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Factors Contributing to Student Loan Debt

by

Cynthia Fitzthum

A Dissertation

Submitted to the Graduate Faculty of

St. Cloud State University

in Partial Fulfillment of the Requirements

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Abstract

The costs of higher education continue to rise each year and students are faced with increasing levels of tuition and fees to obtain their degrees. With research showing the benefits of post-secondary degrees, it is important for institutions to educate students on financial literacy and loan choices to ensure they are informed consumers. Using qualitative research, this study focuses on St. Cloud State University students to understand how a regional comprehensive institution can proactively work to help students through the student loan process by examining factors that contribute to student loan debt.

Table of Contents

Page

List of Figures 5

Chapter

1. Introduction..6

    Purpose of the Study..6

    Statement of the Problem..11

    Research Questions..11

    Research Methods..12

    Summary..13

2. Literature Review..14

    Modern U.S. History of Student Loans and the Federal Government's Role..14

    Economic Impact..22

    Impact on Students..27

    Impact on Higher Education Institutions..36

    Summary..40

3. Methodology..41

    Research Questions and Hypotheses..41

    Sample..42

    Data Collection..45

    Data Analysis..46

    Biases..47

    Institutional Review Board..48

    Summary..49

4. Results..50

Chapter Page

Key Finding #1: Financial Literacy……………………………………...…50

Key Finding #2: Comfortable Debt…………………………………….....52

Key Finding #3: Potential Career Earnings…………………..………….54

Key Finding #4: Geographic Location…………………………..……55

Key Finding #5: Common Mistakes and Missed Opportunities……..…...56

Key Finding #6: Changes to Student Loan Process……………….……..…58

Summary……………………………………………………………….....61

5. Conclusion…………………………………………………………...…62

Conclusions……………………………..………………..…………62

Discussions……………………………………..…………..…………62

Limitations……………………………………..……………….…..70

Implications for Research……………………………………………..70

Implications for Theory……………..………………………………....71

Implications for Practice……………………………………..…………..72

Conclusion……………………………………………………….…....73

References…………………………………………………………………….…75

Appendices……………………………………………………………………….81

List of Figures

Figure Page

1. College Costs……………………………………………………………….22

2. Demographics of Study Participants………………………………………..44

Chapter 1: Introduction

As reported by the Federal Reserve Bank, student loans hit the $1.521 trillion mark in 2018 (Federal Reserve Bank, 2018). Many students attending institutions of higher learning take out loans each year. Various factors have contributed to the rise of increased loans. The focus of this research is to examine factors that influence students as they select which loan amounts to take to finance their higher education at St. Cloud State University. The research examines factors that influence students' decisions about how much financial aid to take when given their initial financial aid package offers. Additionally, it provides perspectives on how this might affect institutions of higher education by investigating how the findings can impact financial aid policies and procedures.

Student Debt Crisis

When doing any research about student debt at institutions of higher education, it is just a matter of time until one comes across the term "student debt crisis." Many articles, blogs, and documentaries produced in the last decade directly address the student debt crisis and attempt to define this "crisis" and investigate the underlying factors in more depth. Specifically, the CNN documentary "The Ivory Tower" was one that recently questioned, "Is college worth the cost?" (Rossi, 2014). This film examines the rising cost of college through multiple interviews with stakeholders and data sets and ultimately leads the viewer to question the future of higher education. Experts throughout the film describe the state of student loan debt by using "student debt crisis". A national non-profit organization, called Student Debt Crisis (SDC), was also created to help address issues related to increased student loan debt. SDC's goal is to "fundamentally

reform student debt and higher education loan policies" by directly working with borrowers (SDC, 2019). They believe we have a crisis in student loan debt because students are over-burdened with ever-increasing costs of higher education (SDC, 2019). Student Debt Crisis believes affordable and accessible education (including equitable repayment of debt) is essential for the United States as the 21st-century global leader (SDC, 2019).

As with the Ivory Tower documentary, non-profit organizations, and various other articles and discussions, two main viewpoints tend to rise to the surface regarding the student debt crisis. On one side, there are leaders such as Senator Elizabeth Warren and former President Barack Obama who believe that students have too much student loan debt and it is causing them to struggle to buy a home, purchase a car, and manage everyday living expenses (Rossi, 2014). Their proposed solution is to use income-based payments to pay back student loans to the federal government (Rossi, 2014). This does leave one to question, however, who will cover the gap if the debt exceeds what can or will be repaid. It would also be helpful to examine how this plays into prior education and the choices that are given to students when they initially took out these loans. Many questions still need to be addressed and answered regarding this perspective.

On the other side of this spectrum, we have institutions such as Brookings, which cautions people to rethink the notion of the "student debt crisis" (Akers & Chingos, 2014). Brooking's research highlights that the student debt ratio of monthly loan payments to monthly income has remained the same since the 1990s within the United States (Akers & Chingos, 2014). However, their study has been criticized due to the data set used and methods. Andrew Rossi argues that their data set included 20-to-40-year-

olds as heads of households, which skews the data because of the drastic changes in 20 years of student debt. Because tuition has risen so drastically in the last 20 years, it has too big of a range to be analyzed in today's financial climate (Rossi, 2014). Rossi (2014) also points out that the average time of repayment for student loans has increased from 7.4 years (in 1992) to 13.4 years in 2013. In addition, the study focuses only on students making payments and excludes those in default. Essentially, Rossi argues the study demonstrates that the students who are able to pay back their loans can but leaves out those who cannot.

Because of the rise of student loans, students are seeking increasing amounts of financial aid to continue to fund their learning. The federal aid provided to students in the United States continues to climb to help students fund their degrees. In 2002, the federal government provided student aid that totaled around $72 billion (Burd, 2013). Just 10 years later, in 2012, that amount jumped to $174 billion (Burd, 2013). This is an increase of over $100 billion in funding in just 10 years.

Tuition and Fees Crisis

The United States is experiencing a rapid rise in tuition and fees at higher learning institutions over the past few decades, with tuition increases over 295% between 1982-2003 (Heritage Foundation, 2006). College students are continuing to borrow more and more money to fund their degrees at institutions of higher learning than ever before. The typical college student in 1972 paid $526 a year for tuition and fees at an in-state public university (Burd, 2013). In 2016-2017, the typical college student paid $9,650 a year in tuition and fees at an in-state public university (College Data, 2017).

Over the last 30 years, there has been considerable research on the rising costs of higher education, specifically rising tuition and fee costs. Berman & Zehngebot (2017) highlight a sharp increase in tuition over the past 20 years, and forecast continued tuition increases across the college landscape. In 1987, the average price of a four-year undergraduate degree (tuition, room, board, and fees) was $39,643 (Berman & Zehngebot, 2017). Fast forward to 2017, and the number (adjusting for inflation) jumps to $103,616, which is a 161% increase in a 30-year period (Berman & Zehngebot, 2017). It is forecasted that in 2037 the average cost for a four-year degree in the United States will be $240,825 (Berman & Zehngebot, 2017). Vedder contends that increased spending on higher education has contributed to rising tuition costs for students and that the federal subsidies for higher education are not making tuition affordable because colleges and universities are consuming the additional revenues (Heritage Foundation, 2014). The rising costs of higher education can be linked to the increase in tuition and fees across the United States and play a role in the student debt crisis (Heritage Foundation, 2014).

Modern U.S. History of Federal Loan Policies and Support

The federal government has attempted to address this student debt crisis. Since the Higher Education Act of 1965, the federal government has a history of passing legislation concerning student debt within higher education. In early 2018, the House Republicans introduced the PROSPER Act, which reauthorized the Higher Education Act (Kreighbaum, 2018). This bill has many supporters, such as Purdue University President Mitch Daniels. It also faces opposition from student advocates and veteran groups. One of the key proposals in the PROSPER bill is to eliminate the Public Service Loan Forgiveness program for college students and leave it up to the colleges to be innovative

with income-share agreements in place of traditional student loans (Kreighbaum, 2018). The goal of PROSPER is for students only to repay what they can afford and work with their colleges on their repayment plans, based on their post-education income (which is part of the income-share agreement approach). However, the student groups against the PROSPER Act argue that the Public Service Loan Forgiveness program should stay in place and is working (Taibbi, 2017). Initially, the Public Service Loan Forgiveness program allowed students who work 10 years for the government or a non-profit to have their debt forgiven (Taibbi, 2017). However, in order to be able to accomplish this, there were a series of complex formulas that borrowers had to follow, and they still had to make repayments for 10 years (Taibbi, 2017). Of the 700,000 students enrolled, less than 500 will have their loans forgiven in the first round of this program (Taibbi, 2017).

The federal government has responded to the rise of college costs over time through various policies and support. In 1965, when the Higher Education Act was passed, the main goal was to provide grant aid to low-income students who might not otherwise pursue post-secondary education (New America Foundation, 2014). Now, the federal government has shifted some support to also help provide low-interest student loans for middle-class families. Today, approximately 62% of federal government aid is subsidized student loans, 15% grants, and 23% are tax benefits (New America Foundation, 2014). Federal student loans are provided by the government and give students money for housing, tuition, and other related expenses to help support higher education access (New America Foundation, 2014). Grants, with the largest being the Pell Grant program, are financial supports that do not need to be paid back and are based solely on the student's financial status (New America Foundation, 2014). Tax benefits,

which are directed at middle and upper class individuals, help reduce the burden of tuition costs. These can be subsidies the government provides or reductions in taxable income that help students and families pay for college. All of these categories help the federal government provide support and access to higher education.

This opens up more dialogue about the repayment "problem" with student loans at the federal and university levels. If the burden of student debt is placed more on the university itself, and not the federal government, it would be worth noting if any policies change at the university level. For example, the university could be investigating how to improve the information given to students at St. Cloud State University and educating them more fully on the costs and benefits of their financial decisions regarding higher education financing.

Problem Statement

The Federal Reserve Bank has stated that as a result of increased student loan debt, students now face more difficulty repaying their loans and achieving life goals such as purchasing a home, investing in a small business, or saving for retirement (Federal Reserve Bank, 2015). As a result of student debt repayment, former students are forced to make tradeoffs. The higher the repayment (principal plus interest) they have on their loan, the larger the tradeoff and opportunity costs they face. However, student loans are not going away any time soon. Examining the factors that influenced students in deciding loan amounts will allow us to gain perspective on the factors they considered.

Research Questions

This research examines the following questions;

1. What impacts the amount of debt a student takes on in higher education?

2. How does financial literacy influence students' choices of loans?

The purpose of this research is to explore the factors that influence students' loan debt. Multiple factors are explored and investigated to understand student debt factors and awareness of financial literacy better. Financial literacy is an umbrella term used in this research to describe the education of the participant in regards to prior knowledge of student loans, their family's financial guidance, and their perspectives and experiences with student loans at St. Cloud State University.

Research Methods

This research uses interviews with participants from St. Cloud State University in order to investigate how much money a typical student will borrow and how financial literacy has impacted their choices. Previous research has found that socioeconomic status and geographic location may be relevant to student debt levels. For example, based on some early findings at St. Cloud State University, students who have substantial estimated family contributions for their education tend to borrow just as much money as their peers who do not have substantial estimated family contributions (Wall, 2015). Although there are a fair number of studies that examine student debt, there are very few that examine specific causes such as geographic location, awareness of financial aid and loan options, and the financial literacy component. The financial literacy piece is examining how much students know about their choices with aid packages and the short- and long-term consequences of their choices. In short, the financial literacy piece focuses on how financially literate the student is about making financial choices related to loans and debt. The Federal Reserve Bank describes this piece as looking at the "qualitative approach" (Federal Reserve Bank, 2015).

