Financial Aid Student Loan Feasibility Study

PREPARED FOR CENTRALIA COLLEGE

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THE BERC GROUP |

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Contents

Introduction 3

Research Questions 3

Methodology 3

Literature Review 4

What is the impact of College Bound Scholarships and the Washington College Grant Program? 5

If we offer loans will students be more likely to come to school? 7

What is the likelihood that students will pay back their loan? 7

Student Characteristics 8

Institutional Characteristics. 8

Summary Data on Default Rates in Washington State 10

Arguments for Maintaining Current Position 17

Arguments for Offering Financial Aid 19

Introduction

The Washington Roundtable, along with the Washington Student Achievement Council (WSAC) and the State Legislature, set the goal for 70% of Washington State high school graduates to receive a living wage credential within eight years of graduating from high school. To reach this goal, it is important for colleges in Washington State, including Centralia College, to increase enrollment, persistence, and completion rates for degrees and professional certifications. At the same time Centralia College (CC) is exploring the feasibility of offering federal student loans to support reaching this goal. Comprehensive efforts are underway at CC, so the question concerning the feasibility of federally guaranteed student loans cannot be considered in isolation. It must be examined within the context of the comprehensive state and local reform, including the Chehalis School District Student Achievement Initiative and beyond.

The purpose of this report is to explore the pros and cons for CC to begin offering federal student loans. Centralia College is among the few colleges in the United States that does not provide federal financial aid in the form of subsidized and unsubsidized student loans. The purpose of this report is to provide guidance to the executive team at CC, so they can come to a decision about whether to provide federal student loans in the future. The report includes research questions and methods, literature review, summary data, and a list of pros and cons for providing federal student loans as part of their financial aid support at CC.

Research Questions

The study was driven by the following three research questions:

1. What is the impact of College Bound Scholarships and the Washington College Grant Program?
2. If Centralia College were to offer federal loans as part of a student's financial aid package, will more students attend, persist, or complete?
3. What is the likelihood that students will pay back their federal loans?

Methodology

To develop a comprehensive understanding of the issues surrounding federal financial aid and its impact on students and institutions, researchers used a mixed-methods approach to collecting and analyzing data. In addition to a thorough review of the empirical literature on federal loans and implications, researchers conducted interviews with key stakeholders at Centralia College, WSAC, and other colleges in Washington State. Researchers also analyzed historical cohort data from the Department of Education and postsecondary outcomes data provided by Naviance and the National Student Clearinghouse.

Literature Review

The cost of college is high and continues to rise. As the price of attendance escalates, colleges, state governments, and the federal government have increased grant aid to students to offset the increased expense of education. However, the gains in funding have not fully covered the cost of tuition at most colleges and universities (Baum, 2018). Students have turned to ever-larger government-subsidized and private loans to cover their tuition and living expenses. Researchers estimate that the average graduate of a four-year college leaves with a debt of $29,650 (TICAS, 2020). Perhaps more concerning is the large number of students who attend college but do not finish their certificates or degrees (McKibben, La Rocque, & Cochrane, 2014). These students have less debt on average but have a higher probability of defaulting on their loans.

Despite the rising cost of college and many students' inability to cover tuition and living expenses, some institutions choose not to offer federal loans (e.g., TICAS, 2016; Wiederspan, 2015). These institutions may be concerned about the consequences of student loan default. Institutions with high cohort default rates may lose their ability to offer Pell grants and federally subsidized student loans (Office of Federal Student Aid, 2020), which would have a devastating impact on their financial viability.

Consequently, student loans present complicated tradeoffs for both the individual student and the institution. The student must think about how taking a loan may affect future finances and life decisions. The institution must weigh the possible benefits to students against the risk of default and sanctions from the federal government.

This brief review of recent financial aid literature seeks to answer the following questions:

1. What is the impact of College Bound Scholarships and the Washington College Grant Program?

2. If Centralia College were to offer federal loans as part of a student's financial aid package, will more students attend?
3. What is the likelihood that students will pay back their federal loans?

What is the impact of College Bound Scholarships and the Washington College Grant Program?

