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Creating a Financial Path to Graduation

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Abstract

The financial state of college students is in decline. Many financial education programs available are focused on K-12 populations. The Financial Path to Graduation is a program developed by Brigham Young University to enhance student awareness of financial decision-making and borrowing during one's college years. The Financial Path to Graduation emphasizes both academic and financial planning during one's education. Since inception of the program there have been overall declines in the number of federal student loan borrowers, as well as the overall student loan default rate at Brigham Young University.

Introduction

Financial problems permeate student life. The literature suggests the severity of student financial problems is not only more intense than previously thought, but appears to be worsening with time. Although financial education deficiencies have been targeted as the culprit by most observers, to date the bulk of financial curriculum/programming efforts has been developed for younger groups and has largely neglected the college-aged audience. At Brigham Young University (BYU), individual sessions with an accredited financial counselor (AFC) provide students with an opportunity to be instructed in a range of personal finance issues, as well as aid in constructing a realistic academic and financial plan. This article documents The Financial Path to Graduation (The Path) planning process developed at Brigham Young University, motivated largely by the concern over increasing student debt levels.

Review of literature

Knowledge, attitudes toward, and use of finances among college students have been important topics for researchers over the past decade (Joo, Grable, & Bagwell, 2001; Lyons & Andersen, 2002). Total American revolving debt has reached astronomic proportions –- $763 billion (Federal Reserve Board 2004). The statistics surrounding student debt are no less discouraging. The average student loan debt burden for graduating students in 1992-1993 was $12,100 and increased 60 percent to $19,300 by 1999-2000 (the most recent study available due to funding issues). This data includes "student-only" borrowing and not money borrowed by parents. These amounts also do not include alternative loans, credit card, or other forms of student debt (U.S. Department of Education 2004a).

Some of the more meaningful published student debt data have been the result of Nellie Mae studies (which gather information from student credit reports rather than relying solely upon self-report data). The most recent report (Nellie Mae 2003) is the fourth in a series of studies examining the impact of student loan debt burden on borrowers in repayment. Results from previous studies (e.g., Nellie Mae 1998, 2002) provide a context for understanding current student data as well as an opportunity to observe trends in student borrowing. The National Student Loan Survey (Nellie Mae 2003) underscores what most current students have already learned: the combination of rising education costs, the loss of purchasing power of federal and state financial aid, and difficult economic times makes loans a more prominent component in the financial aid package. As expected, credit cards are playing a much more prominent role in the funding of education –- over 27 percent of students list credit cards as a funding source for undergraduate education (Nellie Mae 2003). In addition, Nellie Mae (2002) reports the average undergraduate student credit card debt at nearly $2,800, a dramatic increase from their 1998 study results of $1,879.

Combined with educational loans, graduating students are leaving with an average of $20,402 in total student debt (Nellie Mae 2001). This number meshes with the Department of Education (2004b) student loan decade in review which suggests the average student borrowed $6,102 per year in 1999-2000 (the most recent available data), up from $4,421 in 1992-1993. This data includes borrowing from all sources. Table 1 provides a general distribution of federal student loan debt for undergraduates (Nellie Mae 2003).

Table 1. Distribution of undergraduate debt

Amount of debt	**Percent**
< $5,000	**12**
$5,001 - $10,000	**15**
$10,001 - $15,000	**17**
$15,001 - $20,000	**21**
$20,001 - $30,000	**20**
> $30,000	**15**

How can students afford to handle this type of debt? The literature suggests that in many instances they cannot (Blair 1997; Manning 2000; Nellie Mae 2002). In some cases, students are forced to drop out of school and work full-time. Many university administrators believe more students are dropping out of school due to financial problems than to academic failure (Manning 2000). An increased number of borrowers feel more burdened by their education debt. Nearly 25 percent of borrowers (Nellie Mae 2003) perceived themselves as having significant problems; 55 percent stated feeling burdened by their education debt.

Interestingly, only 59 percent of respondents felt that the benefits of incurring student loans were worth it (Nellie Mae 2003). 54 percent of students said they would borrow less if they had to do it over again. Students who said they knew how much they were borrowing as they borrowed, and who said they received counseling about repayment at the time they left school, reported feeling less burdened by their education loans than less well-informed borrowers (Nellie Mae 2003). The key to financial well-being for students during school and beyond is their understanding of the costs and responsibilities associated with borrowing (Nellie Mae 2003) –- financial awareness is the primary objective of The Path.

