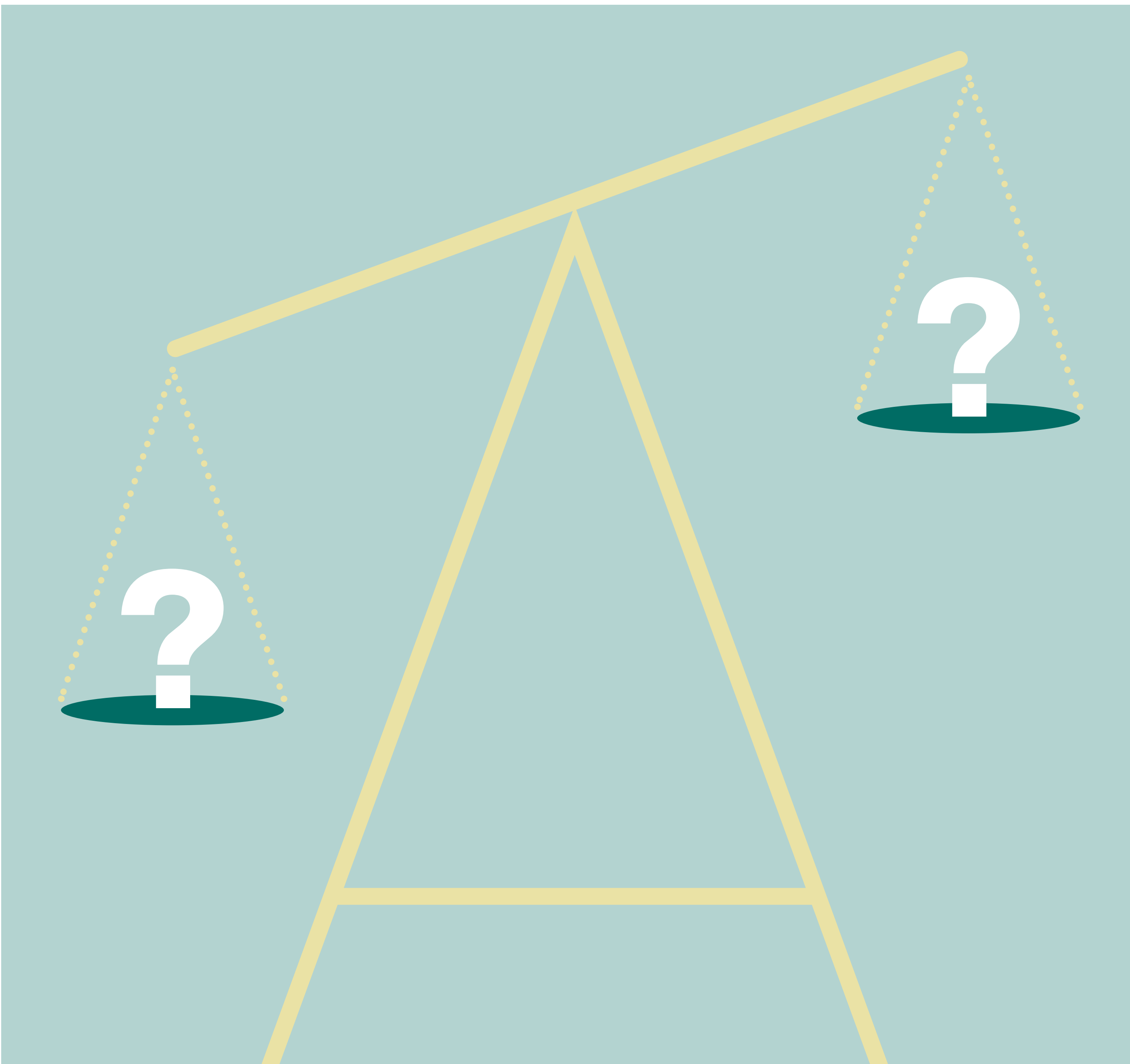
Student Aversion to Borrowing
Who Borrows and Who Doesn't

A REPORT BY THE INSTITUTE FOR HIGHER EDUCATION POLICY AND *EXCELENCIA* IN EDUCATION
WITH SUPPORT FROM TERI, TG, AND USA FUNDS
DECEMBER 2008



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Student Aversion to Borrowing: Who Borrows and Who Doesn't

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DECEMBER 2008

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WITH SUPPORT FROM
TERI, TG, and USA Funds

Acknowledgments

We would like to thank the members of the staff at the Institute for Higher Education Policy (IHEP) and *Excelencia* in Education who helped make this report possible, including Michelle Asha Cooper, Ph.D., IHEP president; Wendy Erisman, Ph.D., director of research and evaluation; Brian Sponsler, graduate fellow; and Tia T. Gordon, marketing and communications consultant; as well as Sarita Brown, *Excelencia* president. In addition, Ryan Hahn, former IHEP research analyst, contributed to the early stages of this report.

Our work benefited from feedback from a number of people, including David Hawkins and Melissa Clinedinst at the National Association for College Admission Counseling; Karen Lanning and Shelly Repp at the National Council of Higher Education Loan Programs; Ken Redd at the National Association of College and University Business Officers; Meihua Zhai at the National Association of Students Financial Aid Administrators; Lauren Asher, Debbie Cochrane, and Bob Shireman at The Project on Student Debt; Jeff Webster and Jacob Fraire at TG; Kyle Malone at USA Funds, and Ann Coles and John Marcus at TERI.

In addition, we appreciate the time spent by the persons who participated in the focus groups of students and financial aid administrators.

We would like to offer special thanks to TG, USA Funds, and TERI for their financial support for this project.

The views expressed in the report are those of IHEP and *Excelencia* and do not necessarily reflect the views of our partners and funders.

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Foreword

Higher education provides a broad array of benefits to both individuals and society. While few would dispute this statement, for millions of students there are numerous barriers that impede progress to attaining a bachelor's degree and its associated benefits. In recent decades, financial barriers—exacerbated by the steadily increasing cost of college and diminishing impact of need-based grant aid—have resulted in a growing reliance on student loans to pay for college.

Empirical and anecdotal research describes the financial hardship faced by students who borrow large sums, but less is known about students who may be averse to borrowing. For these students, the increasing prominence of student loans may actually limit their college choices and decrease their chance of attending and completing college.

Given the increasingly important role of student loans in financial aid packages and the impact debt aversion may be having on the educational pursuits of many students, the Institute for Higher Education Policy (IHEP) and *Excelencia* in Education (Excelencia) have partnered to explore this critical issue of higher education finance. This report reflects the ongoing collaboration between our organizations and the second joint policy report. The first report, *How Latino Students Pay for College*, demonstrated our commitment to equalizing educational opportunity, and specifically, informing the postsecondary community about affordability barriers to college access and success for Latino students. In keeping with that agenda, this report seeks answers to key questions about all students' potential debt aversion.

The study occurs at an important time for the higher education community. The college-going population is becoming increasingly diverse and there is heightened sensitivity among policymakers and the general populace to finance-related barriers in higher education. By using critical analytic tools, this study makes a significant contribution to both research and policy discussions. The report highlights the characteristics of students who are least likely to borrow, illuminates the borrowing patterns of students who choose to enroll in college, and offers suggestions about why some students may not borrow, even when borrowing appears feasible. These findings offer an informational foundation for policy and postsecondary leaders who desire to understand better the scope of student's reactions to educational loans, the basis to identify a group as being loan averse, and the impact on college access and success, specifically for certain groups of students.

IHEP and *Excelencia* will continue to focus on accelerating student success in higher education and supporting educational practices and policies which serve today's college-going students.

Michelle Asha Cooper, Ph.D.
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Executive Summary

A basic tenet of the Higher Education Act—that no one should be denied the opportunity for an education because of a lack of money—is just as relevant today as it was in 1965. However, for millions of students, the increasing cost of a college education, combined with lower rates of growth in grant aid, have resulted in additional reliance on student loans to pay for college. The large and growing role of student loans introduces a concern that an aversion to borrowing could be limiting college enrollment choices for some students.

This report investigates this possibility by highlighting the characteristics of undergraduate students who are least likely to borrow, using a number of quantitative demographic and enrollment characteristics as well as information from interviews with students and financial aid administrators. It presents a clear picture of the borrowing patterns of students who choose to enroll in college and provides suggestions about why certain students may not borrow, even when borrowing seems to be a logical choice.

In 2003–04, clear differences were seen between undergraduate students who borrowed and those who did not, especially with regard to institutional sector, income quartile, attendance intensity, and college costs/financial need. Taken together the patterns of non-borrowing highlight certain students who are less likely to borrow, even if they have substantial unmet need after receiving grants, and suggests three possible reasons for their choices:

1. Students may attend lower cost institutions or change their attendance pattern so that they face fewer expenses in a given semester and do not need to borrow. In 2003–04, part-time students at community colleges were substantially less likely to borrow and they generally have relatively low remaining need. Even when they had remaining need of $2,000 or more, community college students were less likely to borrow than students enrolled in other institutional types.

2. Students may use other financial resources to pay college expenses and not have to borrow. Older students, independent students, and students who delayed their entry into college were less likely to borrow than their counterparts, despite having remaining need of at least $2,000. These students may have used current income or other resources to pay for college. Other students may have parents who use their savings or other financial resources to help their children attend the college of their choice.

3. Students from certain racial/ethnic or immigrant groups may have a cultural or familial perspective on debt that encourages them not to borrow. In 2003–04, Asian and Hispanic students were less likely to borrow, even if they had substantial unmet need. The lower likelihood of borrowing held true across all types of institutions, income quartiles, and categories of attendance, including full time, part time, and mixed enrollment.

Clearly, at least some students who have significant levels of remaining financial need still choose not to borrow money for college. These students may use other strategies to meet their financial need without taking out loans. In 2003–04, for example,

- About 30 percent of nonborrowers enrolled part time compared with 14 percent of borrowers;
- Twenty-seven percent of nonborrowers lived with their parents compared with 16 percent of borrowers;
- About 25 percent of both nonborrowers and borrowers received help from their parents to pay tuition, and about 30 percent worked full time while enrolled.

- Black and Hispanic nonborrowers were more likely than White students to work full time, while Asian nonborrowers were more likely to have no job.

Some of the strategies of non-borrowers may affect the ultimate goal of college enrollment: degree attainment. The educational paths of beginning students in 2003–04 as they progress through college suggest that borrowing may play a role in persistence rates.

- Overall, students who did not borrow in their first year of college despite remaining need of at least $2,000 (after grants) were somewhat more likely than borrowers to have left college after three years without a degree: 36 percent compared with 31 percent. This introduces the possibility that borrowing may enable students to meet their financial need and perhaps avoid strategies associated with a lower likelihood of achieving a degree.
- Nonborrowing Black and Hispanic students with remaining need who started college in 2003–04 were considerably more likely than borrowers from the same racial/ethnic groups to have left school without a degree by 2006: 51 and 41 percent, respectively, compared with 39 and 32 percent for borrowers. This was not true for Asian students, among whom nonborrowers and borrowers had similar and (low) rates of departure without a degree.

- Students who limit their costs by attending college part time or choosing a lower priced institution were less likely to persist overall, but there were differences in persistence between borrowers and nonborrowers. For example, while students at open admission colleges in general were more likely to leave without a degree than their counterparts at other institutions, nonborrowers at these types of institutions were more likely than borrowers at the same colleges to leave without a degree.

