



Financing American Higher Education: Reviewing the Trend in Student's Perceptions of Their Student Debt

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ABSTRACT

This paper reviews existing pieces of literature on student debt, specifically perceptions of student debt and debt repayment strategies in the USA. The policy decision to shift from need-based grants as a means of financing college education to student loans in the 1990s changed the trajectory of higher education, especially for low-income families. Most American college students now have to rely significantly on student loan debt to finance higher education, especially among those who see these loans as an investment. While in school, most college students seem to be unrealistically optimistic about paying their debt upon graduation, which may be an explanation for the huge debt delinquency rate we record in the US. Many graduate colleges today with an unbearable outstanding amount of student loan debt. This explains the consistent correlation between student debt and financial anxiety or stress reported in most studies as student debt and credit card debt have become a significant part of the American college student. There is, therefore, a need for the incorporation of accurate financial literacy programs in our curriculums starting from high school.

Keywords: Student Loan Debt, Student Perception, Pell Grant, Well-Being, Student debt Stress, Financial Literacy, Higher Education Cost

INTRODUCTION

Policy decisions over higher education in the 1990s led to a crucial turning point in higher education financing. This is because the focus shifted from financing higher education via need-based grants to a heavy provision of student loans for low-income college students (Paulsen & St. John, 2002; Mbah, Forcha, & Mende, 2020; Mbah, 2021a). Protopsaltis and Parrott (2020) postulate that “despite the evidence that Pell lowers the net price of tuition for low- and moderate-income students and raises enrollment, persistence, and completion rates, Pell Grants now cover a shrinking share of college costs.” The rising cost of higher education is causing many Americans, especially low-income families to tilt toward loans to finance higher education (Mbah, 2021a). The rise in tuition is surpassing the ability of students to pay and the amount that students have to borrow to cover higher education has risen “from roughly half (49%) to over two-thirds (69%) from 1993 to 2012, according to the Pew Research Center. Between 1993 and 2020, the average loan amount grew nearly three-fold, surpassing \$30,000” (Perry et al., 2022).

As of January 2021, about \$44.7 million Americans had student loan debts with over \$1.71 trillion in total US student loan debt. About 69% of college students in the class of 2019 graduated with an average of \$29,900 in both private and federal debt (Education data, 2021). The rising student loan debt is negatively impacting graduates' entry into the workforce and may even affect student career choices (Ulbrich & Kirk, 2017). Student loans are a huge burden on the shoulders of many Americans, a direct result of the skyrocketing cost of higher education in the past decade (Perry & Spencer, 2018; Mbah, Forcha, & Mende, 2020). An article from the Mises Institute shows that 'at more than 1,000 colleges and trade schools, or about a quarter of the total, at least half the students had defaulted or failed to pay down at least \$1 on their debt within seven years (McMaken, 2017). Current research tilts to the fact that a majority of this student loan default comes from Black American college graduates who are more likely to delay repayment than their white counterparts (Scott-Clayton 2018; Federal Reserve Board, 2017).

According to Bartholomae et al. (2017), students' perceptions of their student loans as an investment in education influence their willingness to repay such loans. Such perceptions equally influence students' prioritization of student loan debt repayment among various debts as suggested by Pinto and Mansfield (2006). The purpose of this student is to review trends in student loan perceptions and student loan repayment. This review will help policymakers and school officials propose educational policies that will ameliorate and ease student loan repayments.

BRIEF HISTORICAL PERSPECTIVE OF THE STUDENT LOAN DEBT PROBLEM

The concept of student loans is not new in higher education but can be traced back to 1838 when the first no-interest student loan was presented to Harvard University students (Harvard Loan Program) even before the creation of the U.S. Department of Education (Fuller, 2014). On March 2, 1867, the U.S. Department of Education was created through legislation enforced by President Andrew Johnson to ensure the collection of educational statistics across the U.S. and to facilitate the success of educational institutions (AllGov, 2016). However, at its creation, the U.S. Department of Education had no student loan program. The Servicemen's Readjustment Act also called the "GI Bill," of 1944 signed by President Franklin D. Roosevelt permitted veterans of WWII to get postsecondary education for little or nothing (Gitlen, 2016). The foremost federal investment in the low-interest student loan program (National Defense Student Loan) was formed in 1958 by the National Defense Education Act (NDEA). Its purpose was to enhance education, science, engineering, mathematics, and foreign language programs during the Cold War. The National Defense Student Loan Program offered low-interest loans to students via their campuses. The program is called today the Federal Perkins Loan Program, and it focuses on low-income students (Abramson, 2007; Lumina Foundation, 2015; Maher, 2016).

