Influencing Borrowing Through Loan Offers

Framing Matters

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The value of a loan

Community colleges across the country struggle to get their students to graduation. Less than 30% of these students receive a credential within 150% of the expected time to graduation (e.g. within three years for a two year degree). Financial aid is a crucial part of this journey and could play a key role in tipping a student toward earning a degree and away from dropping out.

However, many low-income students avoid loans, even those that do not accrue interest while the student is in school. Though this avoidance of debt may seem prudent, community college students with unmet financial need who don't borrow may be more likely to use credit cards to pay for college, which ends up being more expensive. Thus, initiatives designed to reduce borrowing may actually encourage more costly borrowing, push students towards working more and taking a lower course load (thereby extending their time in school and increasing the costs), or discourage students from continuing with college altogether.

Highlights

- Financial aid is critical to college completion
- Less than 30% of students receive a credential within 150% of the expected time to graduation
- Students who receive a loan offer are 39% more likely to borrow than those who receive no offer at all
- A $1,000 increase in loans leads to 0.46 credits and a 0.21 increase in GPA completed in a semester

The impact of presentation

To determine how federal loan aid affects community college students' success, researchers Lesley Turner from the University of Maryland and Ben Marx from the University of Illinois worked with a large, urban community college on how to present loan offers to students.

Although a federal formula dictates how much federal loan aid a college student is eligible for, community colleges themselves decide how much to offer in students' financial aid award letters. About half offer students their maximum loan award, while half offer no loan aid. Loan offers do not affect eligibility, but may have a sizeable impact on students' borrowing decisions if students see the amount listed as a recommendation.

So how does the framing of loan offers influence student borrowing? In the fall of 2015, 19,352 students were randomly assigned to receive a loan offer of either no loan ($0), or $3,500 for freshmen and $4,500 for sophomores.

Students who received a loan offer were 39% more likely to borrow than those who received a $0 loan offer (32% of treatment students borrowed, compared to 23% in control).** And these students were even more likely to borrow exactly the amount offered rather than any other amount. This translated to an additional $3.6 million in borrowing.

These borrowing decisions produced immediate effects on educational attainment. Turner and Marx estimate that a $1,000 increase in loans leads to an increase of 0.46 credits completed in a semester (compared to a baseline average of about 7.5 credits)* and a 0.12 increase in GPA (compared to a baseline average 2.3 GPA).* The researchers found an even larger impact among low-income students and older students.

LOAN OFFERED: *Financial Aid Award By Term For The 2015-2016 Processing Year*

	Fall 2015		Spring 2016		
Fund	**Status**	**Amount**	**Status**	**Amount**	**Total**
Federal Pell Grant	Accepted	$2,063.00	Accepted	$2,062.00	$4,125.00
Direct Subsidized Loan	Offered	$1,750.00	Offered	$1,750.00	$3,500.00
Creative Arts Scholarship Fund	Offered	$5.00	Offered	$5.00	$10.00
Totals		$3,818.00		$3,817.00	$7,635.00

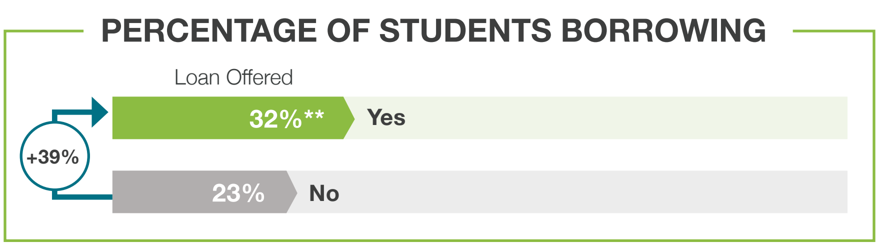
LOAN NOT OFFERED: *Financial Aid Award By Term For The 2015-2016 Processing Year*

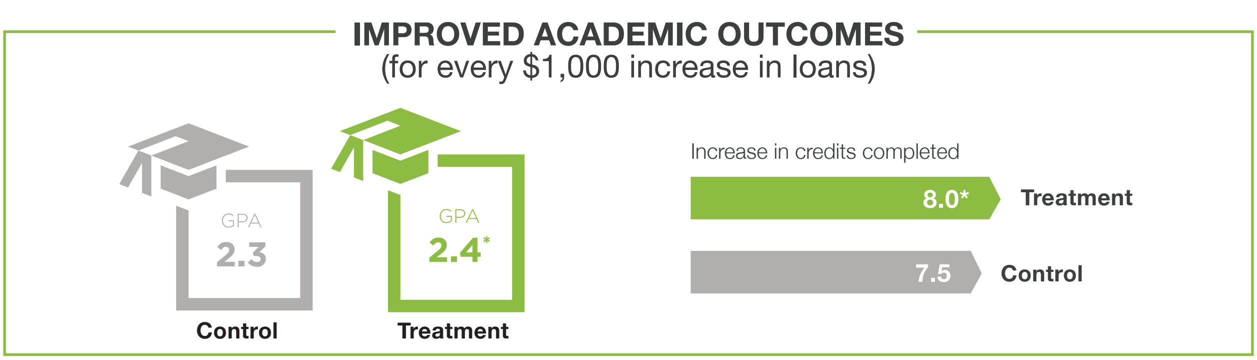
	Fall 2015		Spring 2016		
Fund	**Status**	**Amount**	**Status**	**Amount**	**Total**
Federal Pell Grant	Accepted	$2,063.00	Accepted	$2,062.00	$4,125.00
Direct Subsidized Loan	Offered	$.00	Offered	$.00	$.00
Creative Arts Scholarship Fund	Offered	$5.00	Offered	$5.00	$10.00
Totals		$2,068.00		$2,067.00	$4,135.00

Examples: Financial Aid Offers in Award Letters

Tracking long-term effects

In the long run, it's possible that these methods of offering loans could impact degree completion, and the researchers will continue to track students over time to test for these effects. By thinking critically and carefully about how to present loan offers, community colleges can potentially positively influence the academic future of their students, while also limiting unnecessary student loan debt.





* = significant at 95% level ** = significant at 99% level