The data analyzed in this report describe a pattern of college choice that, for some students, suggests an aversion to borrowing to pay for college. Even when they have remaining financial need, some students do not borrow. For many students, this choice is in their best personal interest. However, if the students who are debt averse are also the ones who would be most likely to gain from earning a degree, this opportunity cost affects more than the students themselves; it may be a lost opportunity for society.

The limitations of the data analyzed in this report do not permit a clear statement that students who do not borrow are making this choice because they are averse to debt. However, knowledge of the types of students who are less likely to borrow despite remaining financial need can help financial aid administrators, high school counselors, and others target students who may need additional help in deciding how to finance their college career. For these students, a clear message about the long-term value of a college degree and detailed information about the types of financial aid available, combined with an explanation of the extent to which alternative strategies such as full-time work or part-time enrollment can reduce the chances for degree attainment, could help them assess the advantages and disadvantages of borrowing for college.

Next Steps

This study suggests that a number of strategies could be used by policymakers and institutional leaders. The following are recommended next steps to help students understand borrowing for college:

- Help high school counselors and others address issues of loan aversion.

- Develop institutional programs that extend financial literacy and offer emergency financial support.

- Consider changes in the financial aid system to reduce the need for borrowing.

- Evaluate the wisdom of prohibiting students who need or want to borrow from doing so.

In addition, the analysis in this report raises far more questions than the available data can address. In particular, the following questions warrant future research:

- How do students and families make decisions on whether to borrow? What are the characteristics of students who are so loan averse that they are willing to forgo college altogether rather than borrow?

- What is the impact of secondary school factors such as grades, student-to-counselor ratios, class rank, and quality of aid information on aversion to borrowing?

- How does the broader economic and social environment influence which students borrow and how they borrow?

- How do various factors relate to borrowing and persistence?

- At what point do certain borrowers make decisions to stop borrowing, and why?

- How can financial literacy programs inform students and families about the appropriate balance between debt and the benefits of a college education?

Introduction

A basic tenet of the Higher Education Act—that no one should be denied the opportunity for an education because of a lack of money—is just as relevant today as it was in 1965. Few dispute the value of a college education. However, for millions of students, the rapidly increasing cost of a college education, combined with lower rates of growth in grant aid, have resulted in additional reliance on student loans to pay for college. As a result, student loans have become a central pillar of the financial aid system for postsecondary education in the United States. However, many students may be averse to borrowing and may use other financial strategies to pursue a degree. The implications of this aversion are both important and unclear.

Federal loans to pay for college were created to make postsecondary education more affordable and accessible to all students and to offer additional choice among educational alternatives (**BOX 1**). Student loans have grown tremendously since 1965, and this growth has coincided with a considerable expansion in higher education enrollment. Between 1967 and 2006, the percentage of Americans ages 18–24 attending some form of postsecondary education grew from 26 percent to 37 percent (National Center for Education Statistics [NCES] 2007, table 195). During the same general period (1970–2007), the volume of federal loans increased from $791 million to $67 billion (NCES 2007, table 360). Today, student loans play a major role in discussions about college access and affordability—tuition has been increasing at rates significantly higher than income growth, and families are clamoring for state and federal governments to address the issue.

The impact of student loans is complicated, and there are contradictory perceptions about the ultimate benefit of loans to students. Some studies have pointed with concern to the large educational debt accumulated by many students at selective or private institutions (Baum and O'Malley 2003; King and Bannon 2002; King and Frishberg 2001; Price 2004a) and speculate about the value of such debt. Other studies claim that aversion to debt limits access to higher education for disadvantaged students or limits their college choices (Burdman 2005, 2006; ECMC Group Foundation 2003; Gertner 2006; Jaschik 2008; Monaghan 2001).

These issues are particularly important when considering access and affordability for an increasingly diverse college-going population.[1] Although non-White students have made large gains in college enrollment, gaps remain—41 percent of Whites ages 18–24 were enrolled in some form of postsecondary education in 2006, while only 33 percent of Blacks and 24 percent of Hispanics were enrolled (NCES 2007, table 195). Many factors may be responsible for these enrollment gaps, including differences in academic preparation, socioeconomic status, knowledge of college options, and college-going culture. Nonetheless, the large and growing role of student loans introduces a concern that an aversion to borrowing could be limiting college enrollment for some students (Gertner 2006; Strauss 2008; Vara-Orta 2007). In one study, women, older students, those with less education, those from low-income households, and Hispanics were found to be less inclined to borrow for college, suggesting that for these groups, loans may not be an effective means of attaining educational equity through financial aid (Mortenson 1988). In addition, perhaps one of the most persistent truisms about student financing of higher education is that Latinos in particular have a strong aversion, or "cultural reticence," to taking out loans.

If aversion to borrowing is a factor in student decision making, it could be associated with certain patterns and behaviors, such as these:

[1] For the purposes of this report, we examine only White, Black, Hispanic, and Asian students. The terms "Hispanic" and "Latino are used interchangeably in this report.

1. An academically qualified high school graduate forgoes higher education entirely.

2. An academically qualified high school graduate delays entry into higher education because of financial considerations.

3. An enrolled student refuses to take a loan to pay for college despite having financial need. The student adopts other financial strategies that may reduce the student's chances of attaining a degree.

4. An enrolled student exhibits "irrational" behavior by using expensive credit card debt or private loans to pay for college instead of more affordable federal student loans.

The last two situations refer to choices students make once they enroll in college, including their willingness to borrow, their use of other funding strategies, and other factors. This report investigates those experiences by highlighting the characteristics of undergraduate students who are least likely to borrow, using a number of demographic and enrollment characteristics. It presents a clear picture of the borrowing patterns of students who choose to enroll and provides suggestions about why certain students may not borrow, even when borrowing seems to be a logical choice. The first two situations address another important aspect of the discussion—whether aversion to borrowing impacts students' decisions about whether or not to attend college, or why they chose the attend a specific school. However, little data exist on this issue beyond anecdotal evidence. Thus, teasing out debt aversion from other factors that impact access and choice will require future research.

It is important to note that while these borrowing patterns may be the result of an aversion to borrowing, other factors may also be at work. For example, some students may receive financial support from their parents and thus not require loans. Other students may simply have poor access to information about college planning and financial aid; they may fail to complete the Free Application for Federal Student Aid (FAFSA), thereby forgoing access to federal loans. To tease out the relationships among these factors, one must take into account the large variation in circumstances in which students make decisions about taking a student loan to pay for their higher education. Borrowing decisions may change for people at different points in their lives. And if an aversion to borrowing does exist, it may be positive (if it enables a student to graduate without debt) or negative (if it prevents a person from achieving a degree).

Box 1. Student Loans in American Higher Education

College students may obtain loans from a variety of sources, including the federal government, state governments, postsecondary institutions, and banks and other private lending agencies. In 2003–04, if all types of federal, state, institutional, and private student loans are included,[2] 35 percent of undergraduate students took out some type of loan to pay for college (NCES 2004). Federal student loans come from a range of loan programs, including Stafford loans (subsidized and unsubsidized), Perkins loans, and PLUS loans.[3]

The importance of federal loans has increased since Congress established the Guaranteed Student Loans program in 1965 with the intention of improving opportunities for higher education for all (Galloway and Wilson 2005).[4] Initially, the program did not serve large numbers of students—in 1966, only 330,000 students took out a student loan. However, federal support of student loan programs grew significantly with the establishment of a government-sponsored lending entity, the Student Loan Marketing Association (Sallie Mae) in 1972. In addition, the 1978 Middle Income Student Assistance Act made unsubsidized federal student loans available to borrowers without restrictions on income.

In 2006–07, more than 5.1 million undergraduates obtained a subsidized Stafford loan, and 3.8 million took out an unsubsidized Stafford loan to pay for college (College Board 2007).[5] Most federal loans come through the Federal Family Education Loan Program (FFELP), which was established in 1965 to allow the federal government to guarantee student loans provided by banks and nonprofit lenders, or through the William D. Ford Direct Loan Program (FDLP), which was established in 1993. Both of these programs offer Stafford loans, which may be subsidized or unsubsidized on the basis of financial need, as well as PLUS loans. Limits on the amount of Stafford student loans are based on year in school and financial dependency status; these limits were recently increased as part of the Deficit Reduction Act of 2005 and the Ensuring Continued Access to Student Loans Act of 2008.

[2] For dependent undergraduates, PLUS loans are not included in this calculation, as parents are considered to be the borrowers..

[3] PLUS loans are available to parents of dependent undergraduates and, since 2006, to graduate and professional students.

[4] The first federal student loans actually were provided under the National Defense Education Act of 1958, for the specific purpose of encouraging more students to study science, technology, engineering, and mathematics (STEM) fields so the United States could catch up with the USSR after the launch of Sputnik.

[5] For subsidized loans, the federal government pays the interest that accrues while a student is enrolled at least half time, for the first six months after a student leaves school, and during deferment. Unsubsidized loans are available to students regardless of financial need.

What Is Aversion to Borrowing?

Previous research on aversion to borrowing has laid the groundwork for understanding this issue in the context of paying for college. Economists have identified two sources of aversion to borrowing:

- **Risk aversion.** Some people dislike risk so much that they will refuse investments that are clearly in their favor (Rabin and Thaler 2001). This insight has an important implication for student loans, given that while studies show a positive return on a college education, there is no guarantee that a student will graduate or get a well-paying job.
- **Shortsighted loss aversion.** Some people may be unwilling to take a risk if the potential benefits are realized only over a long period. Since the benefits of higher education accrue over a lifetime, a high school senior contemplating the future might underestimate the full value of a college degree, especially compared with the immediate cost of a student loan or the opportunity cost of not working full time.

Sociologists take a somewhat different perspective on aversion to borrowing; they focus on an overlapping set of issues that revolve around family and societal characteristics. These issues might include the following:

- **Family history.** Limited or negative parental experience with credit tends to make children wary of taking on debt later in life (Joo, Grable, and Bagwell 2003). Students whose parents have had such experience (or lack of experience) may be unwilling to take out student loans.
- **Culture.** Some cultures have a negative perception or an outright prohibition on taking or holding debt (ECMC Group Foundation 2003). Students who belong to these cultures may find that their families and members of their community discourage them from taking out student loans.
- **Immigrant status.** Closely related to culture is the issue of immigrant status. Prior research has indicated that immigrants are less likely to use a wide variety of financial services, due in part to language barriers and inexperience with domestic financial institutions (Singer and Paulson 2004).

In this report, aversion to borrowing is defined as an unwillingness to take a loan to pay for college, even when that loan would likely offer a positive long-term return. This definition is broad in scope, capturing aversion to borrowing related to individual personality traits as well as aversion based on cultural and familial considerations. The analysis examines patterns of borrowing within this framework.

The Context of Student Borrowing

A review of current research on student borrowing provides a context for this report.

College Knowledge

Few studies deal specifically with student aversion to borrowing to pay for their higher education. However, a number of studies touch on this issue indirectly. For example, several studies examine the financial literacy resources available to high school students and find that, in general, low-income and minority students have less access than other groups to relevant information. Many studies have documented the excessively high student-counselor ratio in high schools overall, particularly in schools with many low-income students (McDonough 2005; National Association for College Admissions Counseling [NACAC] 2006; Perna et al. 2006). The effect of the low ratio of counselors to students is compounded by striking differences in attitude and background between counselors and disadvantaged students (Linnehan, Weer, and Stonely 2007; McDonough and Calderone 2006).

