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GET
APENDIX A
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SPECIAL THANKS
FOR
THE DOCTORATE
THESIS.

UNITED STATES DEPARTMENT OF EDUCATION
REGION I
OFFICE OF STUDENT FINANCIAL ASSISTANCE
J. W. MCCORMACK POST OFFICE AND COURTHOUSE - ROOM 502
BOSTON, MASSACHUSETTS 02109

Guaranteed Student Loan Branch
(617) 223-9333

Institutional Review Branch
(617) 223-9338

February 22, 1993

Mr. Eli J. Segal
Deputy Assistant to the President
Office of National Service
Old Executive Office Building
Room 146
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. Segal,

My name is Gene Greene and I am a longtime career employee with the U.S. Department of Education in the Boston Regional Office. I have followed the issue of national service for many years and I wish you and your staff the best of luck in pursuing this important initiative for President Clinton.

I am enclosing for your information a copy of my 1990 doctoral dissertation which I wrote during my studies at Boston College. It is entitled "Reducing Student Debt Burden in the 1990s: Developing a Model for a Youth Service Corps". As you can imagine this research took up a great deal of my life at the time but it is an issue about which I feel very strongly. I should add that the folks over at City Year were helpful in this research along with Shirley Sagawa and Susan Stroud who I understand are working with you now.

I hope this study is helpful to you in some small way. Please understand that it was undertaken as an academic pursuit and does not necessarily reflect the official views of the Department. As a Vietnam veteran and Federal employee I have been very involved in my community in Walpole as a school committee member along with the Lions Club and many other civic and charitable activities. My experience and research findings show that there are many benefits of national service for both the server and the served. I truly hope that your efforts are successful. If I can be of any further assistance please do not hesitate to let me know.

Sincerely,

Gene F. Greene

Gene F. Greene
Program Officer

ABSTRACT

I. REDUCING STUDENT DEBT BURDEN IN THE 1990s: DEVELOPING A MODEL FOR A YOUTH SERVICE CORPS

II. GENE F. GREENE
HIGHER EDUCATION

III. DR. MARY KINNANE
DISSERTATION DIRECTOR

This study identifies unintended consequences associated with the dominant role that the Stafford Student Loan Program has come to play over the last several years. Federal costs for fiscal year 1989 in the form of full subsidy, special allowance and default reinsurance payments amounted to $4.38 billion. Economically disadvantaged students represent a disproportionate share of the loan volume. Issues relating to access, choice and persistence are discussed.

An accumulation of unmet human needs, or a "social deficit," has occurred over the last several years. A "peace dividend" resulting from decreased defense spending could allow for increased funding of education programs. Linking voluntary national service with student aid results in benefits for both the server and the served. The concept offers an alternative to heavy reliance on student loans while providing needed human services.

A model Youth Service Corps program is presented for consideration which offers student aid in exchange for service performed. A review of literature on student development and an historical overview of linking student aid with military and civilian service, serve as the theoretical framework for developing the model.

The field research includes an analysis of the U.S. Senate bill, the National and Community Service Act, S.1430, a survey of 17 youth service corps programs throughout the country, and the administration of a questionnaire given to local high school youth. The results show that there is a demand for youth service corps programs by both the providers and recipients of the services. Applications for corpsmember positions exceed the number available when student aid benefits are offered. The programs increase participants' educational and employable skills and offer deferment and cancellation provisions for student loans.

The model incorporates sound educational and student development theories, and serves as a mechanism through which educational benefits can be earned. These benefits offer alternatives to heavy reliance on student loans to finance postsecondary education.

