle-income backgrounds were more likely to enter debt as a means to pay for their college expenses. Finally, Houle (2014) found that young adults who were from higher income families and educated were less likely to take on higher levels of debt compared to students who had a lower SES.

Ratcliffe and McKernan (2013) found that 57% of adults with student loans were concerned that they would not be able to repay their student loans. Seventy-two percent of adults with household income of less than \$25,000 were concerned with this issue in comparison to 36% adults that had household income above \$100,000. Concerns of loan repayment with adults who had higher household income could be related to the individuals who had taken on debt from graduate school (Ratcliffe & McKernan, 2013). On the other hand, adults in lower-income households of less than \$25,000 were 86% more likely to worry about how they would repay their student loans. Adults with income

between \$25,000 and \$50,000 were 72% more likely to worry about how they would repay their student loans, while 29% of adults with income between \$50,000 and \$100,000 were more likely to worry about how they would repay their student loans (Ratcliffe & McKernan, 2013).

### **Students' Financial Attitudes and Behaviors towards Student Loans**

The literature review presented information in student demographics, community college students and non-traditional borrowers, and the impact that parents and families could have with student loan debt. This section reviewed the research that was found on students' attitudes and behaviors towards student loans and debt.

**Students' financial attitudes.** Nonis, Hudson, Phillhours, and Hu (2015) studied student attitudes towards student loan debt and how it related to the decision-making process. Their study explored how students' attitudes toward student loans influenced students thought process and student outcomes. Their study focused on how to identify and measure students' perceptions with student loan debt, the cost and benefits associated with debt, and how students' perceptions impacted their financial and educational outcomes.

They identified four thinking patterns students had with student loan debt. These four thinking patterns were: debt tolerant; uninterested; debt averse; and trade-off. They described debt tolerant students as those who valued instant gratification and lived beyond their means. This group also ranked high in the misuse of credit cards and lowest among the four groups with debt literacy. Furthermore, this group also scored low with how to spend responsibility to reduce student loan borrowing. Students who were identified as the uninterested group did not need college loans since they had other

financial means to cover college expenses such as parents, scholarships, outside employment, and grants, and had better financial health compared to the other four groups (Nonis et al., 2015).

Students, who were identified as debt averse had good financial health, low financial constraints, also ranked the highest with debt literacy. Furthermore, this group was conservative in how they used credit cards, had the lowest desire for instant gratification, and spent within their means. Finally, students under the trade off group were willing to borrow student loans despite their perception on the high stakes associated with high debt. While this group found that student loans were worth the risk, they also had high perceptions of the benefits associated to debt. This group ranked the lowest with financial well-being and also had higher financial constraints (Nonis et al., 2015).

They concluded that the perceptions that students had towards debt can impact the level of debt students could have while in college. The study sample, 51% of the participants, had poor financial health. Students who perceived the cost of loan debt had better financial health that was displayed by the debt averse group. Lower levels of financial health led to higher levels of stress and anxiety for students which impacted students' academic performance (Nonis et al., 2015).

### **The Student Loan Process**

Mueller (2014) conducted an exploratory study that examined the psychological perceptions of student loan borrowers, and the perceptions associated with the completion of a college degree. In his study, he found no significant differences in the perceptions of the student loan process associated with demographic factors such as age,

gender, income, education, marital status, interest rates, term of debt, or matriculation. However, in his pilot study, four factors (duress, mandatory, financial, and success) were used in his student loan model to indicate what hidden variables were associated with each cluster of adjectives. Students articulated that duress and mandatory described the student loan process and were found to be strong constructs that were also strong predictors for students who participated in the student loan process. The other two factors, financial and success were found to be weak contributors that had no impact to the solution of the student loan process (Mueller, 2014).

Mueller (2014) found that mandatory demonstrated that students understood loans were needed for school. Students also expressed and appreciated the support and assistance that was needed to complete the student loan process. He suggested that accessible information via online with step by step procedures, along with features such as real-time chat options, could help students overcome the negative perceptions related to duress. Online assistance could also provide support and information to students who perceived the student loan process as mandatory.

Further, Mueller (2014) noted that students expressed that when the term financial was used, it was associated with expensive, interest rates, and debt. He found that many of the respondents did not have the knowledge of interest rates or knowledge of the terms of their repayment options. Interestingly, adjectives such as opportunities, fair, and educational were associated with success, but this correlation was also found to be a weak dimension with Mueller's (2014) student loan model. Mueller (2014) suspected that students understood that there were no immediate benefits associated with borrowed student loans versus the psychological awareness of when student loans were obtained.

While most of the respondents in the study acknowledged how easily accessible student loans were, respondents did not think student loans that were borrowed were equated to the value of their college degree or future earnings. In fact, respondents agreed that student loans that were borrowed were not an acceptable method to pay for one's college expenses and education. He suggested that his study can be used by institutions to help improve their marketing campaigns by creating more effective social and media promotions that focuses on students' psychological perceptions that were favorable in engaging students in the student loan process. Mueller (2014) suggested the marketed efforts produced by universities should focus on students' psychological perceptions that will positively engage students in the student loan process.

### **Students' Perception of Debt and College Enrollment**

Literature on financial stress and college students demonstrate the negative effects experienced by students. Financial stress impacted students' academic performances, and their overall wellbeing, and researchers also found that students who had greater financial burdens were also more likely to drop out of college or reduce their credit load so that students could seek employment (Joo et al., 2008).

Britt, Ammerman, Barret, and Jones (2017) examined how financial stress, debt load, and financial counseling affected retention rates. Results found that students who considered themselves seniors and were enrolled in college for more than four years had dropout rates that were significantly higher due to the difficulty and challenges experienced in the classroom. Freshman students who had an average of \$2,000 in loan debt discontinued college, while sophomores who had an average of \$3,000 or more in

student loan debt discontinued college. Data found no significant differences in retention rates with student loan debt among students who had a junior and senior class standing.

The amount of debt students carried also impacted their decision to stay enrolled in college. Students who reported student loan debt ranging from \$18,000 to \$23,999 and \$24,000 or more were more likely to discontinue college compared to students with no loan debt. Furthermore, students who reported high levels of student loan debt were three times more likely to discontinue college compared to students who had no student loan debt. Interestingly, this research study also found that students who sought financial counseling were also more likely to discontinue their college education (Britt, Ammerman, Barret, & Jones, 2017).

Joo et al.'s (2008) study examined the characteristics of students who either dropped out of college or reduced their credit load due to financial strains. Results from the study found that these two student groups had lower levels of self-esteem or self-acceptance. Ironically, the study also found that students who were financially strained had favorable attitudes toward credit cards that explained why these same students also carried credit card balances. For the students who had lower self-esteem or self-acceptance, they reduced the number of credits they were enrolled in or dropped out because of the financial strains that they experienced. Joo et al.'s (2008) study also confirmed that there was a link with financial stress and poor academic performance as students who were financially stressed in the studies were more likely to drop out of college.

## **Student Behaviors**

Students with no savings, higher student loan debt, and lower net worth reported high levels of stress, and research found that students' financial resources affected their financial stress levels and their overall debt (Britt, Mendiola, Schink, Tibbetts, & Jones, 2016). They, in a similar fashion for most young adults, were predictors of their financial behaviors. Studied actions were heavily influenced by feelings and emotional reactions that were associated and related to environmental challenges and obstacles.

The *Money on Matters on Campus* (2016) report examined for four years the personal and external factors that influenced young adults' financial capability during their college years. Emerging adulthood was defined as the period from late teens to the early age of twenty as the adult years. It was during this developmental period that students identified specific successful financial experiences which included student loans borrowed, the ability to open their own checking account, the ability to prepare and file their own taxes, first job experience, and students' ability to gain financial dependence. These results suggested that students should receive both financial education and hands on experience such as the management of their own checking accounts or credit cards to improve the financial health for young adults (Friedline & West, 2015).

## **College Selection and Academic Performance**

**College selection.** The type of institution students attended impacted their financial decisions of how much debt they would accrue and their ability to repay student loans after college. The number of students who borrowed and defaulted on student loans illustrated an institution's ability to successfully serve and assist students with their college and post-college success. These factors suggested that institutional policies and

resources can be a contributing factor with the student loan CDR. Scott-Clayton (2018) found that defaulters from private, for-profit, or non-profit institutions were more likely to resolve their default compared to students who attended public institutions. Webber and Rogers (2014) examined the impact of institutional characteristics on students' decisions with financial aid. Results found institutions with a higher percentage of non-white students, and higher admission rates yielded a higher CDR compared to other institutions. They suspected that institutions that yielded higher admissions may have a more efficient admissions process, but it did not mean institutions had more academically prepared students (Webber & Rogers, 2014).

Other results found from Webber and Rogers's (2014) study showed that public institutions had higher default rates compared to private non-religious institutions. The regression analysis used in the study indicated that students who attended private non-religious institutions had lower financial needs, carried personal characteristics such as aversion to debt, or the motivation to complete their goals. These results also suggested the financial strength and the ability of an institution to allocate funds to provide financial aid and other support services for their students' success (Webber & Rogers, 2014). Furthermore, institutions that offered doctoral programs had lower default rates compared to institutions that offered masters and bachelor's degree programs. These findings may be affected by various factors such as the mission of an institution, student groups that enroll in specific institutions, the institution's reliability on external funding, and the philosophy of institution's administration about resource allocation (Webber & Rogers, 2014).

While resources vary by institution, Webber and Rogers (2014) highlighted that minority-serving institutions (MSI) had more challenges than any other type of college institutions. MSIs that served underrepresented students for some time faced challenges such as student enrollment, lack of academic preparation for their college, and college completion (Flores & Park, 2013). In addition, Webber and Rogers (2014) explained that MSIs had even fewer resources in general and may rely on federal subsidized loans as a source of revenue, for this reason, minority-serving institutions made it harder to recruit and enroll successful students.

**Academic performance.** Researchers explored students' academic performances in relation to student loan default. Academic factors were the number of credits attempted, credits completed, credit hours failed, grades, transfer patterns, enrollment patterns, and the time it took to earn a degree or certificate were strong predictors for students who defaulted on their student loans (Gross, Cekic, Hossler, & Hillman, 2010).

Cunningham and Santiago (2008) found that students with a need of more than \$2,000 who did not borrow loans during their first year in college were more likely to leave college after three years without a degree. These results suggested that student loans help covered students' financial needs, but also helped students avoid situations that may reduce their chances of earning a degree. This study also found students who were debt averse were less likely to persist or complete a degree compared to students who borrowed. They discussed how aversion to student loans could affect the goal of college enrollment and degree completion. They suggested that grants were the most important form of financial aid to support disadvantaged students through college. Furthermore, the research on the influence of student loans and persistence was mixed.

While there was a positive correlation between student loans and degree attainment which can help students reduce the hours of employment while enrolled in college, other research suggested that there were also negative consequences associated with student loans and student persistence (Cunningham & Santiago, 2008).

Some researchers were concerned that students who borrow student loans were also not completing their college degrees (Cunningham & Santiago, 2008). Other concerns were students with debt and no degree will experience financial difficulties after college. Perna, Kvaal, and Ruiz (2017) explained that students who did not complete their college degree or earned credentials had a difficult time with job employment particularly with job attainment of high salary jobs, for this reason, these students also had a difficult time with their repayment of their student loan debt.

Other research on student debt has examined how college graduation rates can impact students' abilities to repay back their student loans. Zhan (2014) found that fewer than 40% of the sampled students in his research graduated from college, and that the college graduation rates among minority students were even lower. Zhan's study demonstrated that the link between student loans and college graduation was different for minority students than it was for white students. Furthermore, his study found little evidence of how student loans can help reduce the racial gaps with college graduation.

Zhan's (2014) study also examined the relationship between educational loans and college graduation among race/ethnicity students who were Black or Hispanic. Student groups varied in the amount of loans that were borrowed. For example, Hispanic students were less likely to take out student loans compared to white and African American students. The median amount of student loans was greater among white

students (\$6,400), followed by black students (\$4,500), and Hispanic students (\$3,500). The amount of student loans borrowed affected graduation rates for both white and African American students with student loans of \$10,000 or more. Zhan's study (2014) found that the chances for graduation among Caucasian students are 4.5 times higher for those with student loans of \$10,000 or more than for students with no student loans. The impact of student loans leading to graduation is even stronger among African American students. The chances of African American students to graduate are 7.1 times greater for students who have loans of \$10,000 or more than for students with no loans. Interestingly, for both African American and Hispanic students, the likelihood of graduation is high for students with student loans that ranged from \$5,000 to \$10,000 than for students who had student loan debt above \$10,000 (Zhan, 2014). Zhan's (2014) research suggested that the size of student loans had a negative impact on the number of minority students who graduated from college. Furthermore, student loans had no positive impact on the chances of graduation with Hispanic students. Finally, Zhan (2014) highlighted that other research conducted on college graduation found that degree completion is a better predictor of students who will default on their student loans rather than the amount students will borrow for college.

### **Post-College Graduation**

It can take decades for students who carry heavy loan debt to pay off their debt, and the repayment effects of student loan debt affect other personal decisions such as career choices, the decision to purchase a home, or even start a family (Noguchi, 2016). With the rise in student loan debt, experts see the consequences associated with borrowed student loans. Experts found that loan debt limits borrowers' career choices such as the

decision to not pursue a graduate program, the inability to pursue public service jobs with low-pay, or the risk to pursue a startup business which in itself is a problem since new companies have the ability to create new jobs (Noguchi, 2016).

Xue and Chao (2015) found that after college, student loan debt affects students' lives and decisions to pursue a graduate or professional degree, to purchase a home, get married and raise children, or the decision to start their careers. For these reasons, student participants in the study avoided loans and found other financial means to finance their college education.

Mishory and Knoll (2016) explained that student loan debt makes it more difficult for millennials to become entrepreneurs. In an opinion poll conducted by Small Business Majority, forty-three percent of millennials reported that they had student loan payments but were also business owners. Business owners argued that student loan debt had impacted their ability to invest or grow their own business (Mishory & Knoll, 2016). For millennials who started their own business, entrepreneurs had to use alternatives such as loan deferments to launch their businesses; however, student loan debt continues to be a concern for millennials (Mishory & Knoll, 2016). Other consequences of having student loan debt impact the ability for people to contribute to their retirement funds, as financial advisors often receive the question of whether to contribute to their retirement fund if they have student loan debt (Noguchi, 2016).

### **Debt Averse**

Copious amounts of research have been studied on student loans and student loan debt, and while literature shows the benefits of borrowing student loans, researchers also examined the various reasons why students choose not to borrow federal student loans.

Xue and Chao's (2015) study examined students' attitudes toward the student loans that were borrowed to finance their college education. Their study found that students from socioeconomically disadvantaged backgrounds generally held negative attitudes. Other results were consistent with the literature that showed lower-income students and their families were more likely to be debt averse with student loans. Aside from scholarships and grants, students that did not borrow student loans received financial assistance from their families that helped them to stay out of debt, but more importantly, students who did not borrow student loans reduced their financial anxiety associated with college expenses. While some participants had parents who were in debt, parents assisted with their children's college education in any way they could to prevent their children from having debt after graduation (Xue & Chao, 2015).

### **Types of Aversion**

There are two types of borrowed aversion identified by economists: risk aversion and shortsighted loss aversion (Cunningham & Santiago, 2008). Cha and Weagley (2002) explain that low-income students were more averse to risk which could make it difficult for students to earn a college education. Cunningham and Santiago (2008) explain that studies show a positive return on investment when students use student loans to earn a college education; however, there was no guarantee that a student would graduate or end up with a job that paid well.

As for shortsighted loss aversion, some people would not take the risk to borrow student loans especially if the benefits would not be seen immediately. High school seniors who graduate, may find it difficult to realize future education plans since they are unable to assess the value of a college degree in comparison to the immediate concerns

they can assess such as the cost associated with borrowed student loans, or the lost in benefits if not employed full-time (Cunningham & Santiago, 2008).

### **Reasons Why Students Choose to be Debt Averse**

Cunningham and Santiago (2008) highlighted the characteristics of undergraduate students who were enrolled in college and explained why certain students choose not to borrow despite the benefits associated with borrowed student loans. They explained that if loan aversion was a factor in how students make the decision to go to college, then certain patterns and behaviors should be expected. First, high school students ready for college may decide to not pursue a college education. Secondly, high school graduates who decide to pursue a college education may choose to delay college for financial reasons. Third, students enrolled in college would have demonstrated need for financial assistance will adopt other financial strategies to address their financial expenses, despite the financial need that students display. Their refusal to borrow student loans may lead them to adopt other financial strategies that consequently reduce their chance of degree completion. Finally, students enrolled in college may display other risky financial behaviors such as the use of credit cards or private loans to pay their college expenses, rather than to utilize affordable federal student loans (Cunningham & Santiago, 2008).

Other factors that Cunningham and Santiago found on why students were least likely to borrow include: demographic characteristics; financial characteristics; attendance patterns; and institutional characteristics. They found demographic characteristics such as race/ethnicity, gender, dependency status, age citizenship, parents' highest education level, or number of children and dependents could contribute to the reasons why students were averse to borrow student loans (Cunningham & Santiago,

2008). Financial characteristics such as help from parents or family income, and attendance patterns such as delayed enrollment, attendance, class level, major, or working while enrolled could also impact students decisions to become averse with student loans (Cunningham & Santiago, 2008). Institutional characteristics such as sector, region, selection, total cost, net cost after financial aid, financial need, percentage of students who received federal grants, or minority-serving status were other factors that could affect students' decision to become averse to student loans (Cunningham & Santiago, 2008).