Summary

The goal of the research was to answer the two research questions; What impacts the amount of debt a student takes on in higher education? and How does financial literacy influence students' choices of loans? The goal of this research was to identify factors through qualitative interviews and provide a framework to support financial literacy education at St. Cloud State University. Based on the current research in the field of financial aid and student debt, best practices can be developed and implemented at institutions of higher education, specifically through financial aid offices. This study addresses the problem through a qualitative approach of interviews with recent graduates of St. Cloud State University. The research will look at the perceived knowledge of personal finance concepts and awareness through self-reflection questions and data collection. Overall, the goal of the research is to identify factors through data analysis and highlight key findings to provide targeted education and awareness of student aid choices to certain groups of students.

Chapter 2: Literature Review

This review examines the critical issues, research, and themes within the student debt crisis. First, it reviews the modern U.S. history of the federal loan program from its infancy to what it is currently like today. Second, the factors driving the cost of higher education up (and subsequently, the loan rate as well) through investigating the economic impact of student loans. Third, it explores research on the impact the student debt crisis has on students. Specifically, different choices of aid students are presented, along with the education they received regarding each one and how behavioral economics influences their choices. Fourth, it looks at different factors and perceived opportunity costs of geographic location. Finally, the review will conclude with research pertaining to the goals of higher education and the student debt crisis impact on institutions of higher learning. Thus, this review will help piece together a fuller look of student debt within higher education and help with the proposed research.

Modern U.S. History of Student Loans and the Federal Government's Role

Throughout modern U.S. history, the federal government has played a role in shaping the growth of the higher education landscape. Even though much of the control of education is left up to the states and local governments, the federal government can influence policies, oversight, and funding control due to its influence. Over the last few decades, rising costs of tuition and fees have increased the cost of higher education. This has resulted in the federal government taking on the role of "the funder of last resort in American higher education" (Burd, 2013). The federal government plays a critical role in financing education. The federal government provides colleges and universities financial support through two channels; direct support to colleges and universities for research and

facilities and through grants and loans made to students (Federal Funds, 2014). However, this support also comes with many rules, regulations, and policies to govern how these funds can be used and spent. In order to understand student loans and student debt, look at the history of the federal loan program. The federal government was not the first to offer student loans. Back in 1840, the first student loans were offered directly by Harvard University (Gitlen, 2016). Now, the federal government has become a major funder within student loans.

Early Federal Aid

Starting with the First Morrill Act of 1862 and the Second Morrill Act in 1890, the (then-named) Office of Education started their support of land-grant colleges and universities (US Department of Education, 2014). Funds were given to every state at the time for "the endowment…and maintenance of at least one college where the leading object shall be…to teach such branches of learning….in order to promote the education of the industrial classes" (Federal Funds, 2014). The next wave of federal aid to schools came through the Smith-Hughes Act of 1917 and George-Barden Act of 1946 to provide direct funding for vocational education, such as agricultural, industrial, and home economics training for high school students (US Department of Education, 2014). This helped pave the way for increased educational opportunities for students within higher education.

World War II Federal Aid

During the Great Depression, federal financial aid funds increased from $21 million in 1930 to $43 million in 1936, which paved the way for World War II spending (Federal Funds, 2014). During the war, federal spending for higher education increased to

a staggering $300 million in 1944, with the bulk of these funds being used to finance research in support of the war effort and to provide training courses to over 315,000 army and navy trainees (Federal Funds, 2014). Then came the Servicemen's Readjustment Act of 1944, more commonly known as the GI Bill. In 1948, the federal government supported more than 1 million veterans attending college (Federal Funds, 2014). Although military research slowed down with the conclusion of World War II, enrollments were increasing at institutions of higher learning during this time (Federal Funds, 2014).

Beginning of Federal Grants and Loans

The first federal loans were provided under the National Defense Education Act in 1958 (New America, 2018). Milton Friedman suggested the federal government issue loans directly from U.S. Treasury funds, and the federal government followed his suggestion (New America, 2018). Today, all loans are issued directly from the Department of Education (New America, 2018). Some of these loans are called Perkins Loans, which is where the government pays the interest while the student is in school. Perkins Loans look at financial need (New America, 2018). A few years later, the Basic Educational Opportunity Grant was created to help needy students attend college in 1972 (Gitlen, 2016). This later came to be called the Pell Grant and is still in full force today. The Pell Grant is awarded to undergraduate students who have not earned a degree, and this grant does not need to be paid back (Student Aid, 2018). For the 2018-2019 school year, the maximum Pell Grant awarded was $6,095 for an individual, and the amount is adjusted each year (Student Aid, 2018). Later on, the TEACH grant was created and is another form of student aid that does not need to be repaid. Although the TEACH grant

does not need to be repaid, it does require the recipient to teach for a certain length of time in targeted locations and provides grants up to $4,000 a year (Federal Student Aid, 2014). These examples showcase the federal government's balance of meeting the needs of college access for poor students and helping subsidize college affordability for wealthier families (Federal Funds, 2014).

Around the 1960s, the United States experienced many shifts and changes in federal education funding. Many programs and opportunities, such as Teach for America, became available to students during this period (Federal Student Aid, 2014). The United States government passed numerous bills that allocated money to higher education institutions. Active and responsible citizens started to discuss in the public forum the role of higher education and alternative routes to obtain degrees at state universities and colleges.

Department of Education's Role

In 1980, the United States Congress established the Department of Education as a cabinet-level agency (US Department of Education, 2014). This helped it focus in all areas of education, including elementary, secondary, and post-secondary schooling. Currently, the department provides grants, loans, and work-study assistance to more than 15 million post-secondary students in the United States (US Department of Education, 2014). Overall, the goal of the Department of Education is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access (US Department of Education, 2014). Despite it having the smallest staff of the cabinet agencies, its discretionary budget is the third largest and lags only behind the Department of Defense and Department of Health and

Human Services (US Department of Education, 2014). In 2013, the Department of Education made over $120 billion in new loans to support students in higher education (US Department of Education, 2014).

Direct Lending by Federal Government

In 1992, the Higher Education Act was amended, and FAFSA (Free Application for Federal Student Aid) was created, along with unsubsidized Stafford loans that offer low, fixed interest rates and flexible repayment options (Gitlen, 2016). The federal government is now directly lending money to borrowers, in addition to commercial lenders. In 2005, the Higher Education Reconciliation Act was passed, which in turn allows students to take out PLUS (Parent Loan for Undergraduate Students) loans and also reduces the loan fees (Gitlen, 2016). A PLUS loan, according to the U.S. Department of Education, “are federal loans that graduate or professional students and parents of dependent undergraduate students can use to help pay for college or career school” (Student Aid, 2018). When a student or parent takes out a PLUS loan, the U.S. Department of Education is the lender, and it does not issue the loan if the applicant has a poor credit history (Student Aid, 2018). Also, the maximum PLUS loan amount is the cost of attendance minus the total amount of other financial aid received (Student Aid, 2018).

Great Recession and the Federal Government’s Impact on Aid

In 2007, the Great Recession came and caused problems within credit markets, resulting in many private lenders ceasing to provide loans to students. It also forced the federal government to reexamine its role in higher education in their evolving strategies for economic recovery (Douglass, 2010). Political leaders tend to see higher education as

a short-term key to economic recovery and long-term global competitiveness, often connected to their political viability (Douglass, 2010). Douglass (2010) argues the national response, therefore, should be to continue to fund higher education federally at current or higher levels regardless of the political cycle. During the Great Recession, Douglass cautioned that unless Congress renewed funding support on a similar scale for states that are experiencing large budget deficits, the financial health of America's universities and colleges would suffer.

During the Great Recession, the federal government responded to the student debt crisis by promoting efficiencies and innovation. For example, the Obama administration's first stimulus package helped states cover large deficits within public service markets and helped increase enrollments at the community college level (Douglass, 2010). The thought process was that many of these community colleges would filter students to a four-year college or university, such as St. Cloud State University. The American Recovery and Reinvestment Act of 2009 committed $100 billion to education, with $8.5 billion allocated to California alone (Jones, 2009). However, states continued to have limited opportunities to borrow money for higher education operating expenses, and states such as California were forced to lay off faculty and staff, reduce salary and benefits, and eliminate courses that resulted in delayed student graduation rates (Douglass, 2010). Despite the financial difficulties of some states, the federal government continued to invest in research at institutions of higher learning. Federal support for research increased from $1.8 billion in 1965 to $21 billion in 2000 (Federal Funds, 2014). The federal government is a major sponsor of research and development in the United States, with a significant portion spent on applied research (Peters, 1978). This is helpful

to link with student aid, such as loans and grants because some aid is correlated to research and development.

During the Great Recession, there was a dropout of private lenders. Thus, the Department of Education stepped in to direct lending due to the large private bank failures and credit markets. This coincided with new legislation that required all federal student loans to be direct loans in 2010 (Gitlen, 2016). However, it also resulted in more private lenders offering private student loans to students (Gitlen, 2016).

The federal government never intended their direct loans to support students this much in higher education (Aker & Chingos, 2014). However, since 1965, when some of these loans and aid were created, there have been significant changes in students. One of the most apparent is the shift in increasing educational attainment. Roughly 25% of student debt since 1989 is from students obtaining advanced degrees, which resulted in borrowers carrying an average debt load of more than $40,000 versus the bachelor's degree average debt load of $16,000 (Aker & Chingos, 2014). Secondly, the research found that households with some college history but no degree have increased their household debt from 11% to 41% after attending college partially (Aker & Chingos, 2014). This brings up the point about college drop-outs with no degree and who should be held accountable, including how to structure their debt repayments.

The history of federal student loans helps us understand the changes higher education has gone through over time. Student loans were created to help students attend college and obtain their degrees. These loans help students cover the gap when scholarships, grants, family, and other savings are not enough. As the costs of higher education continued to rise, students continued to take out loans to bridge this gap and

allow them the opportunity to invest in themselves.

Therefore, in order to increase government support for higher education, Bowen suggests a major reprioritization and transparent process of “re-branding” higher education in the United States to follow the public good definition (Bowen, 1977, p. 43). Graduates can show the world the impact higher education has made on them, and higher education can show the world how efficiency is practiced within it (Bowen, 1977, p. 43). Bowen, a trained economist, explains that efficiency has a place in education when he stated “…there are better ways and poorer ways of going about teaching-learning, and there are also more expensive and less expensive ways of going about it” (Bowen, 1977, pg. 43). The good news is that 66% of the public agrees that “higher education is teaching students what they need to know,” so it appears the majority of the public believes in the current goals of higher education. (Immerwahr, Johnson & Gasbarra, 2008, p. 1).

Throughout modern United States history, higher education continues to attempt to maintain access to institutions of higher education for low-income, college-qualified students. However, the burden on families has shifted considerably since the passage of the first Higher Education Act. For instance, a family in the bottom quintile was required to pay 13% of their student’s tuition in 1960. In 2004, it increased to a requirement of 27% of tuition at a four-year public university (National Center for Public Policy and Higher Education, 2004) With this increase in family financial contributions, there are now fewer low-income students who can afford college.