The second federal student loan program, the Guaranteed Student Loan (GSL) or the Federal Family Education Loan Program (FFELP), was created in 1965 under the Higher Education Act during President Lyndon B. Johnson's tenure. The Higher Education Act of 1965 was signed into law on November 8, 1965, to strengthen the educational resources available to higher education institutions and to offer financial support to postsecondary students (National TRIO Clearinghouse, 2003). From the Massachusetts private program model, the Guaranteed Student Loan (GSL) also known as the Federal Family Education Loan Program (FFELP), was created to

lessen the burden of college education for low- and middle-income students. It offered insured loans via private lenders and is today called the Stafford Loan Program.

In 1966, the National Association of Financial Aid Administrators was founded to supervise financial aid all over the U.S. (Gitlen, 2016). In 1972, the Higher Education Act re-endorsed the formation of the Student Loan Marketing Association (Sallie Mae) as a 'government-sponsored enterprise' to raise funds for the Guaranteed Student Loan scheme by generating loans. Nonetheless, it was restructured as a private entity in 1996 by Congress. Sallie Mae halted its generation of federal loans in 2010. This was a result of the termination of the FFEL Program and the passage of the legislation that placed the direct provision of student loans into the hands of the federal government (Gitlen, 2016).

Likewise, in 1973, the Basic Education Opportunity Grant (Pell Grant) that was spurred by Senator Claiborne Pell was formed to aid needy students to attend college. It was set up as a 'foundation' of an undergraduate student's financial aid bundle. It is today called the Pell Grant, named after Senator Claiborne Pell of Rhode Island. By 1978, the Middle-Income Student Assistance Act was established by Congress to remove any income prerequisites for borrowing under FFEL, which permitted more students to be eligible. This Basic Education Opportunity Grant gave out grants ranging from \$200 to \$1,800 in the 1979-1980 academic year to 2,537,835 qualified students (\$2.5 billion) so that they could attend higher education (U.S. Department of Education, 2002; Mbah, 2020). Equally, by the mid-1970s, federal higher education policy started to deviate from grants to loans to finance higher education for low-and-middle-income households. To widen the scope of liquidity to assist students and families deal with the rising cost of college education, the Parent Loan for Undergraduate Students (PLUS) program was created in 1980 for parents of dependent undergraduate students by President Ronald Reagan's administration (Gross et al., 2010). The PLUS program was offered at a higher interest rate than any other federal program. A year after, it was expanded to include independent undergraduate students, graduate students, and professional students and was called Auxiliary Loans to Assist Students (ALAS) Program. In 1986, it was split into two including the Supplemental Loans to Students (SLS) Program for graduates and professional students and the Parent PLUS Program. In 1993 the Student Loan Reform Act combined the SLS into the Unsubsidized Stafford Loan Program. To support graduate and professional students, the Graduate and Professional Student PLUS (Grad PLUS) was formed (Lumina Foundation, 2015).

With the increase in loan default rates, Congress enacted 1986 the Higher Education Act (HEA) Reauthorization with some policies destined to decrease default rates. Defaulters under the GSL scheme could not postulate for new federal student aids. Also, it bestowed on the U.S. Department of Education more administrative and regulatory powers over student loan lenders. The first federal legislation imposing penalties on higher education institutions with elevated default rates was passed by Congress (Gross et al., 2010). The Bush administration was equally worried about the rise in student loan default, which led to the creation of the cohort default rate (CDR) in 1990 via the Omnibus Budget Reconciliation Act. This canceled student assistance qualifications at schools with elevated default rates for three continuous years. Fundamentally, if a school had a default rate of 35%, it was eliminated, but this threshold has varied over time. The U.S. Department of Education was given the authority to determine the CDR threshold (Gross et al., 2010).