In another study conducted by Xue and Chao (2015), students who chose not to borrow explained their reasons why they were averse to student loans. These reasons included parents' influence, the fear of how to handle a financial burden, the undervaluing of and significance of a college education, and lack in knowledge and information on federal student loans. Student participants explained that student loans would create more financial hardships on their college experience. If these students had taken out student loans, then they would attempt to manage their student loan debt while in college with a job and work more hours. Consequently, student loan debt would also require these students to make adjustments such as less time to participate with campus activities. Furthermore, these students would be more inclined to complete their academic programs as soon as possible (Xue & Chao, 2015).

Participants in Xue and Chao's (2015) study also revealed their fear of borrowed student loans, and how accumulated debt would change their experiences during and after college. Furthermore, students' perception on the value to obtain a college education would also be affected, as students would determine whether to invest in college. Several

participants expressed that the financial risk associated with student loans would not be worth the effort to pursue an undergraduate education. Instead, participants who chose not to borrow but attended college had other means to pay for their college expenses such as scholarships and grants, financial support from families, full-time or part-time employment, and the utilization of their prepaid tuition program or savings. These factors were the reasons why students chose not to borrow student loans (Xue & Chao, 2015).

### **Concerns for Students who are Debt Averse**

Xue and Chao (2015) explain that lower SES students and families do not recognize that student loans are a form of financial aid, and results from their (2015) study suggested that students averse to loans may limit themselves with their college opportunities such as college selection, educational credentials, and the social aspect that comes with the college experience.

Cunningham and Santiago (2008) also discussed the benefits and concerns with being debt averse. They were concerned that often students must decide on financial decisions, and must weigh the benefits and consequences that come with student loans. Students who chose not to borrow student loans used other financial alternatives to avoid student loans. Students who were debt averse found other financial means to pay for their college expenses; however, other financial alternatives could impact their success and reduce their chances with completion and graduation. On the other hand, students who were debt averse and graduated from college did not worry about how to repay back their student loans. Thus, the positive or negative impact for students depended on the financial situation for each student (Cunningham & Santiago, 2008).

## **Federal Student Loan Repayment Program**

When students leave or graduate college, students enter a six-month grace period before they repay their federal student loans (Looney & Yannelis, 2015). Once students enter the repayment period, students must begin with their payments on their federal student loans. Eight different types of repayment plans are available to students, and while students may select or be assigned to a repayment plan, initially when students start to repay their student loans, student borrowers have the ability to contact their loan servicer and discuss what repayment plan options could be available for them (U.S. Department of Education, n.d.).

### **Loan repayment options.**

*Standard repayment plan.* All borrowers are eligible for the standard repayment plan and students who choose this option will pay less over time compared to the other repayment plans. The standard repayment plan is a ten-year plan with fixed payment amounts to ensure borrowers that their loan will be paid off within ten years (U.S. Department of Education, n.d.). The Department of Education is now starting to publicly release data on student loan repayment, and on average, 57% of borrowers are on a standard ten-year mortgage style repayment schedule (Hillman, 2015).

*Graduated repayment plan.* All borrowers are eligible for this plan; however, borrowers who choose this plan will pay more over time compared to the standard repayment plan. Borrowers who choose this plan will initially have lower payments that are increased gradually (every two years) at an amount to ensure that student loans will be paid off within ten years (U.S. Department of Education, n.d.).

***Extended repayment plan.*** This plan is available to students who have more than \$30,000 in federal direct loans or Federal Family Education Loans (FFEL). Under this plan, borrowers will have lower monthly payments in comparison to the standard repayment plan. In addition, payments may be fixed or gradually increase to ensure that loans are paid off within 25 years (U.S. Department of Education, n.d.).

***Revised pay as you earn repayment plan (REPAYE).*** There are four different types of direct loans: direct subsidized loans; direct unsubsidized loans; direct PLUS loans; and direct consolidation loans (U.S. Department of Education, n.d.). Any direct loan borrower is eligible for the REPAYE plan but will usually pay more over time compared to borrowers who are enrolled in the standard repayment plan. In addition, borrowers under this plan may have to pay income tax on the amount of their loan that is forgiven (U.S. Department of Education, n.d.). The monthly payments on the REPAYE plan are ten percent of the borrowers' discretionary income. Borrowers are required to update their income and family size under this plan which is used to recalculate annually borrowers' monthly payments. Students' outstanding loan balance can be forgiven under this plan for borrowers who have not repaid their full loan amount in 20 years (U.S. Department of Education, n.d.).

***Pay as you earn repayment plan (PAYE).*** Eligibility for the PAYE plan is similar to the REPAYE plan; however, under the PAYE plan, borrowers must be a new borrower on or after October 1, 2007 and must have received a direct loan disbursement on or after October 1, 2011. Like the REPAYE plan, borrowers' loan balance will be forgiven if the loan has not been paid off in 20 years, furthermore, borrowers under this

plan are also subject to income tax on their loan balance that is forgiven (U.S. Department of Education, n.d.).

***Income-based repayment plan (IBR).*** This plan is available for borrowers who have high debt relative to their income regardless on the type of loan a student has borrowed. Monthly payments on the IBR plan are 10 to 15% of the borrower's discretionary income depending on when borrowers received their first loan. However, monthly loan payments will never be more than what a borrower would pay under the standard repayment plan. Borrowers are required to update their income and household information annually, and monthly payments are recalculated to reflect borrowers' most updated income information. Similar to the REPAYE and PAYE plans, borrowers' loans can be forgiven after 20 or 25 years if loans have not been paid in full. Borrowers are also subject to pay income tax on their student loan balance that is forgiven (U.S. Department of Education, n.d.).

***Income- contingent repayment plan (ICR).*** Any direct loan borrower is eligible for this plan, and monthly payments will be the lesser of a borrower's discretionary income of 20% or the amount a borrower would pay on a fixed payment over 12 years based on the borrower's adjusted income. Borrowers under this plan are also required to report their income and family size annually, and payments are recalculated annually to reflect borrower's ability to repay their monthly student loans. Loans can also be forgiven under this plan if borrowers have not paid off their loan in full after 25 years (U.S. Department of Education, n.d.).

***Income-sensitive repayment plan.*** This plan is available for borrowers who have FFEL plans and do not qualify for public service loan forgiveness. The monthly payment

amount varies for each individual borrower based on their lender. In addition, monthly payments are based on a borrower's annual income to help borrowers pay off their loan in 15 years (U.S. Department of Education, n.d.).

**Deferment or forbearance.** While there are various repayment plans that are available to students, circumstances can occur which can prohibit students from making monthly payments on their student loans. Options such as deferment or forbearance allow students to temporarily stop their federal student loan payments, or temporarily reduce the payment amounts on their federal student loans which can help students avoid defaulting on their student loans (U.S. Department of Education, n.d). Deferring student loans is available for student loan borrowers who re-enroll in school, unemployed for up to three years, experiencing economic hardship, or if borrowers join either the military or Peace Corps. Students who choose forbearance can also defer their loan payments up to one year if students are ill, facing economic hardship, or perform national service. Should students choose either deferment or forbearance, interest will continue to accrue on their student loans (Looney & Yannelis, 2015).

### **The Federal Loan Repayment Program and Student Loan Default**

Perna et al. (2017) discussed how income driven repayment plans may be more effective to reduce the risks of students who default on their student loans especially for students who have low earnings. However, as more students participate in income driven repayment plans, they also highlight that that this specific program can be costly for both the federal government and for taxpayers (Perna, Kvall, & Ruiz, 2017).

Over the past two decades, changes in policies, along with the collection and availability in data (student default interventions versus institutional efforts and

sanctions) revealed different results on student default data, which included institutional and repayment data. Hillman (2015) explained that many questions were still left unanswered and urged researchers to explore policy questions such as the average amount it takes for borrowers to repay their student loans, or how often do students change their repayment plans from the standard ten-year plan to an income driven plan. Furthermore, little research exists on what types of students opt to participate with the income-driven plans. Also, there is no research that exists or explores the alternative plans to help students avoid default or delinquency with their student loans (Hillman, 2015).

### **Future Implications to Address Student Loan Debt**

Several issues related to student loan debt have been examined by researchers. In addition, researchers also identified several strategies and or solutions that administrators and instructors can use in higher education to help tackle or resolve the student loan debt problem. Other strategies include how to provide students the appropriate resources to make better-informed decisions when borrowing student loans or becoming more financially prepared with managing their student loans.

### **Implications for Institutions and Colleges in Higher Education**

The Student Debt and Class of 2016 Report written by Cochrane et al. (2017) found that colleges that graduated students with high levels of debt needed to make more efforts, and direct financial resources towards students with financial need, since low income students faced the most extreme and unrealistic financial expectations with how to pay for college. They highlighted that nationally, families with household income of \$30,000 or less would need to spend 77% of their income to cover the net cost of a public

four-year college (Cheng et al., 2017). Cheng et al. (2017) also referred to the affordability benchmark created by the Lumina Foundation (2015) which argued that students should not use other financial means to pay for college tuition and expenses other than the savings that students earned that were generated through 10% of their discretionary income for ten years, and income earned through part-time employment while enrolled in college.

Furthermore, Cheng et al. (2017) highlighted for the 60 colleges that reported the number of the college graduates, college graduates had more than \$40,000 in student debt. Only 43% of colleges reported spending 20% of their institutional aid to students with no financial need because students could either afford college or because students' financial needs had been met. Ironically, while colleges awarded students with no financial need, even fewer colleges could fully cover the financial needs for their students who were full-time.

Hillman (2015) made the similar argument as Cheng et al. (2017) and stated that the gap in the literature on institutional factors could impact aggregate debt levels for students. In addition, Hillman (2015) proposed questions such as the efforts conducted by college to reduce debt burdens, or the effects of state financial aid policies used to avoid on the reliance to use student loans. Furthermore, Hillman (2015) suggested that future research should analyze how state and institutional policies and practices impact financial aid packages, and how colleges shape the outcomes of how much debt students carry.

### **Institutional Efforts**

Baker and Sgoutas-Emch (2014) used a social ecological model (SEM) to demonstrate how various initiatives can be used to address complex issues like the financial stress students experienced at the particular university setting that was assessed. The model was a successful tool to implement since administrators and policymakers at the university were able to make specific institutional changes such as the way they offered aid which included the distribution of more institutional scholarships modeled after Princeton University. Under the Princeton policy, financial aid packages included student loans; however, Princeton University replaced the loan award with institutional grants or scholarships (DesJardins & McCall, 2010).

### **Community Colleges**

McKinney et al. (2015) explained that financial aid services offered at community colleges need to be improved to better serve students and provide students with more accurate information, and in person counseling services should students decide to take out student loans. The research conducted by McKinney and Roberts (2012) highlighted previous reports which state that financial aid counselors at community colleges either lack the adequate time or resources to provide each student the information and advisement that is needed to help students make financial decisions about college expenses or costs, and how to finance their college education. Unfortunately claims from previous reports supported the results from McKinney and Robert's (2012) research that found that 71% of their participants expressed that the ratio of financial aid counselor to student for their school was one counselor for every 1,000 students. Furthermore, participants expressed that finding the time to meet with students who want assistance

cannot only be a challenge, but also unfeasible for the financial aid counselors for the certain colleges that participated in their study (McKinney & Roberts, 2012).

McKinney and Roberts (2012) suggested that one approach to assist financial aid counselors was that college leaders should work closely with their financial aid directors to identify the appropriate counselor to student ratio. This approach would ensure that financial aid students would be able to access the proper information and resources needed to make informed decisions.

### **Financial Literacy Efforts**

Frequently, college students lack the appropriate knowledge or resources to make informed financial decisions to determine whether they should take out student loans. Johnson et al. (2016) found that participants sought assistance from their friends and peers for advice. In addition, they suspected that given the complexity and analysis needed to make informed decisions on whether to borrow student loans, students lacked the confidence and knowledge to utilize the resources that were available to them such as the resources and information provided by the U.S. Department of Education on the Federal Student Aid Loan page. Furthermore, Johnson et al. (2016) suggested that financial literacy efforts need to increase the awareness of online student loan resources that were available for students such as the online student loan calculator, the federal student aid repayment estimator, and the college affordability and transparency center which contains data on net prices, tuition and fees, and annual percentages changes. Johnson et al. (2016) suggested that financial educational programs could also be improved and should address the social and emotional impacts associated with student loan debt.

Mueller (2014) studied the perceptions of student loan borrowers with the goal to improve the communication and messages sent to students by college universities. He suggested that practical promotions need to be created to help students engage in a level suitable to their psychological understanding of how to finance and manage student loans. In addition, financial aid administrators could use his study to improve how financial aid information is delivered pertaining to student loans. The way student loan information is delivered could help ease the process for students who are interested in student loans. Furthermore, he suggested how information is presented could help minimize the negative perceptions associated with student loans, expand the availability of resources such as counseling and support, and clarify any misconceptions on student loan interest.

*The Money on Matters on Campus* (2016) report also provided suggestions in how to improve financial literacy. The report highlighted that administrators in higher education that are focused on financial wellness should provide more information to educate students on how to manage student loan debt which included how to forecast loan payments, and to compare the various loan repayment plans that could be available for students. Furthermore, the report suggested that information on loan management should be introduced to students in the early years of their college experience, but also for older students who graduate or leave the institution. The suggestions presented were just some examples of how institutions could improve their financial literacy efforts since the report highlighted that students in a survey reported only ten percent felt that they had the information they needed to pay off their college loans.

Shim, Serido, Tang, and Card (2015) expressed which financial programs should address the long-term benefits of financial security, and the importance and benefits of continued financial education. While information may be readily available through the Internet, educators should help students develop the analytical and critical thinking skills that are needed so that students can make better decisions based on the quality, validity, and reliability of information received (Shim et al., 2015). This argument was also found in the *Money Matters on Campus* report (2016) that revealed that strong evidence found that financial education assistance and outreach early in students' college experience could be valuable for all students in several ways. The benefits of early financial education for two-year students would be to address credit card management, since two-year students tend to have more credit card debt and outstanding debt on average. While the benefits for early financial education on four-year students could focus more on financial programs that examined the basic financial attitude components which would help four-year students between their true financial need and loans available to them.

Ironically, while the 2016 report found that prior financial education did not significantly increase students' overall financial preparedness, results from the survey found that financial experiences helped college students to be more financially prepared to manage their finances. Thus, early financial management and hands on experience such as the management of checking accounts before entering college or early in their college experience could be a key component to increase the overall financial wellness with college students (*Money Matters on Campus, 2016*).

Lim, Heckman, Letkiewicz, and Montalto (2014) examined what student characteristics were associated with students who sought financial assistance.

Lim et al.'s (2014) research could be useful to develop appropriate college programs and services to assist college students with their personal finances. With the rise in student loan debt, fewer than half of the survey respondents sought financial help. They suggested financial counselors and administrators should reach out to students near graduation since older students were less likely to seek financial help but were more likely to face greater financial responsibilities and increased debt burdens after graduation (Lim, Heckman, Letkiewicz, & Montalto, 2014).

While Lim et al. (2014) explained that older or continuing students do not seek financial assistance, alternatively, the study found that new students were more likely to seek financial assistance. Students who participated in financial education workshops were more likely to engage in sought after financial behaviors. Thus, data from the study suggested that the creation of first year experience classes that highlight the financial assistance available on campus could help to educate first year and new students on student loans and loan repayment which could then help students early in their academic careers to make more responsible financial decisions.

### **Student Loan Debt and Repayment Plans**

Future research should investigate the emotional and psychological effects of student debt, as well as repayment outcomes, such as delinquency and time to full repayment, along with the efficacy of default management plans, and student's interaction with loan servicers (Perna et al., 2017). In addition, income-driven plans need to be explored by researchers to examine how these specific repayment plans affect

students with student loan debt. They suggest that researchers should explore questions such as the characteristics of borrowers who do and do not use income-driven plans, the best practices to increase the number of borrowers to participate in the income-driven repayment programs, the knowledge and information loan borrowers have about income-driven repayment plans, and how their knowledge influences their decision to borrow student loans. Researchers should also assess the effects of the income-driven repayment plans both short-term and long-term and explore the association of college enrollment and persistence with income-driven repayment plans (Perna et al., 2017).

### **Policy Reforms**

Perna et al. (2017) suggest that while student loans continue to be a large financial tool in financing students' college education, policymakers should address other areas of student loans such as loan aversion, and how loan aversion can limit student enrollment for graduate or professional schools for students of color such as African American, Hispanic, American Indians, students from low-income families, and other students who have been underrepresented in higher education.

**College making decisions.** Ratcliffe and McKernan (2013) argue that while a college education is a good investment for those who complete their degrees, half of the students who go to college do not complete their degrees. They suggest that students who are interested in going to college should consider the cost and completion rate of the institution they choose to attend, the potential earnings in their desired field of study, and the type of loans they might need to borrow such as public or private loans. Furthermore, they express that it is important to educate students on the benefits associated with student loans, but also communicate clearly that they should not get buried in student

loan debt. This philosophy in how to use and caution students on student loans could help students move forward toward economic stability and wealth accumulation (Ratcliffe & McKernan, 2013).

**Delinquency.** Cunningham and Kienzl (2011) published a report on borrowers who entered repayment on their student loans. The report also examined students who were delinquent but who did not default on their student loans. Public discussion on student loan debt seemed to focus on loan borrowers who default on student loans. However, it is also important to recognize that for every borrower who defaults on their student loans, at least two borrowers that were delinquent with their loans managed to successfully avoid default. Thus, public discussion should also focus on strategies in how to provide more services and support to help students avoid delinquency that in the long run could help students avoid all defaulted student loan debt (Cunningham & Kienzl, 2011).