Many states have developed merit-based grants and scholarships to help defray the increased costs of college for a select group of students who meet various academic and socioeconomic criteria (Buchanan & Wilson, 2017). Research on broad, merit-based aid in Georgia (e.g., Condon, Prince, & Stuckart, 2011), Indiana (e.g., St. John et al., 2004), and Tennessee (e.g., Nguyen, 2020) have shown that these types of programs can lead to gains in college-going among eligible students. The College Bound Scholarship (CBS), Washington state's merit-based program for low-income students, is unique among these scholarships in requiring students to sign a pledge, in addition to financial and academic requirements (Long, Goldhaber, & Gratz, 2019). During middle school, students must pledge to graduate from a Washington State high school or homeschool program; to earn a cumulative GPA of 2.0 or higher; to have no felony convictions; and to apply for financial aid using the FAFSA or the WASFA when the time comes. Students receive funds to attend in-state public and private colleges on a sliding scale, depending on their family size and annual income.

So far, the program has not significantly impacted the overall college-going rate in Washington State (Long, Goldhaber, & Gratz, 2019). Historically, this lack of impact may be because many potentially eligible students miss the sign-up window in middle school and are unable to join the program later (Fumia, Bitney, & Hirsh, 2018; Goldhaber, Long, Person, & Rooklyn, 2017). The most recent estimates indicate that only a fraction of eligible students sign up for the program in junior high and, consequently, many potential students are excluded from the program (Fumia, Bitney, & Hirsh, 2018; Washington State Achievement Council, 2018). [1] Additional evidence suggests that students who sign the pledge in middle school are actually less likely to fulfill the high school academic eligibility requirements than similar students who did not sign the pledge (Fumia, Bitney, & Hirsh, 2018; Goldhaber, Long, Gratz, & Brooklyn, 2020).

[1] This concern has be remedied to some extent in recent years by allowing counselors to sign students up.

Although the relationship with the program to overall college-going rates is negligible, there is evidence that CBS has provided financial incentives for students to attend college in Washington State rather than leave for an out of state institution (Long, Goldhaber, & Gratz, 2019). Therefore, although the share of students who choose to attend college is unchanged, the grant has influenced these students to choose to go to college in Washington State. These dynamics should result in a net gain in the number of enrollments at Washington State colleges and universities.

We also examined the available evidence that supports the relationship between the Washington College Grant (WCG) program and college enrollment. The program, which was originally called the State Need Grant, was established in 1969 to provide grant funding to the neediest students to attend Washington State colleges and universities. The most generous subsidies go to students with family incomes less than or equal to 55% of the median family income and who attend the state's public research universities (Washington State Achievement Council, 2021). The maximum award amounts differ based on student income and the type of institution that the student attends. The awards phase out completely when the students' family income exceeds the state's median income. The number of eligible students and the overall level of state funding has risen markedly over time (Bania, Burley, & Pennucci, 2013). However, the pace of the funding increases has not kept up with the number of eligible students. Consequently, an increasing number of eligible students do not receive an award. For example, during the 2012-13 academic year, approximately 30% of eligible students did not receive grant funding (Bania, Burley, & Pennucci, 2013).

Our review did not uncover any literature that estimated the overall relationship between the Washington College Grant and college enrollment. However, research from around the country indicates that grants are a stronger incentive to attend college than loans (St. John, Chng, Musoba, Simmons, Wooden, & Mendez, 2004). For example, Dynarski's (2008) study of merit-based aid programs in Georgia and Arkansas showed "large and significant impact of these subsidies on both degree receipt and college entry" (p. 607). Similarly, Castelman and Long's (2015) study of the Florida Student Access Grant found that each additional $1,000 in aid produced a 2.5% increase in the probability that students would enroll in college directly after high school.

If present trends continue, the number of students eligible for the College Bound Scholarship and the Washington College Grant will continue to rise. Although the amount of state funding will probably increase, it is unlikely to expand quickly enough to match the size of student need. In a best-case scenario, the state would increase the program budgets enough to fully fund tuition for a substantial number of students. However, even under these circumstances, students would not have enough money to cover their living expenses during college (Baum & McPherson, 2019) and would need jobs or loans to cover the costs. The next section considers how offering loans might impact enrollment.

If we offer loans will students be more likely to come to school?