In 1992, President George H. W. Bush approved a trial version of the Federal Direct Loan Program (Library of Congress, 1992). The Student Loan Reform Act of 1993 amended the Higher Education Act of 1965 to swap the FFEL program with a Federal Direct Student Loan (FDSL). This officially instated the direct lending program, in which the federal government directly lent to borrowers rather than via private entities (Andrews, 1993). From 1995 to 1996, more than 7.5 million loans were offered to students and parents through federal loan programs. The Stafford Unsubsidized Program offered almost 2.5 million loans summing up to \$8.8 billion in 1995-1996 after four years of operation (King, 1996). The Higher Education Reconciliation Act of 2005 decreased loan fees from 4% to 1% to permit graduate students to take out PLUS loans. However, the credit market crisis of 2008 caused several private lenders to drop out of the FFEL, as they could no longer provide loans for students. Figures from FinAid (2010), an award-winning public service site created in 1994 to serve as a free source for student financial aid information, show that a total of 184 education lenders withdrew or suspended their involvement in either all or a portion of the FFEL Program. At the beginning of 2010, the FFEL program was removed under the Obama administration. Since then, all recent federal programs have been served directly to students from the U.S. Department of Education but for Perkins loans (Baker & Herszenhorn, 2010; Gitlen, 2016).

Between 1999 and 2000, fully 64% of students who completed college had average outstanding student loans of \$16,928, and 71% of these students were from low-income households (King & Bannon, 2002). Evidence showed that 55% of African-Americans and 58% of Hispanic student borrowers completed college with an unmanageable debt burden. This was due to the decrease in the Pell grant, from covering 84% of tuition at a four-year public college in 1975-1976 to 39% in the early 2000s (King & Bannon, 2002). In the early 2010s, fully 70% of college students borrowed to finance their higher education, with an average debt burden of \$28,950 for four-year graduates (Despard et al., 2016). In 2013, students borrowed about \$106 billion via federal loan schemes, and cumulative loan debt was \$1.2 trillion of which \$1 trillion was in federal loans (Webber & Rogers, 2014). As of 2015, the outstanding debt was at 1.3 trillion, mostly due to the rise in enrollment and student borrowing (Executive Office of the President, 2016). In 2017, according to the Federal Reserve Bank of New York, the student loan is second after mortgages with a total sum of \$1.36 trillion in outstanding balances. Even more disturbing is the fact that the delinquency rate of education loans has doubled within the past 10 years. The sum of \$148.9 billion in student loans was in default in 2017 (Lacy, Conzelmann, & Smith, 2018; Luna-Torres et al., 2018). Today, over 92% of student loans are comprised of federal loans (Mueller & Yannelis, 2019). Most recent reports show that outstanding student loan in the U.S. is \$1.56 billion, owed by 44.7 million Americans, and 11.5% of education loans are either 90 days or more delinquent or are in default (Student Loan Hero, 2019).

REVIEW OF EXISTING LITERATURE: PERCEPTIONS OF STUDENT LOAN DEBT

Seaward and Kemp (2000) compared the optimism of students about their loan repayment while still in school and the realities upon graduation. A total of 275 questionnaires were administered to first, second, and third-year students from the Department of Psychology at the University of Canterbury. They used descriptive statistics and Spearman correlation analysis to present their findings. They had a response rate of 84% with 245 responses. The purpose of this questionnaire was to analyze the debt level and examine optimism bias. The undergraduate students were found to have significant debt, and third-year psychology students had the highest debt level. Like the other studies, there existed a correlation between

duration in the study and total debt. Most of the respondents were more optimistic about their repayment duration, future incomes, and job potential than what obtained in reality. They concluded that students seem to be unrealistically optimistic (over-optimistic), which may be a factor in the accumulation of education debt.