Low-income students are frequently at a double disadvantage, since they are often first-generation students whose parents did not themselves attend college and therefore have little or no knowledge of the process of applying to and paying for postsecondary education (McDonough and Calderone 2006; Tornatzky,

Box 2. Methodology

This study of aversion to borrowing draws on both quantitative and qualitative sources of data. Quantitative data from the U.S. Department of Education's National Postsecondary Student Aid Study (NPSAS) were used to provide cross-sectional information on undergraduate patterns of borrowing. The NPSAS survey covers a range of topics, including financial aid, financial need, college prices, demographic characteristics, institutional characteristics, and many others. This report draws on data for undergraduates from academic year 2003–04, the most recent available data (NCES 2004). In the analysis, the definition of total loans includes federal student loans, state loans, institutional loans, and private loans. PLUS loans and personal loans from family or friends are not included.

The U.S. Department of Education also carries out a longitudinal survey called the Beginning Postsecondary Students Study (BPS). BPS initially surveys students in their first year of postsecondary education and then follows with surveys two and five years later. This report draws on data from BPS surveys from 2004 and 2006 (NCES 2006).

Together, these two datasets offer a substantial set of information that can provide insight into the decisions that students make once they enter a postsecondary institution. For these quantitative analyses, differences in borrowing reported in the text are those that appear to show the widest variation given the correlation of many variables in these data sets. It is also important to note that some students who are averse to borrowing may not enroll in college at all, so an unknown percentage of the population that is averse to borrowing is excluded from the analysis.

To complement the quantitative analysis, qualitative data were gathered through focus groups and one-on-one interviews. Two focus groups were held with financial aid administrators. Six additional individual interviews were conducted with financial aid administrators who did not participate in the focus groups. Two focus groups were held with current college students and their parents. Finally, five individual interviews were held with students. Participants in the qualitative study were not selected at random; instead, members of minority and low-income groups presumed to potentially be averse to borrowing were selected.

Cutler, and Lee 2002). Other studies have found that the parents of first-generation and minority students are less likely to be involved in college-related decision making (Cunningham, Erisman, and Looney 2007; Pryor et al. 2008).

A few studies have focused specifically or partially on the perceptions of low-income and minority students about financial aid and how these perceptions affect their decisions (Mundel and Coles 2004). However, research in this area is quite limited. Thus, while research has demonstrated serious inequities in the knowledge resources available to low-income, minority, and first-generation students, there is little understanding of how these inequities affect their decision making. For example, low-income students may do research into their options but believe that the financial aid available is not sufficient.

College Planning

Parents can play a critical role in a student's planning and paying for college. A recent report on parental expectations for college (Lippman et al. 2008) found differences by race/ethnicity in parents' intention to pay for college expenses. Of survey respondents, more than 85 percent of White students reported that their family would help pay college costs, compared with 77 percent of Asian students, 76 percent of Black students, and 72 percent of Hispanic students. In addition, a higher percentage of White students (72 percent) had parents who reported they had enough information on college costs, compared with Asian (62 percent), Black (58 percent), and Hispanic (47 percent) students. Similar differences exist related to parental educational attainment. For example, more than 90 percent of parents with at least a bachelor's degree were planning to help their children pay for college, compared with 81 percent of those with some college, 75 percent of high school graduates, and 60 percent of those with less than a high school education. In addition, this study reported that parents with at least a bachelor's degree were more likely to think they had sufficient information on college costs (81 percent) compared with those with some college (62 percent), high school graduates (51 percent), and those with less than a high school education (31 percent).

High school counselors are the other primary advisors about preparing and paying for college. A recent study of guidance counselors found that most (78 percent) believe parents' and students' concerns about loan debt affect whether and where students go to college. Almost all high school counselors (97 percent) stated that students and families need substantial assistance in understanding and deciding on loans to pay for college. While these counselors generally said that loans are a good investment and can help low-income students enroll in college, more than one-third said students should avoid loans because of the risk of default (NACAC 2007).

College Choice

Federal student aid was envisioned as a system that would eliminate ability to pay as a factor in college choice (McPherson and Schapiro 1998). However, there has been little research on the impact of loans on college choice. Much of what is known comes from anecdotal evidence that tends to assume that entire groups of students may be averse to borrowing.

To the extent that aversion to borrowing exists, it may be one facet of a larger problem wherein disadvantaged students face a series of poorly understood options—for example, entering postsecondary education while working full time to avoid or limit debt, taking on a heavy debt burden to attend college with a reasonable workload, or starting at a community college with the intention of earning a bachelor's degree. In a recent case study of Chicago high school students (Roderick et al. 2008), many of the students felt great anxiety because of their limited understanding of the financial aid process, which prompted them to seek security in low-risk options. In particular, many students simply ruled out the possibility of attending a four-year institution, opting for what they perceived to be a safe bet in the form of community colleges. These findings suggest that aversion to borrowing may be a rational coping response to limited and contradictory information.

The following section provides an overview of borrowing patterns among postsecondary undergraduate students. These overall patterns are broken down by institutional type, race/ethnicity, income, and other characteristics in an effort to identify the potential existence of aversion to borrowing (**BOX 2**). The analysis then turns to the students most likely to obtain loans—those who have remaining need after receiving federal, state, and other forms of grant aid. Next, the report explores some potential strategies students with remaining need might use instead of obtaining a loan, as well as the possible differences in outcomes for students who do or do not borrow. The report concludes with a summary of findings and suggestions for future research that could help answer questions that cannot be addressed by the data sources used in this report.

Overall Borrowing Patterns

Students have a variety of choices when it comes to obtaining a postsecondary degree. They may attend a public university full time or a community college part time. A student can delay entry for a number of years after high school graduation or matriculate immediately. Even more complex possibilities arise—for example, a student may delay entry for one year, then enter a for-profit college while working full time, transfer to a private not-for-profit university, and earn a bachelor's degree. These choices, along with broad characteristics related to students' backgrounds, may help explain why students are willing or unwilling to borrow.

Although it is difficult to pinpoint debt aversion using existing quantitative data because it is difficult to measure intangible factors, information gathered from students can give signals regarding who may be averse to loans. Various factors may characterize which students are least likely to borrow compared with their peers:

- Demographic characteristics, such as race/ethnicity,[6] gender, dependency status, age, citizenship, parents' highest education level, or number of children or other dependents
- Financial characteristics, such as help from parents or family income
- Attendance patterns, including delayed enrollment, attendance intensity, class level, major, or working while enrolled
- Institutional characteristics, including sector, region, selectivity, total cost, net cost after financial aid, remaining need after grants, percentage of students receiving federal grants (a proxy for low-income students), or minority-serving status.

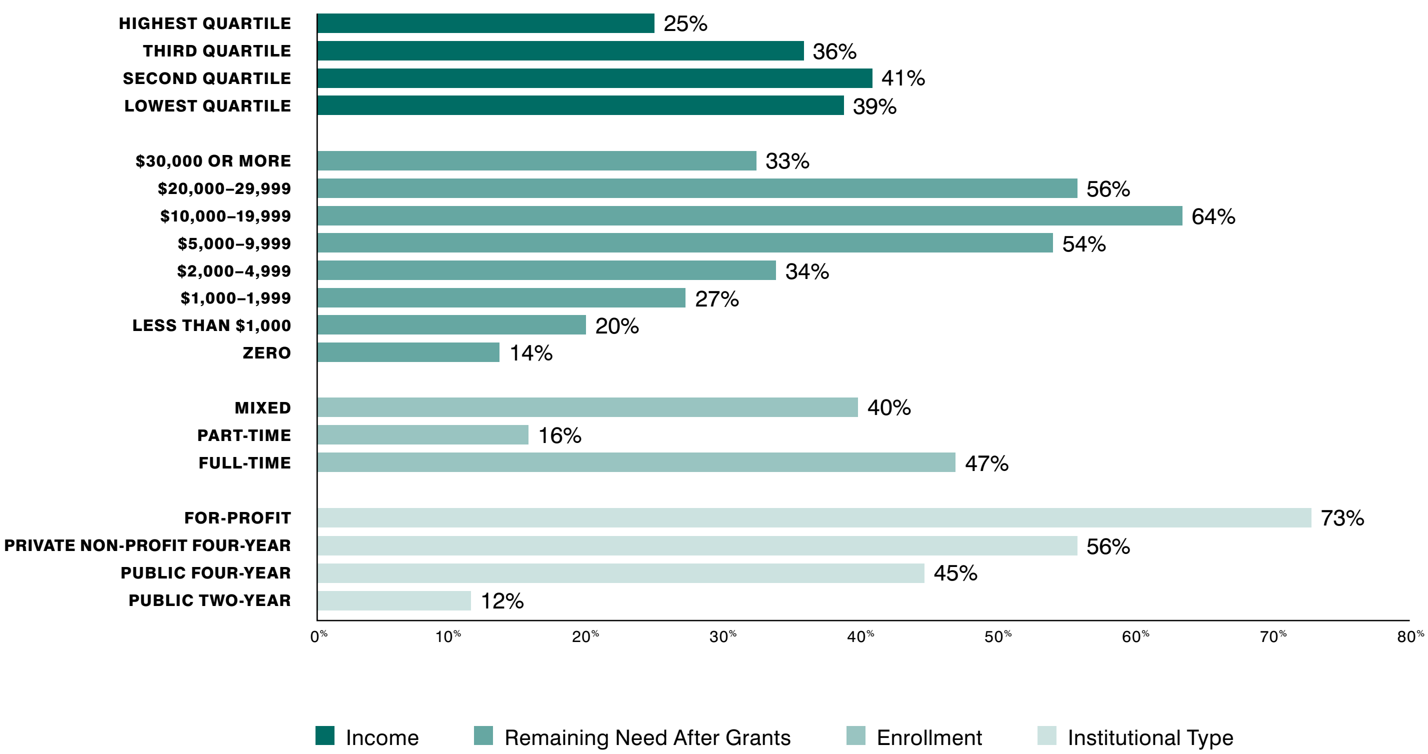
These characteristics can be used to examine the overall patterns of borrowing by undergraduates.

In 2003–04, clear differences could be seen between undergraduate students who borrowed and those who did not within each group of characteristics.[7] The greatest differences appeared with regard to institutional sector, income quartile,[8] attendance intensity, and college costs/financial need (**FIGURE 1**). Pulling these patterns together highlights certain students who are less likely to borrow. These tendencies can be seen both overall and in more detail across relevant characteristics such as institutional type, attendance, and income background.[9] The analysis of these and other student characteristics suggests three possible reasons for not borrowing that provide a useful framework for discussion:

[6] For the purposes of this report, we examine only White, Black, Hispanic, and Asian students.
[7] Unless stated otherwise, data on borrowing include federal, state, institutional, and private student loans taken by undergraduates at all class levels. PLUS loans and personal loans from family or friends are not included.
[8] Income quartile is defined separately for dependent and independent students.
[9] Surprisingly, some factors such as parents' educational level do not seem to correlate strongly with overall borrowing patterns.

FIGURE 1

Percentage of Students Borrowing, By Selected Characteristics, 2003–04



SOURCE: NCES 2004

1. Students may attend lower-cost institutions or change their attendance pattern so that they face fewer expenses in a given semester and do not need to borrow.