BOSTON COLLEGE

GRADUATE SCHOOL OF ARTS & SCIENCES

The thesis of GENE FRANCIS GREENE

entitled REDUCING STUDENT DEBT BURDEN IN THE 1990s: DEVELOPING A MODEL FOR A YOUTH SERVICE CORPS

submitted to the Department of HIGHER EDUCATION

in partial fulfillment of the requirements for the degree of

DOCTOR OF EDUCATION in the Graduate School

of Arts & Sciences has been read and approved by the Committee:

Mary Kinnane

Mary D. Griffin

Paul P. Haran

April 4, 1990

Date

Boston College
The Graduate School of Arts and Sciences
Department of Higher Education

REDUCING STUDENT DEBT BURDEN IN THE 1990s: DEVELOPING A MODEL FOR A YOUTH SERVICE CORPS

a dissertation

by

GENE FRANCIS GREENE

submitted in partial fulfillment of the requirements
for the degree of
DOCTOR OF EDUCATION

MAY 1990

ACKNOWLEDGEMENTS

I wish to thank the many people who provided assistance during the research and writing phases of this dissertation. My colleagues within the U.S. Department of Education, both central and regional office staff, have provided invaluable assistance as readers and providers of resource materials.

Other associates in education, the Walpole Public Schools, student aid, U.S. Senate offices and youth service corps programs have been especially cooperative in providing data for the research.

I am also grateful to Gail for her word processing services and patience and cooperation in meeting deadlines.

Recognition is also warranted for my colleagues in our work group -- Eddie, Judy and Sylvia. Much time has been taken to assist each other and boost morale.

Thanks should be given to my dissertation committee, which includes Dr. Mary Kinnane, Dissertation Director, Dr. Mary Griffin and Dr. Paul Haran. Their assistance and guidance throughout the process is most appreciated. Dr. Pierre Lambert should also be recognized for his assistance before being hospitalized.

Special thanks are extended to Dr. Kinnane, whose encouragement throughout my doctoral studies has resulted in the completion of this dissertation. Her untiring devotion to students and caring attitude is a credit to the entire teaching profession and will never be forgotten.

DEDICATION

This paper is dedicated with utmost appreciation to my family.

My parents, James and Frances, and my sister Dorothy have always provided guidance, support and encouragement.

My wife, Diane, and our two daughters, Alicia and Michaela, have been especially patient and supportive throughout my degree coursework. Their understanding, especially in providing quiet time during the writing stage, has contributed to the successful completion of this dissertation. I have been extremely fortunate to have had their encouragement and love.

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CHAPTER I

INTRODUCTION

This country has had a sense of social justice and equal opportunity since the days when the Founding Fathers wrote the Constitution. These values have been imbedded in our society. During the 1960s the country sharpened its focus on equal opportunity with the passage of two of the broadest sweeping pieces of social legislation in modern times -- the Civil Rights Act of 1964 and the Higher Education Act of 1965. These two laws demonstrate the Federal leadership role in addressing both social justice and higher education issues. As we proceed through the last decade of this century, it is important that we be able to look back with pride at our accomplishments in terms of both economic prosperity and social responsibility. These two principles are inextricably linked together for the common good.

BACKGROUND OF THE PROBLEM

The Federal government's commitment to postsecondary education is evidenced by not only the $11.1 billion expended in fiscal year 1988 but also the pervasiveness of the expenditures among Federal agencies, as shown in Table 1.

Table 1

Percentage of Federal Funds for Postsecondary Education by Agency for Fiscal Year 1988

Agency	Percentage
Education	75.8
Defense	9.5
Veterans Affairs	7.2
Other	3.1
Health & Human Services	2.4
Interior	1.0
Transportation	0.6
Agriculture	0.2
Energy	0.2

Note. From Digest of Education Statistics, 1988 by the U.S. Department of Education, Office of Educational Research and Improvement.

This U.S. Department of Education expenditure of 75.8 percent represents $8.4 billion, of which approximately $8.1 billion is in the form of student financial assistance. Approximately half of this amount is spent to leverage tens of billions of dollars in student loan guarantees under the Stafford Student Loan Program, formerly known as the Guaranteed Student Loan Program (see p. 14). During fiscal year 1989, the U.S. Department of Education, Division of

Policy Analysis, reported Federal expenditures in the amount of $4.38 billion in the form of subsidies and default reinsurance payments to lenders and guarantee agencies. The total outstanding loans under the program at the end of fiscal year 1989 was $50 billion.

Since the 1970s there has been a shift from grants to loans in terms of student financial assistance. In 1976 loans accounted for 20 percent of total Federal student aid and increased to 70 percent by 1988 (Lewis, 1988). The issue of student debt burden needs to be addressed on a national policy level in terms of both costs to the Federal government and implications for students taking on the debt.