In 2017, the average college student relied on scholarships, loans, and income and savings to pay for college (CNN, 2017). According to Sallie Mae, the

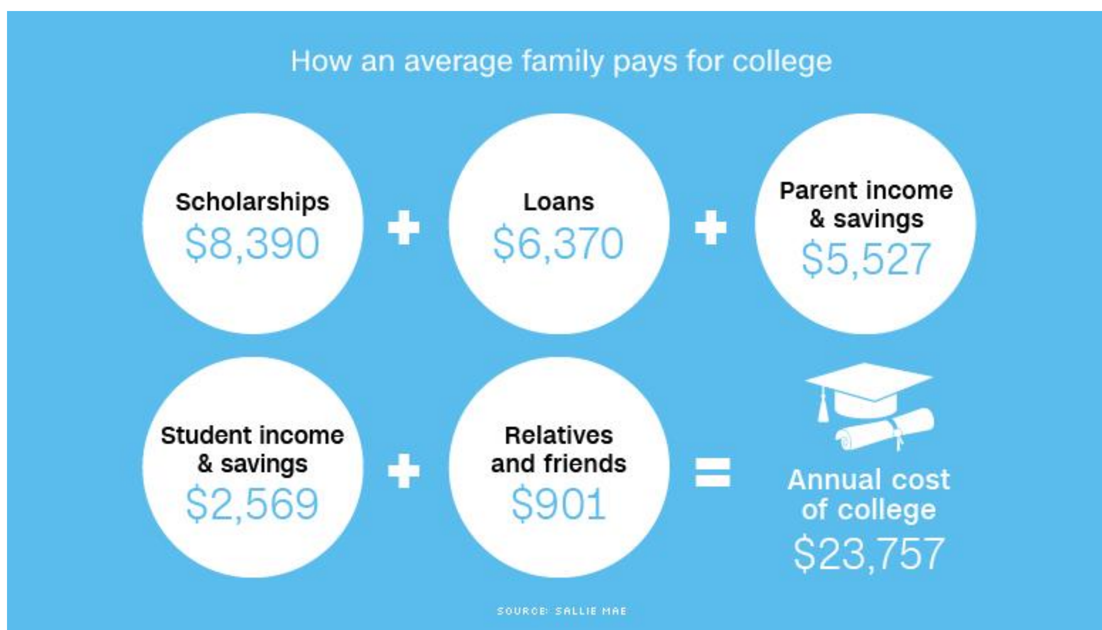

Figure 1. College Costs (CNN Money, 2017).

average family paid an annual cost of $23,757 for college in 2017 (CNN, 2017). Examining Figure 1, the annual cost of college is paid for with scholarships ($8,390), loans ($6,370), savings ($5,527), student income ($2,569), and relatives ($901). According to a survey of college and university presidents, many express that government should do more by reinvesting in higher education, students need to pay more in tuition and fees (offset by more financial aid), and the private industry should help with partnerships and philanthropy (Immerwahr, Johnson & Gasbarra, 2008).

Economic Impact

Thus, the economic impact of student loans is crucial to understanding the student debt crisis. In the immediate short term, many economic benefits return to the local economies from higher education, including increased consumerism from goods and

services. Barr (2004) contends that we must educate to provide long term active, responsible, and productive citizens to boost our tax base. Barr is also in strong favor of the federal government funding higher education through financial aid at current levels to boost the net benefit to society, in terms of the positive externalities education can bring. However, this also needs to translate into the challenges and realities of students taking out loans in higher education. Besides time management, classwork, and relationships, the financial aspect of attending an institution for two years (or beyond) can be financially draining for a student. By examining the factors that lead them to select various aid options, it can help the government and institutions guide the students to select the options with the most significant economic benefit to them, according to Barr (2004).

Public or Private Good?

Not everyone agrees that higher education is a public good (or quasi-public good) as students learn in basic economics. Public goods encourage public support through the "positive externality" of education argument, which highlights that education correlates into increased pay and helps our economy grow overall. This is a basis for the case of increased federal funding. Essentially, since education promotes increased benefits to society overall in spillover effects, the public should promote this good beyond the K-12 public school system for increased benefits to society as a whole.

One rebuttal to the positive externality argument of higher education funding is not that education is unbeneficial to society, but that the cost of obtaining a degree is getting too high for many students and the federal government to fund (Reich, 2014). Opponents tend to focus on re-evaluating the structures that are currently in place at

institutions of higher learning and focus on ways to make them more efficient (Reich, 2014). This, in turn, will help lower tuition and fees (and resulting student loans), Reich argues (2014). A typical four-year liberal arts degree is hugely expensive and amounts to piles of student debt and Reich is concerned that too many young people graduate with debts that will take decades to pay off (2014). Instead, Reich wants to investigate other ways to enter the middle class (Reich, 2014). For example, Reich points out that America is not educating the technicians we need to fill jobs such as hospital or automobile technicians, and in turn, we've allowed the vocational and technical education to be "downgraded and denigrated" (Reich, 2014). He urges the United States to look at Germany's world-class technical education as a guiding example (to an extent) and also encourages the United States to combine the last year of high school with the first year of community college to improve the economy and student loan crisis (Reich, 2014).

Frank (2014) contends that America is painting a "utopian" picture of the American University, and in reality, "higher education is the industry that sells tickets to the affluent life" gateway. With students experiencing record highs of student debt and textbook prices increasing 812% over the last thirty-five years, Frank argues higher education costs are spiraling out of control and directly contributing to the increased student loans (Frank, 2014). Collectively, Reich and others argue the need to reconsider and reevaluate the goals of higher education to the individual and society in order to control student debt (Reich, 2014).

The 2007 Great Recession and declining middle-class incomes were significant factors that caused the increase of student loans (The Federal Reserve Bank, 2015). Students and their families simply did not have the money on hand to pay for their

attendance and had to use loans to help finance education. Secondly, the lack of financial knowledge of students and their families with regard to making educated choices about financial aid packages was a factor. The Federal Reserve Bank (2015) highlights that students are taking out more financial aid than they needed to finance items above and beyond tuition and books, such as living expenses. As the costs of housing, transportation, and childcare increase each year, students borrow more in order to pay their living expenses while attending school.

Theory of Choice, Behavioral Economics & Financial Aid Offices

It is crucial to examine approaches and theories of how people make important financial decisions, specifically with their financial aid packages. "Rational choice is defined to mean the process of determining what options are available and then choosing the most preferred one according to some consistent criterion" (Levin & Milgrom, 2004). To start, this theory states that individuals have preferences and make choices based on those preferences to maximize their utility (satisfaction). The rational choice model assumes that rational people will correctly weigh the costs and benefits to choose the best option (Heshmat, 2017). The rational person practices self-control, never flip-flops between two desires, and know their present and future preferences (Heshmat, 2017). Although this may help us understand some individuals, it is also not true of all. Therefore, it can be used as a base to frame our questions, but also need to include lessons from the field of behavioral economics. Behavioral economics acknowledges that people have limited cognitive abilities, trouble exercising self-control, and make choices that have the greatest immediate appeal, sometimes at the cost of long-term happiness (Heshmat, 2017). The benefit of combining these two ways of thinking will

help us understand more fully how students make financial aid choices. Thus, it can help offices of financial aid restructure their environments and messaging to facilitate better choices. One must first understand the reasons students made the choices they did in order to “nudge” them to make decisions in their own best interest. Thaler (2015) describes nudges as “small design changes that can markedly affect individual behavior.” He cautions that all nudging should be ethical and transparent, such as with the student loan information and financial literacy awareness (Thaler, 2015).

One key discussion about choice is, when is a “nudge” different than a “shove” regarding to the study of behavioral economics. For example, if a student wants to become an elementary school teacher and take out $250,000 of loans to obtain that degree, should the academic advisor say something as a “nudge” or recommend a different pathway as a “shove”? It is helpful to understand how financial aid is calculated and what options students have before answering the question in order to understand their financial literacy awareness. Almost everyone is eligible for some type of student aid, and the Free Application for Federal Student Aid (FAFSA) can determine if one qualifies for federal grants, work-study, and/or federal loans (FAFSA, 2018). Students are then presented their choices online, in a printed letter, and/or in their respective financial aid offices. They can choose to accept or reject any of the aid options available or awarded to them, although some aid options come with strict guidelines (such as the TEACH grants). The financial aid office can also help “nudge” the student with making choices and getting more information about additional resources, such as scholarships, enrollment status financial issues (part-time versus full-time), and tax benefits (FAFSA, 2018).

Students should be aware that there are differences between federal loans and private loans, such as the repayment start dates and interest rates (FAFSA, 2018). Students need to be informed consumers during this decision-making process and make sure their school is accredited so they are not scammed (FAFSA, 2018). Lastly, the federal government encourages students to research careers and the demand for jobs in the Occupational Outlook Handbook (FAFSA, 2018).

Choice theory and behavioral economics may help us empower our students, but ultimately, students will make their individual choices based on a variety of factors regarding student loans and their subsequent debt. Thus, students will need to understand the impact their individual choices have on their short-term and long-term goals.

Impact on Students

Students and their families are feeling the impact of increased student loan debt. With various grants and scholarships cut, tuition and fees rising faster than inflation, and government funding being cut or stagnating, more students use loans to finance education.

Student Borrowers

In 2018, the total amount of debt for college-loan borrowers was $1.521 trillion (Federal Reserve Bank, 2018). The federal government, a major funder of this debt load, is now able to use the data they gather from their borrowers and make some predictions based on this information. For instance, it shows that 81% of students graduating from four-year public universities are able to pay back their loans within three years (Zinshteyn, 2016). On average, this debt is $29,000 upon graduation, when 10 years ago, it was $19,000 upon graduation (Zinshteyn, 2016). A former student with a debt of

$10,000 is more likely to default than a student with $100,000 in debt, the federal government predicts (Zinshteyn, 2016). Likely, a student with the $10,000 debt never graduated while the student with $100,000 debt likely graduated with a graduate degree and high-income potential, which would lead the latter student to be less likely to default than the drop-out (Zinshteyn, 2016).

The federal government can also gather information about students who are awarded the Pell Grant. The College Board reported that during the 2010-2011 academic year, over 9 million students received Pell Grants (36% of all undergraduates), and 8.7 million students received federal student loans (47% of all borrowers) (Heller, 2013). Fast forward to 2016-2017, and it decreases to 32% of undergraduates that received Pell Grants of the 22.4 million students enrolled (College Board, 2018). One noteworthy item is the increase in awarded Pell Grants from 2007 to 2011 was roughly 25%, and Heller links this directly due to the economic downturn (lower family incomes and assets) and the job market (as prospects worsen, college attendance goes up he argues) during the Great Recession (Heller, 2013). However, since 2011-2012, both the number of undergraduate students and Pell Grant recipients have declined by over 2.3 million (College Board, 2018). With fewer undergraduates, the number of Pell Grants awarded has also decreased (College Board, 2018).

Financial Literacy Awareness of Students

Along with the choices students make about financial aid packages comes their financial literacy awareness. Ducoff (2019) describes that student debt is not necessarily the problem with this crisis. The problem is a lack of information for high school students from state and local governments about the cost of college. Ducoff argues that our

government spends a substantial sum on fighting things such as substance abuse at the 5-12 level, but little on financial literacy (Ducoff, 2019). According to Ducoff, efforts should be made to provide adequate information, education, and support systems for students and their families to make smarter college choices while they are still in high school (2019). If the government provides this financial literacy training, students (and their families) would have more awareness of their college and major financial outlooks.

A recent analysis by Renter predicts the Class of 2018 will be able to retire at an average age of 72 if they budget carefully for student loan repayment, retirement savings, and living expenses (Renter, 2018). Renter emphasizes this length to showcase the trade-offs the students will face with student loan payments and other life goals. If students choose to save for retirement and buy a house, along with paying back their student loans, it will take longer for them to pay off their student loans than if they put all that towards student loan debt repayment. There are many things they can do to make this easier on themselves. Renter recommends a combination, including graduated repayments, extended repayment plans, income-driven repayments, consolidation, and refinancing (Renter, 2018). Each comes with costs and benefits to the student. Barr argues that nations must have discussions on student loan repayment (Barr, 2004). He outlines there are two main perspectives; one basing repayments on where people start (low-income students regardless of what income they earn in the future) and the second on where people end up (income-contingent with focus on the financial benefit of degree) (Barr, 2004). However, it is also crucial to understand where and how they are getting information pertaining to their options in order to make an informed, educated choice regarding their student debt initial acceptance and future repayments.