2. Students may use other financial resources to pay college expenses and not have to borrow. These students may be older and employed, and so can use current income or other resources. Other students may have parents who use their savings or other financial resources to help their children attend the college of their choice.

3. Students from certain racial/ethnic or immigrant groups may have a cultural or familial perspective on debt that encourages them not to borrow.

These three reasons are not mutually exclusive; a student may fall into one or more of the groups. For example, enrollment in community college is highly correlated with part-time attendance, relatively low cost, and coming from a lower income or more nontraditional background. In addition, students who have these characteristics may decide not to borrow for reasons other than debt aversion. But it is helpful to consider these factors as possible explanations for why students may be unwilling or do not need to borrow. Some students make conscious choices to avoid borrowing; understanding who is least likely to borrow and why—as well as whether the decision benefits or disadvantages the person—can suggest where policymakers and institutional officials can intervene to help students understand the implications of their college-going choices.

Reason 1. Students may choose lower-cost institutions and/or alter attendance patterns.

Only 12 percent of students who attended community colleges in 2003–04 obtained a loan, compared with 45 percent of students at public four-year institutions and 73 percent at private for-profit institutions. At lower cost institutions such as community colleges, lower costs of attendance may obviate the need to borrow because costs are covered by grant aid. In addition, many community colleges actively discourage their students from taking out loans, perhaps so that their students do not take on loans and default. According to one study, more than a million students are enrolled in community colleges that do not participate in the federal student loan program (Cochrane and Shireman 2008). Moreover, community colleges are more likely to serve students who enroll part time, and only 16 percent of part-time students (who may not be eligible for federal loans if they are enrolled less than half time) borrowed, compared with 47 percent of full-time students. Students attending the lowest priced institutions and those with relatively low levels of remaining financial need were also less likely to borrow.

Of course, students' choices of community colleges, part-time status, and low-priced institutions in general are also highly correlated. For example, part-time students were less likely to borrow than their counterparts at all types of institutions, while students at public two-year and other low-priced institutions were less likely to borrow at each level of attendance intensity.[10] Further, part-time students and those at community colleges

[10] Certain other institutional characteristics were associated with lower student borrowing, including open admission schools and colleges located in the western region; these two variables often overlap with other variables that tend to signify lower priced institutions.

were less likely to borrow than their counterparts at every income level (based on quartiles), dependency status, and racial/ethnic category.

One would expect that students who make these cost-reducing choices would be less likely to borrow, if only because their college expenses are more likely to be met with their personal resources. In fact, students may be using these strategies to limit their need to borrow. Many high school counselors advise low-income students to go to a community college or enroll part time to avoid the risk of defaulting on a student loan (NACAC 2007). Our analysis cannot determine whether students who chose lower cost postsecondary options do not borrow because they do not need to or whether they deliberately chose to attend part time or at a lower-cost college to avoid borrowing.

Reason 2. Students may have access to alternative resources.

Some students appear to have sufficient alternative resources, whether from parental support, work, or other sources, that they do not need to borrow. Among students who appear to be less willing to borrow are those who are farther along in their careers and come to college with different needs. For example, in general, older students (age 30 and above) and students who delayed entry into college were less likely to borrow. Older students were less likely to borrow across all types of institutions and all racial/ethnic groups, and older students and students who delayed entry were less likely to borrow across all income quartiles as well. These students may be trying to pay for college through current income rather than borrowing. In fact, students who worked full time were less likely to borrow at all institutional types (except for-profits).

In addition, students in the highest income quartile—especially those who are financially independent—were less likely to borrow than their lower income peers, perhaps because they can draw on accumulated assets. Upper income students (whether dependent or independent) were less likely to borrow than low-income students at all types of institutions.

Reason 3. Students may be from certain racial/ethnic backgrounds or immigrant groups.

Analysis suggests that the general perception that certain racial/ethnic groups are more averse to borrowing than other groups may have some validity. Hispanic[11] and Asian students were less likely to borrow than their White and Black counterparts—30 percent and 25 percent, respectively, compared with 35 and 43 percent. In addition, immigrants were less likely to borrow than native-born students.

The overall pattern of borrowing by race/ethnicity was consistent within income quartiles, attendance patterns, and institutional types. Asian and Hispanic students were less likely to borrow than White students across all income quartiles and categories of attendance intensity (**FIGURE 2**). Black students were the most likely to borrow at all types of institutions—community colleges, public universities, private not-for-profit institutions, and for-profit institutions, perhaps because of their relatively high levels of financial need. Asians and Hispanics were less likely to borrow in every category, with Asian students particularly less likely to borrow at public four-year institutions. The fact that this pattern persists in community colleges is especially interesting, as these institutions are relatively inexpensive. At the same time,

[11] This was particularly true for Hispanics of Mexican descent.

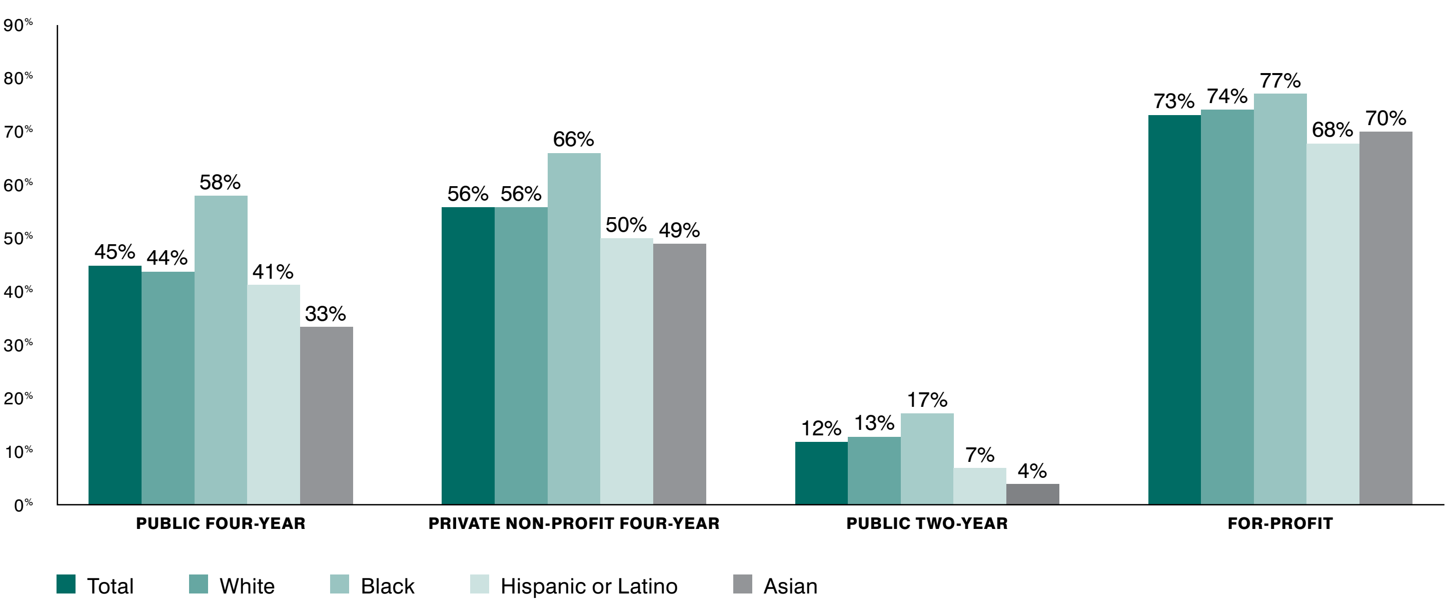
the willingness to borrow does appear to vary; for example, Hispanics were more likely to borrow to attend private for-profit institutions than to attend public four-year institutions. However, Hispanics disproportionately attend (relatively expensive) for-private institutions, illustrating the complexity of attributing debt aversion to borrowing patterns. Borrowing trends among Latino and Asian students also seem to have changed over time (**BOX 3**).

Data show that Latino students are less likely to borrow even taking into account factors such as institutional type. In focus groups, some Latino students expressed reluctance to take out loans because they will have to pay them back even if they do not complete college, and they do not think they can afford to take the chance. They would rather make their college choices based on their current economic situation and what they can afford while managing their family and personal responsibilities. They would rather "pay as they go," and they believe they can get a quality education wherever they enroll, as long as they are motivated. Other Latino students and parents said they chose a college or university on the basis of the "sticker price," or published price, and did not really factor in potential financial aid or the possible use of loans. Perhaps as a result of these feelings, almost half (46 percent) of Latino students choose to attend community colleges (because they are less expensive, close to home, and have open admissions), even though they might be eligible for more selective and expensive institutions that provide sufficient financial aid to make them the same or cheaper than other options. In addition, about half of Latino students attend on a part-time basis.

While there is less of a perception in the media or by financial aid administrators that Asian and Pacific Islander students are loan averse, this group actually has a lower percentage of students borrowing to pay for college than all other groups. Certain characteristics and cultural contexts may influence their borrowing decisions. For example, Asian students are less likely to get financial aid from any source than other students (51 percent compared with 63 percent overall). This includes grants as well as loans. Although in some cases this may be due to parents' greater ability to pay, even in lower income families cultural factors dissuade borrowing. In focus groups, some Asian parents said that debt was generally seen as a negative condition for families. In fact, several parents said it was not uncommon for families to band together to financially support a student in college to minimize debt. Similarly, financial aid administrators and others familiar with Native Hawaiian and other Pacific Islanders said that these students are less likely to take out loans because, in their culture, people tend to be reluctant to make financial choices that extend beyond covering basic needs.

FIGURE 2

Percentage of Students Borrowing, By Institutional Type and Race/Ethnicity, 2003–04



SOURCE: NCES 2004

Although the reasons given above can provide a framework for understanding the potential for debt aversion, one must be careful in interpreting differences in borrowing patterns. A variety of student characteristics and educational choices may explain these differences. At the same time, the overlap among various characteristics and choices associated with less borrowing adds depth and complexity to the analysis and suggests the need for additional research to help provide a better understanding of why some students choose not to borrow for college.

BOX 3. Race/Ethnicity and Student Borrowing over Time

Looking at trends in student borrowing over time suggests that the context for borrowing has changed, affecting decisions to borrow or not borrow. In 1992–93, for example, only 20 percent of all undergraduate students took out a loan, and very similar levels of White (19 percent), Hispanic (18 percent), and Asian students (18 percent) took out loans. Substantial differences in borrowing for Hispanics and Asians versus all undergraduates appeared only with the general increase in borrowing that took place over the following decade. This finding points again to the difficulty of identifying aversion to borrowing in specific groups of students. While Hispanics and Asians had a lower rate of increase in borrowing between 1992–93 and 2003–04 than that of other students, the increase was still substantial—from 18 to 30 percent among Hispanics and from 18 to 25 percent among Asians. Clearly, at least some students in these minority populations responded to trends such as rising prices by taking out a student loan, despite their lower overall likelihood of borrowing

Source: NCES 1993 and 2004.

Students with Remaining Need

Overall patterns of student borrowing provide a sense of the potential for debt aversion. The explanation for why some students do not borrow money for college is quite straightforward: They have little or no remaining financial need. Financial need is calculated on the basis of both expected family contribution (EFC)—a measure of families' ability to pay—and an institution's total price of attendance.[12] It is important to keep in mind that financial need reflects choices that occurred before enrolling, including the choice of an institution. Nonetheless, it is useful to focus on students whose financial need has not been met, because these students have to find additional financial resources. In fact, the analysis of overall borrowing patterns demonstrates that college costs and financial need are highly associated with the willingness (or need) to borrow, including across institutional types and attendance patterns. Students with low amounts of financial need tend to be less likely to borrow, especially if they receive other financial aid, such as grants. Conversely, students with higher amounts of financial need may be more likely to borrow, or they may choose to pursue other alternatives.