Baum and O'Malley (2003) surveyed borrowers' perceptions of their education loans. Their study was based on the 1,280 survey responses from the National Student Loan Survey (NASLS) 2002 results. It had a response rate of 24% but was not a nationally representative sample. A majority of the sample were undergraduates from four-year institutions (86%), half of whom were women and mostly Whites (73%). They used median figures for their analysis, given the weakness of the mean in capturing extreme figures. Findings show that undergraduate students' loan debt median was \$16,500 with a monthly repayment rate of \$156. Those who attended graduate school incurred an additional median of \$23,700 as debt for sustaining their higher level of education. Those who attended private schools borrowed more than those in public four-year colleges. Also, the median respondents of the survey allocated 6% of their monthly income to repay their undergraduate debt. More than 50% of the respondent felt burdened by their loans and would borrow less if they had to do it again. Seventy-five percent of the respondents acknowledged the extreme importance of loans in pursuing their education above the high school level. About 58% said they were able to choose the college of their choice due to the loans. African Americans were observed to be more likely to feel the burden than other ethnic groups. They conclude that it is evident that the mounting debt levels have influenced the perception of borrowers fifteen years after the first Nellie Mae survey on student loans.

Archuleta, Dale, and Spann (2013) used two hierarchical regression models to examine the relationship between debt and student financial anxiety (mental health) at a Midwestern State student peer counseling center using a sample of 180 college students. Financial anxiety was the independent variable and debt, financial satisfaction, financial knowledge, and student demographics were the independent variables. A newly developed Financial Anxiety Scale (FAS) was used to measure the dependent variable. Their findings show that although there was a correlation between financial satisfaction, student loans, gender, and financial anxiety; financial satisfaction was the most statistically significant predictor of financial anxiety irrespective of the debt type the student had.

A 2014 poll by the Harvard University Institute of Politics showed that most American college students (42%) ages 18 to 29 years held a student loan debt. Not considering whether they had a loan or not, 57% of the millennials in this poll who were under the age of 30 acknowledged that student loan debt is a vital challenge for young Americans. About 70% of the respondents said their financial conditions significantly influenced their decision to pursue higher education, especially among community college/two-year college students and 18 to 29-year-old black students.

Chisholm-Burns et al. (2017) studied the correlation between graduating pharmacy students' perceptions of debt, stress, and student debt. Data for the study was collected using a cross-sectional survey (152 students) at the University of Tennessee College of Pharmacy, and financial aid records were analyzed using t-test, ANOVA, and Pearson's *r* correlations. Findings showed no statistically significant variation in attitude towards debt or stress with the

respondent's possessions of federal student loans. There was a positive correlation between "fear of debt" and stress, and the total amount of student loans borrowed. "This suggests graduating students, who must soon start paying off student loans, may have somewhat less tolerance for debt than those students who may be relying on said loans to complete their remaining years of pharmacy school." There was a negative correlation between "contemplation and knowledge about loans" and the total amount of student loans borrowed. In other words, students who scored high in "contemplation and knowledge" expected a short-term loan repayment than those who scored lower. These authors believe that financial literacy programs might aid in reducing stress and fear during the borrowing and repayment process.

Markle (2019) evaluated the impact of student debt on student attitudes and education-related behavior using social reproduction theory and consumer socialization theory. Their sample size came from northwest Georgian public university with a student population of almost 35,000 and their target was 32,000 undergraduate students enrolled for the fall semester of 2016. About 429 students responded to the survey (32 closed-ended questions and 8 open-ended questions) with a participatory rate of 62.6%. Findings show that students with no student loan debt (35.3%) came from high-income families. Over 50% of students with student loan debt reported that they felt overwhelmed, anxious, and afraid about their debt level and this was proportionate to actual student debt levels. Half of the students were very worried about the repayment capability. Thus, affirming the correlation between student loan debt and students' mental health. The fear and anxiety about student loan debt could be because of the media representation of the problem, lack of financial literacy, and the uncertainty of post-college employment. Findings also showed that students felt that they did not have the appropriate financial literacy needed to make informed decisions about financing a college education. Also, most students do not have the awareness of their personal loan situations, thus, the importance of financial literacy on students' college success.