Even if students have studied choice theory and believe they are rational decision-makers (with a healthy dose of behavioral economic understanding), research still finds that financial literacy is low among young adults (Perkins, 2016). Students seem to lack understanding of what a manageable amount of debt load is (8% of monthly gross income is often recommended as the upper limit) and what their future cash outflows may be based on their occupation (Perkins, 2016). Students need to be aware of what their future budgets will look like in order to make rational decisions and choices of financial aid packages. For example, asking the questions, "Can I reduce my costs and loans while in college? Or "How do I increase my future earning power?" can have a positive impact and motivate students to develop strategies to improve their future outcomes (Perkins, 2016). These questions can help guide and serve as a broader discussion on choices and help students understand their decision-making process better, so they are informed of their choices. If students can be motivated to take ownership of their financial situation, such as meeting with a financial counselor, they can improve their long-term financial outlook and hopefully reduce their debt (Perkins, 2016). Previous research has found that 47% of student loan borrowers put off buying a house, 47% delayed buying a car, 35% delayed starting a family, and 23% put off starting a business all in order to meet their monthly debt repayments (Perkins, 2016).

Choosing College, Educational Earnings and Choices of Aid

Another area to examine is the choice of aid offered to students and the education they receive about each choice of aid. Specifically, examining how students are analyzing the costs and benefits of each aid choice to select the one that is best for them in their situation. It is also important to ask students why they chose to go to college.

First, it helps to look at why people decide to attend college. Mason explains that she learned from an early age that “education is something that no one can ever take away from you” (Mason, 2012, p.1). Although Mason describes college as a huge sacrifice, she also goes on to say it enriched her life and made her a better person (Mason, 2012, p. 1). Smith also concludes that liberal education is important and we have a “responsibility to open students’ minds to the broad range of knowledge, to foster a sense of critical thinking about life and society and to bring classroom experiences to the attention of policymakers” in order to convince others that higher education is worth funding with an individual’s time and money (Smith, 2003, pg. 1). In 2015, the Washington Post dug deeper into this issue and reviewed various surveys of reasons people elected to go to college. They found that the top reasons were to be able to get a better job (86.1%), to learn more about things (82.2%), to get training for a specific career (77.1%), and to be able to make more money (72.8%) (Rampell, 2015). It is interesting to note that the largest percentage-point increase over time was in “make more money,” increasing from 44.5% in 1971 to 72.8% in 2014 on the annual Cooperative Institutional Research Program surveys, which have been done for over 40 years (Rampell, 2015).

Second, it is noteworthy to examine why students finance substantial portions of their schooling costs. As previously mentioned, student loans help cover the gap when other sources of funding (such as institutional grants) do not suffice. The federal government, along with private institutions, act as direct lenders to help finance higher education. To determine the amount of these loans, students need to make choices and

educate themselves so they can make the best decision. Students need to consider the perceived future earnings they will gain from a degree to make an informed decision. Research shows that the more education students receive, the more income they will likely make on average (Klor de Alva & Schneider, 2011). In 2015, the BLS reported the median weekly earnings of full-time workers with at least a bachelor's degree was $1,193, while the median weekly earnings of full-time workers with only a high school diploma was $668 (Bureau of Labor Statistics, 2015). Over a 45-year career, this calculates to over a million dollars.

It is important to note, however, that the "more education, more pay" argument does have its critics. For example, the Institute for Women's Policy Research (2018) states that in 2016, full-time female workers made only 80.5 cents for each dollar earned by men. They attribute this to outright discrimination in pay, hiring, and promotions. They project it will take until 2059 for women to reach pay parity (Institute for Women's Policy Research, 2018). The gap is even larger for women of color, with Hispanic women achieving parity in 2233 and Black women in 2124 (Institute for Women's Policy Research, 2018). Thus, one must acknowledge and note that discrimination and differences in pay exist when examining the Bureau of Labor Statistics data, regardless of the education one receives.

Third, research is needed between the link of students' aid choices and their expected employment rate based on their education. According to the Bureau of Labor Statistics, the unemployment rate for individuals with only a high school diploma was 5.4% versus individuals with a bachelor's degree at 2.8% in 2015 (Bureau of Labor Statistics, 2018). Add in a master's degree (2.4%) or doctoral degree (1.7%), and it again

shows that more education leads to better prospects for employment (Bureau of Labor Statistics, 2018). Students may be basing their loan decisions on expected employment rates connected to their educational attainment.

The ability to earn a higher income and be employed, along with the investment in human capital, are all reasons that students choose higher education. On average, a college degree results in higher incomes and college debt could be viewed as an investment in human capital (Klor de Alva & Schneider, 2011). A college president describes this investment as “The prevailing economic analyses that I have seen of the lifetime value of a college education to those who receive it would place college education among the finest investments any individual could ever make in themselves or in their long-term well-being” (Immerwahr, Johnson & Gasbarra, 2008). A reason for students taking out large sums of debt, therefore, could be they expect to earn higher wages with their degree, gain employment, and value the return on investment that education provides.

Once college is chosen, students must choose how to fund it. When faced with choices of the amount of aid to take, students also consider ways to minimize their costs and make sure their repayment plan can work for their lifestyle. In order to examine these choices, it also could be beneficial to examine the United Kingdom’s approach to funding higher education and the choices provided to students. In the UK, they are also facing an increasing amount of overall student debt. It is projected that 77% of UK graduates will never pay off their full student debt if the current system stays in place, due to a recent increase of 83% in higher education costs (Funding, 2018). This is influencing the choices students are making regarding their education. Students in the UK are choosing

to live at home and attend local universities to help minimize their costs (Funding, 2018). Their approach is to stay close (geographically speaking) to home and attend local institutions to minimize their debt. This suggests when faced with rising tuition and subsequent student loan debt, UK students are making choices to minimize costs and are thinking long term when faced with financial aid choices.

Geographic Location and Opportunity Cost

One factor that could influence how much U.S. students take out in loans could be their geographic location when attending college. Students may need to take out additional sums of money to finance their education due to geographic location. Commuting and living costs may play into the total amount of student loan debt taken out. Rural students need as much help navigating their college experiences as first-generation students (Marcus, 2018). Although rural students tend to score better on national assessments than urban students, only 59% of them go straight to college versus 67% of suburban students (Marcus, 2018). Therefore, institutions of higher learning are beginning to recognize this and provide specialized advisors, scholarships, mentors, and courses for rural students (Marcus, 2018).

Johnstone argues that since more children are growing up in poverty within the United States than ever before, both in rural and urban settings, access is becoming more of a financial issue by the institution's "gatekeepers." Johnstone (2009) identifies three themes in his student access research that focus on quality, access, and efficiency. Access can be the Internet connection needed to access an online class or transportation access to travel to a face-to-face class at a university, such as the rural student example. This is also linked to social class and status. Low-income students are struggling with

campus engagement and increasing their social and cultural capital, which can impact their belonging and perceptions of accessibility of services on campus (Ardoin, 2017). In order to address this group's specific opportunity costs of attending college, more needs to be done to recognize the social justice and inclusion issues they face, such as opening up more opportunities for low-income students to fit their needs and resources (Ardoin, 2017).

Gatekeepers, such as admissions staff or administrators, can help promote increased access in rural and urban settings. One example is creating satellite campuses in rural areas, such as the Anoka-Ramsey Cambridge Campus in Cambridge, Minnesota. This satellite campus is an extension of the Anoka-Ramsey Community College in Anoka, Minnesota. These are two very different settings, but both offer and deliver the same classes to the students who need them. St. Cloud State University has also developed a satellite campus in Plymouth, Minnesota, to help students (geographically) attend classes in person within the urban setting.

However, access can still be a limiting factor by both socio-economic and geographic forces. The average cost (for the college) will be higher in order to deliver a college education in rural settings because of economies of scale, and the principle of opportunity cost will factor in when students need to travel long distances to attend classes. For example, think of the basic economic principle of opportunity cost. Opportunity cost is defined as the next best alternative one gives up when making a choice (McConnell, Brue and Flynn, 2011). As students commute, they are giving up many things, ranging from family time to work. Therefore, the longer students commute, the higher the opportunity cost of attending that institution of higher learning becomes.

This is in terms of both students' time and money, which could result in increased amounts of student loans to cover the additional costs. The distance students travel to attend in-person classes, their perceived opportunity cost of attending institutions of higher learning, and the associated costs of attendance can be analyzed.

Mangan describes research done to analyze how geographic areas influence the attendance of "high-status" institutions in the United Kingdom (2010). Part of the findings focused on a large decrease in the probability of attending a high-status institution when there was not one close by (Mangan, 2010). This is in addition to the findings that working-class students were more likely to restrict their choice of higher education institutions based on geography (Mangan, 2010). Some explanations could be that those students want to continue to live at home to reduce their costs and maintain participation in their local networks (Mangan, 2010). This also brought up how the emergence of the online degree could vastly alter this landscape and suggested additional studies to monitor those trends (Mangan, 2010).

Impact on Higher Education Institutions

Institutions of higher learning have a significant stake in the student debt crisis. Colleges and universities are discussing how to decrease the costs of higher education without decreasing the quality of instruction. With over 18 million people enrolled in the United States in higher education, many surveys have shown the majority of the U.S. public believes the rising cost of college is a serious national issue (Immerwahr, Johnson & Gasbarra, 2008). A "good" policy will require policymakers to examine and understand the forces behind the concern (Archibald & Feldman, 2006). As Taibbi (2017) questions, "How can any child not born in a yacht afford to go to school these

days?", referring to tuition frequently passing $50,000 a year. As with any budget, one must examine the revenue stream and also the expenses stream to identify what areas to adjust to make a desirable (and balanced) budget. As higher education costs rise, institutions are attempting to balance the budget by increasing the revenue stream. Thus the price of attending college continues to increase.

According to the Institute for College Access and Success (2015), the average graduate in 2014 had loans totaling $28,950 at the time of graduation. Specifically, the same study mentioned that Minnesota ranked 5th in terms of total student debt at $31,579 (Institute for College Access and Success, 2015). Therefore, as costs continue to rise, institutions of higher learning can be impacted by decreased enrollments. Students will simply not be able to afford higher education. Alternatively, worse yet, they might choose not to pursue a degree because the opportunity cost is simply too high.

In 2012, President Barack Obama put higher education "on notice" about the escalating costs and opened the debate yet again about the rising costs of higher education (Kimball, 2016). Howard Bowen's revenue theory of cost describes universities setting their costs based on their ability to raise money and not the actual costs of the work (Bowen, 1980, p. 18). Bowen argues that institutions want excellence and prestige and see no limit of money they can raise, thus, this results in colleges never thinking they have enough money and spending all they raise (Kimball, 2016). This leads to colleges and universities continuing to spend, and in Bowen's own words, "Colleges raise all they can- and spend all they raise" (Bowen, 1980). Bowen's critics argue that not all institutions function this way and cite building up endowments as one example to the contrary (Kimball, 2016).

Another counterexample is the private Ivy League colleges and the high demand for attendance. If they wanted to charge more tuition, they could. However, they choose to give out extremely large amounts of institutional financial aid to select students instead.

Another area of focus within rising costs and increasing student loans, particularly at comprehensive regional institutions, is the "normal" four-year degree path. Students need to know if it is possible for them to actually graduate in four years. The shorter time spent in college is likely to produce a smaller amount of student debt. A substantial empirical literature predicts four year completion rates based on five variables that were deemed significant; 1) institutional financial aid, 2) "real tuition cost" (tuition and fees less institutional financial aid), 3) instructional expenditures per full-time student, 4) student-faculty ratio, and 5) average GPA of incoming class (Raike, 2012). Of the five, institutional aid and "real tuition cost" were the major factors reported to correlate to a four-year graduation (Raike, 2012). This information matters and is out there for students and families to review and see what is significant to consider for a goal of graduation in four years. This could contribute to a smaller amount of total debt needed in order to attain a college degree, thus, decreasing the overall cost of college for some. The more financially literate the students are about their choices and timeline, the more financially "fit" they will be as they choose their college and degree pathways.