In particular, it is useful to look at students who have financial need even after receiving federal, state, and other grants.[13] Which students are most likely to have remaining need after all grant aid?[14] As one might expect, in 2003–04, students who were more likely to have remaining need compared with their peers included students from the lowest two income quartiles and Black and Hispanic students[15] (**FIGURE 3**). But this group also includes students who attend private institutions (especially for-profit ones), more selective institutions, and institutions with a higher proportion of federal grant recipients, as well as students who enroll full time. In general, students who are least likely to have remaining need include part-time students, students enrolled in community colleges, and those working full time. These distinctions suggest that students have different reasons for having remaining need that may be reflected in their propensity to borrow rather than using other strategies.

Overall, a substantial proportion of students who have remaining need are borrowing, but the proportion varies by the amount of remaining need. For example, in 2003–04, about a quarter of students at the lowest level of remaining need (less than $1,000) borrowed, compared with a majority of students with more than $5,000 in remaining need. However, each category of remaining need includes students with particular characteristics

[12] The student's total requirement for need-based financial aid is equal to the total student budget minus the federal expected family contribution (EFC). The fundamental rule in federal financial aid need analysis is that if the student's need is zero or negative, the student is not eligible for any need-based federal aid. However, the student may still be eligible for federal non-need-based aid (primarily unsubsidized Stafford loans or PLUS loans to parents).

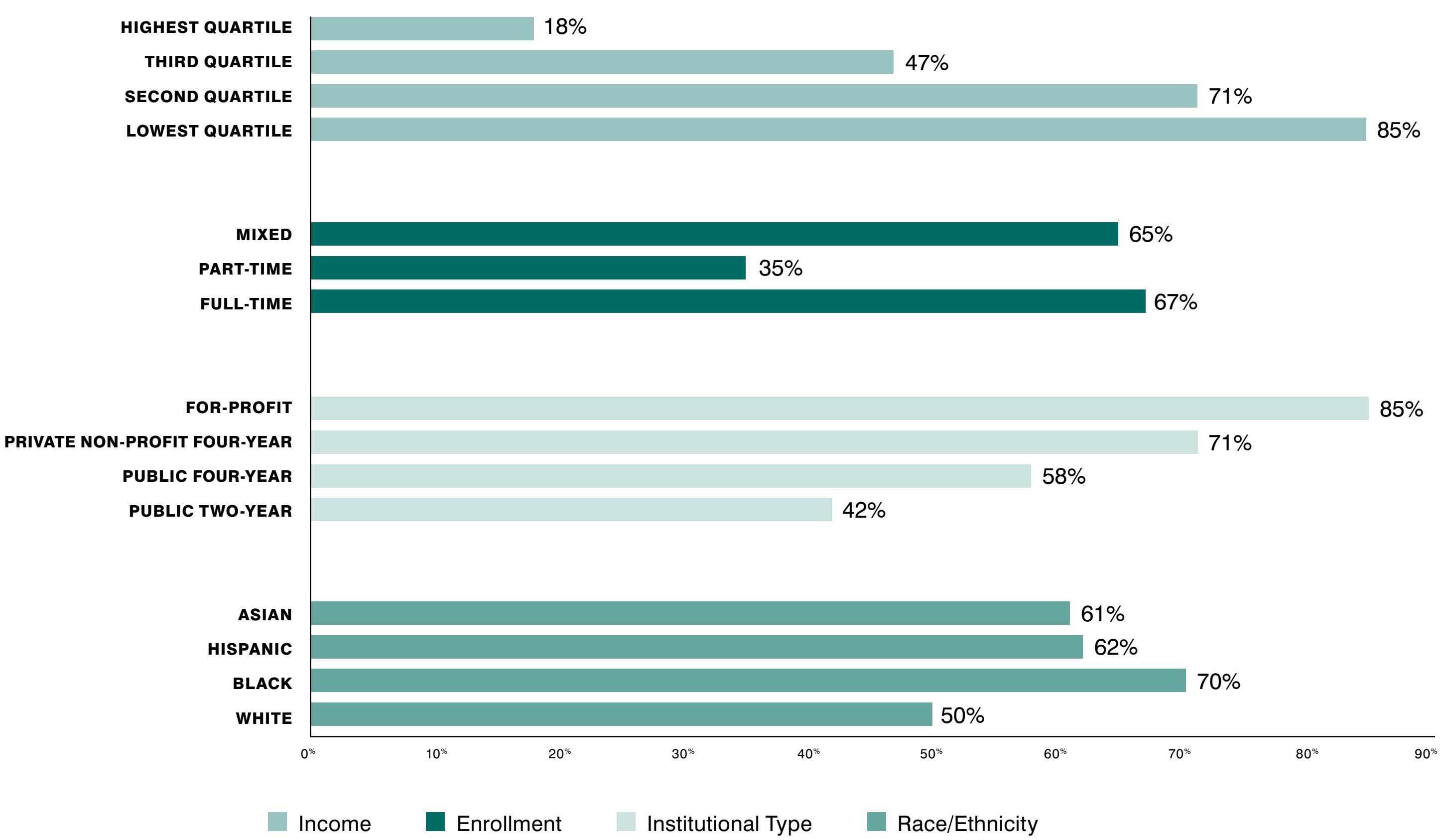
[13] This variable is defined in NPSAS as the total student budget minus the EFC (i.e., financial need) minus all grants. As in the preceding footnote, students who have no calculated remaining need after grants can still borrow unsubsidized loans, which are available to any student regardless of financial need as defined by the federal government.

[14] As with the previous analysis, borrowing and remaining need are for undergraduates at all class levels.

[15] As well as Asian students that have at least $10,000 in remaining need.

FIGURE 3

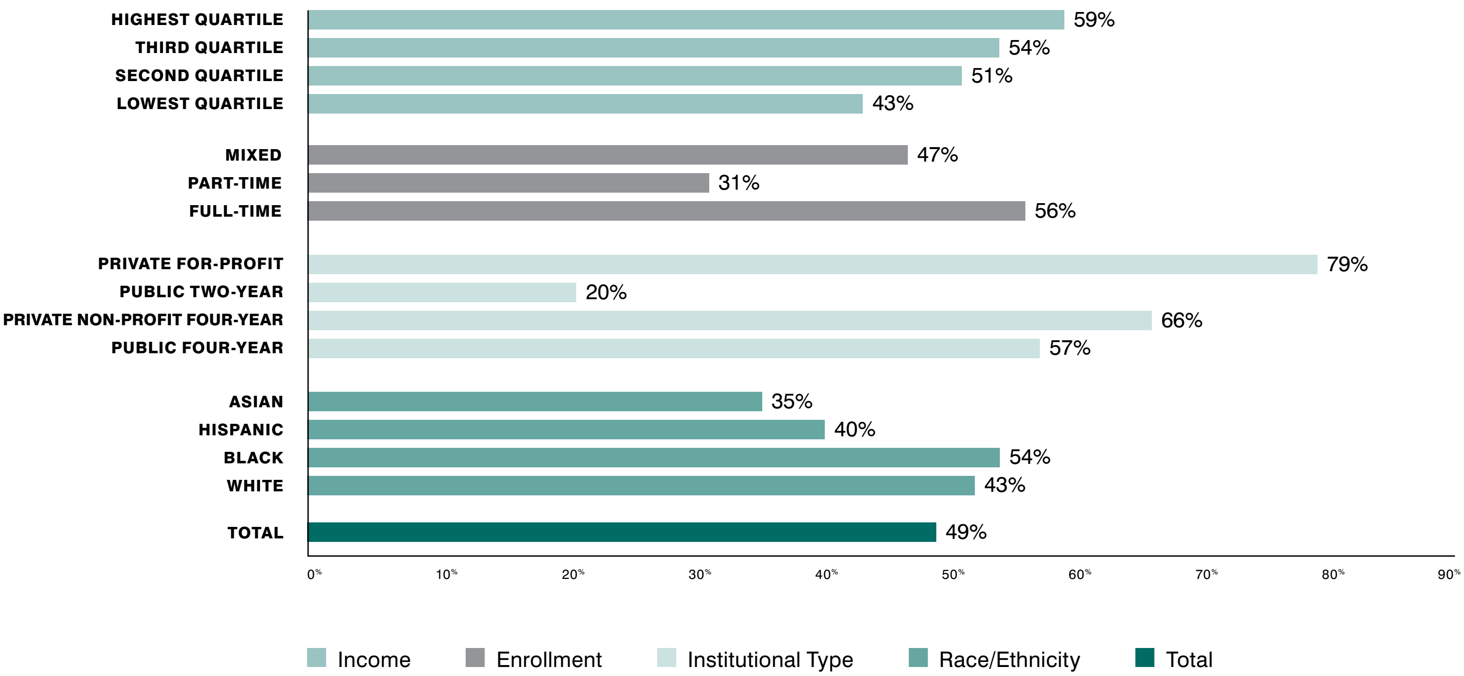
Percentage of Students Who Have at Least $2,000 in Remaining Need After Grants, By Selected Characteristics, 2003–04



SOURCE: NCES 2004

FIGURE 4

Percentage of Students with at Least $2,000 of Remaining Need Who Are Borrowing, 2003–04



SOURCE: NCES 2004

who are less likely to borrow. Such clusters of nonborrowers signal the possibility of debt aversion, because borrowing is a clear option for them to meet their remaining expenses. As with overall patterns of borrowing, the students with remaining financial need who are least likely to borrow include Asian and Hispanic students (although, for the latter, not at the highest categories of remaining need) and students attending community colleges and open admission schools (**FIGURE 4**). This group also includes low-income and independent students.

When one compares nonborrowing students who have high remaining need with those who do borrow, several broad clusters emerge within each category of need:

- Students with low remaining need who are not likely to borrow, such as part-time students and students attending low-cost institutions.
- Students with relatively high remaining need and the willingness to borrow, such as students at private or relatively expensive institutions and students attending college full time.
- Students who have relatively high remaining need but are less likely to borrow. This group includes minority students, especially Asian and Latino students, and students who are enrolled in open admission institutions such as community colleges.