### **Financial Literacy**

The research on financial literacy includes parental involvement, self-esteem, and confidence. These factors are suspected to affect students' financial behaviors to avoid accrued loan debt, and to help students change their financial behaviors.

**Parental involvement.** The research on interactions between a parent and child related to financial management, and how parent and child interactions could impact children's and adolescent's financial socialization is limited. Under the context of parent and child interactions, financial socialization is defined as a process that takes place during the childhood phase and extends into the early adulthood phase where children develop consumer behaviors from various influences which include parents, teachers,

friends, work experiences, and the media. These various influences help children develop financial independence from their parents (Gudmunson, Ray, & Xiao, 2016).

Kim, LaTaillade, and Kim (2011) found that parents were considered to be the most influential people on socialization for their children. Furthermore, the amount of warmth a parent provided through their interaction with their children allowed children to be more receptive to parents' financial practices and communication. Parental warmth such as the affection shown to their children, time spent with their children, and the communication between a child and parent were identified as central influences towards children's early financial socialization process (Kim, La Taillade, & Kim, 2011).

**Parental attitudes and behaviors.** There is little research on how parents help their college age children avoid debt. An exploratory study conducted by Norvilitis and MacLean (2010) examined parental attitudes and behaviors such as family discussions on finances, how children are taught to budget that could increase or decrease the likelihood of students to accumulate debt, and risk factors associated with debt. College students who participated in Norvilitis and MacLean's (2010) study completed a 100-item questionnaire which identified the various ways students learned how to manage their finances. Results found that 46.8% of students learned about money from their parents, while other participants reported that they learned about money through school, friends, media, and their own personal experiences. More importantly, the study found that there was no difference in debt based on students' source of knowledge (Norvilitis & MacLean, 2010). A regression model for the study found that parental factors (parent facilitation and parent bailout) were negatively related to credit card debt, while parental instruction was positively related to credit card debt (Norvilitis & MacLean, 2010).

Norvilitis and MacLean's (2010) study found that the parental variable (parental facilitation) had the largest effect towards college students and credit card debt. Parental facilitation suggested that parents who had a hands-on approach to teach their children how to manage finances such as an allowance or bank account had children who reported lower levels of credit card debt in college. Surprisingly, the parent instruction, when parents discuss how to handle money, was related to higher levels of credit card debt. They suspect that parental instruction occurred as a response to children who had accumulated debt. The second possible explanation was children's personal characteristics such as financial impulse or poor financial decisions that were made may have led parents to be more concerned with their children's ability to handle their personal finances. These parental concerns led to financial discussions with their children (Norvilitis & MacLean, 2010).

**Parental influence.** Researchers who have analyzed how decisions were made with student loans have also explored students' and parents' attitudes toward student loans and debt. Xue and Chao (2015) examined the perceptions of non-borrower students on student loans and strategies for college payment. They found that more than half of their student participants consulted with their parents on the decision to take out student loans since participants felt that they were not economically independent, nor mature enough to make this type of financial decision in college. Participants in the study acknowledged the fact that parents' attitude towards debt contributed to their negative attitudes of debt. Furthermore, participants shared that their parents' attitudes towards debt were to avoid borrowed money at all costs with the exception of large purchases such a car or home. And while parents were okay with the idea to borrow money, some

parents were not comfortable with the concept of debt and would avoid debt such as credit cards at all cost (Xue & Chao, 2015).

Data from Xue and Chao's (2015) study revealed that parents played an active part with their children's decisions when it comes to their college education. Xue and Xia (2015) concluded parents' financial behaviors on management of their household finances, and their negative attitudes towards borrowed money shaped the financial attitudes of college students towards debt which caused some students to ultimately avoid student loans. Participants who did not borrow student loans acknowledged that their college experiences would be completely different if they had taken out student loans.

**Students financial knowledge and attitudes.** Advocate groups, students, parents, administrators, and public policy makers expressed their concerns for students who lack both financial knowledge and financial capability among the young adult population (William & Oumlil, 2015). Financial behaviors demonstrated by college students included low levels of financial literacy, and their concerns about debt. More young adults lacked the financial knowledge to make well informed-decisions, and more often participated in behaviors which affected their financially health substantially (Mottola, 2014). Young adults were less likely to financially plan or to, utilize non-banking services such as payday loans, pawn shops, rent-to-own stores, auto title loans, and tax refund services. In addition, young adults also displayed problematic credit card behaviors that included monthly balances carried over on their credit cards, minimum payments, charged late fees, and the utilization of cash advances (Mottola, 2014).

## **Financial Concerns for All Students Attending College**

Young adults particularly from lower income households were more likely to experience significant economic strains. Furthermore, the financial literacy levels for young adults were low which made it difficult for young adults to prepare or tackle the financial challenges that they may experience (Mottola, 2014). Williams and Oumlil (2015) explained limited resources, such as financial aid and other financial assistance available for college students, could potentially lead to disastrous financial situations. Thus, they highlighted the importance of how college students need to improve their financial judgments that can ultimately enhance students' financial skills and the ability to make quality and sound financial decisions. Unfortunately, when young adults made financial decisions, other factors must be considered such as the complexity that existed with the financial markets, sophistication with financial products offered, and credit (Lusardi, 2015).

Shim et al. (2015) argued that developmental psychologists have ignored the process of how young adults develop financial independence and the behaviors and attitudes associated with financial independence. Furthermore, Borden, Lee, Serido, and Collins (2008) argued that students might not be able to manage the psychological consequences associated with high debt. While young adults lack the financial knowledge, attitudes, and behaviors to make positive financial decisions, young adults who are taught or exposed to financial experiences such as the use and management of credit cards and bank accounts, how to purchase insurance or lease an apartment will allow young adults to gain valuable knowledge of how to manage various financial consumer purchases (Jorgenson & Savla, 2010).

## **Financial Knowledge and Behavior**

Financial knowledge is associated with several financial behaviors such as cash and credit management, savings, and investment (Archuleta, Dale, & Spann, 2013). The relationship between personal financial knowledge and behavior is now recognized as a topic of financial importance. Robb and Woodyard (2011) hypothesized that as consumers gain more knowledge, then consumers will also display more responsible financial behaviors. Their study examined how financial knowledge impacted the overall financial well-being of individuals. They explored the different financial behaviors that were considered best practices. Demographic factors such as gender, age, education, income, race/ethnicity were examined to determine whether such factors were associated with financial knowledge, financial satisfaction, and self-assessed confidence. Six financial best practices that were associated with financial knowledge were emergency funds, credit reports, no overdraft, credit card payoff, retirement accounts, and risk management. Based on the results of Robb and Woodyard's (2011) study, personal financial knowledge did impact financial behaviors. Income was found to be a factor with the most significant impact on financial behavior followed by financial satisfaction, financial confidence (subjective knowledge), and education. Results also revealed that objective knowledge was not necessarily an important factor to consider in how individuals made good financial decisions. Furthermore, analysis of the results found that while the correlation between financial knowledge (objective) and financial confidence (subjective) is low, both factors had a significant impact on financial behaviors (Robb & Woodyard, 2011).

LaBorde, Mottner, and Whalley (2013) found that student respondents who learned about personal finance through a combination of academic and non-academic sources scored significantly higher in financial knowledge compared to individuals who learned about personal finance solely from non-academic sources on topics such as insurance, investment, and debt. Additionally, there were no statistically significant differences in the results of knowledge between groups who selected only academic sources versus non-academic sources. Non-academic sources included: family; friends; media; and the management of one's own financial funds, while academic sources included banks, credit union classes, high school finance courses, college personal finance or economic courses, or other courses (LaBorde, Mottner, & Whalley, 2013). Other results found in LaBorde et al.'s (2013) study were business majors outperformed other students in knowledge categories with the exception of students who majored in science and/or technology. In addition, business majors also had statistically higher perceived knowledge than any other major.

### **Perceptions of Financial Aid**

The literature is limited on the financial aid perceptions of low-income and minority students, and how their perceptions can affect their decisions with financial aid (Cunningham & Santiago, 2008).

LaBorde et al. (2013) argued that the positive and negative impact of self-esteem on an individual could affect the perception of knowledge for an individual to be either greater or lower than what they know. The frame of reference for an individual or of a group also had an impact on the individual's perception of knowledge. Take for example college students, their frame of reference that influenced their self-esteem was found to

be family and friends. Finally, the degree of relevance in knowledge also influenced the perception on the individual. For instance, if knowledge had immediate relevance for a student, then it was also likely that both actual and perceived knowledge were viewed in a positive manner (LaBorde et al., 2013).

LaBorde et al. (2013) explored the differences between perceived and actual knowledge, and the financial behaviors that varied among different student groups. Results from their study found that student participants perceived themselves knowledgeable in the areas of money management followed by the ability to understand debt, investment, taxes, insurance, and retirement. In addition, they found that students perceived their knowledge of how they understood debt to be high, yet their actual knowledge in this area was equally low as their knowledge was about retirement.

### **Financial Stress**

The study conducted by Lim et al. (2014) demonstrated the importance and benefits to seeking financial help in college especially with the demand and need of student loans. The study found that students who had larger loan amounts were more likely to seek help, and they found that the relationship between financial stress, financial self-efficacy, and financial help-seeking were characteristics that demonstrated the practice of financial planning. They explained that financial stress was positively associated with financial help-seeking and the association is even stronger among individuals who had higher financial self-efficacy. Individuals who had high self-efficacy were more likely to identify and know when assistance was needed and initiated the contact for assistance. Individuals with low self-efficacy who sought assistance were more likely to respond better to an initial contact made by an advisor (Lim et al., 2014).

### **Financial Anxiety**

Some of the research conducted on college students showed a link between financial stress and anxiety. Archuleta, Dale, and Spann (2013) explored factors related to anxiety that influenced student debt. Their study explored variables linked to students' mental health. Financial anxiety was examined with various forms of debt that included student loans, credit cards, auto loans, and installment loans. Other financial variables were also measured such as financial satisfaction, financial knowledge, and demographic elements such as age, gender, ethnicity, marital status, income, and gender. They found that financial satisfaction was the significant variable to predict financial anxiety regardless of the type of debt a student held. There was also a significant association between financial satisfaction and financial anxiety, and individuals who had higher financial satisfaction had lower financial anxiety. These results were consistent with analyses from prior research that also examined the impact of financial satisfaction on financial stress and financial well-being.

### **Financial Self-Esteem**

The research was limited on the link of self-esteem and financial behavior; however, Tang and Baker (2016) concluded high self-esteem could lead to responsible financial behaviors. Tang and Baker's (2016) study examined how self-esteem influenced the financial behaviors of individuals. They used a longitudinal survey data set from 1979 and inquired with participants on their financial knowledge and behavior in 2012 when participants were 47 through 56 years of age. Results from the longitudinal data set found that self-esteem was related to an individual's decision in how much to save, but not whether an individual did or did not save. There was no significant effect with self-

esteem on individuals who maxed out credit cards. However, self-esteem was found to be significant or insignificant directly to financial measurements such as savings, investment in risky assets, and behaviors related to credit management. Furthermore, self-esteem was not significant with financial behaviors that pertained to retirement. They concluded that self-esteem could be considered a positive emotional response for individuals to use through the various stages of the financial management process (Tang & Baker, 2016).

### **Foreign Studies on Student Attitudes and Perceptions on Debt**

The literature review on financial attitudes included the research of Haultain, Kemp, and Chernyshenko (2010). They found that most of the research conducted on student debt attitudes used only a one-dimensional view to study financial attitudes. For this reason, they used a three-component view that was often used in social psychology to study students' attitudes towards debt. They hypothesized that student attitudes consisted of three components: affective; cognitive; and behavioral, and for their study, three separate studies were conducted using factor analysis to investigate the structure of attitudes to debt. Their first study involved 16 and 17-year-old students in 17 secondary schools in New Zealand. A questionnaire was given to students and measured how positive students felt about postsecondary education, and their attitudes towards debt to finance their college education. The first study confirmed their notion which was debt attitudes were too complex to be measured (Haultain, Kemp, & Chernyshenko, 2010). For the second study, Haultain et al. (2010) used most of the same 25 attitudes to debt questions that were used in study one. The questionnaire was given to 125 first year psychology students. Results from the second study were similar to the results from the

first study which were attitudes about debt could not be articulated well enough with the use of a single dimensional measurement. However, two uncorrelated dimensions, fear of debt and debt utility, were found to have described students' attitudes towards student debt more reasonably (Haultain et al., 2010).

Finally, for the third study, Haultain et al. (2010) recruited a sub-sample of students from the first study a year later that were enrolled in a postsecondary institution. For the third study, they used a two-dimensional factor analysis instead of a one-dimensional factor analysis. Results from the third study found a two-factor model was a better fit to use. They found a correlation between fear of debt, and for the students who had higher levels of debt towards the end of their first year in college, they were significantly less fearful of getting into debt. They also found no correlation between fear of debt and GPA (Haultain et al., 2010). Based on the three studies that were conducted, Haultain et al. (2010) found that there were at least two different attitudes to debt dimensions which were fear of debt and debt utility, and both were not correlated to one another. For the individuals who feared debt, it did not relate to the extent of whether they thought debt was useful or not. They also believed that both behavioral attitudes, fear of debt and their beliefs towards debt, were useful with goal attainment. Both behavioral attitudes were also used to predict how much debt a college student would take on to complete his or her educational goal. Finally, they also addressed and recognized the importance that student debt, and structures of attitudes towards debt, could be different for college students from different countries (Haultain et al., 2010).

## **Financial Literacy Programs**

“Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being” (Organisation for Economic Co-Operation and Development, 2005, p. 13).

The literature shows that financial education programs improve individuals’ objective financial knowledge, and their ability about financial decisions. However, the research also has mixed results that show objective financial knowledge alone is not sufficient to produce responsible financial behaviors (Tang & Baker, 2016).

Tang and Baker (2016) highlighted two distinct dimensions of financial knowledge that influenced an individual’s financial behavior; these were objective and subjective financial knowledge. They argued that individuals could hold the same level of objective financial knowledge; however, each individual held a different subjective evaluation level of his or her own knowledge that produced different behavioral outcomes. Yates and Ward (2014) also argued that financial education was only effective if individuals applied the financial concepts that were learned, and actively engaged in effective money management practices.

Literature showed that improved financial knowledge could lead to effective financial behaviors; however, little information was known on the types of financial education programs that appeal to college students (Borden, Lee, Serido, & Collins, 2008). They found that college students were more receptive to financial education

because of the responsibilities that they had with their finances. In contrast to Borden's findings, Nonis et al. (2015) argued that students' limited knowledge impacted their abilities to make sound financial decisions during and after college. They were concerned that poor knowledge along with the lack of financial skills would lead more college students to more debt. Thus, they suggested that financial education should be offered in various forms such as seminars, workshops, or financial games to name a few to help college students increase their student debt literacy (Nonis et al., 2015). Other research showed that proactive debt management could have a positive effect on borrower behaviors and strategies that engage borrowers before payment problems occur were found to be a most effective method to increase the financial literacy for an individual (Cunningham & Kienzl, 2011).

**Effective methods.** Taylor, Tisdell, and Forte (2012) conducted an online quantitative survey to examine the strategies and beliefs used by instructors who taught adults from underserved populations in community-based adult financial education programs. Analysis of their research found that four methods were considered to be effective for most financial educators. The financial experiences of learners, engagement in both small group and class discussions, educators who shared their financial experiences, and the use of stories and examples of recognized individuals in society were considered to be effective pedagogical methods.

In another study, Mandell and Klein (2007) explained the importance of how participants in financial literacy programs should be able to set clear and obtainable goals, which allowed participants to develop mastery and appreciation of how basic financial literacy can help individuals reach his or her financial goals. Thus, financial

literacy programs needed to address participants' expectations, and challenge individuals to develop plans that contribute to their financial successes. Furthermore, the content addressed in financial literacy programs must be related to financial goals and must demonstrate to individuals the importance of how both application and knowledge could add significant value to their lives (Mandell & Klein, 2007). Mandell and Klein's (2007) study also found that student aspiration or motivation were key characteristics to the implementation of a successful financial literacy program. They concluded that the creation of successful financial literacy programs for students must address the importance to master basic financial literacy skills and relate knowledge content with students' ability to reach and potentially exceed their level of aspiration (Mandell & Klein, 2007).

**Students financial health and mental preparation.** Kidwell and Turrisi (2004) believed knowledge in money management and financial debt was not an effective approach to change the financial behavior of how individuals manage a budget. Instead, individuals would need to change their emotional state, cognitive process, beliefs, habits, and perceptions of control towards the creation and management of a financial budget. They created a theoretical framework, the model of budgeting intention, which encompassed various financial factors such as attitude, subjective norm, affect, past behavior, and perceived behavioral control. They used their theoretical framework to examine the intent of college students to maintain a financial budget, and their attitudes towards a financial budget.

Kidwell and Turrisi (2004) found that students who held perceptions of control, and higher confidence in their ability to maintain a budget were more likely to manage a

budget. Whereas students who had lower perceived control, or lack in confidence towards the ability to maintain a financial budget, were more likely to rely on their emotional feelings to maintain a financial budget to help overcome their emotions of anxiety or consequences associated with how they budgeted. They found that a financial budget was a good tool to utilize to help individuals reduce their negative feelings of anxiety, stress, and frustration associated with financial debt (Kidwell & Turrisi, 2004). Furthermore, they found that the change in emotions to create a positive appeal towards the idea to maintain a budget, or the ability to control an individual's own finances was not effective with change in the intent to manage a budget (Kidwell & Turrisi, 2004).