During this same time period of rising student loan debts, a "social deficit" has occurred in the country, that is, an accumulation of unmet human needs has taken on great proportions due to decreased domestic spending and increased defense spending. However, with the Cold War ending and the current peaceful climate in Eastern Europe, sharp cuts in defense spending are called for by Defense Secretary Richard Cheney. Politicians are eager to declare a "peace dividend" from these savings and to direct the money to domestic programs. Even if the savings went to decrease the budgetary deficit, there would be structural savings in the form of decreased interest payments to finance the deficit.

A 1990 Wall Street Journal/N.B.C. telephone poll was conducted nationwide of 1,510 randomly selected registered voters with a level of confidence of 95 percent. The results indicate that 40 percent of the respondents think the peace dividend should be used to reduce the budget deficit and 33 percent favored use for increased domestic spending.

Law (1990, January 12) has called for intensifying efforts at the national, state and local levels to assist the growing numbers caught in economic and social deprivation. President Bush (1989, January) has called for a renewed sense of volunteerism with his "thousand points of light" initiative. In the U.S. Congress several bills have been introduced during the last few years calling for a commitment to community service to fulfill our social and civic responsibility. These will be discussed in a later chapter. One of the key elements of the latest congressional proposal, The National and Community Service Act (S.1430), is to develop a national service program to be linked with student financial assistance. The benefits would be two-fold. An alternative option of voluntary national service would be available to students whereby they could earn a scholarship while serving their community in addressing the social deficit. In addition, it would reduce the current heavy reliance on student loans to finance postsecondary education.

STATEMENT OF THE PROBLEM

The national purpose of federally subsidized guaranteed student loans is to provide access and choice in order to increase equal educational opportunity. However, there has been heavy reliance on student loans to finance the costs of postsecondary education, particularly among low-income families. The research shows that along with rising program costs, there are implications for access, choice and persistence among low-income borrowers.

In addition, there has been a growing "social deficit" during the 1980s. The latest Federal legislative initiative, S.1430, attempts to address these unmet human needs by linking voluntary national service with student aid. This would result in students having an alternative option to borrowing and, at the same time, promote social and civic responsibilities. Thus, this study will focus on developing a model program for a Youth Service Corps. Such a program would be advantageous to both student and society in that it would combine student financial assistance with participation in a voluntary national service program.

Some questions to be answered include: Does heavy reliance on student loans have unintended consequences for students in terms of access, choice and persistence? What educational outcomes can be derived by student participation in youth service programs? Is the social, economic and political climate appropriate for promoting a national youth service program? Does society have an obligation to its youth to provide opportunities for them to grow and reach their fullest potential?

SCOPE OF THE PROBLEM

Title IV of the Higher Education Act of 1965, as amended, contains a variety of student financial assistance provisions, including various loan programs. This research will confine itself to an examination of only the Stafford Student Loan Program. Specifically, the increasing costs associated with it will be documented as well as an examination of some implications for equal educational opportunity. Hard evidence to support these concerns is difficult to find (Hansen, 1987). However, articulation of these concerns is warranted.

The study will explore the possibilities of finding an alternative to borrowing to finance the cost of pursuing postsecondary education. The alternative which will be examined is the prospect of linking national service with financial aid. Included will be a review of the literature and Federal legislative initiative in this area as well as a survey of existing private or public initiatives which promote this concept.

DESIGN OF THE FIELD STUDY

There are three components to the field study -- an examination of the proposal as contained in S.1430, a survey of selected existing youth service programs, and the administration of a questionnaire to a sample of junior and senior high school students assessing their attitudes toward student loans and participation in community service as an alternative to borrowing to pay for educational expenses.

A review of the proposals of the 101st Congress will be conducted showing how they resulted in the consensus bill, S.1430. An examination of Committee hearings will be included.

The survey of selected Youth Service Corps includes a mail and telephone survey using a standard format for each interview. The results are used to develop a synthesis of promising youth service corps programs.