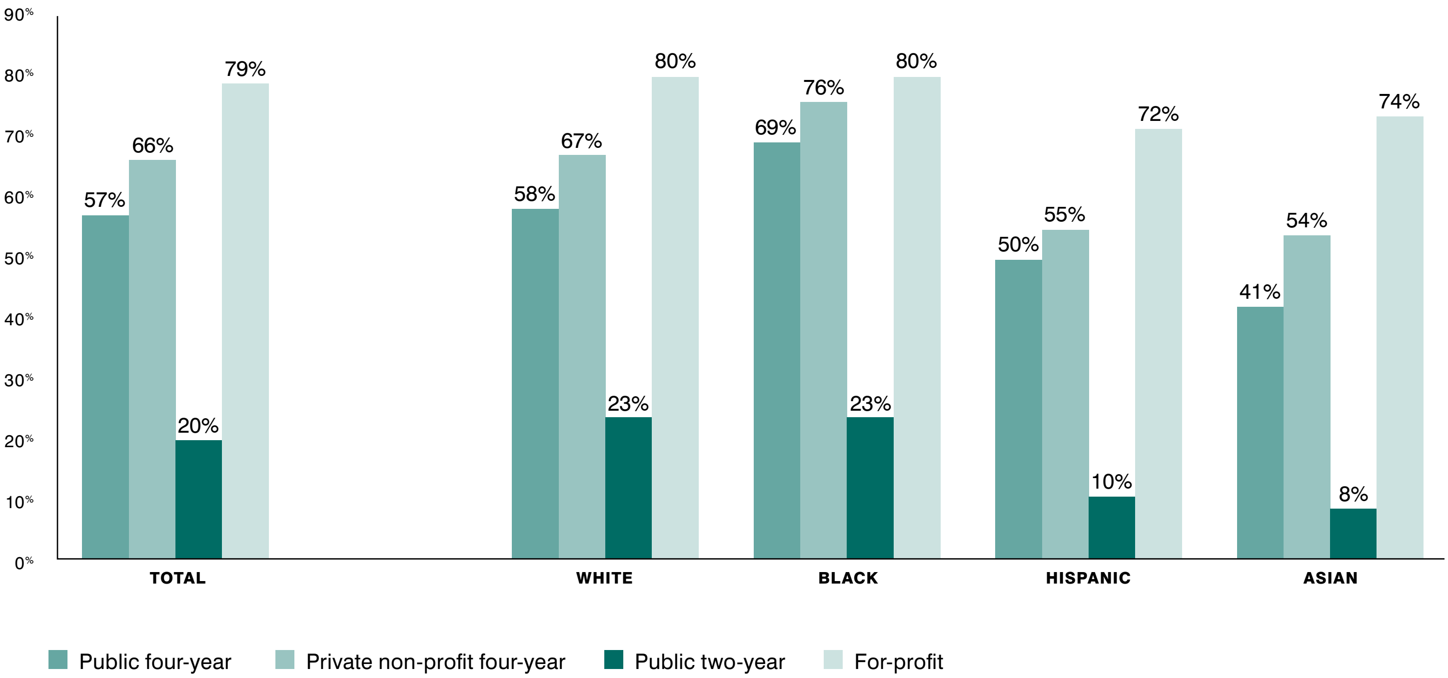
To delve deeper into the potential for debt aversion, this part of the analysis focuses on students with at least $2,000 in remaining need after grants. These students are the most likely to signal the possibility of debt aversion if they do not borrow. In fact, certain students are less likely to borrow even if they have substantial unmet need. These students can be loosely categorized according to certain characteristics, as was done in the analysis of overall borrowing patterns.

Students Who Attend Lower Cost Institutions or Change Their Attendance Patterns

Part-time students at community colleges are generally not expected to borrow, according to conventional wisdom and the previous findings, and they generally have relatively low remaining need. Students may have covered their costs, and those who are attending less than half time are not eligible for FFELP or FDLP loans. In addition, aid administrators may actively discourage community college students from borrowing. However, some students do have remaining need after grants. Of these students, some borrow, while others do not. Even when they have remaining need of $2,000 or more, community college

FIGURE 5

Percentage of Students With At Least $2,000 of Remaining Need Who Are Borrowing, By Race/Ethnicity and Institutional Type, 2003–04



SOURCE: NCES 2004

students are less likely to borrow than students enrolled in other institutional types, overall and across all income quartiles and attendance categories. Community college students were also less likely to borrow within each racial/ethnic category. The students' reasons for not borrowing may include cultural reticence, lack of financial aid information, college choices made to limit the need for borrowing, or the use of other methods to meet financial need.

Students Who Have Access to Other Resources

As in the previous section, older students, independent students, and students who delayed their entry into college were less likely to borrow than their counterparts, despite having remaining need of at least $2,000. However, these differences phased out for students who had remaining need of $5,000 or more. It is possible that these students were able to use current sources of income or savings to pay for college expenses when the level of remaining need was low, but current income or savings were not sufficient for higher levels of need.

Students attending higher priced institutions on a full-time basis generally have remaining need and are likely to borrow. However, some of these students have remaining need but still do not borrow. The latter group includes a higher percentage of students attending selective institutions, students with parents whose education level is a bachelor's degree or higher, students who are financially dependent on parents, and students who receive help from their parents to pay tuition.[16] Students attending higher priced institutions on a full-time basis may not borrow because they have access to other resources. For example, they may have savings (including 529 plans or other vehicles in the student's name) or receive parental help beyond the EFC.

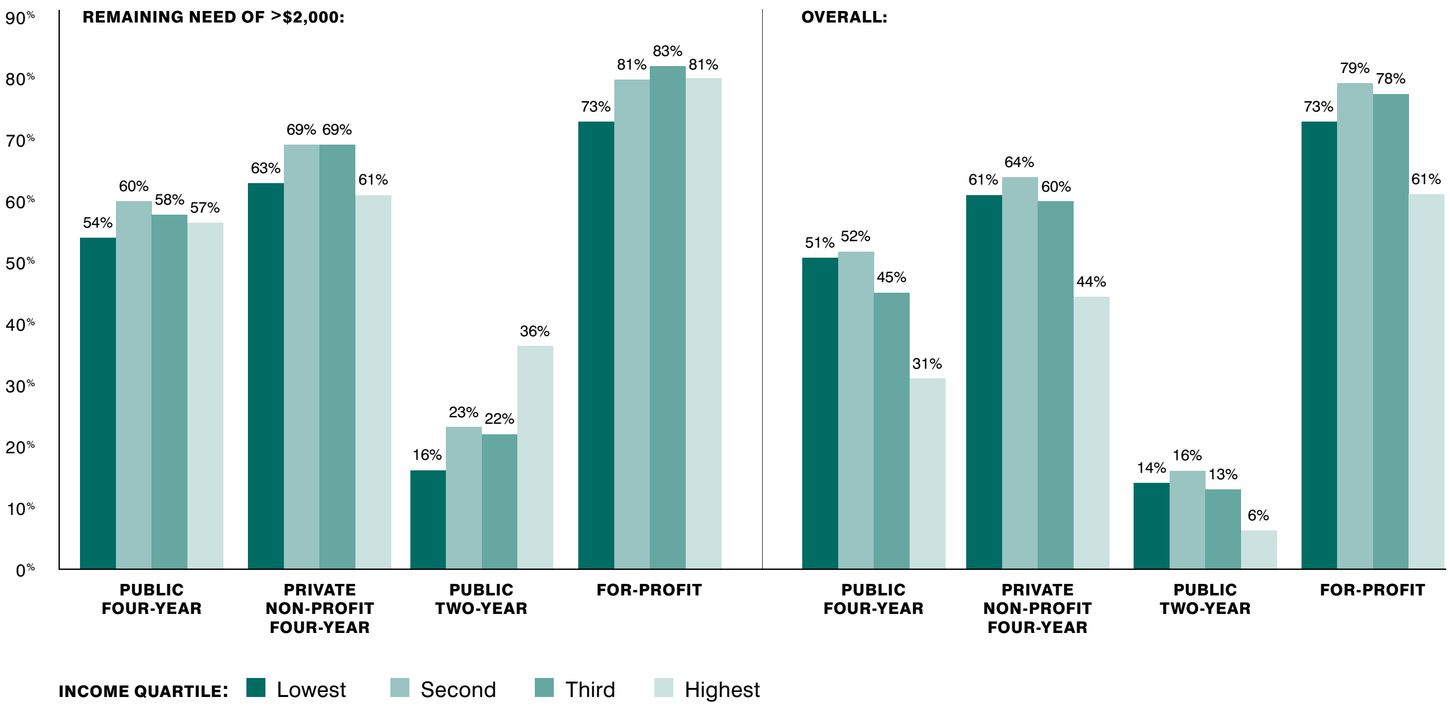
Students from Certain Racial/Ethnic Groups

As noted previously, Asian and Hispanic students are less likely to borrow, even if they have substantial unmet need. The lower likelihood of borrowing holds true across all types of institutions (**FIGURE 5**), income quartiles, and categories of attendance, including full time, part time, and mixed enrollment. This tendency is also reflected in lower borrowing for students enrolled in Hispanic- and Asian-serving institutions. Like community colleges, some of these schools may discourage borrowing because of concerns about students assuming a debt burden.

[16] There is less variation across income quartiles—low-income and high-income students who are enrolled full time at a four-year institution are similar in their propensity to borrow.

FIGURE 6

Percentage of Students Who are Borrowing, By Income Quartile and Institutional Type, 2003–04



SOURCE: NCES 2004

The Special Case of Income

The distribution of borrowing patterns by students' income presents an interesting picture: Overall, students from the lower income quartiles are less likely to borrow until they reach a certain amount of remaining need, at which point they are as likely to borrow as the undergraduate population as a whole. On the other hand, students from the highest income quartile are substantially less likely to borrow even at the highest levels of need.

Delving deeper to look at this pattern within each institutional type, students with remaining need of at least $2,000 in the lowest income quartile were slightly less likely to borrow at all types of schools. Broken out by dependency status, students in the lowest income categories (less than $20,000 for dependent students, less than $5,000 for independent students) were less likely to borrow at all school types. An exception is that dependent students with family incomes of $100,000 or more were also less likely to borrow. This pattern differs from the analysis of all undergraduates, which indicated that borrowers in the highest income quartile were least likely to borrow (**FIGURE 6**).

It seems clear from this analysis that even after taking into account only students who have remaining need of at least $2,000 after grants—those who seem to be the obvious candidates for obtaining a loan—the key patterns observed in the previous analysis continue to hold true. Students who attend lower-cost institutions or enroll in college part time, students who may have access to additional financial resources, and Asian and Latino students are generally less likely to borrow. At the same time, it is important to note that at highest levels of remaining need, borrowing patterns become more similar. For example, this occurs for students who are older, have delayed enrollment, or attend part time—these students were less likely to borrow than their counterparts at lower levels of remaining need, but at higher levels they had relatively equal likelihoods of borrowing, suggesting that some students may avoid debt when their need is relatively low but are more willing to take it on when the need is greater. Important exceptions are Asian students and students attending institutions with very low percentages of federal grant recipients; both of these groups are less likely to borrow at all levels of remaining need.

Perspectives of Students, Parents, and Financial Aid Administrators

The analysis above describes several groups of students who are less likely to borrow despite remaining financial need. However, these data can only suggest the possibility of debt aversion, among other possible reasons. Findings from the focus groups with students, parents, and financial aid administrators provided more nuance.

For example, financial aid administrators commented that Latinos and Asian students were particularly likely to be averse to borrowing; even when these students have financial need, they tend to take only grants. In contrast, a financial aid administrator at a mostly White college said that he did not see any aversion to borrowing among his students. Financial aid administrators identified a number of reasons for aversion among some minority groups, including these:

- A cultural aversion to borrowing, particularly among students of Chinese and Vietnamese descent
- The prevalence among many immigrant families of a strictly cash economy, in which no bank accounts are used
- The belief among some parents who worked their way through college that their children should do the same, despite the relative increase in college costs

Students and parents reinforced the comments of financial aid administrators. One student said that in Chinese culture, debt is looked down upon. Other students and parents said they would rather take on additional work or reduce expenditures than take out a student loan. Some students confirmed that their families operate on a strictly cash basis. One student said he feared not being able to pay back a loan.