**Financial seminars.** Borden et al. (2008) conducted a pretest and posttest design that evaluated the impact of a seminar instruction setting on basic money management skills (budget, track expenses, consumer credit, finance options, and savings) financial knowledge, attitudes, and behaviors of college students at a university located in the Southwestern United States. Results from the study found that students who attended the financial seminar had shifted their attitudes towards credit card debt, as the seminar encouraged students to review their credit card use as a strategy to establish good credit, but also to create mindfulness for students with their use of their credit cards. The shift in attitude could be due to students who gained knowledge in how to manage credit cards. The pretest survey also revealed that students' financial attitudes predicted students' financial behaviors towards credit cards. Students who had lower financial knowledge were more likely to avoid using credit cards (Borden et al., 2008).

Analysis from the study found participants significantly increased the number of effective financial behaviors they engaged in after the participation in the seminar they

completed (Borden et al., 2008). Interestingly, student participants who were employed were no more likely to report in the engagement of more effective financial behaviors than students who were not employed. Furthermore, unemployed students from families with higher incomes engaged in riskier financial behaviors compared to students from lower income families (Borden et al., 2008). Overall, financial knowledge did not predict effective or risky financial behaviors, in fact, the analysis found that individuals who held knowledge of effective financial practices did not translate into practical financial behaviors (Borden et al., 2008).

Borden et al.'s (2008) pilot study found that seminars that ranged from one hour to one hour and a half were effective with the improvement of financial knowledge, responsible attitudes, and students' intentions to engage in more responsible financial behaviors for the future. The pilot study also found that due to students' academic schedules and course load, it was easier to provide students with seminars rather than semester long courses on financial literacy. Furthermore, the pilot study found that the seminar motivated students' intention to engage in effective financial behaviors, however, authors cannot confirm if changes in financial attitudes led to changes in financial behaviors. Finally, Borden et al. argued that to change students' intention to engage in more effective financial behaviors, and less risky financial behaviors was an indicator in the effectiveness of financial programs to improve participants' financial behaviors.

**Financial coaching as an intervention program.** Theodos et al. (2015) assessed the interventions of two financial coaching programs to determine if the coaching programs helped to improve household-level financial outcomes. Household-level

financial outcomes were financial decisions, common financial knowledge, savings, and stress. The structure of the coaching programs allowed each participant to work with a financial coach to set financial goals rather than follow a prescribed set of instructions laid out by a program. Thus, the use of financial coaches produced outcomes that varied for each participant. Evaluation of the financial coaching programs found that the effects of coaching positively affected the number of savings deposits made by participants and helped participants reduce or pay down some levels of debt. Financial coaches also helped participants create and use a budget, and helped individuals reduce financial stress. They concluded that participants developed new financial skills or knowledge of how to move forward and take certain financial actions (Theodos et al., 2015).

**Self-Efficacy.** Lim et al. (2014) argued the importance to educate students on financial self-efficacy, as financial self-efficacy will help students in the future to appropriately respond to the changes that occur with the economy and market. They suggested that financial self-efficacy should be a topic addressed in respect to student's financial wellness. Financial self-efficacy could be a method to help improve financial well-being for students which then compels students to seek financial assistance. In addition, should financial self-efficacy be included in financial education, it could also help to increase student's financial knowledge. Lim et al.'s (2014) study found that clients with higher self-efficacy seek financial assistance on their own, while clients with lower self-efficacy may respond better to a financial advisor who initiates the first contact.

**Future efforts.** The literature on financial literacy covers a wide range of research that also provides opinions and suggestions on how financially literacy programs

could be improved. Suggestions include incorporating financial budgets, incorporating financial education in the curriculum of primary, secondary, and post-secondary education, and finally offering financial literacy education in numerous formats that is accessible, effective, and appealing to both students and instructors.

*Improving budgeting strategies in financial literacy programs.* Kidwell and Turrisi (2004) suggested two strategies to incorporate and increase the use of financial budgets in financial literacy programs. First, messages in financial interventions need to focus more on belief level variables such as the perceptions on the benefits and importance to use a financial budget to keep expenses at bay. Secondly, intervention strategies need to change the perception of how a financial budget prohibits individuals from the purchases they desire. Kidwell and Turrisi (2004) also suggested intervention messages that are created need to focus on how to increase the strength of relationships with intention. For example, they found the message of how to budget needed to be modified based on individuals who had low perceived or high perceived control. For participants who expressed they had low perceived control, the message of how to budget needed to be presented in a manner to demonstrate their inability to maintain a budget, but to also incorporate a fear appeal which listed the negative consequences when a budget was not maintained. The strategy of how the message was delivered was effective for individuals with low perceived abilities to change their behavior of how they budget. For students with high levels of perceived control, the message of the intervention should praise and focus on the abilities of individuals to manage a budget. The message should also address the subjective norms and expectations associated with budget management.

For students with high levels of perceived control, this was an effective strategy in how to change their behavior with financial budgets (Kidwell & Turrisi, 2004).

***Incorporating other factors into financial literacy programs.*** Tang and Baker (2016) expressed that financial education programs should not just focus solely on the deliverance of objective financial knowledge, but programs should also focus on the development of psychological traits. Robb and Woodyard (2011) found policy implications with the development of financial literacy courses and found that courses that focused solely on objective financial knowledge may actually be less effective. Instead, they suggested a more holistic financial education program that should start in middle school and continue through college as long term programs to help financial consumers develop good financial habits at early ages.

***Curriculum.*** Baumann and Hall (2012) argued that financial literacy should not be secluded from the mainstream curriculum in school as financial education helps individuals develop deep, critical concepts, and engagement of how to live in an economical society. Furthermore, financial concepts and ideas should be explored through a wide range of academic disciplines such as literature, mathematics and statistics, social studies, social sciences, geography, and history. As students were exposed to financial concepts in various disciplines, students could develop a critical, reflective, and reflexive ability to make informed and sound decisions in life which included financial and monetary decisions (Baumann & Hall, 2012).

Another suggestion to help improve the curriculum of financial literacy is faculty could work within their departments or collaborate with other departments to offer a general education course that will address personal financial issues. Financial education

can be created as a course that includes in class discussions or offered as an online course (Eades, 2013).

Eades (2013) explained that collaboration and creation of a financial literacy curriculum could shift the educational strategy from financial literacy to financial capability. Financial capability is achieved through a combination of financial knowledge and access, use, and experience with financial products. When individuals improve their financial knowledge, they essentially improve their financial capability to make financial decisions. Consumers who are financially capable are able to approach financial decisions with an analytical approach, and are able to identify alternative solutions, collect information and data, and deliberate on what options will be best for them. Collaboration of faculty can help frame the discussions that take place with the curriculum to create and identify financial choices, but also help students develop a process of how to analyze such choices that can engage students and be more effective (Eades, 2013).

Yates and Ward (2014) believed that universities and colleges should be responsible to help students become excellent stewards of money management. They provided several suggestions of how an academic curriculum could improve and enhance student's financial wellness and capabilities in the classroom. These suggestions include: the use of an interactive curriculum to teach financial education to engage students; draw on students' financial experiences in discussions; engage learners in both small group and classroom discussions; encourage educators to share their financial experiences; use stories or examples of members from the community that participants can relate to; and use goal techniques to motivate students to have a vision for the future. These

approaches could help students over time reduce their college debt, reduce credit card balances and car loan payments, increase the number of students to work part-time rather than full-time, increase awareness to build credit scores, and build financial wealth at a faster pace.

*Offering Financial Seminars and Workshops.* Borden et al. (2008) stated that students were more interested in seminars or workshops that focused on specific topics to help students improve their financial knowledge, attitudes, and behaviors. Lyons (2004) also found that there were preferences among different student groups in how they would like to receive financial information. For example, their study found that at risk students reported that they preferred to receive financial information online in the forms of pamphlets and informational handouts compared to non-risk students who preferred seminars, workshops, and/or counseling services (Lyons, 2004).

Borden et al. (2008) also argued that if college students prefer accessible financial resources and shorter time with instruction compared to the traditional courses that are offered, then financial experts and educators must consider how they will package and present financial content appropriately. Furthermore, Borden et al. (2008) suggested that while accessible and shorter formats of financial educational courses were more cost effective, and appealed to both students and instructors, accessible and short formatted courses should be used as introductory courses to personal finance.

Very few to little qualitative research study exist within the current literature of student loans and financial literacy. Thus, the current qualitative research study provides a better understanding of how current policies and existing processes impacts students' access and management of student loans. In addition, this qualitative research study also

provides insightful perspectives of how students perceive and use financial literacy including how to manage their student loans.

### **Baxter Magolda's Theory of Self-Authorship**

Baxter Magolda's Theory of Self-Authorship describes students' journey toward self-authorship that starts in college and continues to evolve after college and later into the adult years of individuals. The theory is comprised of four phases with three dimensions. However, only sections of the theory will be discussed that emerged from the qualitative research study. These sections include the three dimensions of self-authorship, part one of the journey- the college years, and the first phase of self-authorship which is following formulas.

#### **Dimensions of Self-Authorship**

The journey and transformation to self-authorship is described in three dimensions: epistemological (how do I know?); intrapersonal (who am I?); and interpersonal (what relationships do I want with others?). These dimensions are said to be the driving questions for young adults in their twenties. The epistemological dimension is the evolution of how young adults view knowledge as certain or true through voices of authority, versus exploring the truth or uncertainty through the ability to construct knowledge between the balance of external and internal forces in coming to know. The intrapersonal dimension is the evolution of how young adults views themselves and their identity, while the interpersonal dimension is the evolution of how an individual perceives and wants to build relationship with others (Baxter Magolda, 2001).

#### **Part One of the Journey: The College Years**

Baxter Magolda (2001) described that part one of the journey towards self-authorship is often experienced by individuals during their college years. During part one of the journey, young adults are said to experience the first phase of the journey-following formulas. Intrapersonal and interpersonal dimensions are also said to surface during this part of the journey, but Baxter Magolda (2001) found that epistemological dimension was the most prevalent dimension during this period for young adults. Thus, part one of the journey is also centered around the evolution of the epistemology of learning known as the four ways of knowing- absolute, transitional, independent, and contextual (Baxter Magolda, 2001). For the purpose of the current research study, only the first two epistemology of learning (absolute and transitional knowing) are discussed in the literature as they pertain to the current qualitative research study.

**Absolute knowing.** During part one of the journey toward self-authorship during the college years, Baxter Magolda (2001) captures in her longitudinal study the qualities of each of the epistemology of knowing that young adults held through their perspectives and experiences. Absolute knowing traits are held by individuals who believe that knowledge only exists in its knowledge form. However, within this epistemological learning, young adults can hold one of two reasoning patterns- receiving and mastery. The receiving pattern was often used by women based on their internal approach of how to ascertain information, while the mastery pattern is often used by men who preferred an active approach to learning which included interacting with instructors. Students who held mastery patterns also had the expectation that peers would interact with them, and the expectation that instructors would help male individuals master information and content (Baxter Magolda, 2001).

**Transitional knowing.** Students who held transitional knowing are able to shift their learning from gaining knowledge to understanding knowledge that includes the application of knowledge both inside and outside the classroom. In addition, peers play an active role for an individual who holds transitional knowing since transitional knowing requires exploration of knowledge through discussion with peers. Through transitional knowing, young adults will approach learning either through an interpersonal or impersonal pattern (Baxter Magolda, 2001). The interpersonal pattern is often held by women and defined as “involved in learning through a collection of others’ ideas, expected interaction with peers to their views and provide exposure to new ideas, wanted a rapport with the instructor to enhance self-expression, valued evaluation that takes individual differences into account, and resolved uncertainty by personal judgment.” (Baxter Magolda, 2001, p. 30).

The impersonal pattern was often held by men and described learning as “wanting to be forced to think, preferred to exchange their views with instructors and peers via debate, expected to be challenged by instructors, valued evaluation that is fair and practical, and resolved uncertainty by logic and research” (Baxter Magolda, 2001, p. 31).

### **Phases of Self-Authorship**

Four phases are used to describe the transformation of young adults as they experience each dimension, the four phases in the journey toward self-authorship are: following formulas, crossroads, becoming the author of one’s life, and internal foundation. An individual can experience a different phase in each dimension depending on their journey towards the transformation of self-authorship (Baxter Magolda, 2001).

**Following external formulas.** While there are four phases to the theory of self-authorship, following external formulas will only be discussed in the literature in relation to the current qualitative research study. Baxter Magolda's (2001) longitudinal study found that most participants who left college carried transitional knowing assumptions that followed formulas from external forces to guide them in the world. "Formulas took the form of prescribed plans or predetermined scripts for success in adult life that participants gleaned from others around them. Being unsure of themselves, they adopted these formulas as a means of becoming successful in their work and personal lives" (p. 71). Baxter Magolda (2001) explains that young adults who followed formulas also held transitional knowing since young adults believed that following authority helps resolve the uncertainty to their questions. Furthermore Baxter Magolda (2001) concluded that following authority is based on young adults' lack of experience on how to solve ambiguities in their lives which drives individuals to follow formulas.

## Chapter 3

### Method

A phenomenological design was used to examine the research question - What do students believe and understand about student loans and financial literacy? Using a phenomenological design allowed an understanding of what attitudes, thoughts, and feelings students have with borrowing student loans and financial literacy (Lichtman, 2013). This design also allowed students to share their perceptions and experiences they had with borrowing loans at a community college and utilizing the financial literacy program that was available for all students on their campus.

The college experience, both for traditional college-aged and non-traditional college students, is a time of transition (Baxter Magolda, 2014), and such experience “inevitably calls for reconsideration of one’s role and responsibility in the world” (Baxter Magolda, 2014, p. 25). The lens used to analyze this qualitative study was self-authorship. Self-authorship is defined as the “ability to collect, interpret and analyze information and reflect on one’s own beliefs in order to form judgments” (Baxter Magolda, 1998, p. 143). Stated differently, self-authorship can be described by young adults as “learning how to make knowledge claims, gaining confidence in doing so, learning to balance external forces with one’s own perspective and knowledge, and developing an internal identity that supports acting on one’s knowledge and priorities” (Baxter Magolda, 1998, p. 153).

Students transition to college, and their experience and journey towards self-authorship, starts early in college which takes time, energy, and support from various educators to guide them. A complex and successful journey requires the collaboration of

faculty and student development professionals to focus on self-authorship as being the central goal in higher education that requires a shift and focus of how teaching and learning is delivered to college students (Meszaros, 2007). The Learning Partnerships Model (LPM) “provides a bridge or pattern for collaboration between the two worlds” (Meszaros, 2007, p. 12) cognition and affect (Meszaros, 2007), and the LPM has been used in several areas of student services which include academic advising, career advising, and student residential life and housing (Baxter Magolda, 2007).

Using the LPM with academic advising, academic advisors can establish one-on-one rapport with students raising questions about students’ aspirations, goals, obstacles they experience, and opinions of how these all connect. In using LPM with academic advising, students can learn how to make decisions in how to resolve issues and hold them accountable for their academic progress (Baxter Magolda, 2007). Using LPM in career advising, professionals of student services can help students focus on the process rather than the outcome of the career decisions that students make (Baxter Magolda, 2007). In the area of residential life and housing, the LPM is used to help students create living standards that students must abide to, help resolve problems that may rise, and hold students accountable when the living standards are violated (Baxter Magolda, 2007).

### **Researcher Background**

As a financial aid coordinator at a community college, I work with several students daily to help complete their financial aid files. Most often, students who complete a FAFSA are expecting federal assistance in the form of Federal Pell Grants; however, only a few can qualify for the Federal Pell Grant based on a federal methodology created by the Department of Education. Many students who complete a

FAFSA do not always know they are eligible for Federal Student Loans, and when students learn they are eligible, some students who need financial assistance refuse to borrow student loans because of their fear to borrow or to have debt. Other students who choose to borrow will occasionally borrow the maximum loan amount for the academic year for numerous reasons aside from educational expenses.

The institution that I work for has created additional steps in the student loan process for students to complete before they can borrow student loans. The purpose of having students complete additional steps is to educate students on their responsibilities as loan borrowers, but to also show students what resources are available to them such as the National Students Loan Data System (NSLDS) which contains financial aid information that students have received, and where to find contact information on their loan servicer. More importantly, having students complete additional steps creates awareness for students on the amount they are borrowing for the academic year, but also helps students to put their loan debt in perspective especially for students who have borrowed student loans from a previous semester or from previous years. My fear as a professional is that taking out a student loan is becoming a norm and students do not think about how their current situation or actions can affect their future outcomes.

The recession of 2008 highlighted the increase in college enrollment for Title IV institutions that received federal financial aid funds. Title IV institutions were eventually scrutinized for their soaring college enrollment and volume of federal student aid that was disbursed. The scrutiny that Title IV institutions received eventually led to more federal regulations being put in place to hold college institutions accountable for student success and managing federal funds more stringently. In addition, Title IV institutions

must also have strategies in place to reduce the number of students who default on their student loans or risk their institution's ability to offer federal student aid both the Federal Pell Grant and Federal Student Loans. The ability of an institution to participate in the Title IV Federal Student Aid Program can ultimately impact students' access to higher education and completion of either a college certificate or degree. The current research study can provide financial aid professionals who work at a community college system a better understanding of how to better improve the education students receive on student loans and financial literacy, what effective resources and assistance can be provided for students, but more importantly, what type of assistance and support students want from the financial aid professionals.