Creating a financial path to graduation

Concern over student debt levels and the financial costs associated with poor academic choices motivated the development and implementation of a planning process for Brigham Young University (BYU) students in need of federal student loans to fund their education. The Path is designed to engage the student in several basic personal finance activities to help determine an appropriate level of borrowing given available resources as well as the student's chosen profession. The process is designed to look at the entire college experience to avoid the recurring issue, "How do I pay for this semester?" The Financial Path to Graduation (The Path), developed by the Financial Aid Office at BYU, uses a seven-step process to encourage students to map out an academic and financial course to graduation:

1. **Chart an academic plan.** This process begins with basic academic planning –- determination of the number of credits required, one's major/program of study, etc. Various components allow for individualizing the path to each student –- many built-in features are based upon the typical BYU student (i.e., most male students serve a two-year church mission at age 19). Separate sections also exist to allow spouses to prepare their plan as well, allowing a family to look at their paths more holistically.

2. **Estimate educational costs.** To simplify the process of determining educational costs, students provide estimates to reflect the cost of attendance for one semester at a time. A sample budget is provided to allow adjustments for inflation in the estimate. Obviously a key to these steps is providing actual data from semester to semester as "real data"

becomes available to allow The Path to be more accurate. BYU requires all students to complete The Path each semester that they borrow federal money. The Path is completed before the loan is disbursed.

3. **Estimate financial resources.** The purpose of this section is to help the student discover how much he or she will have in personal resources to meet educational costs each year. This exercise provides a clearer picture of how much the student may need to borrow. All possible avenues should be explored: e.g., personal savings, employment (during school year and/or summer), parental/guardian assistance, scholarships, grants, etc.

4. **Identify and analyze unmet needs.** Students compare the total estimated educational costs (from step 2) with the total estimated financial resources (from step 3). This difference will provide them the first step in understanding what they lack to pay for their education and may need to borrow. Suggestions are provided to help students explore ways to decrease their level of unmet need. Examples include "testing out" of basic, required courses (such as English and math); increasing the number of credits taken each semester to get more out of tuition dollars; making lifestyle changes (e.g., is the cell phone really a need?). Subtracting the adjustments from the initial unmet need will create an adjusted unmet need (total potential loan debt).

5. **Establish maximum debt limit.** Experts suggest a reasonable monthly payment for student loan debt is no more than 8 percent of monthly net income. This step walks students through the process of estimating what they can reasonably borrow using an estimated starting salary to derive a "maximum student loan debt limit." This is the first step in the process where a student may need to go back to re-evaluate his or her costs, resources, etc. (i.e., potential loan debt is greater than the total maximum debt limit [amount student can afford to repay]).

6. **Identify the costs of borrowing.** After creating the academic plan, calculating total educational costs, and determining how much can reasonably be afforded to borrow, step 6 enables the student to look at potential loan debt and see what the true cost of borrowing will be. This step will also lead to the annual salary needed in order to afford the level of debt the student is looking to borrow. This step is critical for students interested in careers that may be low paying — this will provide awareness to the student that will help them find a way to accommodate this situation.

7. **Make a financial and academic commitment and monitor progress.** Ultimately, this final step is the most important. Vigilance is required to ensure that the student maintain his or her financial path to graduation. It is inevitable that a plan developed by a freshman will change over time (tuition increases, changing majors, etc.) –- this is not a one-time

exercise. The student will make adjustments as needed in order to stay on the right track toward financial freedom. Any dynamic plan requires regular review and revision to be successful. Making a plan and sticking to it are the most critical steps in successfully navigating The Path.

Program impact

Initial implementation began at BYU in 1997 as a "pilot" effort based upon the feedback provided by students during financial aid exit interviews –- students wished they "knew then what they know now" –- "I wish I would have known what my payment would be if I borrowed this much." "I wish I would have known how much I would need to borrow." "I wish I would have known how little of a monthly payment I would be able to afford in repayment." The overwhelming positive results, both empirical and qualitative, drove BYU (in 1999) to mandate all students seeking financial assistance to complete The Path. To accommodate the process, students may submit The Path data on-line [booklet form is also available –- see Appendix]. One critical ingredient available at BYU is individual counseling sessions. Financial Aid Officers at BYU complete the Accredited Financial Counselor (AFC) program through The Association for Financial Counseling and Planning Education. This provides students an opportunity to be instructed in a range of personal finance issues (beyond student loans), examine their academic planning, and analyze the overall Path.