Beyond cultural reasons, focus group participants provided some insight on why a student with remaining need might not take out a loan, federal or otherwise. When asked about what influences a student's decision not to borrow, financial aid administrators focused on two issues in particular: (1) fear of debt and (2) lack of information. According to financial aid administrators, some students are simply scared of debt and are unable to see it as a long-term investment in themselves and their careers. Compounding this fear is the lack of adequate information about the benefits and drawbacks of student loans. According to one administrator, students may rely on the media, which often "induce fear about borrowing," rather than other information sources. Students focused on a different set of issues when asked the same question. A number of students pointed out that paying for college had implications not just for themselves but for their family. The willingness of parents to help pay for college made a difference in the need to borrow. Students also indicated that willingness to borrow affects institutional choice—those who are unwilling to borrow will choose what they believe is a less expensive institution.

Taken together, the focus groups of students and financial aid administrators suggest that aversion to borrowing is a complex phenomenon in which cultural concerns, the availability of information about financial aid, and individual willingness to take on risk all play a role. The focus groups also suggested that students who decide not to borrow might use other mechanisms to pay their college expenses—a topic discussed in the next section.

Strategies Students Might Use to Avoid Borrowing

The previous section showed that at least some students who have significant levels of remaining financial need still choose not to borrow money for college. This section examines strategies these students might use to meet their financial need without taking out loans, in order to better understand some of the choices students make. This is particularly important because, for some students, these strategies may be detrimental to their ability to earn a college degree

At the simplest level, students may avoid borrowing by not applying for financial aid at all (King 2004). To receive federal student loans, students must fill out the FAFSA. Although filling out the FAFSA is not a requirement for attending a college or university, nearly three-fifths of undergraduate students in 2003–04 went through this process (NCES 2004). The figure was 74 percent for students with remaining need of at least $2,000 after grants, the group most likely to apply for aid. However, about a quarter of these students did not apply for federal aid. Although many low-income and other students qualify for a condensed application, the complexity of the FAFSA, and wide-ranging perceptions of its complexity, may deter some students from even applying for aid, which would prevent them taking out federal loans (Advisory Committee on Student Financial Assistance [ACSFA] 2005, 2008).[17] While a fraction of these students may be turning to private loans, it is possible that some portion of the population is not filling out the FAFSA because they believe they will not qualify for grants and do not want to take out loans.

Some groups of students with remaining need of at least $2,000 were more likely to fill out a FAFSA form than others. Black and Hispanic students were more likely to apply for financial aid (84 and 79 percent, respectively) than White students (71 percent); Asian students were less likely to apply than all other racial/ethnic groups. As might be expected, students at for-profit institutions were the most likely to apply (92 percent) and those at community colleges were the least likely (64 percent). Other groups that were relatively likely to apply for federal aid were low-income students, full-time students, and students attending high-priced institutions. In 2003–04, about 35 percent of students with at least $2,000 in remaining need applied for federal aid but did not receive a loan of any type.

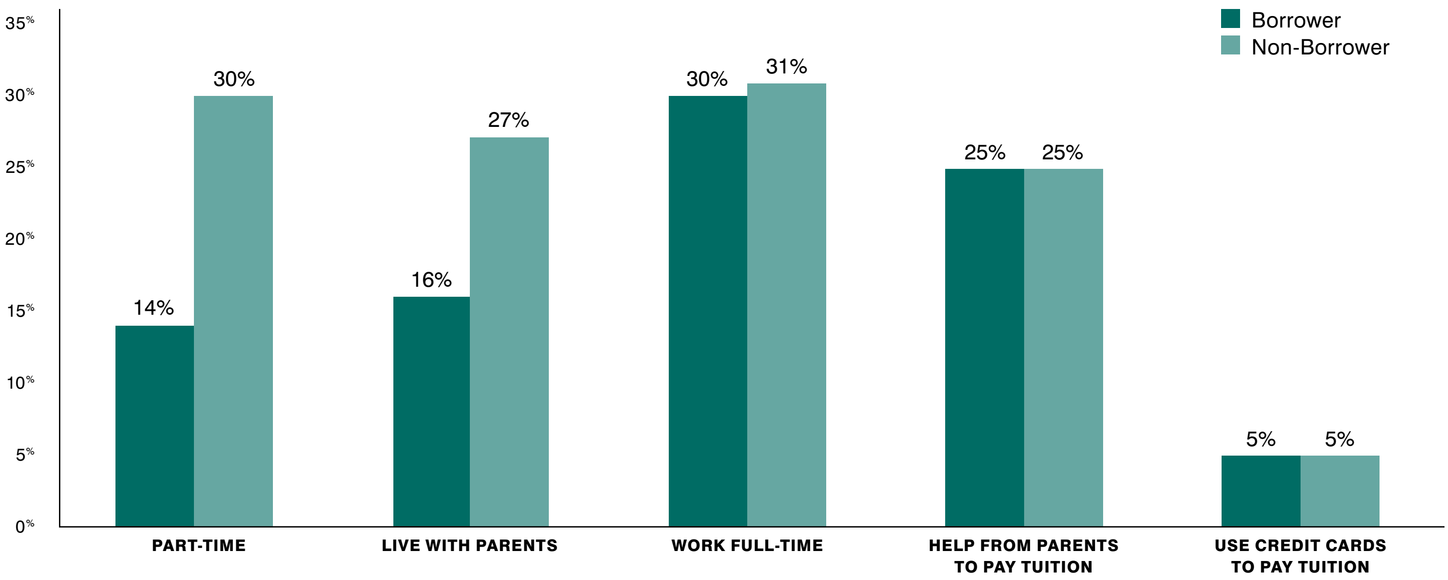
Students who do not borrow money for college—regardless of whether or not they applied for financial aid—can adopt a number of other strategies to pay for expenses. As discussed previously, students may attend a relatively inexpensive institution such as a community college, delay entry in an effort to work and save money, or use alternative resources such as current income or savings. Once students have entered a school, they have a number of additional options—such as working part or full time, enrolling on a part-time basis, using credit cards, living with parents, or getting help from parents to pay tuition. One would expect students with remaining need who do not obtain loans to engage in some or all of these strategies.

Overall, students with remaining need of at least $2,000 after grants who did not take out a student loan (nonborrowers)

[17] ACSFA and others have proposed plans for FAFSA simplification, and the secretary of education announced in October 2008 that she would soon unveil a proposal that would simplify the aid application process (Lederman 2008).

FIGURE 7

Percentage of Borrowers and Non-Borrowers Using Selected Financial Strategies, for Students with at Least $2,000 in Remaining Need, 2003–04



SOURCE: NCES 2004

were more likely than borrowers to enroll on a part-time basis and to live with their parents while enrolled. About 30 percent of nonborrowers enrolled part time compared with 14 percent of borrowers, while 27 percent of nonborrowers lived with their parents compared with 16 percent of borrowers. The differences between borrowers and nonborrowers in terms of attendance and housing choices held true across almost all student characteristics, suggesting that these may be the most important strategies or trade-offs for students as they decide whether or not to borrow. These strategies may be particularly relevant for students who are attending lower cost institutions, but they are clearly important across the spectrum of nonborrowers (**FIGURE 7**).

For other strategies—receiving help from parents and working full time—the differences between borrowers and nonborrowers were minimal for most students. Overall, about 25 percent of both borrowers and nonborrowers received help from their parents to pay tuition, and about 30 percent of both groups worked full time while enrolled. For some groups of students, the extent to which they received help from parents or worked full time varied. For example, Black and Hispanic nonborrowers were more likely than White students to work full time, while Asian nonborrowers were more likely to have no job. Black and Hispanic students were less likely to receive financial help from their parents, while Hispanic and Asian students were particularly likely to live with their parents. Nonborrowers enrolled in two-year institutions were more likely to work full time and less likely to receive help from parents; this was also true for low-income students, financially independent students, and older students. For other students, however, those more likely to receive help from parents also were less likely to work full time, especially among students attending higher priced schools.

In addition to these strategies, students who do not take out student loans may incur credit card debt. This possibility seems counterintuitive, as credit card debt is typically more expensive than federal student loans. However, students who are averse to borrowing—or whose parents are averse to their child taking a loan—might initially attempt to cover expenses without recourse to a loan. During the course of enrollment, a student might face the choice of dropping out or borrowing, and one of the most convenient ways to borrow is to use a credit card. Regardless of these possibilities, only about 5 percent of borrowers and nonborrowers said they used credit cards to pay tuition, and there was little variation across groups of students.[19] However, increases in tuition since 2003–04 may have induced more students to use credit cards to pay tuition, and the data do not capture credit card use targeted toward nontuition educational expenses.

[19] Note that the credit card variables in NPSAS may have been interpreted by students differently

Borrowing and Persistence

In any discussion of aversion to borrowing, the question arises of how such aversion may affect the ultimate goal of college enrollment: degree attainment. Research suggests that grants are the most important form of financial aid to support disadvantaged students' persistence through college (Price 2004a, 2004b). Research findings about the influence of loans on persistence, however, are mixed. Some research shows a positive correlation between student loans and degree attainment for some students (Dowd 2004; Government Accountability Office [GAO] 1995; Singell 2002) and notes that loans may enable students to avoid working (King 2002). Other research suggests a negative impact of loans on persistence (DesJardins, Ahlburg, and McCall 2002; Dowd and Coury 2006; GAO 1995; Paulsen and St. John 2002) and cites concerns about students who borrow but do not complete their degrees (Gladieux and Perna 2005).

Examining the educational paths of beginning students in 2003–04 as they progress through college can provide insight into the role borrowing may play in persistence rates. The first few years of postsecondary education are particularly important, as the risk of dropping out without a degree is higher during this time.[20] Overall, students who did not borrow in their first year of college despite remaining need of at least $2,000 after grants were somewhat more likely than borrowers to have left college after three years without a degree: 36 percent compared with 31 percent (**FIGURE 8**). In other words, in this initial analysis, borrowers seem to be more likely to persist, suggesting the possibility that borrowing may enable students to meet their financial need and perhaps avoid strategies associated with a lower likelihood of achieving a degree.

However, this pattern varies when one considers student characteristics and borrowing behaviors. For example, nonborrowing Black and Hispanic students with remaining need who started college in 2003–04 were considerably more likely than borrowers from the same racial/ethnic groups to have left school without a degree by 2006: 51 and 41 percent, respectively, compared with 39 and 32 percent for borrowers. Interestingly, the same was true for White students to a lesser extent, but not for Asian students, among whom nonborrowers and borrowers had similar (and quite low) rates of departure without a degree.

Students who limit their costs by attending college part time or choosing a lower-priced institution are less likely to persist, although there are differences in persistence between borrowers and nonborrowers. For example, while students at community colleges and open admission schools in general are more likely to leave without a degree than their counterparts at other institutions, nonborrowers at these types of institutions are more likely than borrowers to leave without a degree. Similarly, among part-time students, 70 percent of nonborrowers left without a

[20] One analysis found that nearly 30 percent of 1989–90 beginning students left postsecondary education in their first year (Horn 1998).

degree, compared with 44 percent of borrowers (**FIGURE 9**). As noted earlier, some students who leave may have goals other than achieving a degree, which makes it difficult to assess the reasons for this difference.