### **Setting**

Participants interviewed for this study are attending a community college in a western city in the United States. The community college has been designated as a Hispanic Serving Institution since the community college has at least 25% of Hispanic students enrolled as undergraduate and full-time equivalent, and a percentage of their students who are eligible for the federal Pell Grant (Hispanic Serving Institution (HSI), 2018).

The recent data available for the college is from 2017-2018. The full-time enrollment count was 5,740 with a headcount of 10,885. Over half of the student population enrolled in fall 2017 were students from the ages of 18-24 years old (56%). Students from the ages of 25-34 years old (24%) were the second biggest group to enroll, followed by 35-49 years old (10%), under 18 years of age (6%) enrolled in fall classes, and finally students who were 50 years and older (4%) (TMCC FactBook, 2018). The

data from the college also showed that 56% of the students who were enrolled were white, 29% were Hispanic, 6% Asian, 2% African American, 1% Native American, 0.4% of international students, and 4% identified themselves mixed with two or more races (TMCC FactBook, 2018).

Other important facts to note about students attending this community college were that there are more women enrolled at the community college compared to men. Fifty-four percent of the student population was women while men made up only 46%. 2017-2018 data was not available for the number of students who received financial aid. However, from the previous academic year, 6,950 students applied for the Free Application for Federal Student Aid and 4,414 students were funded some type of financial aid in 2015-2016 (TMCC FactBook, 2018).

### **Financial Literacy Program**

In 2013, the Financial Literacy and Money Education by Students (FLAME\$) was created. Through this financial literacy program, student peer mentors provide financial education to students on campus by offering various financial education workshops such as simple budgeting or understanding credit. FLAME\$ also provides one on one financial mentoring, lunch and learn events, and in-person loan entrance counseling for students who borrow student loans.

FLAME\$ plays an important piece in the student loan process to help keep the institution's student loan default rate low. Student peer mentors offer in person loan entrance counseling sessions to educate student loan borrowers on the different loan repayment plans that are offered through loan servicers, and educates students on the dangers of loan delinquency and default. Through these sessions, student peer mentors

offer solutions on how students can avoid delinquency and default if they cannot make payments. In addition, during these sessions the FLAME\$ team also answers any questions that students may have and assist students with the steps involved in applying for a federal student loan.

### **Participants**

There were many different types of students attending a community college. Students who attend a community college can be first-time freshmen students, veteran students who served in the military, and returning adult students to name a few. It is important to recruit students who have different cultural, life, and financial experiences to represent the diversity of students attending the community college. In a 2003 research study conducted by Pizzolato that focuses on high risk college students, she explains that high risk college students hold or exhibit the beginnings of self-authoring ways before entering college, like high risk college students, diverse students attending community colleges also carry with them prior experiences and knowledge that can help with their academic successes including various levels of financial literacy skills, and management of financial expenses and/or debt. In comparison to traditional college aged students, returning adult students usually have more or additional financial responsibilities to manage on top of the educational expenses or debt they will take on while earning a college degree. Returning adult students use their financial literacy skills on a daily basis to manage their day to day finances and long-term finances which include reoccurring expenses such as rent, housing, utilities, transportation, food, and expenses for children and families to name a few. Veteran students who receive veteran's educational assistance will also manage their educational expenses and student debt differently

compared to first-time freshmen students who either receive financial support by their parents and families or must help with the management and payment of family expenses. Students who attend the community college come from all walks of life and carry with them different life, cultural, and financial experiences which ultimately affects their success as students inside and outside the classroom. For many students, student success is not only defined as earning a college degree, but also a student's ability to financially manage their educational expenses, and student loan debt during and after college.

Students who want to take out student loans are required to complete a FAFSA, maintain financial aid academic progress, must have a financial aid file that is complete, and must not have defaulted, or have a repayment status on any Title IV loans or grants. In addition, new students at this particular institution must complete the student loan request form, complete the federal online entrance counseling and promissory note, and access the National Student Loan Data System (NSLDS) where students in the future can access their loan record information, and the contact information of their loan servicer.

Finally, it is also worth noting that the community college is currently participating in a Loan Counseling Experiment Program that is part of the U.S. Department of Education Experimental Sites Initiative. Under this experiment, half of the continuing students who borrow student loans will be required to attend a loan entrance counseling session and meet with an academic advisor to ensure students are on track to graduate based on their selected degree. Loan borrowers must complete the additional steps to receive their loan disbursement (Loans, 2018).

The 12 participants recruited for this study were first-time borrowers and students who borrowed previously under the loan counseling experiment program and completed

the in-person entrance loan counseling session. The in-person entrance loan counseling sessions were facilitated by a student-led financial mentor program to help educate students on financial literacy. During these in-person entrance counseling sessions, student loan borrowers received an informational presentation on their rights and responsibilities as a loan borrower which included information on the basic requirements to take out a student loan, discussing the different repayment plans that are available for students, the grace period of student loans, the purpose and use of contacting their loan servicer, options that are available for students should they default on their student loans, and forgiveness loan programs.

Participants for this study represented the student population of the institution that these students attended. Student participants for this study were made up of six female students, and six male students from the ages of 18-36 years old. From the twelve students that participated: two were new students; nine were continuing students; and one was a transfer student. Seven students who participated were white, four were Hispanic, and one student was Asian.

All participants were enrolled in a minimum of six credits, which is a federal requirement to take out a student loan. In addition, all students were pursuing some type of an associate degree whether it was a transfer degree with the intent to transfer to a university and pursue a bachelor's degree or earn a non-transfer degree to seek employment. Students volunteered and provided their contact information to participate in the study during the in-person entrance counseling sessions and were sent a follow up email to confirm their participation. Students who also completed the in-person entrance counseling sessions the prior semester were also contacted by phone or email for an

invitation to participate in the study. Students who provided consent over phone and through email was sent a follow up email to confirm their participation.

After each student confirmed their participation through email, a date and time was set for each student to meet with the researcher. Student participants who met with the researcher were asked questions related to student loans and financial literacy. After each student was interviewed, each student received a gift card at the end of the interview for participation in the study.

Twelve students participated in the study, seven students were first time borrowers, and the other five were previous loan borrowers. First time student loan borrowers ranged from 19 to 24 years of age. Carly was a 19 year old white female student, Alex was a 20 year old Hispanic male, Riley was a 21 year old female half South Korean and Puerto Rican, Elsa and Mariah were both 21 years old white females, Maria was a 23 year old Hispanic female, and Owen was a 24 year old male African American. The previous loan borrower students consisted of James who was a 20 year old, white male student, Kelly a 21-year-old female Hispanic, Sarah a 22-year-old white female, Carter a 22-year-old male Romanian, and Richard a 23-year-old white male. Students' demographic information was collected at the time of each student's interview to ensure that student participants represented the student demographics of the community college.

### **Data Collection**

Data collection for this study was done through an interview process. Interviews were conducted in an office space, face-to-face at the community college. The duration of each interview at minimum was 30 minutes and lasted no more than 60 minutes.

Students were given a demographic datasheet to complete which listed their name, age,

race, and gender. Structured open-ended questions, along with follow up questions were used to examine the research question which was, what do students believe and understand about student loans and financial literacy? All interviews for this study were recorded and transcribed.

Lastly, the interview questions used for this study are as follows: 1) Describe your experience with the student loan borrowing process. 1a) Have you ever borrowed before? If yes, please describe your past experience with loans. 2) What do you think is the biggest challenge or advantage that students have when receiving information about student loans? 3) What kind of materials or assistance do you think would be helpful? 4) Did you receive information on financial literacy? 4a) If yes, tell me about it? 4b) What was helpful? 4c) What do you wish was included?

### **Limitations**

No other colleges or institutions in the region or state were included in this study; thus, results from this study were unique as it addressed the challenges that students experienced specifically at the institution that is participating in the study. In addition, only traditional college age students participated in this study. Perspectives and experiences of traditional college age students could be different from non-traditional and returning adult students. Thus, results from the study may not capture the experiences or perspectives of other student groups.

### **Data Analysis**

Data analyzed for this study was done through a systematic process. First, I transcribed each interview. After each interview was transcribed, I read each interview starting with the first interview and coded all data from the interview. Once all the data

was coded, data was then categorized by grouping similar words or ideas using an excel spreadsheet. Once I sorted the data into different categories, the next step was to merge ideas and/or topics into bigger categories to see what the emerging themes were. This was done by collapsing columns on the excel spreadsheet and merging similar topics into bigger categories. This process was repeated with the other eleven transcribed interviews. Any new ideas, topics, or themes were added on to the current list of themes that were found from previous interviews.

**Example of a data analysis for a qualitative research study.** Excerpts from a previous qualitative research assignment demonstrate how data was analyzed using student interviews. In a previous qualitative research study, results found that students had concerns of how interest rates were accruing on their student loans. For example, when Lisa asked if there was any interesting information she learned about student loans, she mentioned the interest rate. “Mostly, the interest rate really stuck out at me...6%... I guess that’s a good interest rate. I don’t know why that stuck out to me...but just knowing that your loan amounts is gonna go up by that much each year, it makes me want to start paying it now instead of later.” Her response was categorized under details about loans – interest. All other responses that mentioned the issue of interest were organized together.

## **Chapter 4**

### **Results**

Analyzing the data using Baxter Magolda's Self-Authorship revealed that student participants experienced different phases of their journey toward self-authorship with acquiring the knowledge that they needed to manage student loans, and use of financial literacy. Themes that emerged from this study were students' overall experience with the student loan process for first time student loan borrowers, and the in-person loan entrance counseling session for previous loan borrowers (continuing students). Other themes that emerged from the data were, identifying effective methods and materials on how students can receive assistance on financial literacy, defining financial literacy, and suggestions on what type of information should be included in the distribution of financial literacy. Another theme that emerged from this study was financial behaviors. Students either acknowledged change in their financial behavior or lack of financial understanding leading to no change in their behavior. Results from the study also showed how students took a proactive approach with managing their student loans, and how the car loan experience helped with their student loan experience.

#### **The Student Loan Process**

Overall first-time student loan borrowers expressed that participating in the in-person entrance counseling session to receive federal student loans was a positive and beneficial experience particularly with first-time loan borrowers. Carly explained while the process was initially confusing, the process was easy. "At first, it was more confusing because taking out loans is kinda scary, so the process of getting the loan was pretty

easy.” Owen described the student loan process to be easy and beneficial due to his circumstances:

The student loan borrowing process was very intuitive and self-explanatory...everything seemed very reasonable...they have hyperlinks to all the things that you need in order to complete your loans... and it walks you through it you know? For a person like me who didn't have like any help... I didn't have my parents to help me.

Maria described the student loan process as a multi-step process and that if she wanted to borrow a student loan, she had to complete the steps. Maria also mentioned how helpful the multi-step process was from attending the in-person entrance loan counseling to completing the mandatory online entrance loan counseling which disclosed students' rights and responsibilities. Overall, Maria found the student loan process helpful with the assistance from FLAME\$ (a financial literacy program that is operated by student mentors that provides basic financial literacy education to the students of the community college through workshops, one-on-one, counseling, and events) and the financial aid student loan coordinator.

It was easy, you have people helping you fill it out if you needed to here at the financial aid office. The FLAME\$ workers can help you fill it out if you have any questions. My emails, or if I ever had any questions or answers, ask the loan coordinator, so I would overall say it was a good experience and easy.

Elsa also had a similar experience as Maria with the assistance she received from FLAME\$:

Well at first I didn't know where to start at all, but I came in person to

the financial aid office, and asked the employees how to get started and they helped me with the whole process going to the FLAME\$ meeting. At the FLAME\$ meeting they helped me step by step through the whole process.

Borrowing student loans can be an overwhelming and confusing process for first time student loan borrowers since students are required to complete the federal online requirements. In addition, students must also complete the institutional loan steps at the community college in order to receive their federal student loans. However, with the assistance of FLAME\$, the financial aid student loan coordinator, and the resources available online, students received ample of guidance with completing the student loan process making the entire process less daunting and more manageable.

**Absolute knowing- the receiving pattern.** Students who were first-time student loan borrowers had a positive experience with the in-person loan entrance counseling session. These students also held the epistemological knowledge of absolute knowing and displayed a receiving pattern of how knowledge was received. Under this type of learning, relationships with peers is a critical distinction for receiving pattern students as relationships with peers help foster an atmosphere for students to ask questions and gain knowledge (Baxter Magolda, 2001). Students displayed receiving patterns as all first-time loan borrowers described how assistance was received from FLAME\$ or the financial aid department which aided in their knowledge of student loans.

### **In-Person Student Loan Counseling Session**

Continuing students who were previous loan borrowers found the student loan process beneficial and were able to reflect and discuss why the content presented in the

in-personal loan counseling session was important. Sarah explained the importance of the information she received:

...You go to entrance counseling to make sure that you're educated. It's not just like free money that you get from the school, they let you know that you're gonna have to pay this back some day and you won't and don't wanna be in complete debt or anything, so I think that was nice that we do that because there's a lot of people that get into \$20,000 in debt super-fast, and I think the borrowing process was clear, I was told exactly what, nothing was hidden, and I understood everything.

James found the in-person loan entrance counseling session also beneficial since the session answered the important questions he had about his student loans:

It answered the last two big questions I had which were, what's the period of time between when I actually get the loan and when I need to start paying it off...and then they also help me understand like how paying it off works. Personally, it's like the in-person and going over a list, this is the amount, this is interest, this is so and so, you have this long to pay it off, you have these options to pay it off you know. The class was very helpful, and it helps describe what you needed to do, and that was really cool.

Riley who was a first-time loan borrower had a similar experience as Richard a continuing student. Both students shared how they benefited from the information they received from the in-person loan entrance counseling session. Riley shared that the process helped her determine how much she needed to borrow, "they made sure I

understood to only take what you really need, and since my scholarships and grants cover most things, I didn't need so much."

For Richard, the information he received gave him another perspective on how to work with his student loan lender:

I felt there was a good coverage of you know, you're gonna pay these back, you have grace period, you have certain things you can could transfer, and one of the big things they said too was try to stay in contact with your lender because they're not. It is like a biased opinion for me, I don't know if they really want to look after you, but the program said you know, they wanna work with you, they don't wanna just throw you under the bus.

Previous loan borrowers reflected on their experience with the in-person student loan counseling session. Students shared what valuable information they learned about student loans and repayment and how it each applied to their own unique borrowing experience. For Sarah and Riley, the information they received helped them to be mindful and aware of how much money they have borrowed. For James and Richard, the in-person student loan counseling session gave these particular students an holistic perspective of the student loan cycle including how to plan to repay their student loans.

**Transitional knowing-impersonal pattern.** While first-time loan borrowers held the epistemology of absolute knowing, with the exception of one first-time loan borrower Riley, previous loan borrowers (continuing students) held transitional knowing in particular the impersonal pattern with their experience with the overall student loan process.

Comparing the responses of first-time loan borrowers and previous loan borrowers on how they described their experience with the student loan process, first-time loan borrowers shared overall general responses such as Carly:

I attended the counseling session... a group session with getting the loan, it was really convenient for me. The process was pretty fast, it was more confusing to me as in subsidized and unsubsidized loan because I have never heard of it, but the process of getting the loan, it was pretty easy.

Previous loan borrowers who were continuing students who held transitional knowing and the impersonal pattern shared their experience of what they learned from the session rather than the answers they received from the in-person student loan counseling session. For example, take the excerpt from one previous student loan borrower James. James explained in detail on what kind of answers he was seeking with his student loan questions which were how to pay off his student loans, and when the period he needed to start paying off his student loans.

Previous loan borrowers such as James are able to take what information they learned from the in-person student loan counseling session and apply this newfound knowledge to their student loan borrowing experience. Furthermore, the information previous loan borrowers received helped guided them on either how to manage their student loans, or reminded them the severity or impact student loans can have for students who continue to borrow, and how it can lead to unbearable debt that can be difficult for a student to manage.

Effective Methods and Materials on Assisting Students with Financial Literacy

Students revealed what kind of financial literacy materials were helpful and the assistance they received with FLAME\$. Furthermore, excluding James, students Maria, Carly, and Owen who shared what financial literacy materials that were helpful were also student employees both for financial aid and FLAME\$. Through their responses they shared the various financial literacy resources that were available to students at their community college.

Most students reiterated how beneficial it was to attend an in-person entrance counseling session. James explained how personally beneficial it was for him to attend the in-person loan entrance counseling presented by FLAME\$:

For me personally it's like the in-person and going over a list like, this is the amount, this is interest, this is so and so, you have this long to pay it off, you have these options to pay it off you know. Like the FLAME\$ class was very helpful and that it helps describe what you needed to do, and that was really cool.

Maria shared how accessible student loan information is for first-time or previous loan borrowers who wanted to borrow student loans. "The checklist is listed on the institution's website... and it tells you first time or then if you are a previous, and then it gives you the limits, I feel like this is self-explanatory" Maria also shared that participating in the FLAME\$ Money Savvy Program allowed her to learn more about annual percentage rates and building up her credit score. Carly shared that the financial literacy materials she received were through presentations and printed materials:

I feel like there's a lot of presentations that do happen through FLAME\$, and that's a big plus. I did the entrance counseling session, I received like the whole FLAME\$ pamphlet of the breakdown between unsubsidized and subsidized

loans... and then I remember receiving a financial budgeting little packet, so that was pretty cool. I think it was just more of pamphlets.

Owen also shared that he learned about other financial literacy events through entrance loan counseling. "In the entrance loan counseling, they told me they had events, so I went to three of those, one was a budgeting event, surviving the holidays, and their food events, it was a lunch and learn."