Another area of focus on cost is higher education funding. As state appropriations shrink, demand for basic services, and luxury resources at institutions grow and tuition and fees rise, students are left with an increasing amount of debt to obtain a four-year

degree (Archibald & Feldman, 2006). Most colleges and universities believe that in order to maintain quality in the face of rising costs, they must increase their revenue (Archibald & Feldman, 2006). According to Archibald and Feldman (2006), without increased revenue from the government, grants and contracts, private donations, or tuition and fees, the quality will decrease over time. As institutions of higher learning continue to compete for students, an increasing share of their budgets are being spent on the non-educational pieces, such as luxury living and extravagant pools, to attract more enrollments (Kirschstein & Wellman, 2012). The gap between the rich and poor institutions of higher learning and their access to resources is also widening, and these conditions are making the current "cost model" of higher education no longer sustainable (Kirschstein & Wellman, 2012). In order to determine what alternative investments are most cost-effective, colleges and universities must better understand the costs on both a per-student and per-degree basis (Kirschstein & Wellman, 2012).

Bowen and Baumol (1965) detail the economic characteristics of non-profit organizations and issues with institutional cost structures. They highlight two key components of nonprofit organizations; "1) they earn no pecuniary return on invested capital and 2) they claim to fulfill some social purpose" (Baumol & Bowen, 1965, p. 497). As we examine institutions of higher learning in today's world, it is important to note their claim that "objectives of the typical nonprofit organizations are by their very nature designed to keep it constantly on the brink of financial catastrophe" (Baumol & Bowen, 1965, p. 497). Essentially, it argues that these goals set up a system where "limitless" funds pour into nonprofits. As described, "as soon as new money becomes available to a nonprofit organization, corresponding new uses can easily be found"

(Baumol & Bowen, 1965, p. 497). Therefore, it continues this system where the nonprofit constantly feels it never has enough money to satisfy its goals and feels “strapped.” As institutions of higher education continue to receive new money, they continue to try and satisfy their social purpose, but keep coming up “short.”

Therefore, more is needed to understand the borrowing behavior of today’s students and the various factors that play a role in the amount of debt incurred in the wake of these rising costs, while also considering the role of the institution itself.

Summary

Funding and student debt have been and are currently major issues for institutions, students and the government. For example, examining Gross Domestic Product (GDP) shows the United States had a GDP of $605.1 billion and spent 2% ($12.1B) of its budget on education in 1962 (Government Spending Detail, 2012). In 2012, the United States had a GDP of $16,244.6 billion and spent 3% ($486.7B) of its budget on education (Government Spending Detail, 2012). This has impacted institutions of higher education, students and the government by forcing decisions to be made with these dollars, including student loan financing and debt.

Chapter 3: Methodology

This study focused on the two research questions; What impacts the amount of debt a student takes on in higher education? and How does financial literacy influence students' choices of loans? This study used qualitative research. By using qualitative research, one seeks to use a naturalistic approach to understanding phenomena in context-specific settings, where the researcher does not attempt to manipulate the phenomenon of interest (Patton, 2002, p. 39). Qualitative research offers flexibility in being able to ask individuals detailed questions regarding their perceptions and experiences, specifically about their student loan (and debt) experiences. The study also examined the student's financial literacy knowledge and how that shaped their choices regarding financing higher education at St. Cloud State University.

A thorough qualitative study aims to get a better understanding through discussing perspectives and using quotations of actual conversations (Tracey, 2013, p. 91). By asking questions to former students regarding their student loans and financial literacy awareness, the researcher attempted to understand the perceptions they have and how they derive meaning from their surroundings or how they experienced the student loan election process. Therefore, my interpretation was based on my perspective, choice theory, and the data collected during this study. The primary research method was to interview former students over the phone. According to Tracey (2013), "Qualitative interviews provide opportunities for mutual discovery, understanding, reflection and explanation". This method allowed for open-ended questions while gathering data.

The interview questions allowed the participants to share their personal experiences with student loans, their debt level (if applicable), and their perceptions about

financial literacy at St. Cloud State University and beyond. When interviewing the participants, I was especially concerned about gaining their trust so they could share their ideas, opinions, perspectives, and experiences regarding the subject matter. The data was recorded and transcribed into text for analysis. Participants were given time to review the data and make any changes if needed. Then, the data was coded and reviewed to discover common themes, patterns, or phenomena within the sample size. The study looks at 11 students who graduated from St. Cloud State University.

Research Design

A qualitative study can help us "understand a situation that would otherwise be enigmatic or confusing" (Eisner, 1991, p. 58). The research design of this qualitative study focused on the "collection, analysis, and interpretation of interviews in order to understand and describe meanings, relationships and patterns" (Tracey, 2013, pg. 36). As Tracey (2013) describes, the research design is intended to collect data through interviews and use that information to analyze the relationships, patterns, and values that emerge within the interview groups. The study started with interviewing the participants and then coding the data for analysis.

The primary method was a set of interview questions for each participant, which was completed individually. All interviews were semi-structured in design. (See Appendix A for a list of interview questions.)

Sample

Perceptions of financial aid and family contributions can vary greatly. For this study, St. Cloud State University students who attended between Fall 2010 – 2018 (and graduated by Fall 2018) were the focus. This sample size will give a current look at the

realities of financial aid and student loans at St. Cloud State University over the last decade.

Founded in 1869, St. Cloud State University is a comprehensive, regional university located in Central Minnesota (St. Cloud State University, 2019). About an hour north of the Twin Cities, St. Cloud State University resides in the St. Cloud metropolitan area (St. Cloud State University, 2019). The 100-acre campus offers more than 200 majors, minors, and graduate programs (St. Cloud State University, 2019).

As Minnesota's second-largest public university, over 15,400 students attend the institution, with a high percentage of them taking out student loans each year (St. Cloud State University, 2016). In 2017, over 65% of incoming students took out a loan to finance their education at St. Cloud State University, which averages $7,277 a student per year (College Factual, 2017). On average, the typical student in the United States graduated with $37,712 in debt in 2016. This equates to an average repayment of $351 a month (College Factual, 2017). Therefore, St. Cloud State University students are somewhat similar to the national averages (with four-year loan totals of $29,108 on average) and will be a good starting point for data collection in this study (College Factual, 2017). St. Cloud State University is ranked number nine in Minnesota for the lowest student loan debt per graduate (St. Cloud State University, 2019).

The initial interviews were sampled from university records and snowball sampled (referred) from the participants who were recruited. Because there was difficulty with recruiting participants, participants were also recruited by university staff and faculty members. The researcher sent out emails to university faculty and staff members that requested help with recruiting additional participants, and the faculty and staff

members emailed former students to invite them to participate or provide email addresses for the researcher to contact potential individuals. Interviews were conducted over the course of three months. All interviews conducted were phone interviews that lasted from 20 minutes to 45 minutes. In total, 11 individuals were interviewed, with each participant given a unique pseudonym. Below is a table that indicates the participant demographics in terms of the pseudonym, major, debt level upon graduation, location and year graduated:

Participant	Major	Debt Level Upon Graduation	Location	Year Graduated
Katrina	Community Health	$28,000	St. Cloud, MN	2015
Linda	Geography	$21,000	St. Cloud, MN	2015
Rhett	Community Health	$48,000	St. Cloud, MN	2014
Simon	Community Health	$40,000	Rice, MN	2016
Ben	Community Health	$47,000	St. Cloud, MN	2016
Carly	Finance	$21,000	St. Cloud, MN	2017
Colin	Business	$0	Maple Grove, MN	2014
Jose	Accounting	$25,000	St. Cloud, MN	2014
Kelly	Education	$41,000	St. Cloud, MN	2015
Elly	Education	$0	St. Cloud, MN	2018
Gwen	Community Health	$0	St. Cloud, MN	2017

Figure 2. Demographics of Study Participants

All but two of the participants lived in the St. Cloud area while attending St. Cloud State University. The participants of this study had an average student loan debt of $24,636.36 upon graduation. The median amount of student loan debt upon graduation was $25,000. All but three of the participants had student loan debt upon graduating from

St. Cloud State University, as indicated in the above table. Colin and Elly indicated they paid off their loans during college through working and family support. Gwen explained that she received a full athletic scholarship that eliminated her tuition, fees, and housing costs.

Most of the participants indicated they were "traditional" students and defined traditional as going directly from high school to college (no gap year) and graduating within the four-to-five-year range. All participants are currently working in various roles related to their major field, with seven in the private sector and four in the public sector.

Data Collection Methods

Participants were first contacted to schedule dates and times for the interviews. In the initial contact, participants were given a brief synopsis of the purpose and scope of the interview, along with subsequent goals of the study. All received a copy of the informed consent form in advance for their review and for them to ask any clarifying questions regarding protocol and confidentiality. Each participant had the option to meet at St. Cloud State University or another location of their choosing or conduct an interview over the phone. All participants chose to conduct their interviews over the phone. Once their interview started, the informed consent form (Appendix B) was reviewed, and the process of the interview was explained. Each participant was informed that they are allowed to leave the study at any time, not answer certain questions, or ask clarifying questions if needed. During the interviews, responses were recorded digitally on an Olympus voice recorder with the participant's consent. Upon the start of the interview, each participant was told their names would be confidential, and they can review all of the information once transcribed. Once the process of transcription was

complete, the transcripts were sent to the interviewee. Then, interviewees noted any changes or additions to the data collected to ensure accuracy. They were encouraged to ask any follow-up questions and told they may be contacted with additional questions. Interviews were conducted between May and August in 2019 and each interview lasted between 20 minutes and 45 minutes.

Data Analysis

Once the interviews were complete, Corbin and Strauss (2008) recommend reviewing the data from the interviews as soon as possible. Within a week of the interviews, the data was transcribed. After the process of transcription, all participants were emailed their transcribed interview and given up to two weeks to review and make any changes. Participants who did not respond were contacted to confirm receipt of the transcript and remind them of the timeline for review. Coding the information was the next step in analyzing the data.

Coding refers to "labeling and systematizing the data" (Tracey, 2013, p. 186). When coding, the researcher analyzed direct quotes from the participants and looked at emerging themes. The researcher manually coded the interviews from the transcribed interview printouts and separated the quotes into themes based on individual quotations. These identified common themes amongst the participants, such as "parent involvement", "commute time" and "prior financial education". The similarities and differences between participants were analyzed through their own words, perspectives and experiences shared with the researcher.

Data was gathered that explains the perceptions of financial aid, factors that determine loan amounts, and financial literacy awareness of students. The findings help

answer the research questions and explain perspectives with specific examples and experiences noted by the study participants. Various interpretations and preliminary realizations occurred throughout the process of the interviews, so adjustments were made as needed. A reflective journal was used throughout the research process to keep track of research findings, perceptions, and interpretations.

The interviews served as the primary source of research data and subsequent findings. After every two interviews, both were coded and reviewed for emerging themes. Following this method allowed the researcher to ensure that the grounded theory methodology was embedded throughout the data collection part of this study, and appropriate themes could emerge. The researcher also referred back to the literature review to make connections and identify emerging themes during the data analysis process. When reviewing the data using open coding, each line was manually coded and arranged with the entire data set to link to new or existing codes. This allowed the researcher to examine similarities, differences, and significant findings when analyzing the data set. The process uses selective coding to review the transcribed interviews for additional codes, categories and themes that emerged. This was done by finding direct relationships between interviews and using word-count queries when able. (Appendix B outlines the interview protocol and interview questions.) The researcher was able to identify common themes and review the transcripts for further analysis.

Research Bias

The researcher must acknowledge that bias and subjectivity exist. There can be multiple perceptions of reality. Therefore, it is important to acknowledge this and make every effort to disassociate from personal experience. This can be done, as described by

Crotty (1998), by using constructivism. Constructivism views knowledge as socially constructed and that it may change depending on the circumstances. Crotty (1998) defined constructivism from the social perspectives as "the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context" (Crotty, 1998). Some possible biases could influence this research. I am a former student at St. Cloud State University who took out student loans during my enrollment. I have made every effort to disassociate my personal experience with this and the events from the interviews in order to minimize the effects of any bias. However, my personal experiences and perspectives play a role in how I view the research and data. Overall, I had a positive experience with my loan approval and acceptance process. Since my training is mostly in the field of economics, I need to realize the impact of my approach as a “rational decision-maker” and how that can influence my assumptions during this study and beyond.