The administration of a questionnaire to high school juniors and seniors includes the distribution of the instrument in a controlled classroom setting at a local high school. The questionnaire has been field tested with an audience outside of the sample tested for the study. The results are examined in the tables containing frequency distributions.

The formulation of a model for a youth service corps is presented based on this research.

DEFINITION OF TERMS

Deferment

Conditions established by law in which a student may postpone payments on the principal amount of his or her student loan after the loan has entered repayment.

Grace Period

Under the Stafford Loan Program, the period of 6 months after a student drops below half-time status at a participating school. During this period, the Federal government pays lenders interest benefits and special allowance on behalf of eligible borrowers.

Guarantee Agency

A State or private nonprofit agency that has an agreement with the U.S. Secretary of Education to administer the Guaranteed Student Loan Programs. The agency insures lenders against losses due to a borrower's default.

In-School Period

Under the Stafford Loan Program, the period during which a borrower pursues his or her studies as at least a half-time student at a participating school. This period begins with the date of disbursement and ends with the beginning of the grace period. During the in-school period, the Federal government pays lenders interest and special allowance payments on behalf of eligible borrowers.

Interest Benefits

Under the Stafford Loan Program, Federal payments to lenders on behalf of eligible borrowers for interest which accrues during the in-school and grace periods, and during any authorized deferment periods.

Loans in Repayment

Loans which have entered the repayment period after expiration of the grace period.

Postsecondary Education

Includes education at institutions which may be two- or four-year colleges or universities as well as occupational institutions of shorter duration.

Peace Dividend

The savings attributed to decreased defense spending.

Reinsurance Payments

Monies the Federal government gives a guarantee agency as reimbursement for payments made to lenders for losses due to borrower default.

Social Deficit

A mounting accumulation of unmet human needs.

Special Allowance

A quarterly supplemental interest payment to lenders based on the outstanding principal balance of Stafford loans. This payment assures that, as a complement to the borrower's interest rate, the lenders receive an equitable yield on their loans.

Youth Service Corps

A program of full or part-time, stipended productive work with visible community benefits in a human service setting and one which gives participants a mix of work experience along with basic and life skills education.

SIGNIFICANCE OF THE STUDY

The cost of the Stafford Student Loan Program has risen dramatically over the last several years, thus its budget has come under very close scrutiny. This is especially the case since passage of the Gramm-Rudman-Hollings Deficit Reduction Act (Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177). The purpose of this legislation is to encourage the President and the Congress to strive toward reducing the budget deficit. Budgetary resources must be allocated in such a manner as to reduce the fiscal year 1990 deficit of $100 billion to zero by fiscal year 1993.

Most of the current research focuses on what can be characterized as "back-end" issues, such as rising costs, defaulted borrower characteristics, and borrower repayment attitudes and spending patterns. However, there is only a small, but growing, body of literature, research and proposals focusing on possible "front-end" solutions or alternatives to the increased student debt burden.

The study is timely in that the 101st Congress will be addressing a bill which links national service with student financial aid. This bill (S.1430), the National and Community Service Act, will reach the Senate floor for debate by the full Senate in early 1990. In addition, the Title IV student aid programs are coming up for a five-year reauthorization in 1991.

ORGANIZATION OF THE STUDY

Chapter I has stated the problem of costs and equal educational opportunity implications associated with the Stafford Student Loan Program. Voluntary national service is proposed as an alternative to rising student loan debt burdens.

Chapter II presents an overview of student loans and their unintended consequences. A review of critical studies in this area will be discussed which focus on costs and equal educational opportunity.

Chapter III reviews the literature relative to student development and linking student aid to national service.

Chapter IV discusses the research method employed in this study. A three-pronged approach was used to gather data which will be considered in the development of a model youth service corps. The three approaches include an analysis of the bipartisan consensus bill in the U.S. Senate entitled "The National and Community Service Act" (S.1430), a survey of a representative sample of youth service corps programs which have been identified throughout the country and examination of the results of a questionnaire administered to a sample of high school juniors and seniors.

Chapter V includes the development of a youth service corps program based on the findings of the research study.

Chapter VI presents a summary of the findings and conclusions. Recommendations and suggestions for future research are discussed.