**Absolute knowing.** Students who shared what financial literacy assistance and materials that were available for students displayed their knowledge and understanding of student loans and financial literacy in the form of absolute knowing. Baxter Magolda (2001) explained that most first-year students hold absolute knowing focusing on obtaining information. Based on students' responses, it seemed fit to hold the epistemology of knowing in the form of absolute knowing for this particular type of information as students share where credible and reliable information students can receive on student loans and financial literacy. It was also worth noting since three of the participants who shared where resources were available were also student employees of the financial aid department. Student employees were taught to share accurate information so that students were not given incorrect or misleading information. Thus, student employees were trained to function and operate in a state of absolute knowing.

### **Defining Financial Literacy**

Participants in the research study were asked if they received information on financial literacy and to share what kind of information they received. Interestingly, when the question was initially presented to each participant, most participants did not understand the question. After asking students follow up questions such as what kind of

financial literacy information they received, or if they received other financial literacy information aside from student loans, students were then able to answer the question. Student responses on what kind of financial literacy information they received reflected students' financial priorities and what specific financial literacy information was valuable to them.

Maria received information about credit scores, "I had questions about my credit score, and FLAME\$ just said if I needed more information, I could make an appointment with them, and they answered my questions how to build up my credit score." James received additional information on what other assistance was available but could not articulate clearly what assistance was available:

There was a thing from the FLAME\$ class, I forgot what it was though, but it was an extra little thing you go to learn even more about it. You can go sign up and then you can have a personal meeting with a financial officer, someone from the FLAME\$ academy to sit down and go over your loans and stuff.

Carter initially mentioned the student loan packet he received from the in-person loan entrance counseling, but also shared that he received scholarship information:

They give you a folder you know when you do the whole loan counseling... a couple scholarships that I could apply to, they told me where to find scholarships if I wanted to apply. Yeah, and further assistance on credit, debt, just general financial literacy yeah.

Like Carter, Richard also referred to the in-person loan entrance counseling that he attended:

Before you're even allowed to officially sign, you have to take the literacy class. They tell you about that, so it was just the information from there saying you know interest rates, you don't wanna just pile up debt, and one of the things they wanted to make kind of clear is don't take student loans to try to pay for everyday life.

Elsa shared the financial literacy that she received helped her budget her student loans to pay for her college expenses. "Well I personally haven't gone to any of their events, but I have read the pamphlets that I get from them, and it helped me with my budget." Kelly also learned how to budget but also learned how to think about financial planning for bigger purchases she would have to make later in life. "Learning how to budget and about the mortgage process. It gives you topics to think about ahead, not just like about what you need right now. It teaches you how to plan for your future as well." Riley associated financial literacy information with the FAFSA. "Mainly about some things on the FAFSA that I wasn't so sure about filling out, so they helped me especially since with my parents separating and whether I put independent or dependent, that confused me."

Sarah acknowledged that she did not understand what is meant by the term financial literacy. Sarah responded, "Financial literacy as in um... I don't know what you really mean by that actually (laughs)." When a follow up question was given to Sarah, she referred to the information she received from the in-person loan entrance counseling session:

How to manage your money and only using and only borrowing what you need, and not going over that cause of how quickly that adds up. Then actually trying to

graduate because if you drop out or you know like life happens, but try to graduate because then you're stuck with a bunch of credits they're probably just going to expire and then you have \$20,000 of debt and no degree.

Mariah on the other hand believed that she did not receive any type of financial literacy information. "I don't believe I did, just the grants and that I don't for some reason don't qualify for those anymore, and I guess we did go over a little bit of scholarships." Similar to the responses of Sarah and Mariah, Owen could not recall the financial literacy information he received from attending a lunch and learn event put together by FLAME\$. "I don't really recall, but I remember there was a lot of good information there." Like Sarah, when Owen was asked a follow up question, he referred to the information he received from the in-person loan entrance counseling and budgeting:

It just all kind of helped me get into the right headspace to receive my loan.

Before I went to the events I just kinda thought loans were like regular predatory loans. I didn't know the difference between predatory loans and school loans. I learned at the event that I didn't know the difference between really budgeting your money and spending wisely. I didn't know the difference between having an income, and to just make money. It was a lot of good information.

Student responses reveal that students do not understand the basic definition of financial literacy. In addition, the meaning of financial literacy is also different for every student based on his or her financial needs, their financial state, or the financial situation experienced.

**Baxter Magolda's epistemological dimension (how do I know?)** Students who shared financial literacy information such as the information received from in-person

loan entrance counseling, or other financial aid related information such as scholarships reflect one of the driving questions students experience in their twenties which is “how do I know?” Under this dimension, these students acknowledge the extent in the validity and important information that is shared by FLAME\$. However, students also acknowledged the extent of influence that authorities like FLAME\$ have with students understanding information related to student loans and financial literacy. Thus, under the dimension of “how do I know” students learn to construct new knowledge by balancing both external and internal forces that surround them into coming what they know (Baxter Magolda, 2001).

### **Financial Literacy Information that Students Wished were Included**

Students were not only asked to define the meaning of financial literacy, but to also share what type of information should be included when discussing financial literacy. Similar to the responses that students shared when defining financial literacy, students’ suggestions reflected their current financial status and what financial topics were important to them.

Maria disclosed that she would like to learn about debt consolidation. “Maybe something like how to consolidate your debt, because I do have credit cards, so maybe more information about that...if I want to consolidate all my credit cards, where should I go? Is there a fee to that?”

James wanted to learn more information on the breakdown of how student loans were paid, how student loans are different from home and car loans:

I guess a more in depth breakdown of how certain loans work, because when it comes to a house loan versus a car loan versus a student loan, it’s like each one is

very different...when it comes to taxes, and why you pay a certain amount, and also knowing exactly what you are paying for in your loan because usually students just get like a lump sum amount that you gotta pay, but we don't know why. We actually have to look into and be like oh we're actually paying so much per credit you know; we have to pay this amount. I didn't even know we're paying for the soccer field in our tuition, I had no idea about that until it was in my English class, but yeah, I think, a more in-depth breakdown of those loans would be better.

Riley wished that she would have received a visual and also step-by-step process of the overall student loan process. “ Anything that lays things out like all of the stages of it, it just helps make it easy to visualize, and you could understand that if you take out a lot or a little, how much direct impact that's gonna have with your finances now and later.” Riley was also asked what this step-by-step process would look like:

First, they show you how to do it, and work it into what you're currently able to handle, and what you think you'll be able to handle later, and then show how you either choose to keep it in mind, or wait till after graduation. In terms of repayment plans, I guess explain the average tendency of how much interest rate, and amounts people tend to have to deal with in their adulthood.

Elsa and Carly wanted more interaction and follow up from FLAME\$. Elsa shared, “I think definitely one-on-one advising and support and checking in with those students to make sure that they're following through on their budget, and maybe if they have more questions.” Carly suggested, “More communication. It would be like a sheet of tips for either budgeting, trying to save money, or if you need help, always try to

contact someone, just like a reminder, like a newsletter!” Carly then shared what kind of information should be included in a newsletter that would be sent out to students:

That would be pretty cool sending messages like keep up on your student loans! Or don’t forget to try to keep your credit or pay that balance off! Something like that would be like an inspirational newsletter to keep people on track for money during the month, I feel like that would help too.

Finally, Owen shared what he thought would be beneficial for him. “More about investing and making your money work for you. More things to increase your income, and not just surviving you know?”

Other students also shared that they wish they could receive more information on their student loan lender. Richard shared, “Maybe a little more information on who the companies are, the lender. Like I said before, maybe a list of contact information so that you can really talk to them.” Alex also shared a similar response. “Probably just more information on you know who exactly you’re borrowing from, just like interest rates, how to get in contact with them.”

Sarah shared an elaborated detail of what kind of information she would like to receive from her student loan lender:

I think they just tell you that you’re just going have to reach out to the institution, or bank that loan money to you, but they don’t really explain a lot on how to interact with those people. I think that more information on that would be good.

Sarah went to explain on what other information she would like to receive:

I would say more about how to get in contact with your loan borrowers because I guess that information is just very big. So when exactly to start contacting them,

when to contact them, how to contact them, how to communicate with them, like what am I going to be asking them? how payments work, do I make my own payment or is there like a minimum payment that they're gonna let me have? stuff like that.

Responses shared by students reveal that students want to receive more personalized, financial literacy information that answers specific financial questions based on their financial situation and their needs. Furthermore, students also want to receive financial literacy information in various formats such as one-on-one advising, monthly newsletters, or visuals. These responses suggest that financial literacy information must be communicated and presented in various materials to meet the financial level of comfort of how students want to receive certain financial literacy information.

Baxter Magolda's interpersonal dimension (What kind of relationship do I want to construct?) Student responses on what financial literacy information they wished was included reflected the third dimension of the driving questions of the twenties that is "how do I want to construct relationships with others." Responses shared by students reflect their financial status as these students have gained knowledge and developed questions for certain financial topics.

The interpersonal dimension (what kind of relationships do I want to construct with others?) is the evolution of how an individual perceives and wants to create relationship with others (Baxter Magolda, 2001). Under this dimension, Baxter Magolda (2001) explains that relationships that are constructed from an externally defined identity reveal what others wanted out of the relationship. Whereas relationships that are

constructed internally allow the individual to reveal what they wanted at the forefront for negotiation. The idea that constructing relationships requires a balance from both external parties and internally highlights the idea that the transformation to self-authorship is not self-centered (Baxter Magolda, 2001).

Therefore, as these students seek answers to their financial questions, students are also learning what kind of relationships they want to construct with others in search for their answers. As students build relationships with other external forces or individuals, these students will have to learn and decide what they want to believe, and how they acquire knowledge impacts the perspective they have of themselves as they develop their internal relationship with their selves (Baxter Magolda, 2001).

### **Financial Behavior**

Student responses along with the financial information they shared revealed not only students' current financial status but demonstrated that students have different financial behaviors of how they approach their financial situation. Financial behaviors that emerged from the study were acknowledging behavioral change, lack of financial understanding, proactive financial behaviors, and experience with other loans specifically car loans affecting students' management of student loans.

**Acknowledging behavioral change.** Maria and Carly are both student employees for FLAME\$ and the financial aid department, and both students have demonstrated how they are aware of their financial situation and are attempting to make changes with their financial efforts. In the beginning of the interview, Maria shared why she wanted to borrow student loans. "I stopped working full-time, I used to be a dental assistant, and I decided to come back to school, but I still have car payments and just bills

that I had to pay, so I needed to borrow money.” Maria then goes on to explain why she chose to borrow a student-subsidized loan:

The only reason why I took out a loan too was because I got the subsidized, so I don't have to pay interest, or else I would have probably not borrowed cause I didn't want any interest rates, I might as well have used a credit card or something.

When I asked Maria why she wanted to learn more about consolidating her credit cards, she shared how she wanted to make a single payment toward her bills rather than multiple payments:

After I learned about my credit score, they said, you are making the minimum payment here, minimum payment here, where you can just if it's helpful put it all in one, what is it called? Into one bill kind of, and pay it off there, instead of paying little minimum payments every now and there. If I want to consolidate all my credit cards, where should I go? Is there a fee to that?

Like Maria, Carly also shared her challenge of receiving student loan information: When I first came here I didn't, I didn't really wanna ask questions just because I didn't really know anyone, especially coming from a different state. It's kind of like a different atmosphere, but this college does a really good job of opening their arms to a lot of people, and trying to help and explain, but I feel like a lot of students don't realize that we have as many resources as we do. That's an advantage just trying to explain some of the processes.

Carly later explained why students don't utilize the resources available at the college. “ I feel like some students aren't confident enough to ask for help, if someone was struggling

in a class, some students would rather just put it off to the side and not ask, I feel like some students definitely do that here just because I know I did it, so I would imagine other students were doing the same thing too.” Carly also explained how she tried to overcome shyness to ask questions:

How I helped build my confidence was, I mean I never really tried. I never really was a social person like talking in class, raising my hand, so I kinda just push myself out of my comfort zone. I would try to raise my hand more, and try to talk to students in my class, or even if I see a staff member walking around, I’ll try to catch them instead of going up to the desk, that’s what I would have done. I mean I was a pretty shy person when I first came here, so I mean it’s all about pushing yourself out there, that’s what I did.

Carly also shared how she received information on how to budget but because of the lack in support and being shy, she never made an attempt to learn how to budget:

I didn’t really know how to budget, and I feel like I was more shy so I didn’t really ask back then. I feel like it could have helped... I don’t really live with my mom here, so if I had like someone to ask at home, I would have been able to use it more wisely, but I didn’t use it at all.

Both Maria and Carly acknowledged their financial situation. While it was important to recognize what initial behavioral changes these particular students have made to improve their financial situation, it was also worth noting that other factors such as lack of information, or further assistance and guidance was needed but is also what prevented Maria and Carly from making actual changes in their financial behaviors which would have resulted in a different financial outcome for each student.

*Baxter Magolda's epistemological dimension (How do I know?)* Maria and Carly both reflected and identified what financial behaviors they needed to improve. Maria's financial circumstance describes the epistemological dimension of "How do I know?" During Maria's interview, she mentioned that her financial obligations impacted her credit score, and Maria's focus was learning how to consolidate debt and make one monthly payment rather multiple payments. Through her interaction with FLAME\$, Maria learned about her credit score and consolidating debt. Under this dimension, Maria identified FLAME\$ as a trusted source who shared valuable financial information which affected her financial situation. Yet, Maria also seemed to have many unanswered questions about debt consolidation. The excerpt from Maria demonstrated how Maria trusted FLAME\$ and the information they shared with her that pertained to her financial situation. Maria's excerpt also demonstrates that she had other questions about debt consolidation that wasn't necessarily answered by FLAME\$. Thus, as Maria continues to seek answers to her financial situation with debt consolidation, she will have to construct her own meaning and sense of how debt consolidation works and how it applies to her financial situation balancing the internal and external factors leading her to understand "how do I know?" (Baxter Magolda, 2001).

*Baxter Magolda's intrapersonal dimension (Who am I?)* Carly's academic and financial situation demonstrates another dimension within the driving questions of the twenties that is, "Who am I?" Carly is aware that assistance and resources are available for students, and since Carly was shy, she did not partake on utilizing the academic and financial resources that was available to her. However, Carly also realized the implications of her behavior and made an attempt of pushing herself out of her comfort

zone to ask questions inside and outside the classroom. On the other hand, Carly made no attempt to improve her financial behavior with budgeting despite acknowledging the fact that she did not have the support outside of school for her to ask someone follow up questions on how to budget. Nonetheless, Carly's excerpt demonstrates her growth and challenge as she continues the journey of "who am I?" Baxter Magolda (2001) describes this dimension as the "evolution of how one thinks about one's sense of self and identity (p. 15). In addition, under this dimension, individuals are on a continuous journey learning how to build their self-authored voice that is their internal compass and guide in understanding decisions about "how I know" (Baxter Magolda, 2001).

**Lack of understanding.** Most of the student participants mentioned a lack of understanding in student loan terminology such as subsidized and unsubsidized loans. Student interviews also demonstrate that students lack the skills or the ability to retain important information on how to manage subsidized and unsubsidized student loans. Carter's response demonstrates the consequences that many students experience when they need to borrow student loans. Carter shares briefly his experience with taking out a student loan at another institution prior to his arrival at the current college he is attending:

There's all these things grace periods, interest. All I saw when I took the loan out was the amount that I was taking out, and that's all that was included on the page. There's a brief thing when you do your master promissory note that explains some of it, but it's all very technical language. It's a lot of information, I think it's only one page, and so it's not really catered to I guess average people who don't already know about that stuff. So what I did what most people probably do is I just: whew: you know blew right through it and then took my loan cause I needed

it. I don't think there was anything I could do differently, I needed them to go to school, I was already on scholarships, so I didn't take out a whole lot, but yeah.

Yup that's really it.

While efforts are constantly being made to help educate students on their rights and responsibilities when borrowing student loans, Carter's response confirms that the information that continues to be shared with students is not only difficult for many students to comprehend, but also an abundant amount of information is presented to students instantly, in a short amount of time, such as a one page document that Carter referred to in his response for students to quickly make a financial decision and determine if they should move forward with borrowing a student loan.

*Baxter Magolda's following external formulas.* Carter acknowledged what he doesn't know but also did not do anything to address or correct his behavior. In Baxter Magolda's 2001 longitudinal study, participants were described as following formulas for success after college when young adults did not embrace nor had developed their own internal belief system.

While Carter is not in the end of his college experience, Carter's response demonstrated how he followed formulas to successfully receive the student loans that he needed for college. He also acknowledged that despite understanding the terms and conditions to his student loan, he did what many other students did which was skim through the loan contract and agreement. Under following formulas, individuals who were still exploring the intrapersonal dimension of "Who am I?" will often adopt other beliefs in place of their own internal belief system. For Carter, he admitted to himself, like others acknowledging that his attempts and efforts were no different from other

students who have a similar experience with the student loan process (Baxter Magolda, 2001).

**Proactive financial behavior.** Several students voiced that receiving additional information on who and how to contact their student loan lender was important information they wanted to receive. However, Richard was one of the few student participants who demonstrated how he took a proactive approach to seek the student information that he needed:

I found that there was a little bit of research cause there's multiple companies that give out the loans and stuff. I'd back track and figure out which one was there. I had a question, and I didn't come here. I needed to contact the actual lender, so that was a little hard, I mean it wasn't just like here's the link and there's the number, it was more research on my part to maybe get the list of contact information. I mean it wasn't the hardest thing to figure out, but it just was, I felt like I knew what I was doing a little more since I had other student loans.