IRB

This study was submitted to the Institutional Review Board (IRB) for approval to ensure participants remain confidential. There is informed consent, and the risks to participants were known and examined. St. Cloud State University’s IRB process was followed by completing the required IRB training and filling out the appropriate forms. Once a formal letter of approval for the study with human subjects was received, the interview process started. After analyzing the data, the IRB received a final report in January 2020.

Summary

This study used the qualitative approach of in-depth interviews to answer the research questions. The study focused on 11 individuals and the data was analyzed through the coding method. Emerging themes were identified to make conclusions and recommendations for further research.

Chapter 4: Results

This chapter contains the results of the study conducted to answer the research questions; What impacts the amount of debt a student takes on in higher education? and How does financial literacy influence students' choices of loans? Analysis of the data collected through the interviews made it possible to answer the research questions. These results are beneficial to institutions of higher learning for understanding what factors influence students as they select financial aid options. Therefore, institutions can revise and increase their financial literacy education to educate students based on these factors. A synthesis of the data analysis has been divided into major themes so the information could be easily understood and applied. The following key findings are based on data analysis and common themes that emerged from the sample, which does include some subjectivity on behalf of the researcher.

Key Finding 1: Financial Literacy

Financial literacy is an umbrella term used in this research to describe the education of the participant in regards to prior knowledge of student loans, their family's financial guidance, and their perspectives and experiences with student loans at St. Cloud State University.

The participants described their thoughts about financial literacy and the impact their parents had on their student loan and debt choices. Katrina described how her parents were minimally involved in shaping her financial literacy around student loan choices by stating, "My dad didn't really have any part of helping me with my aid packages — he doesn't understand. I was offered some grants with my mom not making

enough income. I was mostly on my own to decide which choices to make." In contrast, Linda shared how much her parents helped her with her choices:

> My parents sat down with me and felt bad that I didn't get any options for federal money because they made too much. They told me I could get a loan elsewhere or get a loan from them with no interest. It was easier for me to trust them, and the no interest influenced me, so that was the easiest option.

Most of the participants described how much their parents helped them when making financial choices, supported them during college, and educated them about their options. Rhett describes how his parents would check in with him regarding his financial state, "My parents influenced me quite a bit. Both are teachers and wanted me to go to college. They were always making sure I was good to go financially throughout the year." He adds, "My parents were pretty involved and had agreed to pay for half of my school. Since I was the last of three children, they were not able to do half but gave me more than I needed" (Rhett). Colin also echoed Rhett's experience when he explained, "My family did not have a lot of money, and I didn't receive a dime for college from them. However, they allowed me to stay in their basement and eat free during college, which is an experience I loved." This highlights some of the different ways parents can support their children during college, regardless of income level.

Some participants shared further detail about how their parents shaped their student loan choices, such as helping them with their loans during school. Rory describes, "My dad paid the interest on my loans while I was in school. My parents 100% drove where I would go to get my student loans."

When asked why they made the choices they did regarding student loan options, Rhett describes:

> This was a new thing — I had never taken out a loan prior to college. I was pretty unaware of my choices. I recall reviewing my financial aid package with others in my dorm, and a lot of us did not know what we were doing. I tried to figure out the minimum I needed and not have any extra.

Simon describes the loan process and his financial literacy by stating, “I had no clue and was feeling in the dark, it was very difficult. I had to ask multiple people at the college for help.” Many of the participants turned to their parents for advice regarding their financial choices. Elly explains this by stating, “I really just went with what my parents told me to do.” Gwen adds, “My parents were very involved and helped me with applications and setting everything up.”

Overall, students described many examples of their financial literacy knowledge by describing their family’s financial guidance involvement and their perspectives and experiences with student loans at St. Cloud State University. Many of the participants made financial choices that were heavily influenced and guided by their parents.

Key Finding 2: Comfortable Debt Level

Overall, the participants seemed to feel comfortable with the debt level they graduated with, meaning they felt it was reasonable and they were able to afford the repayments. Five of the participants paid off their debt from their initial graduation amounts. Participants described their perspective and experiences with debt in great detail during the interviews. Through their voices, it became apparent that many thought the debt level was reasonable. A theme of “comfortable debt level” emerged, such as Katrina

describing, “I felt pretty comfortable with it. It was something I accepted. I was only 21 when I graduated, and I felt that tuition was reasonable and I got a good education.” Similarly, Simon notes, “I feel my student debt is a pretty common amount or relative in reason for the time I spent in school. It is pretty average.”

Furthermore, Rhett noted his debt could be deferred until after graduate school, “College is expensive, but the value is worth it. My debt is attainable to pay off in the next decade and deferred while I am back in school for my graduate degree.” These statements show that the participants thought their student loan debt was reasonable, and college was worth the cost to them.

Individuals would also compare their debt to others, including this statement by Carly, “I feel like it is pretty standard (the debt I graduated with) and on the lower end, but still a large sum of money. I know someone that is $60,000 in debt.” Kelly also expanded on this, “I knew my debt would be higher with study abroad expenses, but still not as high as my private college friends.” Their statements show that students look at debt from both relative and absolute perspectives, including the choices their peers and friends made.

However, some did not like the debt level they had at graduation. They explained they would not go back to school unless it is paid for or free. Because of the amount of debt Rory had incurred, she noted that she would not return to school unless it was free.

> I don’t like the debt level I graduated with. I am thankful for my college degree and would not have gotten my job without it, but I don’t want any more debt than I have now and will not go back to school unless it is free. I plan to continue to be in the public service area so my loans are forgiven, and I can then pay off my private loans.

Furthermore, Jose was not comfortable with his debt, “I was uncomfortable with my level of debt. I thought it was too easy to get money from whatever I wanted. Access to money was a little more than I deserved as an 18-23-year-old child.”

Participants were not shy, however, to expand on their thoughts and feelings about the differences of debt within private versus public schools in higher education. This showcases a threshold of what comfortable debt may be in terms of relative perspectives for the sample. Linda describes this as, “In comparison to friends from private schools, where they had 60k to 80k in debt, I felt my debt was a reasonable amount that I could pay back.” Kelly also mentioned this when she was talking about adding her study abroad expenses to her debt load. Elly chose St. Cloud State University because “St. Cloud State was the cheapest option for me to obtain my four-year degree. I did not want that private school debt.”

Participants noted the perceived value of education and thought St. Cloud State University was a good value overall. Most individuals seemed to feel comfortable with the debt level they had at graduation. Many noted they deliberately chose St. Cloud State University because it was a public university, thus, cheaper than the private school options available to them.

Key Finding 3: Potential Growth and Major Choice

The researcher asked participants how many times they changed their major (if any), and if it the potential earnings of the major at all influenced it. This could impact how fast they pay back their student loan debt and could be a potential factor in student loan choices. Some participants described this had no bearing on their choice of major.

"No, I really didn't think about my future earnings with this career choice" (Rory) and Katrina:

> I wasn't even thinking of how my major choice would influence my career earnings. I was thinking about the notion that I am going to do something that I want to do. It is a waste of a workday if you are doing something you don't want to do.

Other participants explained that their change of major had everything to do with their future earning capacity and ability to pay back their student loans. "The potential earnings of my career influenced my major 110%" (Simon). Elly adds, "I knew I wanted to teach, and when I make only $40,000 a year, I didn't want to have $80,000 in debt." Jose also describes his decision to switch majors due to potential earnings.

> I was going to first be pre-med, but having the weight of all those loans and the thought of coming out of school with 250k-300k in loans did not sound that appealing. I went into business and looked up the highest earning potentials, which was accounting.

The group was split in half in regards to major choice and potential earnings. Of the 11 participants, six expressed they changed their major because they were influenced by potential earnings, whereas, five said it had no bearing on their major choice. Their potential earnings could impact how fast they can pay off their student loan debt.

Key Finding 4: Geographical Influences

The geographic location appeared to impact some students while attending classes at St. Cloud State University. Some students had to commute for classes and internships throughout their college career. This did influence, to some degree, the amount of debt they took out and the trade-offs they faced with their time and money.

> The first three years of school I walked to class in less than 5 minutes. My senior year I had to commute to Little Falls for an unpaid internship Monday through Friday and it limited my work hours. (Katrina)

Students who had to commute every day to class explain their opportunity costs as “I commuted about 30 miles each day to school and had to give up sleep and the financial burden of fuel from work to campus” (Simon). “I commuted about 30 minutes each day. This caused me to exercise a bit less, spend less time with family, miss Timberwolves games and/or miss Netflix shows” (Colin).

Some students intentionally lived close to campus because of the proximity benefits. Linda describes, “I lived near campus (out of the dorms) because it was financially cheaper. I was not spending much on gas and could bike if I wanted.”

Most of the sample lived near the campus and had a five-minute walk to class. A few noted they had to give up some time and money to commute for internships or work, but it seemed to have a minimal impact on their overall debt level.

Key Finding 5: Mistakes and Missed Opportunities

A theme also emerged of common financial literacy mistakes students made and missed opportunities due to their lack of financial literacy at St. Cloud State University. For example, Katrina describes a situation with loans and her housing choice that resulted from her not knowing exactly how much her loans would cover for housing. At St. Cloud State University, Coborn’s Plaza Apartments are more luxurious than other dorms and apartments nearby and cost more to rent each month.

> I was only in Coborn's Plaza for three weeks when I realized my loans would not cover the costs. I ended up moving to State View, but in the end I still had to pay $2,000-$3,000 to cover that year of college. (Katrina)

Another financial literacy "mistake" some participants experienced was a lack of knowledge regarding loan terms and obligations. For example, Carly explains, "I didn't understand that I could pay interest in college." By not understanding this, Carly put herself in a situation that cost her money (increased payments with accrued interest) and time (longer repayment plan).

The study also highlighted student's experiences after college and how their loans have impacted them. Some participants brought up that because they have such large repayments of their student loans, they are not able to purchase a home or finance other large assets in their current lives. They wished they would have thought more about their future when taking out the loans they did, such as what Rory describes.

> People around my age are not able to go out and buy houses with $600-700 a month student loan repayments (think about what you could be doing with that money), and when you get a home loan they look at how much debt you have. It is a tough market right now.

When students are faced with a large repayment on their student loans, sometimes their opportunities are limited. Rory noted that some students choose to stay in school and continue to accumulate student loan debt simply because they cannot find a job. "I know some people that have gotten two degrees because they couldn't get a job with their first. Those people are $100k in debt."

In contrast to some of the mistakes and missed opportunities mentioned, other participants seemed to realize the tradeoffs of a four-year degree at a university and decided to go a different route at first, such as Simon.

> To be honest, I am a little cynical about the whole system. Costs are extremely inflated and not getting what you paid for. My thought process was to pay as little as possible and get them done as easy as possible, so I got my AA degree through Alex Tech and Central Lakes before transferring to SCSU.

Simon's experience also aligned with Colin's reality during college, "I am generally pretty debt-averse and did not go into debt at all. I worked and saved money as much as possible." Both made deliberate decisions to save as much money as possible during college and take on the minimum amount of debt needed to attain their degrees. Surprisingly, some even mentioned about their long-term planning. Rory explained how she planned for retirement, even amongst her student loan payments, "I do choose to invest into my own savings and retirement at this age, even though it takes away from money that could be going to student loans.

Common financial literacy mistakes made and missed opportunities due to their lack of financial literacy at St. Cloud State University were prevalent in most interviews. However, there were still a few noteworthy experiences of how students made choices that benefited them during and after college.

Key Finding 6: Changes to Student Loans

All participants indicated, to some degree, the need for changes within the student loan process. Many describe the lack of education regarding loan choices as a

significant problem, as well as future consequences of carrying a large debt load. Katrina and Jose explain what changes they would like to see for future students taking out loans.