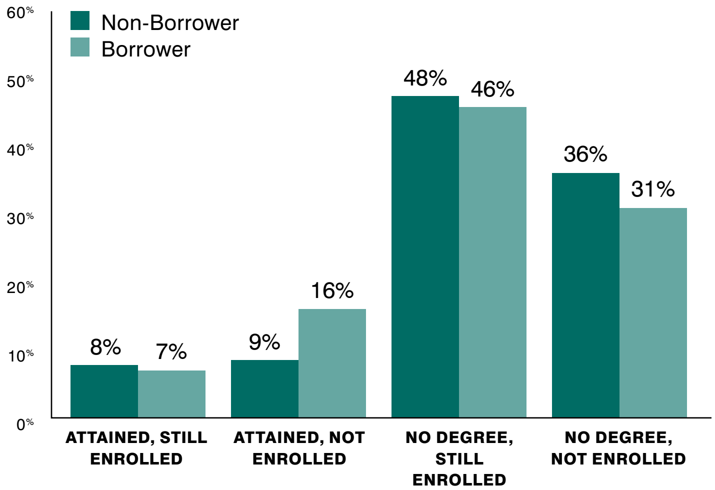
The persistence of borrowers and nonborrowers is also different for students with alternative resources. For example, nonborrowers who are working full time, independent (especially those with a relatively high income), or older are more likely to leave after three years than their counterparts who borrow. This may be related to the goals of these students or to the possibility that they stopped out rather than dropped out. Another group—students at four-year institutions and those enrolled full time—is more likely to persist overall; few students left without return, and the rate was similar for borrowers and nonborrowers: 20 percent and 16 percent, respectively. Within that group, Black and Hispanic students, lower-income students, those who delayed enrollment, and those who worked full time were more likely to leave without a degree, whether borrower or nonborrower.

Overall, these findings suggest that students who borrow to meet their remaining financial need are less likely to leave college without a degree than their nonborrowing peers. However, this pattern is not consistent for all students, suggesting that if aversion to borrowing exists, the choices that accompany it may have a different impact on different types of students. For some groups—including Asian students and dependent students from affluent families—the choice to not borrow seems to have little impact on persistence. For these students, financial alternatives such as additional family support beyond what the federal government expects the family to contribute may allow them to complete a degree without borrowing. For other students—those who attend part time or enroll at lower priced institutions, and Latino and African American students—opting not to borrow is more closely correlated with not completing a degree. The opportunity cost of not borrowing may be greatest for these students.

These findings also underline the risky proposition faced by many students, who must negotiate the trade-off between borrowing and adopting various coping strategies to avoid borrowing. Debt aversion may be positive or negative, depending on the circumstances. Students who are averse to borrowing may opt for the coping strategies, thereby reducing their chances of graduating. However, if they do graduate, they do not have the burden of repaying loans.

FIGURE 8

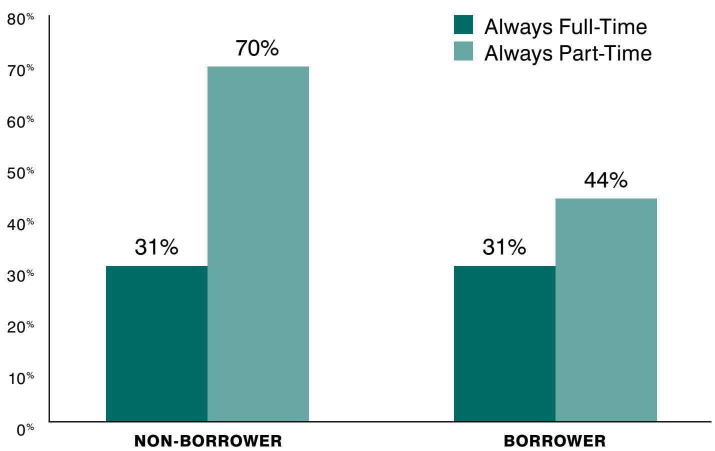
Students Who Began College in 2003–04, By Borrowing Status and Degree Attainment, 2006



SOURCE: NCES 2004

FIGURE 9

Students Who Began College in 2003–04 and Left Without a Degree, By Borrowing and Attendance Status, 2006



SOURCE: NCES 2004

Conclusion

The data analyzed in this report describe a pattern of college choices that, for some students, suggest an aversion to borrowing to pay for college. Even when they have remaining financial need, some students do not borrow, for a variety of possible reasons.

- Students may attend low-cost institutions or attend college part time to minimize costs and the need to borrow.
- Students may have alternative financial resources, such as current income or savings.
- Students may have cultural reasons for not borrowing.

When they do not borrow to cover college costs, students can use a number of other strategies, including working full time, enrolling part time, living with their parents, or asking their parents to pay their tuition. However, some of these strategies put students at risk of not earning a degree. In fact, students with remaining financial need of at least $2,000 after grants who do not borrow during their first year of college are more likely than their peers with similar characteristics to drop out of college in the first three years. Moreover, the data analyzed in this report cover only currently enrolled college students and so cannot address the extent to which some students may be deterred from even enrolling in college because of an aversion to borrowing.

When is debt aversion a concern? For many students, the decision not to borrow represents an opportunity cost if the loan would have led to greater long-term benefits than the alternative strategy pursued. Clearly, investing in higher education is a risky proposition with an uncertain outcome, regardless of whether the student takes out a loan. Students who are averse to borrowing attempt to limit the risk of being burdened with debt they cannot pay off, but many of them accept the higher risk of not completing their degrees. If the students who are debt averse are also the ones who would be most likely to gain from earning a degree, this opportunity cost affects more than the students themselves; it may be detrimental to society as a whole.

Aversion to borrowing is only one facet of a larger problem. The limitations of the data analyzed in this report do not permit a clear statement that students who do not borrow are making this choice because they are averse to debt. However, knowledge of the types of students who are less likely to borrow despite remaining financial need can help financial aid administrators, high school counselors, and others target students who may need additional help in deciding how to finance their college career. For these students, a clear message about the long-term value of a college degree and detailed information about the types of financial aid available, combined with an explanation of the extent to which alternative strategies such as full-time work or part-time enrollment can reduce the chances for degree attainment, could help them assess the advantages and disadvantages of borrowing for college.

Recommendations

Help high school counselors and others address issues of loan aversion.

High school counselors can play an important role in helping families make informed choices about student loans, but many are overworked and are not well prepared to help students make decisions about college-going. Many counselors advise low-income students to avoid borrowing by attending a community college or enrolling part time, but these types of strategies may lower the student's chance of earning a degree. Counselors could use additional resources, training, and other support to become more knowledgeable about the pros and cons of student loans, and the trade-offs between borrowing and using other financial strategies, such as enrolling part time. The National Association of College Admissions Counselors suggests that state and federal agencies make sure that high school counselors have regular access to information and training about financial aid in general and student loans in particular. In addition, organizations such as community agencies, churches, and state assistance centers should have access to similar materials.

Develop institutional programs that extend financial literacy and offer emergency financial support.

The issue of aversion to borrowing continues to be important after a student enrolls in college. Students need to understand the opportunity costs of using financial strategies that might increase their risk of dropping out of college. They also need to understand that if they do not borrow and then run into financial trouble, there are alternatives to dropping out or taking on high-interest credit card debt. Students who do borrow need help in understanding how to manage their debt burden, especially if they are forced to leave college without a degree. All these concerns can be addressed by institutional programs that teach students about financial literacy and the implications of their financial choices. Such programs can be run by the financial aid office or another institutional office. In addition, under the Higher Education Opportunity Act of 2008, student loan guarantors are required to provide financial literacy programs. Another strategy to help currently enrolled students is for institutions to offer emergency loans for students who run into financial difficulties. These relatively small, short-term loans can help students remain enrolled until they can get additional financial aid without resorting to credit cards.

Consider changes in the financial aid system to reduce the need for borrowing.

To a large extent, financial aid is premised on the idea that it should allow students who would not otherwise attend college to do so, thereby benefitting both the students and society as a whole. If these students are debt averse, they risk not achieving those benefits. The financial aid system should work to reduce the need for these students to rely on loans to enroll in and remain in college; that may mean offering more grants, frontloading grants to first-year students, offering more work-study, simplifying the FAFSA, and other policies. For example, a recent study by the Rethinking Student Aid Study Group (College Board 2008) suggested a number of changes to the federal financial aid system that could simplify the application process and provide families with clear indicators very early on regarding how much aid they can expect to receive. There is an obvious cost involved in eliminating loans for low-income students; however, several elite institutions have implemented this policy in the past few years, which provides an opportunity to examine the effect

Evaluate the wisdom of prohibiting students who need or want to borrow from doing so.
Some colleges, especially community colleges, do not participate in federal student loan programs, often out of fear that they will be penalized for high cohort default rates. As a result of this policy, their students may opt for more risky choices that may inhibit degree attainment. As noted by The Project on Student Debt, nonparticipating community colleges should reconsider their decision to block student access to federal loans. A responsible default management plan, combined with income-based repayment options, could make federal loans relatively safe for both schools and students.

Future Research

The analysis in this report raises far more questions than the available data can address. In particular, the following questions warrant future research:

How do students and families make decisions on whether to borrow?
This is difficult to understand from quantitative data. Several studies have attempted to explore these decisions in an anecdotal way or by looking at families' use of college planning materials and other information. But more research is necessary to link various resources to financing decisions.

What are the characteristics of students who are so loan averse that they will forgo college altogether rather than borrow?
Additional research is needed to investigate the effects of college costs and the prospect of borrowing on college choice for aspiring college students. Specifically, research is needed to understand whether loan aversion is sufficient to cause some students to deter or delay their enrollment in college. No national data can provide the answer to this important question. It would require conducting original research with young adults and their parents to explore their college-going choices and the decision-making process that underlies these choices.

What is the impact of secondary school factors such as grades, student-to-counselor ratios, class rank, and quality of aid information on aversion to borrowing?
Current research shows that students' experiences in high school, whether academic or otherwise, are important influences on the decision to go to college. The connection to knowledge of student loans needs to be further explored, as does the role of guidance counselors in influencing a student's decision whether or not to borrow for college.

How does the broader economic and social environment influence which students borrow and how they borrow?
Financial literacy is an issue relevant not just to student loans. Consumer-oriented resources are lacking for many types of borrowing, from mortgages to credit cards. Given recent scandals in the financial aid community and the severe financial crises in other lending markets, some families may decide not to borrow at all, even when loan terms are in their favor, while other families may find themselves unable to

borrow, even if they want to. Additional research is needed to understand the impact of these environmental influences on student borrowing.

How do various factors relate to borrowing and persistence?

This report only touched the surface of the impact of borrowing on student dropout. Although some research has been conducted in this area, it is important to examine the issue for students who may have different reasons for avoiding borrowing.

At what point do certain borrowers make decisions to stop borrowing, and why?

Some students may become leery of obtaining more loans, or circumstances in their personal lives might lead them to stop borrowing for college. This issue may be related to cumulative debt levels rather than borrowing in one year, as was the focus of this report. These students' opportunity costs may be even higher if the strategies they use to avoid borrowing later in their college careers lead them to drop out before they earn a degree.

How can financial literacy programs inform students and families about the appropriate balance between debt and the benefits of a college education?

As the debt burden for students has increased, so too has the growth of financial literacy programs proposed by financial institutions, colleges, lenders, guarantors, and elected officials. Is this effort to improve financial literacy sufficient to address debt aversion? Which components of financial literacy programs are most effective, and for which student populations?

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