Richard further explained what questions he had that only his student loan lender could answer:

I got an email saying that I was in a grace period even though I was in full-time school, and so I needed to clarify why and stuff. They explained to me it was just a lapse because of summer or something. It was just the weirdest thing, and they told me when you just go back to school it shows that you're full-time, and they'll get the notification and the grace period will start over. So it was just one of those, I'm in school, why am I in a grace period?

Richard explained that his past experience of taking out a student loan helped him learn how to seek answers to the questions that he had with his student loan. Thus, when Richard borrowed another loan at the current college he was attending, not only was he able to identify a discrepancy with his student loan status, but he knew how to contact his student loan lender who could only explain why he received the email notification, and why his loan status was the way it was.

*Baxter Magolda's intrapersonal dimension (Who am I?)* Richard's example demonstrates a different phase of Baxter Magolda's journey toward self-authorship. The excerpt from Richard's interview describes the intrapersonal dimension (who am I?) of the crossroads phase in the journey toward self-authorship. During this phase, individuals realize the dilemma of external definition, and seek the need for internal identity (Baxter Magolda, 2001). Richard's prior experience with student loans helped him to advocate for himself as a student loan borrower and seek the answers he needed to find about student loans. While he received an email notification explaining why his student loan was now entering the grace period for repayment, Richard also recognized the disconnect in information that he received on his student loans. Thus, Richard made an attempt on his own to seek the answers that he needed to understand why his loans were in a grace period. Richard's experience with resolving the discrepancy in information that received demonstrates the dimension of "how I know" as he recognized the uncertainty in the information that he received, and through his own efforts, he learned to seek the answers that he needed taking into account both internal and external influences leading him to know what he now knows about his student loan status (Baxter Magolda, 2001).

**Car loans.** Aside from student loans, students were asked to describe their past experience with loans. The majority of students who had prior loans described the financial experience they had with car loans. James compared the car loan and student loan process:

The car loan was actually simpler than the student loan just because it's like, we have this price, they're gonna give you a total for how monthly payments are gonna break down. They tell you how all that works, the only question I had or difficulty with was because I bought out of state, you have to pay sales tax, and so if it's not factored into the loan when you go register your car, you have to pay the sales tax at time of payment.

Richard also compared his car loan experience with student loans:

I bought my car from a dealer they went through all of the paperwork, they told me now this is what you qualify for, your interest rates. They were pretty low. Then they explained if you pay those on time, you can come in and refinance whereas the school doesn't have refinancing options.

Kelly shared a different perspective on the difference between taking out a car loan versus a student loan:

It's definitely different compared to one taking out a student loan because you don't get persuaded into not taking out a car loan, but you do get persuaded into not taking out a student loan. You are given different options when trying to take out a student loan as far as other grants and stuff, so you get more help out of it, whereas with the car loan they want you to get the loan. They don't really think

about your financial situation, or if it's going to be good for you or not, they just let you do it.

Kelly further explains that the car loan process is just a transactional sale:

They're salesmen, they don't even care about if you're gonna be able to pay it back because that would be the bank's responsibility. They just care about being able to meet the criteria taking out the loan instead of thinking ahead if you're gonna be able to follow through the whole loan. Whereas in school, they actually make sure that you are enrolled that you are going to finish, and that you are going to be able to pay it back.

Other students found the car loan process to be scary, difficult, and convenient. Sarah described her car loan process as scary:

I think I was really scared getting a car loan. I've never done anything like that before. You always hear scary stories of cars getting repo. I actually had to be in my dad's name cause I had to be the co-signer. The dealership didn't really give us a lot of information on who I was getting the loan from, they just gave me the name of the place, and I kinda had to figure it out on my own, so that's why it was scary. I kinda had to figure it out on my own hoping I was doing everything right.

Alex described his car loan experience as annoying. "That one is a little bit more of annoying process for sure...I think dealing with like a lot of people, and going through all of it, getting yes on some stuff and getting no, then trying to decide you know what works the best, and the interest rates." Alex further explains that he paid off his car loan. "I think I just paid it. I'd like stretch it out a couple of months, and then I just got tired of paying (laughs) you know my monthly payments, so I just lump summed it since I had

money saved up.” Finally, Mariah described her car loan process as convenient. “I went in to see if I could even be approved on my own, and I could, and they actually found me the bank that would approve me and got the bank ride through the loan. So, I didn’t really have to do anything, I just, I have my account set to pay (laughs) automatically.”

Students in the research study shared their unique experience with borrowing a car loan and what they learned from the process. While some students found the process simpler than borrowing a student loan, students also shared either their fear or how in the end the loan is ultimately their responsibility. The process of borrowing a car loan allowed each student to build on their financial knowledge and experience which ultimately sets these students up of how they experience and manage their student loans.

***Transitional knowing.*** Financial experience with car loans was a factor or impact in how students managed their student loans, and more importantly this experience helped students develop their financial literacy skills either prior to the start of their college career, or early on in with their college experience. Students who shared their car loan experience demonstrated a shift in learning- transitional knowing focusing on understanding the knowledge they received. Within transitional knowing, half of the students demonstrated an interpersonal pattern with learning while the other half demonstrated an impersonal pattern with learning. For students who held an impersonal pattern with learning such as Richard, Mariah, and Sarah, this pattern remained close to the voice of authority as these students sought answers by focusing on the process of learning and forced to engage and exchange conversations. Kelly and Alex held an interpersonal pattern that diverges from authority and demonstrated their exercise of personal judgment (Baxter Magolda, 2001).

## **Chapter 5**

### **Discussion**

This section provides an overview of what literature is available on student loans and financial literacy. This section also highlights results from the current research study that supports the current literature while also addressing what gaps continue to exist on student loans and financial literacy.

#### **Student Loans**

The literature on student loans is extensive. Researchers have examined the issue of student loans on many levels (Cochrane & Cheng, 2016; Cochrane & Reed, 2015; Gale et al., 2014; Greenstone & Looney, 2013; Ishitani & McKittrick, 2016; Kelchen & Li, 2017; Looney & Yannelis, 2015; Money Under 35 Report, 2016; Webber & Rogers, 2014). Summaries and overviews can be found on topics on student loan debt such as the annual report produced by TICAS that analyzes the student loan debt of college graduates from four-year public and nonprofit colleges, or policy analysis of the causes and consequences of student loans produced by nonprofit policy organizations such as the Brookings Institute or the Hamilton Project. Research has also analyzed how student debt contributes to the default rate that impacts institutions and the degrees that are offered and students who receive federal student aid (Webber & Rogers, 2014). Many researchers have provided comprehensive reports on student loans including factors that have led to the increase in student debt, the economic effects associated with student loans, and the institutional and student characteristics which can also contribute to the student loan default issue.

The current research study examined the student loan borrowing experience and showed how students used financial literacy to navigate their student loan borrowing experience. The study revealed that students are cognizant of their borrowing behaviors and how much debt they were accruing. Furthermore, while it may be perceived that students were more likely to misuse student loans who attended community colleges, students who participated in this qualitative study showed otherwise. Through the in-person entrance counseling that students attended, student participants were very much aware that loans they borrowed for school must be repaid in the future. Furthermore, these students also thought about how they would pay back their student loans indicating that these students were serious about borrowing with every intent to repay their student loans.

Policy analysts such as Looney and Yannelis (2015) examined how non-traditional borrowers have contributed to the student loan default crisis, while other reports examined several policy changes that can help address the student loan debt problem by proposing an increase with the federal Pell Grant award (Cochrane & Reed, 2015; Cochrane & Cheng, 2016; Cheng et al., 2017). Researchers Cochrane and Cheng (2016) suggested streamlining the student loan repayment program which can help students payback their student loans, while other researchers such as McKinney and Burrige (2015) suggested a complete revamp of the mandatory loan entrance counseling process managed by the Department of Education. Policy implications on federal student aid and student loan debt have also been examined by several researchers analyzing how such policy has provided more loan accessibility for students contributing to the student loan debt issue, or how student populations such as community college students are able

to accrue more debt compared to four-year college students (McKinney, Robberts, & Shefman, 2013). The challenges associated with student loans have been examined by researchers at the policy level; however, the current research study differed from policy analysis as the study examined student loan borrowing at the community college level examining the student loan borrowing experience for college students, and understanding students perspectives of how the loan borrowing process can be improved along with improving how financial literacy is delivered to students.

Overall, student participants shared that they had a positive student loan borrowing experience. In fact, some students were surprised on how easy it was to complete the student loan process. Students also expressed that the student loan process was helpful. One student in the research study indicated that initially she dreaded attending the in-person entrance counseling and hoped that the process could be completed online. However, after reflecting with her experience with the in-person loan entrance counseling session, she realized that she would not be able to complete the session if it were offered online. She acknowledged how helpful the in-person counseling session was with the assistance of FLAME\$. When students learn they must attend the in-person entrance counseling session, they often associate the session with the federal online student entrance counseling. Students may initially be reluctant to attend the in-person entrance counseling, but students come to realize the benefits of it and ultimately learn how to appreciate the experience and the assistance they received in person.

When students reflected back on their student loan experience, students mentioned they received assistance in person either from FLAME\$ or the Financial Aid

department, while others followed the online instructions provided by the Financial Aid department on how to complete the student loan process. One thing that was unclear for many students was whether the in-person entrance counseling session was a one-time process or whether the process had to be completed every semester or every year if students wanted to borrow student loans for future semesters.

Students who receive federal financial aid are often presented a substantial amount of information which can be overwhelming for students. Students are often confused and unsure of what they are supposed to do with the information they received. From the perspective of a financial aid professional, FLAME\$ and the financial aid department have done a terrific job putting together a step by step process of what students must do to receive a federal student loan. However, from the student perspective especially for students who have never completed the student loan process at this specific institution, the information and steps presented to students continue to be cryptic or a foreign language for students. Feedback from students would be beneficial to improve the student loan process and fill any gaps or questions students could have in the future.

Students shared suggestions on how financial literacy could be improved on their campus. Students suggested that FLAME\$ should educate students on various financial topics such as debt consolidation, details of student loan repayment from interest rates to how to contact and communicate with student lenders, student aggregate loan limits, investing and when to complete a FAFSA. Students also shared what kind of experience they would like to receive when learning about financial literacy. These experiences included defining and understanding the terminology used to explain to students on borrowing student loans such as explaining the difference between subsidized and

unsubsidized loans. Other experiences students would like to receive include one on one advising, offering check in with students making sure they are following through their budget, follow up phone calls or reminders from FLAME\$, or receiving supplemental information via email creating positive messages encouraging students to complete their financial tasks. This study demonstrates that financial literacy has a different meaning and purpose for each student. Based on the feedback from the students in this research study, FLAME\$ should conduct a survey every few years soliciting feedback and suggestions both from faculty and students on financial literacy topics and how should these topics be presented to students. Surveying students every few years ensures that FLAME\$ is providing the most current financial literacy information that students need at their college to remain successful with their college experience and education.

Researchers such as Ratcliffe and McKernan (2013), Kelchen and Li (2017), Schanzenbach, Bauer, and Breitwieser (2017), Grinstein-Weiss, Peranite, Taylor, Guo and Raghavan (2016) examined the student loan debt issue analyzing student demographics that include ethnicity, age, gender, income, and SES. In addition, family composition and parents' SES and income were also examined to determine how such connection can impact students with student loan debt (Houle, 2014; Ratcliffe & McKernan, 2013). Literature can also be found on students' financial attitudes such as Nonis et al. (2015) who examined how students' attitudes towards debt are related to the decision-making process, or Mueller (2014) who conducted an exploratory study that examined the psychological perceptions of student loan borrowers in relation to completion of a college degree. This study found what students' thoughts were about

completing a multi-step process prior to receiving their student loans, and how students utilized financial literacy at a community college.

Further, the research analyzing student demographics and family composition have all been conducted using a quantitative research study, and while other researchers have examined students' financial attitudes or students' psychological perceptions, this area of research has also been examined using a quantitative research approach. The current study used a qualitative phenomenological approach interviewing students to understand students' thoughts, feelings, and attitudes towards the student loan borrowing process, and how they use and understand financial literacy. Using a phenomenological design, I discovered that students found the in-person entrance counseling beneficial. Students learned their rights and responsibilities that came with borrowing a federal student loan. Students also shared that while the student loan process was easy, hands on, and informative, it was unclear for many students what part of the student loan process had to be repeated or was covered if they wanted to take out another loan future semesters at the community college. Finally, the phenomenological design revealed that students were still unclear with the meaning and purpose of financial literacy. Most students associated financial literacy with the in-person entrance counseling session they attended referring frequently about the student loan information they received.

Literature on financial literacy show that it is important to provide a wide range of financial literacy information to students. Researchers have also stated that providing targeted efforts is a successful approach which allows educators and practitioners to successfully measure the effectiveness of specific financial literacy efforts or programs.

FLAME\$ has done a successful job providing in-person entrance counseling to students. It is through this session, that students learn what other services and activities FLAME\$ can offer to students. FLAME\$ should revamp their program focusing on how to further improve their in-person counseling sessions that they offer. The session should also be used to discuss and educate students on the meaning and benefits of financial literacy. This dialogue can help FLAME\$ further develop more tailored workshops and materials that students at their college find beneficial and important for their success as students.

Literature on financial literacy include how financial stress can impact students. Financial stress impacts student's retention rates, or how financial decisions such as the potential debt students can accrue, and their ability to payback student loans impact their decisions of where to go to college. This stress can also impact their academic performance which includes: credits attempted; credits completed; credit hours failed; grades; transfer patterns; enrollment patterns; and the duration of time it takes to complete a degree or certificate (Gross, Cekic, Hossler, & Hillman, 2010). Graduation rates among students focused on race/ethnicity, in particular for students who were Black and Hispanic, were also analyzed in relation to the loans they borrowed (Zhan, 2014). While literature has examined the relationship of student loans with financial stress and the impact it can have on students retention rates and how students perform academically, or how graduation rates and student loan borrowing directly impacts students of color, the current research study provided a student perspective of what financial stress looks like for students who are borrowing student loans. For example, Maria explained that students are responsible for the loans that they borrow. Yet when student borrowers learn how much they can borrow, not only are they surprised, but students assume they should also

request the full loan award since this is what they will need for the year. Riley shared that borrowing student loans can be intimidating especially with the student culture today and how college students have shared that their biggest fear in college is student debt. Riley did not want to have the same stress as other students experienced once they graduated from college and started their careers. Riley also shared her frustration on how she was limited on how much she could borrow in student loans. Since Riley received several scholarships to cover her tuition and expenses, Riley had little unmet need remaining in her cost of attendance. As a result of this, Riley's student loan was reduced so that her scholarships and loans would not exceed her cost of attendance. Riley perceived that since her student loans were reduced, financial aid controlled the money that she received without bearing in mind her living condition which hindered her from considering other housing options. Richard on the other hand found that considering what kind of education he should receive such as an associate versus a bachelor's degree determines how much debt he will accrue. Considering how much debt he might have to accrue dissuades Richard at times of even attempting to go to school. Another student expressed that when borrowing a student loan, budgeting can be stressful since a student must try to estimate how much they might need for classes, transportation, supplies, and so forth.

For many of the student participants, the biggest factor that contributed to students' financial stress was the education or knowledge piece associated when borrowing student loans. There were different aspects related to student borrowing that students must consider. For example, Richard expressed that understanding how much he could borrow for one semester or one year up front would be beneficial rather than

requesting for a certain amount and expecting to receive it. In Richard's situation, he was notified that he could not borrow the initial loan amount he requested, rather his request was reduced based on his enrollment status. Receiving a reduced loan amount was not what he anticipated for as this ruined Richard's financial plan of how the money would be used. Other students expressed that not understanding the terminology such as subsidized and unsubsidized loans was a challenge, and because students were not familiar with student loan terminology, students had a difficult time understanding the difference between the two types of loans. One student who was confused continued to ask questions which led to more questions, while another student indicated that seeking assistance could be difficult especially if students did not know what kind of questions to ask. These student responses support the research of McKinney et al. (2015) as they argue that community colleges need to improve the services offered to students such offering in person counseling services should students decide to take out student loans. However, McKinney and Roberts (2012) argue that previous reports examining financial aid counselors at community colleges cannot meet the in-person counseling services that students seek due to lack of adequate time or resources. Furthermore, the ratio for a financial aid counselor to students such as 1:1000 students is not only challenging, but unfeasible for many financial aid counselors to achieve (McKinney & Roberts, 2012).

Common questions that students shared in the research study such as the unfamiliarity with the differences between subsidized and unsubsidized loans, or why student loans are reduced are questions that can be incorporated into the in-person entrance counseling presented by FLAME\$. FLAME\$ can also create supplemental resources that students can take with them after the session which covers the information

that was presented in the session. Supplemental resources can also include frequently asked questions about student loans. The more information that can be provided to students to help them understand how student loans are processed can help alleviate the financial stress that students experience. In addition, the more educated students are about student loans, students can plan and make better financial decisions early on in the semester before their student loans have disbursed.

Students also shared their concerns and what questions they had related to student loan borrowing, or how they could improve their financial behaviors or increase their financial knowledge. For example, Kelly explained that through the loan entrance counseling session, she learned of other options that was available to her such as scholarships she was never aware. Attending the loan entrance counseling session, Kelly was able to take advantage of other scholarship opportunities which helped her pay for her college expenses and postpone a few semesters of borrowing student loans. Mariah shared how scared she was to borrow student loans since she was told that people who borrowed student loans will be paying it back for the rest of their lives. However, Mariah explained how helpful it was to attend the in-person entrance counseling. She learned the different ways of paying back a student loan which eliminated her fear to borrow. In fact, Mariah acknowledged that while she dreaded the idea of attending the in-person entrance counseling, she assumed that she could receive the same information via online through the internet. However, in the end she realized that she would not have had her questions answered nor received the reassurance that paying back student loans was possible with the several choices available for students.