> I could have taken out way less and been just fine. I didn't understand. I wasn't thinking about the future and how it is going to impact me financially when I get a job. Will I be stuck with student loans all of my life? A course should be required for students to learn about student loans and the impact they have on your future. (Katrina)

Jose echoed by saying;

> It is really easy to get money, and there is a problem in student loans. First, student should have to be in a one-to-one class when a student signs up for these loans. More checks and balances are needed, it is very unregulated, and students are uneducated, in my opinion. (Jose)

Rhett also mentions the cost of education relative to finding a job, "I do wish the cost of education was lower. When you have $100,000 of debt and can't find a job, that is a crisis."

A majority of the participants discussed how high schools could improve the information given to their students about post-secondary options, such as Simon and Linda.

> I would hope that high schools better prepare students and educate them on their different options — to check out two- and four-year colleges. So much emphasis is placed on the four-year university. Sending all kids to college is part of the debt problem. My older brother wasn't very academically inclined but one of the most

> successful people I know. You don't need to go to a four-year institution to be happy and successful. (Simon)

Linda echoed by stating;

> I was pretty ignorant on choices regarding college financing. Counselors at my high school were supposed to inform me but no one took the time to do so. My senior year my parents and I had the talk of how to finance school, but I still had limited knowledge. (Linda)

When mentioning the topic of providing more education at the high school level, many echoed Rory's comment, "I took a financial class in high school, but there was nothing about college loans." Colin recommends, "Financial literacy is not a sexy topic, but it absolutely needs to be taught in 9th grade to help with financial aid costs. Regardless of your socioeconomic background, finances should not be a barrier of what school you go to."

During the interviews, Katrina described her thoughts on how to improve financial literacy in great detail regarding course requirements and greater knowledge of loan choices.

> We need to figure out a way to offer or require a class for all students to attend to talk about the financial literacy about student loans and options. I know that looking back eight years ago if I saw a flyer that said "Student Loans" or something of that sort I wouldn't have went or thought about going. It is not where your brain is — I am thinking about the here and now. Think of a way — require something in the future. You are required to read through all of those documents. A one-day course or couple hours to learn about the financial literacy such as subsidized versus unsubsidized.

> Require a class that goes over paying for college. If you are on unemployment and working with the local workforce center it is required to take classes about job literacy and finding a job, etc. We need required classes for taking out $30,000 to go to school. I was on unemployment and had a grant-funded job and was at the workforce center looking for a job. Why can't there be a program similar to this through the institution that is offering the package to the student?

Linda summarized much of what Katrina stated, "It is an unfair system and needs to be more forward about how much you will owe. It is daunting to get a $20,000 loan, and there should be check-ins scheduled to keep people on track.

Because many described the lack of education regarding loan choices as a significant problem, a common theme emerged that changes are needed, specifically at the high school level and when students initially take out loans. Simon suggests taking some emphasis out of the four-year university and not sending all students to college. Carly summarizes, "In general, people need to understand personal finance better. People have crippling debt."

Summary

This chapter contains the results of the study and analysis of the data. Of the 11 participants interviewed, six themes emerged to help understand the factors that influence student loan debt at St. Cloud State University, including financial literacy, comfortable debt level, potential growth and major choice, geographical influences, mistakes and missed opportunities, and changes to student loans. The discussion highlights the research and findings in the next chapter.

Chapter 5: Conclusion

The purpose of this study was to identify what factors influence the amount of student loan debt at St. Cloud State University. Student loans hit the $1.521 trillion mark in 2018 (Federal Reserve Bank, 2018). This chapter includes a discussion of the major findings as related to the literature review and connections from this study to the theories and policies. The chapter is organized with a discussion, limitations of the study, implications for further study, and a summary.

Discussion

The research questions of: What impacts the amount of debt a student takes on in college? and How does financial literacy influence students' choices of loans? were investigated during this study. While the 11 participants varied in their paths, experiences, and perceptions about financial literacy and student loan debt, the six common themes were factors in what impacted the total amount of debt students took out and how financial literacy influenced the choices of their loans. Each theme is described in detail in the following sections.

Financial Literacy

Financial literacy is an umbrella term used in this research to describe the education of the participant in regards to prior knowledge of student loans, their family's financial guidance, and their perspectives and experiences with student loans at St. Cloud State University. This directly correlates to the amount of debt a student takes out and influences their choices of loans. The findings show it is recommended to have more financial education regarding post-secondary financing at St. Cloud State University. While some participants did seem to have a good grasp on financial literacy, many

expressed they did not. All participants expressed that more financial literacy education would be helpful. This also coincides with the experts, whom argue that our government spends a substantial sum on fighting things such as substance abuse at the 5-12 level, but little on financial literacy (Ducoff, 2019). Both the experts and the study participants agree there needs to be more effort to provide adequate information, education, and support systems to students and their families to make smarter college choices while they are still in high school (Ducoff, 2019). Few of the study participants took independent ownership of their financial situation, and many relied on their parents for financial guidance. Perkins suggests that by taking more ownership of their financial situation, they can improve their long-term financial outlook and hopefully have less debt (2016).

The research and the experts agree that students need to understand the decision-making process better in higher education and be more informed of their choices. Previous research has found that 47% of student loan borrowers put off buying a house, 47% delay buying a car, 35% delay starting a family, and 23% put off starting a business all in order to meet their monthly debt repayments (Perkins, 2016). The study participants echoed this conclusion, such as Rory when she explained, “People around my age are not able to go out and buy houses with $600- $700 a month student-loan repayments because when you get a home loan they look at how much debt you have.” We can do a better job of educating our students so they are aware of their financial choices. Experts and study participants describe that student debt is not necessarily the problem, but a lack of information for high school students from state and local governments about future college costs is the problem (Ducoff, 2019). During the interviews, many of the participants expressed that they were “clueless” or “ignorant” about their financial state

when entering college. This pairs with the research, which highlights that students seem to lack understanding of what a manageable amount of debt load is, and based on their occupation, what their future cash outflows may be (Perkins, 2016).

The Financial Fitness for Life curriculum was recently updated with a 3rd edition, and "Paying for Post-secondary Education" was a new lesson added to the 9th through 12th grade package. This lesson, which I co-authored, is published by the Council for Economic Education based out of New York City and has a global reach of K-12 teachers. Curriculum such as this could be adopted into high schools for students to clearly understand the vocabulary, concepts and options they have to finance their post secondary education. If high schools included this in their curriculum, students would have been exposed to financial aid options prior to entering higher education and would be more informed consumers because of this prior knowledge.

Comfortable Debt Level

Most participants felt that their debt level while attending St. Cloud State University was reasonable and this surprised the researcher. They expressed that their education was valuable overall and they were satisfied with their outcomes. Many noted they deliberately chose St. Cloud State University because it was a public university, thus, cheaper than the private school options available to them. There were some examples where participants cited peers who attended private schools and graduated with "too much" debt. The study asked participants to report their debt levels upon graduation, and their levels were similar to the national averages. Currently, average debt is $29,000 upon graduation, when 10 years ago, it was $19,000 upon graduation (Zinshteyn, 2016).

However, this study does seem to conflict with some of the literature. For example, Reich describes that the cost of obtaining a degree is getting too high for many students and the government to continue to fund (Reich, 2014). Many of the participants expressed they felt comfortable with their debt level, or at least thought it was reasonable compared to other options. The participants of the study and the literature review agree that it is necessary to re-evaluate some structures of higher education to make them more efficient (Reich, 2014). Given the current projections that in 2037 the average cost for a four-year degree in the United States will be $240,825 (Berman & Zehngebot, 2017), this would be a timely topic to revisit every few years.

Potential Growth and Major Choice

The researcher asked participants how many times they changed their major (if any), and if potential earnings of the major at all influenced it. The sample was split on this, and the study could not make any definite conclusions regarding this theme. Some participants cited they wanted to go into careers they enjoyed regardless of the pay. Others made deliberate choices to find a career that had high potential earnings. However, the common similarity was that they all chose college and graduated with a four-year degree. According to the Bureau of Labor Statistics, full-time workers with at least a four-year degree make $1,193 per week while the median weekly earnings of full-time workers with only a high school diploma was $668 (Bureau of Labor Statistics, 2015). Over a 45-year career, this calculates to over a million dollars and highlights one factor of what may have motivated the study participants to complete their college degrees at St. Cloud State University.

Geographical Influences

This theme was apparent, but not to the extent of other themes that emerged. Most of the sample lived near the campus and had a 5-minute walk to class. Participants noted they had to give up things such as their time and money while commuting to class. The study did highlight that many students choose to live on or near campus because of the short commute, and thus, lower opportunity costs. This does align with the literature, such as the United Kingdom example where students are choosing to stay at home and attend local universities to help minimize their costs (Funding, 2018). Their approach is to stay close (geographically speaking) to home and attend local institutions to minimize their debts. Most of the study participants highlighted that when faced with rising tuition and subsequent student loan debt, students are making choices to minimize costs and are thinking long term when faced with financial aid choices.

The students who did commute, however, mentioned they faced opportunity costs due to their geographical location during college. Opportunity cost is defined as the next best alternative one gives up when making a choice (McConnell, Brue and Flynn, 2011). Simon and Colin both mentioned things they had to give up with their time and money while commuting, such as exercising and the cost of fuel. Longer commutes forced them to give up many things, ranging from family time to working and earning money. Some of the students chose to live at locations farther from campus. One had to commute to an internship as part of their class requirements. It seemed most students tried to follow the rational choice model, which assumes that rational people weigh the costs and benefits to choose the best option (Heshmat, 2017) when deciding where to live while attending St. Cloud State University.

Mistakes and Missed Opportunities

This study's results show that many students made financial mistakes while attending college. Therefore, it is important to increase our financial literacy awareness and outreach at St. Cloud State University to try to prevent future mistakes or missed opportunities. The results of this study, along with research by The Federal Reserve Bank (2015), highlight students are not all financially savvy. This relates to a lack of financial literacy and understanding. For example, Carly explained that she did not know about interest on loans, which plays a significant factor in the repayment process and total debt incurred. Because of Carly's lack of understanding of interest, she may have or will miss opportunities with the money she is repaying.

However, there were still a few noteworthy experiences of how students made financially literate choices. This finding may indicate that some programs are working, and proper financial advice is being dispersed at the high school and college levels, as well at home. For example, Simon explained how he looked at the lowest cost options to finance his general courses before he entered his major. Colin mentioned that he is debt adverse and worked (and saved) during college to graduate debt-free.

Changes to Student Loans

All participants indicated changes within the student loan process are needed. There were many similarities between the study and literature review within this context. For example, Simon expressed, "You don't need to go to a four-year institution to be happy and successful" (Simon). This is in alignment with Reich whom points out that America is not educating the technicians we need to fill jobs such as hospital or automobile technicians, and in turn, we have allowed the vocational and technical

education to be "downgraded and denigrated" (Reich, 2014). As both explained, the United States needs to do more to combine high school classes with college classes to improve the economy and student loan crisis. Both are concerned that young people are graduating with debts that will take years to pay off. Yet, the study and research highlighted a few things students can do to make the repayment process easier on themselves. The experts recommend a combination, including graduated repayments, extended repayment plans, income-driven repayments, consolidation, and refinancing (Renter, 2018). A few of the participants explained that they consolidated and refinanced their student loans after graduation. Each choice comes with costs and benefits to the student. Barr (2004) argues that nations must also have discussions on student loan repayment. This is also echoed by Senator Elizabeth Warren and former President Barack Obama, who believe that students have too much student loan debt, and it is causing them to struggle to buy a home, purchase a car, and manage everyday living expenses (Rossi, 2014).

There are multiple theories and policies that might explain the level of student loan debt at St. Cloud State University, including financial literacy, comfortable debt level, potential growth and major choice, geographical influences, mistakes and missed opportunities, and changes to student loans. All of these factors help explain why students carry (or do not carry) the amount of debt they have.