SUMMARY

The heavy reliance on student loans to finance the cost of postsecondary education has transformed loans into being the dominant feature of the student aid programs. The rising costs have drawn attention to it in terms of concern over reducing the Federal deficit. This heavy reliance on student loans has equal educational opportunity implications which need to be studied.

In addition, the growing "social deficit" needs to be addressed as a matter of social justice. This research examines critical studies, related literature, Federal legislative initiatives, existing public and private community service programs, and the data obtained from questionnaires. The results of this exploratory research will be used to support a societal benefit of linking student aid with voluntary national service. A model Youth Service Corps for this purpose will be presented.

CHAPTER II

AN OVERVIEW OF STUDENT LOANS AND THEIR UNINTENDED CONSEQUENCES

This chapter will confine itself to a review of studies related only to student loans. The following chapter will discuss the literature pertaining to national service.

LEGISLATIVE AUTHORITY AND PURPOSE OF THE GUARANTEED STUDENT LOAN PROGRAM

In 1965 the Congress of the United States, at the urging of the President, recognized the need for a new initiative in the field of student financial assistance. President Lyndon B. Johnson had made it clear that he wanted to extend the opportunity for postsecondary education more broadly among lower and middle income families. Thus, the 89th Congress sought to provide for educational opportunity by developing aid programs which would promote a system of equity and choice. The resulting legislation was signed into law as Public Law 89-329 on November 8, 1965 and became known as the "Higher Education Act of 1965." Subsequent revisions to the Act are referred to as the "Higher Education Act of 1965, as amended."

The legislative intent was to provide a comprehensive Federal program of a combination of grants, loans and work opportunities for students. This in turn would meet current needs and prevent future shortages of capable, trained people in the development and maintenance of our economy. This intent is stated in Title IV of the Act. Although the Act has many other provisions and titles, this study will focus on Title IV, Part B, which is the specific reference for the Guaranteed Student Loan Program.

The purpose of Guaranteed Student Loans (GSLs) was to make low-interest, long-term loans available to middle-income students attending participating postsecondary institutions who did not qualify for other student assistance programs. Effective July 1, 1988, Guaranteed Student Loans were renamed Stafford Student Loans in honor of U.S. Senator Robert T. Stafford of Vermont, former Chairman of the Senate Subcommittee on Education, Arts and Humanities. The literature and studies use the loan terms "GSL" and "Stafford" interchangeably, as does the research.

The Higher Education Amendments of 1986 provided for the expansion of two other loan programs. Parents are allowed to borrow up to an aggregate of $20,000 for each dependent student under the "PLUS" program. In addition, Supplemental Loans to Students (SLS) are available to independent students to borrow up to an aggregate of $20,000. The subject of this chapter will be restricted to the Stafford student loans.

OPERATIONAL OVERVIEW

Guaranteed Student Loans have been made available using private loan capital supplied by approximately 11,000 lenders. The loans are guaranteed by state or private non-profit guarantee agencies, of which there are 58 nationally. These loans are also reinsured by the Federal government.

The Higher Education Amendments of 1986 require all student applicants to demonstrate financial need to qualify for a Federally subsidized loan. In addition, the Amendments increased the annual and aggregate loan limits. Undergraduate students may now borrow up to $2,625 for each of their first two academic years and up to $4,000 per year after that, for a total undergraduate maximum of $17,250. In addition, graduate students may borrow up to $7,500 per year, for a combined total of $54,750 for undergraduate and graduate borrowing.

Although the interest rate has been 7 percent and 9 percent in past years, it has been fixed at 8 percent since 1983. The interest is paid by the Federal government while the student is in school and during a grace period after school, as well as any authorized deferment periods. Lenders are also paid a special allowance on student loans which is tied to a formula based on the 91-day Treasury bill rates. This rate changes each quarter and provides for an equitable yield for lenders. In the case of default by the borrower after starting repayment, the Federal government, as reinsurer, reimburses guarantee agencies for their losses.

LOAN VOLUME AND COSTS

Since 1976, a number of legislative changes have been enacted which significantly resulted in dramatic loan volume increases. Such changes included expanding income eligibility in 1976, the elimination of need-analysis in 1978 through 1981 and increased loan limits in 1986. The increases in loan volume between fiscal year 1976 and fiscal year 1989 are shown in Table 2.