In World Bank policy research working paper, Caetano, Patrinos, and Palacios (2019) measured the presence of debt aversion among candidates for a student loan. Their research focused on student loan debt to shed more light on diverse perceptions concerning debt. Their population is comprised of current financial aid candidates. Data was collected via email survey served to more than 3,000 people in Mexico, Colombia, and Chile who had applied for a student loan. A total of 1422 responses were received and these respondents were assigned to either a control or treatment group out of which 767 responded to the 15-question survey. The data was analyzed using a panel regression model. Results show that the participants in the experiment portray debt aversion and a majority of which is due to label effects. The probability of choosing a contract that is labeled as a 'loan' reduces by 8% to a financially comparable contract. Also, to avoid a contract labeled as debt, students are willing to a 4% premium of the financed amount. In other words, students would not likely choose any college financing program that is labeled as a debt or loan.

Mbah (2021a) assessed recent perceptions on the possibility of a complete student loan debt forgiveness legislation given the recent political discourse on the subject. She used a combination of Kingdon's three-stream Policy Window Theory (a theory that succeeded with the Affordable Healthcare Act) and the Interest Group Theory to evaluate the possibility of a complete student loan debt forgiveness legislation (see also Mbah, 2021b). The Grounded theory Methodology was used to analyze responses from four mini-focus interview groups

made up of staff and faculty members from Southern University and A & M College. Findings from this study show that student loan debt is a policy problem that is plaguing the mass and is rapidly forming an informal interest group made up of mostly millennials for are burdened by loan repayment. However, the power of this rapidly growing interest group is not strong enough to influence complete student loan debt forgiveness legislation. This is because this group of millennials is yet to oppose the interest of other interest groups like the Republicans, taxpayers, banks, and other stakeholders. Nevertheless, this author cautions that, with the rapid growth of this informal interest group of millennials that are saddled with student loan debt, "an era is coming very soon in which the student loan issue will move up as a pressing political issue and the faith of prospective politicians will lie on how they treat it. In other words, with the rapid growth of the student loan debtors' interest group, a political window will soon be open, and, if well handled, student loan forgiveness legislation will be passed."

Xiao and Kim (2021) evaluated the correlation between debt delinquency, financial capacity, and financial stress using a multivariate regression model with data gotten from the 2018 U.S. National Financial Capability Study. Financial stress was the dependent variable, whereas debt payment delinquency and financial capability were the independent variables. Their findings show a positive relationship between debt delinquency challenges (mortgage, credit card, and student loans) and financial stress with mortgage and credit card stress having a stronger correlation than student loan debt. However, there is a negative correlation between financial stress and financial capability meaning that financial capability can decrease financial stress levels.

In qualitative research, Bostick, Henry, and Brown (2021) examined graduate black women's perceptions of student debt and higher education financing through the lenses of Critical Race Theory. They used two principal qualitative research questions to find out (1) the experiences of black graduate students concerning financing their education and (2) their perceptions about repaying these loans in the long term. Data was collected using an individual semi-structured interview process with audio interviews lasting from 22 to 46 minutes and transcribed via NVivo10 software. A total of six black female graduate students were interviewed. Findings show evidence of inequality in the educational system's funding and student loan borrowing. Their findings "encapsulate how student loan debt contributes to multiple intersecting forms of oppression, besides racialized and gender disparities." Four of the participants felt trapped in their student loan debt, "continuous weight." However, five out of the six participants affirmed that their student loans were an investment and some opted for these loans because of the assurance to qualify for the Public Service Loan Forgiveness (PSLF) program. Based on their findings they recommended the availability of more scholarships, guaranteed loan forgiveness, and more affordable graduate programs.