There has been an overall reduction of the number of student borrowers by nearly 20 percent (see Table 2) from the year before the Financial Path program was initiated (1996) to the most recent data available (2002). This is an impressive statistic, given a total increase in enrollment of more than 6 percent during this time period.

Table 2. Federal student loan borrowers in repayment

Year	BYU	Nation
2002	3709	2,393,776
2001	3786	2,380,741
2000	4073	2,399,774
1999	4125	2,299,533
1998	4205	2,208,262
1997	4332	2,153,253
1996	4684	2,045,595

Note: (Source: U.S. Department of Education, 2004a, 2004b)

During this same period, national borrowing increased more than 17 percent. One of the most commonly used gauges of financial well-being for financial aid offices and universities is loan default rates. The Higher Education Act of 1992 mandates that schools with excessive defaults may be dropped from one or more federal student aid program (25 percent or greater for three consecutive years; greater than 40 percent for one year). In the last decade, nearly 1,200 schools have lost eligibility to participate in the federal loan programs due to high default rates. From 1997 (first year of The Path) to 1998, the default rate at BYU dropped 47 percent -- a level they have maintained (and improved upon) in subsequent years (see Table 3).

Table 3. Student loan cohort default rates

Year	BYU	Nation
2002 (2004)	.3	5.2
2001 (2003)	.7	5.4
2000 (2002)	.6	5.9
1999 (2001)	.7	5.6
1998 (2000)	.8	6.9
1997 (1999)	1.5	8.8
1996 (1998)	1.3	9.6
1995 (1997)	1.3	10.4
1994 (1996)	2.0	10.7

Note: The cohort default rate is the percentage of borrowers who enter repayment in a given fiscal year and default or meet other specified conditions by the end of the next fiscal year. The U.S. Department of Education publishes default rates approximately two years after the fiscal year that students enter repayment. Numbers reflect default rate percentages. Dates in parentheses refer to when the default data were provided (Source: U.S. Department of Education, 2004a, 2004b).

Limitations

Although there have been overall declines in the number of federal student loan borrowers, as well as the overall student loan default rate at Brigham Young University since the inception of the Financial Path program, other variables may also have influenced the results. Several potential confounding variables outside the reach of the author at the time are discussed below.

Unfortunately, student feedback from the program was not available and, therefore, no data exists to substantiate that this program was the only force affecting student decisions. At this point, it isn't conclusive that the students are more efficient and effective in their spending patterns and aren't just borrowing from another source (albeit parents, traditional banks, alternative lending sources, etc.). A follow-up study to examine other educational programs offered simultaneously, as well as data to look at other debt sources (besides federal loan sources) –- i.e., credit card debt, loans from parents, alternative loans, etc. could possibly clarify these issues.

It is unclear which aspect of the curriculum was most effective. For example, was the time spent on the academic planning most meaningful, implying the students stayed focused and graduated in 4 years due to a strong academic plan or was learning the cost of borrowing most valuable. A follow up study among recent graduates would be most helpful to determine the more useful elements of The Path program. Any number of elements may be considered important, but knowing specifically can aid the direction of future intervention efforts toward college students.

Demographic data on student borrowers was not available to the author. A follow-up survey or pre-survey including demographics would have helped. In the future this information might be obtained and would help describe the type of student most helped by the program as well as alerting educators of potential "at risk" students –- students that may "over borrow" or are more likely to drop out of school due to unaffordable debt loads prior to graduation.

Finally, due to the current economic environment (historical low student loan interest rates), student loans are "cheap" (2.77% interest rate currently). Low interest rates equate to lower required monthly payments on student loans. Future studies should look at the impact of such programs longitudinally to determine if similar results are also provided during a rising interest rate environment.

Conclusion

The Financial Path to Graduation has become a highly relied-upon educational tool for heightening the financial awareness of students seeking financial assistance at BYU. This institution has made The Path booklet available to other schools for educational purposes (e.g., Iowa State University and Colorado State University, as well as several Utah colleges and universities). Iowa State was given legal authorization to "individualize" the booklet to ISU students. (E-mail the author for more information.) This program could be an invaluable tool for Extension and other financial educators that are involved with freshmen orientation (or otherwise involved with the education of college students), or in working with high school students preparing for college. The availability of The Path in both booklet and Web format adds to the accessibility for student and functionality for teacher.

Addendum

BYU Financial Path (pdf)

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