TABLE 2

Annual Stafford Loan Volume -- Fiscal Year 1976-1989
in Billions of Dollars

Year	Volume
1976	1.08
1977	1.03
1978	1.49
1979	2.44
1980	4.34
1981	7.37
1982	5.90
1983	6.54
1984	7.51
1985	8.40
1986	8.05
1987	8.59
1988	9.28
1989	9.58

Note. From Guaranteed Student Loan Programs Data Book by U.S. Department of Education.

Cumulative dollars guaranteed total $81.6 billion, of which approximately $50 billion are still outstanding as of September 30, 1989.

The Federal cost for FY 1989 to service this debt in the form of interest subsidy and special allowance payments to lenders was $1.5 and $0.98 billion, respectively. In addition, default costs which have doubled in the last five years in the form of reinsurance payments made to guarantee agencies totalled $1.9 billion. These three major program costs amounted to $4.38 billion paid by the Federal government for FY 1989.

PROGRAM IMPLICATIONS FOR THE 1990s

There are two main areas of concern for policy makers, namely, financial and educational. These will be explored under more specific headings of costs and equal educational opportunity.

Costs

The Federal level of exposure to cost increases is significant and not subject to containment. This exposure is in direct relation to loan volume. Students who qualify academically and financially can obtain a student loan. The U.S. Department of Education's Office of Educational Research and Improvement (OERI) data show that over 12.5 million students are enrolled at postsecondary institutions. This figure has been fairly constant since 1980, with 50 percent of the total being "new students" over the age of 25. The data show this trend will continue, as will the upward trend in postsecondary education costs since state and Federal funds have been lagging (Evangelauf, 1990, February 14). This will result in continued demand for student loans and their resultant costs.

These costs will include not only continued subsidies, but also defaults due to the high-risk nature of the student population. This was one of the conclusions made by the Belmont Task Force which was convened in January, 1988 by

U.S. Representative Pat Williams, Subcommittee Chairman on Postsecondary Education. This group determined that default costs are a function of loan volume, also known as "structural default."

There is approximately $50 billion outstanding in the Stafford loan program. Since the formula for the special allowance rate paid to lenders is based on the average 91-day Treasury bill rates each quarter, that cost is very sensitive to interest rates. Table 3 shows the volatility of those rates since fiscal year 1978.

TABLE 3

WEEKLY AVERAGE 91-DAY TREASURY BILL RATE BY QUARTER, FY 1977 - FY 1988

	Quarter Ending			
FY	Dec.	March	June	Sept.
78	6.32	6.62	6.70	7.53
79	9.06	9.72	9.78	10.02
80	12.40	14.28	9.84	9.78
81	14.42	15.03	15.64	15.94
82	12.42	13.56	12.96	9.86
83	8.22	8.39	8.78	9.55
84	9.16	9.52	10.24	10.78
85	9.21	8.46	7.78	7.34
86	7.38	7.06	6.28	5.65
87	5.51	5.69	5.92	6.27
88	6.17	5.93	6.44	7.24
89	7.99	8.89	8.73	8.12

Note. From "Guaranteed Student Loan Programs Data Book" by the U.S. Department of Education.

The fact that there is $50 billion outstanding means that a 1 percent annual increase in Treasury bill rates results in an additional $500 million dollars in special allowance costs. While the last five years have seen large loan volume increases, it has been fortunate that interest rates have been stable. However, in an increasing global economy, Federal policymakers cannot predict future U.S. Treasury borrowing costs as the United States competes with other nations for investors. A return to the rates of the early 1980s could sharply increase program costs.

Equal Educational Opportunity

During the past twenty years Guaranteed Student Loans have made a transition from being a minimally subsidized loan of convenience for middle-income families to a highly subsidized loan for students demonstrating financial need. In fact, loans are the dominant portion of Federal aid. In 1976 loans accounted for 20 percent of the Federal aid programs, increasing to 70 percent of it by 1988 (Lewis, 1988). Furthermore, Table 4 shows the loan distribution by income for 1985-86.