While individual characteristics, such as major and age, varied for each participant, each of the common themes were important factors for the individuals in this study related to the amount of student loan debt they carried. Based on the data analysis, one key finding is that it is recommended to increase education for financial literacy at St.

Cloud State University. Some of the participants described being ignorant about loan options and choices, and relying heavily on their parents for help and guidance. A healthy dose of financial independence and confidence would benefit students tremendously at St. Cloud State University.

Students need the tools to improve their financial literacy and make adult choices, without relying so much on their parents. This will empower them as they shift into adulthood to make informed financial decisions for a lifetime. A couple of the participants offered solutions on how to accomplish this. Jose expresses that the lack of financial literacy is a significant problem that needs to have more checks and balances. Jose thinks St. Cloud State can improve financial literacy with a one-to-one class where an expert mentors a student on financial terms, concepts, and vocabulary. Having a one-to-one class is one way to improve financial literacy. To investigate this further, the researcher recommends a pilot program on financial literacy at St. Cloud State University.

Another key finding is the amount of influence parents have on their student's loan amounts. The majority of the participants describe how heavily involved their parents were when making decisions regarding college finance. The researcher recommends looking into joint parent/student financial literacy classes to improve awareness for both groups at St. Cloud State University during Advising and Registration Days, for example. Since both parties are heavily vested in decisions about school financing, St. Cloud State University should strive to make sure correct and consistent information is given to students and parents (or legal guardians). This will ensure that fewer mistakes are made due to a lack of financial literacy and also help students plan for

future financial decisions beyond college, such as buying a house or starting a business. Looking at the big picture, the Department of Education should also strive to provide more opportunities for financial literacy awareness since it focuses on all areas of education, including elementary, secondary and post-secondary schooling (US Department of Education, 2014).

Limitations

While the qualitative approach was beneficial for this research, more credibility could be given to this study if quantitative research was added. For example, a survey that was designed for quantitative research and analysis may have strengthened the data when added to the qualitative interviews. Another limitation was the low response rate over email and postal mail. Over 200 people were contacted initially over email and postal mail, and only 3 responded at first. For further research regarding student debt, it might be helpful to conduct interviews during a senior seminar class or at an alumni event where the response rate might be increased. Furthermore, it might help to include a survey in exit interviews after graduation for students to complete.

Additionally, this research was limited to students who graduated from St. Cloud State University. Students who transferred away or did not complete their degrees were not included. This study may have also attracted students that were more comfortable with their debt and left out others whom were not as comfortable. For future research on this topic, it might be helpful to include these groups.

Implications for Research

There are several areas for further research on this topic and emerging themes. For this study, one specific research topic to investigate further is the lack of financial

literacy regarding post-secondary choices at the high school level. Many participants expressed not feeling prepared or educated about college finance options during their high school years. Thus, this could lead to exploring the specific curriculum high schools use to teach personal finance and perhaps rethinking the curriculum to improve it. How can we better prepare high school students for the realities of taking out postsecondary student loans? This would be essential research to understand ways to improve financial literacy overall at St. Cloud State University and beyond. The researcher recommends working with the Council for Economic Education and using the Financial Fitness for Life curriculum as a way to measure growth and financial literacy in this area.

Another research area would be to survey students before and after they take ECON/MATH 110 at St. Cloud State. This is a personal financial literacy course that examines choices, costs, and benefits. In order to further this research, data could be collected on the student's ability to process financial scenarios before and after this course, as well as a qualitative approach of how confident they were with various economic terms and concepts. The SCSU Center for Economic Education could help support this work by administering the "Test of Economic Literacy" test, part of the Council for Economic Education curriculum, to gauge growth and achievement in financial literacy before and after the course.

Implications for Theory

When comparing this study's results with the theories discussed in the literature review, similarities and differences exist. The rational choice model assumes that rational people will weigh the costs and benefits to choose the best option (Heshmat, 2017). This study examined how people make important financial decisions, specifically with their

financial aid packages. When rational choices are made, students determine what options exist and then choose the most desired one according to their criteria (Levin & Milgrom, 2004). Although some people may practice consistent rational choices, many do not, including some of the participants in the study. This theory helps us frame and examine how individuals make choices based on their preferences to maximize their satisfaction (Heshmat, 2017). St. Cloud State University can use this theory to gain a deeper understanding of student preferences to more fully comprehend how they make choices regarding financial aid. Another way to look at this theory is through the lens of behavioral economics, which acknowledges that people have limited cognitive abilities, trouble exercising self-control, and make choices that have the greatest immediate appeal, sometimes at the cost of long-term happiness (Heshmat, 2017). By applying choice theory and behavioral economics to the study, we can combine multiple ways of thinking to understand more fully how students make financial aid choices.

Implications for Practice

Lack of financial literacy may be harming individuals as they select certain financial aid packages. Today, students are faced with many loan package options and growing tuition and fees at colleges nationwide. The results of this study demonstrate it is necessary to include more financial education at both the high school and college levels.

If colleges and universities want to foster an environment where students are financially literate, they need to create a required course for all students. Ideally, this would not just be at St. Cloud State University, but the entire Minnesota State System. This course would be required for all degrees, and include financial literacy training that would highlight college financing (and future financial goal planning). There is a course

that currently exists at St. Cloud, ECON/MATH 110, that was a joint collaboration between the Mathematics and Economics Departments. This satisfies goal area 4 (math) and would provide a general level of personal financial literacy for students. This curriculum, paired with targeted presentations and education with the SCSU Office of Financial Aid, would be a crucial step to helping educate our students about their choices and creating financial literate adults within our community.

Another area that could benefit from increased financial literacy is increasing partnerships with parents on college campuses. Having classes where parents and students attend together, perhaps in the evenings or weekends, would help educate both groups. These classes could meet once for a few hours or multiple times. High school and college students would both be invited, along with their parents (or guardians), to bring more awareness of financial literacy choices that exist within higher education and help them make educated decisions.

Conclusion

The notion that students have enough financial literacy to make informed decisions about student loans is likely flawed. Many students rely heavily on their parents to make decisions for them or learn from their financial mistakes too late. If education is something we value as a society, we must make an effort to educate our students more fully on their post-secondary financial choices. If we are unable to accomplish this more clearly and widespread, students will continue to take out loans as uninformed consumers and not know the costs (and benefits) of their decisions.

The results of this study suggest we need more financial literacy at the high school and college levels. Parental involvement was also a strong theme, and institutions

need to create more opportunities for students and parents to learn and grow together to be financially savvy.

To conclude, this study pieces together a fuller look of student debt within higher education. Offices of financial aid can use this data to help create meaningful and clear messages on campus to promote better awareness of financial aid choices for students and their families.

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Appendix A- Interview Questions

- *Welcome and Introductions*
- *Review Informed Consent Form*
- *Interview Questions Overview*
- *Do you have any questions before we start this interview?*

1. **What impacts the amount of debt a student takes on in college? <u>(Overarching question- not stated in interview necessarily)\</u>**
2. ***Note: I will have access to name, age, gender and location from the data set.***
    a. When did you attend St. Cloud State University? What year did you graduate?
    b. Would you consider yourself a "traditional" or "non-traditional" student? Explain.
    c. Can you tell me about where you lived when you attended St. Cloud State University? Did it change at all during the time you attended? Explain.
    d. How many hours and/or miles did you spend commuting to school each day (round-trip)?
        i. What, if anything, have you had to give up due to commuting to school? Discuss how this impacted your time and/or financial situation.
    e. Did your geographic location during college influence your level of student debt? Explain.
    f. Did you have to finance or borrow money to attend school? Explain.
    g. What was your total level of debt upon graduation?
    h. How much were you offered (and took) in federal loans?
    i. Did or do you have any private loans out?
    j. What is your current student loan balance?
    k. How engaged were your parents in deciding whether to accept the various pieces of the aid offered? Can you tell me about their EFC?
    l. How do you feel about the level of debt you graduated with?

3. **How does financial literacy influence students' choices of loans? <u>(Overarching question- not stated in interview necessarily)</u>**
    a. How aware were you of your choices regarding college financing?
    b. Did you receive any education regarding financial literacy prior or during college?
    c. Can you tell me what your thought process was when you reviewed your financial aid package from the institution?

d. What year of college did you declare your (final) major?
e. Did you change your major? If so, how many times?
f. Did the potential future earnings of your career influence your major choice in any way?
g. How many years did it take for you to complete your college degree?
h. Besides regular tuition and fees, did you take out any other loans for expenses such as study abroad? Explain.
i. How did your parents influence you financially with college costs?
j. Do or did your parents help you at all with your repayments?
k. Are there any other factors that influenced the amount of student loans you took out during your college career? Describe or explain, please.

Appendix B- Informed Consent

Informed Consent for Participation in Research on Student Debt

My name is Cynthia Fitzthum and I am a doctoral student in the School of Education at St. Cloud State University. I am working on a research project regarding student debt experiences at St. Cloud State University. I would like to invite you to be a participant in my study and appreciate your time and efforts reviewing this document.

As a participant in this study, you will be asked to allow the researcher to conduct an interview regarding your role as a college student and experiences with student debt. The purpose of the observations is to gather empirical data to establish the grounding for conversations concerning students on a college campus. The interview will last for approximately 30 minutes to one-hour. However, if more time is needed, or additional interviews are required, they can be scheduled at your convenience. Your responses will be recorded on audiotape, but only so the researcher may transcribe your responses as accurately as possible for exact representation of our conversation. The participant, the researcher, and the researcher's professor will be the only person to have privilege to these interviews. The only alternative for which the tapes may be heard by anyone other than those listed is by written permission from you, the participant.

Your responses will be kept strictly confidential. At no point do you have to allow your real name or title to be revealed if you so choose. A fictitious name will be used in the document. During the interview you may refuse to answer any questions. After the completion of the interviews, you will receive your transcribed interviews. At this point, if you wish to make any changes to the transcription, you may. At any time, if you wish to withdrawal from this research project, you have the opportunity.

Little or no potential risks are identified. The benefits would include personal growth for each participant through opportunities for reflection and dialogue about their experience.

I truly appreciate your participation in this project. I want you to be as comfortable as possible. Please feel free to talk to me about any concerns you might have. My phone number is 320-308-2170 and email is cjfitzthum@stcloudstate.edu.

This project has been submitted to the Institutional Review Board for the Protection of Human Subjects (IRB) at St. Cloud State University. If you have questions about your rights as a research participant, please contact the professor for the course, Dr. Steven McCullar at 320-308-4727.

Your signature indicates that you are at least 18 years of age, you have read the information provided above, and you have consent to participate. You may withdraw from the study at any time without penalty after signing this form

Participant's
Name____Date__________________

Researcher's
Name____Date__________________

Release Form for Use of Audio Recording

Student Debt Research

Cynthia Fitzthum

cjfitzthum@stcloudstate.edu

Dr. Steven McCullar

slmuccullar@stcloudstate.edu

Please Print:

____

Participant Name

____

Legal Representative if Applicable

This form asks for your consent to use media for and from this study. We would like you to indicate how we can use your media. On the next page is a list of media types that we will use. Please initial where you consent for that type of use of your media. Legal representative initials will provide consent when needed.

Regardless of your answers on the next page, you will not be penalized.

We will not use your media in any way you have not initialed.

Questions regarding this form should be directed to the researchers. Additional answers can be found by contacting the IRB Administrator or an IRB Committee Member. Current membership is available at: https://www.stcloudstate.edu/irb/members.aspx

A copy of this form will be provided for your records.

Audio; no video	
Consent Granted	Type of Release
	Used by research team to record and analyze data
	Published or presented in an academic outlet (e.g., journal, conference)

Transcription of audio	
Consent Granted	Type of Release
	Used by research team to record and analyze data
	Read by/to other participants
	Published or presented in an academic outlet (e.g., journal, conference)
	Presented in a classroom to students
	Presented at a nonprofessional venue (nonscientific group)