Garrett et al. (2022) studied the impact of student debt on the well-being and perception of financial literacy of residents at the Community Memorial Health System (CMHS) in Southern California. Data was collected through one-on-one telephone or video interviews with 59 residents lasting 17 minutes from October 2020 to March 2021. Reflexive thematic analysis was employed to analyze participants' responses. About 76% of the residents have student debt greater than \$200,00. Findings suggest that the residents from diverse specialties (Family Medicine, Internal Medicine, General Surgery, Orthopedic Surgery, and Psychiatry) feel "undervalued" as they perceive their student debt as "unfairly burdensome" for engaging in a

vocation that has social benefits, especially with the stress they got during the COVID-19 pandemic. They found a positive correlation between resident physician student loan debt and well-being, stress, and burnout, as the debt burden hinders their well-being. Yet some of the residents acknowledged the significant role of financial literacy programs in enhancing their well-being. The residents suggested possible practical guides to designing financial education programs that could reduce the low financial literacy rate among residents and help them better manage their debt and plan for retirement. These authors concluded by suggesting that “Financial literacy and how residents framed educational debt affected both residents’ well-being and sense of agency.”

DISCUSSION

Student loan debt has become a significant challenge among college students and graduates and is influencing their decisions on whether to pursue higher education or not. There is a growing level of “fear of debt,” anxiety, and the feeling of being overwhelmed among student loan borrowers nowadays (Chisholm-Burns et al., 2017; Markle, 2019). Hence, this results in a growing group of millennials who are saddled with the burden of student loans which is negatively impacting their day-to-day lives (Mbah, 2021a). Findings from this review align with a systematic review conducted by Tay et al. (2017) from 20 studies which suggested that there is “at least one significant negative effect between debt and subjective well-being.” Research shows a positive correlation between student loan debt and financial anxiety or financial stress as students worry about their capability to repay their student debt. Put differently, there is a significant correlation between student debt and mental health stemming from the media representation of the problem, lack of accurate financial literacy, and post-college graduation uncertainty (Markle, 2019). Most students will prefer to avert any financial contract that is labeled as “debt” or “loan” because of the fear of these labels (Caetano et al., 2019). Credit card debt and student loan debt among many other debts have become an integral part of most American college students, especially among low-income students who tend to carry on more student debt. There is a positive association between college duration and total debt accumulation. In other words, the longer a student stays in college, the more debt they accumulate.

Despite the growing burden that student debt is having on most American graduates, especially African Americans, many believe that it has been instrumental in helping them attend colleges of their choice (Bostick et al., 2021). Thus, an important investment. It is not surprising that students who see student debt as a vital investment become over-optimistic about being able to repay their debt upon graduation. This unrealistic optimism among current students on student loan repayment could be a reason why we have a huge delinquency rate in student debt (Seaward & Kemp, 2000). The growing cost of higher education among professional programs like medicine is causing several to tilt toward student loans for financing. These medical student loans are leaving most residents with the feeling of being undervalued they see their loans as an “unfair burden” given the social impact that their vocation has on society. However, most of these students believe that a structured financial literacy program can help reduce the stress and anxiety associated with their debt (Garrett et al., 2022). Research shows that financial literacy programs can help ease the stress and fear of debt among college students who seem not to understand the loan process and repayment options. Nevertheless, despite their limitations, there are several repayment programs available ranging from a Loan Consolidation, Loan Rehabilitation, Standard Repayment Plan, Graduated Repayment Plan, Extended

Repayment Plan, Deferment or Forbearance, Income-Contingent Repayment Program (ICR), Income-Base Repayment Plan (IBR), Pay as You Earn (PAYE) to Income-Sensitive Repayment Plan (ISRP).

CONCLUSION

The student loan debt burden is a growing concern among millennials. It is empirical for policymakers to consider policies that can lessen the burden of student loan debt, especially in the USA. The consistently growing number of millennials who are burdened with student loan debt is creating an informal interest group as suggested by (Mbah, 2021a) that will soon have powers to influence policy decisions through their votes. Financial literacy programs before and after the student loan application process are very critical and should not just be limited to financial aid departments at our institutions but should be incorporated into our curriculums starting from high school. This review paper focuses on just perceptions of students mostly in the USA towards their student debt. Other studies can include other countries as well as perceptions on what repayment models they intend to use to repay these loans.

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