TABLE 4

DISTRIBUTION OF STAFFORD LOAN AWARD BY
INCOME, 1985-86

Income ($)	Percentage of Total Awards
0 - 5,000	21.0
5,000 - 10,000	13.5
10,001 - 15,000	15.4
Over 15,000	50.1

Note. From Program Summary Book by the U.S. Department of Education, 1989.

As the data indicate, almost 50 percent of the loan volume is going to households earning less than $15,000 per year. Also, unpublished data show that 95 percent of the loan volume is going to households earning less than $45,000.

The data suggest that since low-income families are borrowing most of the money, the loan program is meeting its intended objective of providing equal access to postsecondary education. However, there are underlying issues of access, choice and persistence in postsecondary education for low-income families which must be further examined.

Willingness to borrow money is one area to be examined. Women, older persons, those less educated and low-income families are less favorably disposed to borrow (Mortenson, 1988). This finding is supported by a 1983 Federal Reserve System survey of consumer finances. A further 1986 Consortium on Financing Higher Education (COFHE) survey of four cities resulted in a similar finding that women and low-income students showed the most concern about taking on educational debt.

The link between attitude and behavior has been widely studied by social psychologists (Ajzen and Fishbein, 1977; Liska, 1984). The relationship exists in a New England Student Loan Survey (NESLS) conducted in 1988. There were borrowers who reported that they had limited their educational expenditures because of a concern over debt (Baum and Schwartz, 1988). The data show that 40 percent of the borrowers surveyed said they avoided more expensive schools because of a concern over borrowing. In addition, 41 percent of those borrowers who dropped out of school said that debts were an important factor in influencing their decision to leave school. Thus, these borrowers attended fewer years in school than they otherwise might have attended. This concern over persistence can be further developed.

The U.S. Department of Education commissioned a national longitudinal study of 1972, 1980 and 1982 high school graduates. The study, titled "High School and

Beyond," was published in December 1988. Among other issues it examined persistence rates by socioeconomic status. Socioeconomic status (SES) quartiles were measured by a composite score on parental education, family income, father's occupation and household characteristics. The study measured and compared the level of participation in postsecondary education by SES status during the four years after high school for each cohort. The findings are as follows:

Highest SES Quartile -- Cohorts in each year experienced an average of 85 percent participation rate.

Two Middle SES Quartiles -- Cohorts in each year experienced an average of 60 percent participation rate.

Lowest SES Quartile -- Cohorts in each year experienced much lower and varied participation rates. The 1972 cohort rate was 30 percent, in 1980 it was 50 percent, and in 1982 it was 40 percent. Thus these cohorts had serious difficulty in enrolling and persisting in school. The data further show that for 75 percent of the lowest SES quartile of the 1980 cohort, the high school diploma was their highest degree attainment and a bachelor's degree was the highest degree attainment for only 5 percent of the cohort.

SUMMARY

Stafford loans are good for both education and the economy. A by-product has been increases in national income, tax base, employment and overall productivity (Hansen, 1987). However, the benefits of having Stafford loans come with ever-increasing costs. This chapter focused on the three major costs -- interest subsidies, special allowance payments, and defaults. It is likely that the costs will continue to increase in the future.

The original intent of Title IV student financial assistance was to foster educational opportunity through a balance of grants, loans and work opportunities. A shift from grants to loans has taken place over the years due to legislative and policy changes along with the phasing out of Veterans Administration and Social Security educational benefits. The result is that student loans play a dominant role in student aid. However, this has resulted in some uncertain implications for the original target group of the initial legislation.

The research has shown that the majority of the student loan volume is taken on by the lowest income groups. They are the most adverse to borrowing and have persistence rates lower than that of other income groups. It should not be a surprise when the Belmont Task Force characterized the disproportionate amount of defaults coming from very low income family backgrounds as "structural default." It is a function of the distribution of the loan volume by income.

Federal student aid policy must be sensitive to how student loans are affecting enrollment decisions in terms of access, choice and persistence. Existing programs must be evaluated to verify that their intended purposes are still being met.

The next chapter explores the benefits of national service in terms of student development educational theories and linkage to student aid.