Students do not realize the benefits of attending the in-person loan entrance counseling session, or what services or information that FLAME\$ can provide. The in-person entrance counseling session is a good starting point to create a rapport between students and student peer mentors. FLAME\$ can use the session to follow up with students individually to either set up one-on-one appointments to meet with students who have other questions related to financial literacy or provide additional supplemental information that students request. Either way, providing follow up services or information for students who attend these sessions can help students build the confidence they need to request for additional assistance and not shy away from questions.

The effects of student loan debt post college have also been examined, and literature shows that loan debt impacts young adults' decisions as to whether they should pursue professional or graduate degree programs, type of job or career to pursue, or the ability to start their own businesses (Noguchi, 2016). In addition, student loan debt has also been found to affect young adults' decisions to delay the purchase of a home or getting married and raising children (Xue & Chao, 2015). The current research study did not examine the effects of student loan debt after college but instead examined if students had other experiences with loans other than a student loan. Students who shared their financial experiences with other loans provided insight of how they managed their loans that impacted how they managed their student loans and their attitudes towards debt. For example, students who had borrowed a car loan explained that the process of borrowing a car loan was much simpler than borrowing a student loan. Students also expressed that they had other options with a car loan such as the option to refinance their vehicles, whereas with student loans, refinancing your student loan was not an option. Students

also shared that the car loan process was time consuming as some students either had to co-sign with a parent or had to shop for interest rates and lenders that would finance their car loan. Thus, the current research can help understand how students' approach and manage debt.

Continuing students who were previous loan borrowers carried with them financial experience and knowledge of how to manage a car loan. The prior knowledge that they carried with them gave previous loan borrowers a different experience of how they managed their student loans in comparison to first time student loan borrowers. Throughout the interviews, previous loan borrowers seem to understand their financial responsibility with student loans. Continuing students had more specific detailed questions about their loans whether it was understanding how fees and interest rates worked on student loans or questioning how to dispute incorrect financial information related to their student loans. First time loan borrowers were not able to formulate any detailed questions about their student loans, instead they acknowledged the financial responsibilities that came with borrowing student loans referring to FLAME\$ or the financial aid department who provided new students with credible information.

Students who receive hands on financial experience at an early age are at an advantage versus students who start college with no financial experience whatsoever. Students who have prior financial experience when taking out a student loan are a lot more proactive in how they manage their student loans and seek assistance. In addition, students who carry with them other financial experiences also have the confidence to engage in conversations to question and seek the assistance they need. These results support the literature on financial literacy which is students who are taught or exposed to

financial experiences allows students to gain and build valuable knowledge on how to manage various consumer purchases (Jorgenson & Savla, 2010).

### **Financial Literacy**

Financial literacy is another area that researchers have examined closely to learn how students' financial behaviors can impact students' ability to manage student loan debt (Cunningham & Kienzl, 2011). Literature on financial literacy has examined parents' influence on students' perceptions and financial behaviors towards money management and debt. Parental factors included parental involvement of how students developed consumer behavior at an early age from several sources of influences to develop financial independent from their parents (Gudmunson, Ray, & Xiao, 2016). Parental attitudes and behaviors were studied by Norvilitis and MacLean (2010) who found that families that had financial discussions including budgeting and parents who were either hands on to teach students how to manage money versus parents who only instructed their children on how to handle money were factors that either increased or decreased the chances of students to accumulate debt or risk factors associated with debt. Parental influence was also examined by Xue and Chao (2015) who discovered that students who consulted with their parents about taking out student loans shared the same perceptions as their parents which were to avoid debt at all costs excluding the large purchase of a car or home. This area of research on financial literacy examines the relationship and impact of how parental factors influence students' financial behaviors. The current research study is different as it examines financial literacy from the student perspective understanding how students define and interpret the meaning of financial literacy.

Examining the financial concerns for all college going students, Williams and Oumlil (2015) argued that college students need to improve their financial judgments which impact students' financial skills and abilities to make financially sound decisions. Thus, Williams and Oumlil (2015) introduced the model of college students' financial capabilities enhancement as one approach to help address the direct and indirect factors associated with poor or insufficient financial knowledge among college going students. The model also provided a comprehensive and integrative approach for college administrators to use when developing programs to help students improve their overall abilities to make financial decisions, as well as enhance their financial knowledge (William & Oumlil, 2015). Furthermore, researchers argued that the ability for college students to make financial decisions was often complex because young adults needed to take into account other factors such as the complexity of financial markets, sophistication of financial products that were offered, and credit (Lusardi, 2015). Jorgenson and Savla (2010) also made a similar claim and argued that young adults who are taught or exposed to other financial experiences that include the management of credit cards and bank accounts, how to purchase insurance or lease an apartment gain valuable knowledge of how to make financial consumer purchases. Similar to these findings, my study examined what other types of loans did students borrow aside from student loans. Students in my research study referred to their car loan experience as they reflected back on the process and how they felt about it. The financial experience and knowledge that students gained from the car loan process helped these community college students understand their borrowing responsibilities with student loans. In addition, the financial knowledge that students carried with them from borrowing car loans helped these students formulate

specific questions about their student loans such as understanding how much will a student have to pay back in interest compared to the principle loan amount on their student loan. Students who have experience with other loans also demonstrate that they know how to manage their student loans better compared to students with no financial experience. For example, one student explained how he had to dispute the status of his school loan since he received a letter from his lender that he now was entering the grace period of his student loan despite the fact that he was enrolled in school full time. Thus, findings from my study support the literature that young adults who are exposed to other financial experiences carry with them financial knowledge and tools which helps students navigate and manage the student loan process and their student loans.

This qualitative study used a phenomenological design to research the question of what do students believe and understand about student loans and financial literacy? While the study did not use a model such as the model of college students' financial capabilities enhancement, the phenomenological design was another approach to examine student's financial knowledge related to student loans and financial literacy. In addition, the phenomenological design allowed students to share their personal financial challenges that provided a better understanding of students' financial behaviors. Furthermore, the design allowed students to share what previous financial experience they had with other financial loans which supported the research of Jorgenson and Savla (2010), as students' previous financial experience and knowledge gained through borrowing other financial loans impacted their financial decisions of how they managed their student loan debt.

Robb and Woodyard (2011) studied how demographic factors such as gender, age, education, income, race/ethnicity were associated with financial knowledge which

affect the overall financial well-being of individuals. While LaBorde, Mottner, and Whalley (2013) examined how students learned about personal finance through a combination of academic and non-academic sources, the literature on financial literacy showed how researchers have examined various factors that can impact students' ability to retain knowledge and use their financial literacy skills to manage various financial circumstances. The current research study examined students' beliefs and understanding of what financial literacy was and how students used their financial literacy skills to manage student loans. Their beliefs and understandings included that financial literacy was solely related to student loan borrowing. While students could not define the meaning of what is financial literacy, students were able to describe how they used the different skills associated with financial literacy to manage their student loans. For example, one student explained the challenge of budgeting for the semester and year on what educational expenses she can anticipate which made it difficult for her to determine how much student loans she should borrow. Another student understood that interest rates were included in his student loans and understanding the details of how much he would be paying towards his student loan balance and interest rates was essential. Another student also was able to advocate for himself when his student loan lender made the mistake of changing his student loan status to a six-month grace period before he would start repaying his student loans. While students demonstrated their different levels of understanding of what was financial literacy, all students did acknowledge that borrowing student loans from the federal government was the better choice than borrowing from private loans from banks.

While financial literacy is used to help educate students how to manage their college student loans, students also need to be aware that financial literacy is not to be associated to student loans explicitly. Rather students need to be educated that the use of financial literacy is different for everyone. Financial literacy is based on his or her financial skills and knowledge on how to utilize financial resources and make financial decisions. Thus, understanding the definition of financial literacy and how financial literacy can be used can help students understand that different financial literacy skills are needed to address different financial circumstances.

The literature on financial literacy also included how financial stress, financial anxiety, and financial self-esteem were linked to financial behaviors which included how individuals sought financial assistance, how such factors impacts students' mental health and led to responsible financial behaviors (Archuleta, Dale, & Spann, 2013; Lim et al., 2014; Tang & Baker, 2016). Interviews conducted through the qualitative research study supported the literature on financial literacy linked to self-esteem which was that students who had lower self-esteem were less likely to seek assistance despite their knowledge of their financial shortcomings and how it could impact their management of finances including student loans.

Developing student's self-esteem and confidence to seek assistance is critical during student's development in higher education, since college instructors and administrators often emphasize to students the importance of advocating for oneself to utilize the resources that are available on their campus. Self-esteem is one component that can be incorporated into the educational materials and presentations put together by FLAMES. Building self-esteem or learning how to advocate for oneself should also be

included in the in-person entrance counseling sessions explaining the importance of developing this particular psychologic trait to manage student loans and debt.

Finally, researchers from other countries examined financial literacy such as Haultain, Kemp, and Chernyshenko (2010) who studied student attitudes and perceptions of debt in New Zealand. Researchers concluded that student debt and attitudes towards debt could be different for college students from different countries (Haultain, Kemp, & Chernyshenko, 2010). While Haultain, Kemp, and Chernyshenko (2010) studied students' attitudes and debt from New Zealand, the current research study addressed a gap in the United States literature that centered on examining students' attitudes and perceptions of debt at the community college level. Students' attitudes and perceptions as described in this study include student's awareness and understanding of their loan borrowing responsibilities and the consequences associated when loans cannot be repaid. While students received in-person loan entrance counseling, students had a difficult time understanding few key financial concepts related to student loan borrowing, and rather asking for additional assistance and clarification, students resumed to borrow student loans. Furthermore, while students understand the financial responsibilities related to student loan borrowing, majority of the students acknowledged the importance of repaying back federal student loans, yet they also failed to make the effort or take the initiative of planning or asking how they would start to repay their student loans.

While FLAME\$ has done a terrific job implementing the in-person entrance counseling sessions, FLAME\$ can continue to expand their educational efforts with managing student loans by creating a student loan repayment session. In this qualitative study, students understand the importance of repaying back their student loans. Students

are also taught in the in-person entrance counseling sessions the various ways students can repay back their student loans. However, students need guidance on how to plan and prepare to repay back their student loans. It is never too early to start thinking about how to repay student loan debt, but students may also have a difficult time visualizing and planning how repaying loans work for the future since most students focus on the present and worry other responsibilities in the future when it is time to handle the situation.

Financial literacy programs were also examined by researchers. Researchers have examined the effectiveness of how financial literacy programs are offered such as financial seminars or how educating students on financial health should be embedded into financial literacy programs including self-efficacy (Lim et al., 2014). Researchers have also suggested ways to improve financial literacy programs by educating individuals on how to budget, discussing psychological traits associated with money management, including embedding financial literacy education across the mainstream curriculum (Baumann & Hall, 2012). Students who were interviewed in the qualitative research study shared their experience of participating in the financial literacy program at their community college. Students also highlighted the strengths of the financial literacy program and shared how the program could be improved by suggesting what type of content could be offered and how it could be delivered to students.

The financial literacy program put together by the FLAMES\$ should be restructured. Rather than offering various financial literacy workshops, FLAMES\$ should focus on a few key topics to educate the student population at their community college such as learning how to create a budget, and expanding the in-person entrance counseling session to create a repayment loan session. Focusing on the few selective and successful

financial literacy topics put together by FLAME\$ can help strengthen the effectiveness of the financial literacy program. In addition, revamping the financial literacy program should also include suggestions from both students, faculty, and administrators at the college. Feedback from all three groups from the community college can ensure that the financial literacy program is meeting the needs of the students, but also supports the learning efforts put together by the instructors and administrators on camps.

While the literature on student loan debt is extensive and research on financial literacy is thorough, there are still gaps in the literature on both topics that do not address or examine students' perceptions or concerns with the effectiveness and efforts with student loans and financial literacy. In addition, there are few qualitative research studies conducted in both areas to examine both the concerns surrounding financial literacy and student loans.

Financial aid professionals assumed that providing financial literacy efforts would address some of the concerning issues professionals have with students borrowing student loans which included accruing and the management of debt, avoiding default, and learning how to repay student loans successfully. Results from this study provided further insight on what students' thoughts and concerns are surrounding student loans and financial literacy. Students provided another perspective, the student perspective that confirmed some of the literature out on student loans which were that students continued to commit and sign federal legal documents on student loans despite their lack of understanding how student loans work. Results from the research study confirmed research on student loans was students continue to have a difficult time distinguishing the differences between borrowing subsidized and unsubsidized loans. One surprising

feature from this research study was how most students were very aware of the consequences that come with loan borrowing and demonstrated proactive behaviors of how they would like more information on how to connect with their student loan lenders or strategize how to repay their student loans while still enrolled in college. These specific results should be used to further explore how to create effective student loan tools resources that students want to engage and participate in, rather than focusing on student loan efforts that professionals think students might need.

Results from this study also support the literature on financial literacy (Mandell & Klein, 2007). For starters, given that the meaning of financial literacy was to use a set of skills and knowledge that impacts the individual decisions make on several financial topics such as savings, budgeting, and loans to name a few, the definition and goal of financial literacy is different for every individual based on his or her financial needs. In addition, the meaning and purpose of financial literacy is not always clear for students. Not only will it be important to define the meaning of financial literacy, but it will also be important to educate students that the knowledge and skills students have related to financial literacy is different for everyone. In addition, FLAME\$ should address the meaning of financial literacy to students by educating students to address their own level of financial literacy, and encourage students to address areas of their financial literacy knowledge and skills that need further improvement.

Other results that supported the literature on financial literacy were how to inform and educate students on various financial literacy topics (Nonis et al., 2015). While students shared that they received most of their financial literacy information through the entrance counseling sessions, other students mentioned that they received information in

the form of presentations and printed materials such as brochures, and programs and events put together by FLAME\$ such as the Money Savvy Program and lunch and learn events. Students also expressed what kind of financial literacy information they wanted to learn about but also how they wanted to receive this information which included visuals, more one-on-one interaction with FLAME\$, and other forms of communication such as receiving monthly newsletters which included financial tips and words of encouragement or inspiration. These results supported the literature which was different students with different financial needs will have a preference of how they would like to receive information on financial literacy (Mandell & Klein, 2007; Nonis et al., 2015). Thus, financial literacy information must be presented in various forms for college students to receive financial information that is conducive for students and how they learn how to retain financial information. This result supported the research of Borden et al. (2008) who argued that college students were more interested in receiving information in the format of seminars or workshops which focus on specific topics to help students improve their financial knowledge, behavior, and attitudes. Lyons (2004) also found that student groups have different preferences in how they would like to receive financial information. For example, at risk students preferred to receive financial information online and through forms of pamphlets and handouts, while non-risk students preferred to receive financial information in the format of seminars, workshops, and/or counseling services.

In addition, students, who shared what kind of financial literacy information they would like to receive supports the other findings on financial literacy which are developing financial literacy efforts needs to be a holistic approach (Robb & Woodyard,

2011). While most financial literacy efforts delivered to students were purely educational in the form of knowledge and facts, financial literacy material must also include other aspects that impact students financially which include the confidence to either seek assistance or make better informed decisions, or mental factors such as financial anxiety or stress (Archuleta, Dale, & Spann, 2013; Kidwell & Turrisi, 2004; Lim et al., 2014). The current research study supports the literature on how financial materials must also include how to boost students' self-confidence to seek assistance or change their financial behaviors. One student who was interviewed for the qualitative research study suggested that sending out monthly inspirational newsletters promoting positive messages encouraging students to either stay on track with their finances, or helping students take the steps to seek assistance to improve their financial behaviors.

This research study also supports the current literature which is the purpose and delivery of financial literacy in higher education continues to evolve with no right or wrong way to address the financial issues that college students are faced with (Borden et al., 2008; Lyons, 2004). However, student responses align with some of the recommendations made by researchers who have examined financial literacy which include providing targeted approaches as an effective approach when addressing specific issues with financial literacy (Lusardi & Mitchell, 2014).

The current research study provides a fresh new perspective for many professionals, policy analysts, and researchers studying the student loan debt issue or college financial literacy. For starters, most of the research has been examined using a statistical analysis approach to explore or understand the various factors related to either student loan debt or college financial literacy. Secondly, few research studies exist

examining the impact of student loans at the community college level. Third, few qualitative research studies exist both for student loans and financial literacy.

The idea of borrowing student loans to complete a college degree is not a new concept in higher education, but as Americans and the nation saw the impact of what student loans can do to the financial economy particularly during the recession, policy analysts and professionals realized that the student loan debt problem must be addressed. Thus, currently in higher education, student loans are now often associated with financial literacy educating students how to manage their student loan debt. While progress has been made to reduce student loan borrowing, continued efforts can be improved such as how higher educational professionals deliver student loan or financial literacy information, or how programs are created and implemented on campus. Such improvements can be made and done by examining the issue from student users themselves who can provide suggestions and feedback that other students can relate to or experience. Thus, the current research study can help other professionals and researchers continue to examine student loans and financial literacy through a qualitative research approach. Qualitative research can provide an understanding of what concerns students have and their experiences with student loans and financial literacy. Qualitative research captures data that is richer and in depth that cannot be found with quantitative statistical analysis. This data can be used to improve how the content and delivery of information is presented to students that will not only educate college students about how to reduce student loan debt, but provide students with the tools, knowledge, and resources that they can carry with them after college to be effective financial consumers.

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