Existing evidence suggests that offering student loans is associated with slight increases in college enrollment (Dynarski, 2003; Liu, 2016; Long, 2007; Reyes, 1995). Dynarski (2003) and Long (2007) studied a 1994 change in federal family contribution methodology that excluded home equity from the expected family contribution calculation. This change increased the number of students who could access federal loans. Both studies found that the increases in loan eligibility led to an approximately one percentage point increase in the probability of enrollment in college. Reyes (1995) found that the increased eligibility of federal student loans during the late 1970's and early 1980's was associated with increased enrollment in both two and four-year colleges and universities. Specifically, the changes to loan eligibility were associated with a three-percentage point increase in the probability of enrollment in college for a representative sample of college-aged adolescents from the National Youth Survey and the High School and Beyond cohort (p. 11). Liu's (2016) study of Pay as You Earn (PAYE), a policy that caps students' loan repayments at a certain percentage of their monthly income, showed that the loan program was associated with increased enrollment.

Taken together, the available evidence suggests that loan availability has a small but positive relationship with enrollment. Importantly, grants have a stronger relationship with college enrollment than the provision of loans.

What is the likelihood that students will pay back their loan?

The research literature on loan repayment focuses on both individual student characteristics, as well as institutional profiles and policies. To determine the likelihood of repayment, an institution must have a clear picture of its students' demographic profile and career prospects after graduation. The institution must also be aware of their own characteristics, such as its selectivity, local economy, and average rates of completion, which will affect its cohort default rate. Each set of factors will be discussed in turn.

Student Characteristics. This research focuses on the ways in which students' demographic characteristics (e.g., age, gender, ethnicity, household income, and first-generation status) and academic outcomes (e.g., degree attainment and subsequent enrollment in graduate school) are related to the probability that students will borrow and subsequently repay their loans. Gross and colleagues' (2009) review of the loan literature highlights several different student characteristics that are related to risk of default. Older students are more likely to default than younger students (Millan, Zarifa, & Seward, (2019). African American and Hispanic students have higher default rates than White students, on average. Male students have a higher probability of default than female students. Students with college-educated parents and high levels of family income were also less likely to default.

Looney and Yanellis (2015) investigated student loan default and delinquency using a large sample of federal student loan borrowers. Overall, the results showed that the bulk of the borrowing and loan defaults were concentrated among students who "tend to be older, often enroll less than full time, and are living independently of their parents" (p. 2). These findings indicate that institutions must ensure that students finish their degrees and find gainful employment to mitigate the higher risk of default.

Although demographic factors have received a large portion of the research attention, students' educational attainment at college might better predict future default. Students who stay continuously enrolled in college have a lower probability of default (Podgursky, Elert, Monroe, & Watson, 2000). Students who major in a STEM or agricultural field (Volkwein & Szelest, 1994) and those with higher GPAs (Woo, 2002) have a lower risk of default. Additionally, students who complete their degrees are much less likely to default than students who drop out (Dynarksi, 1994; Hillman, 2014; Woo, 2002).

Institutional Characteristics. The institutional characteristics studied include sector (for-profit, private, two-year, or four-year), student demographics, selectivity, instructional expenditures, and local economic conditions. Studies consistently find that for-profit and two-year colleges have higher default rates than four-year colleges (e.g., Kelchen & Li, 2017; Li & Kelchen, 2021; Looney & Yanellis, 2015). Institutions with higher enrollments of African American and first-generation students tend to have higher default rates (Li & Kelchen, 2021). More selective four-year colleges and institutions with higher graduation rates have lower default rates (Ishitani & McKitrick, 2016). Colleges that spend more money on instruction relative to full time enrolled students have lower cohort default rates (Ishitani & McKitrick, 2016). Colleges located in rural areas with high unemployment rates, and areas with lower average household income have higher default rates (Ishitani & McKitrick, 2016).

Although student demographics and the economy of the surrounding community can create significant barriers, many colleges have successfully lowered their cohort default rate by employing a variety of strategies (TICAS, 2016). These interventions include providing counseling services targeted to the specific needs of students receiving financial aid; embedding financial literacy courses within the curriculum; tracking student data to identify and intervene with struggling students before they drop out and markedly increase their probability of default; and contacting delinquent borrowers to encourage them to pay back their loans (pp. 9-11). Colleges have also hired third-party default management services to contact struggling students. If these institutional interventions fall short and students begin to default, institutions have the option of appealing sanctions to the Department of Education. For example, institutions where a relatively small number of students borrow may appeal their sanctions based on the participation rate index (TICAS, 2016).

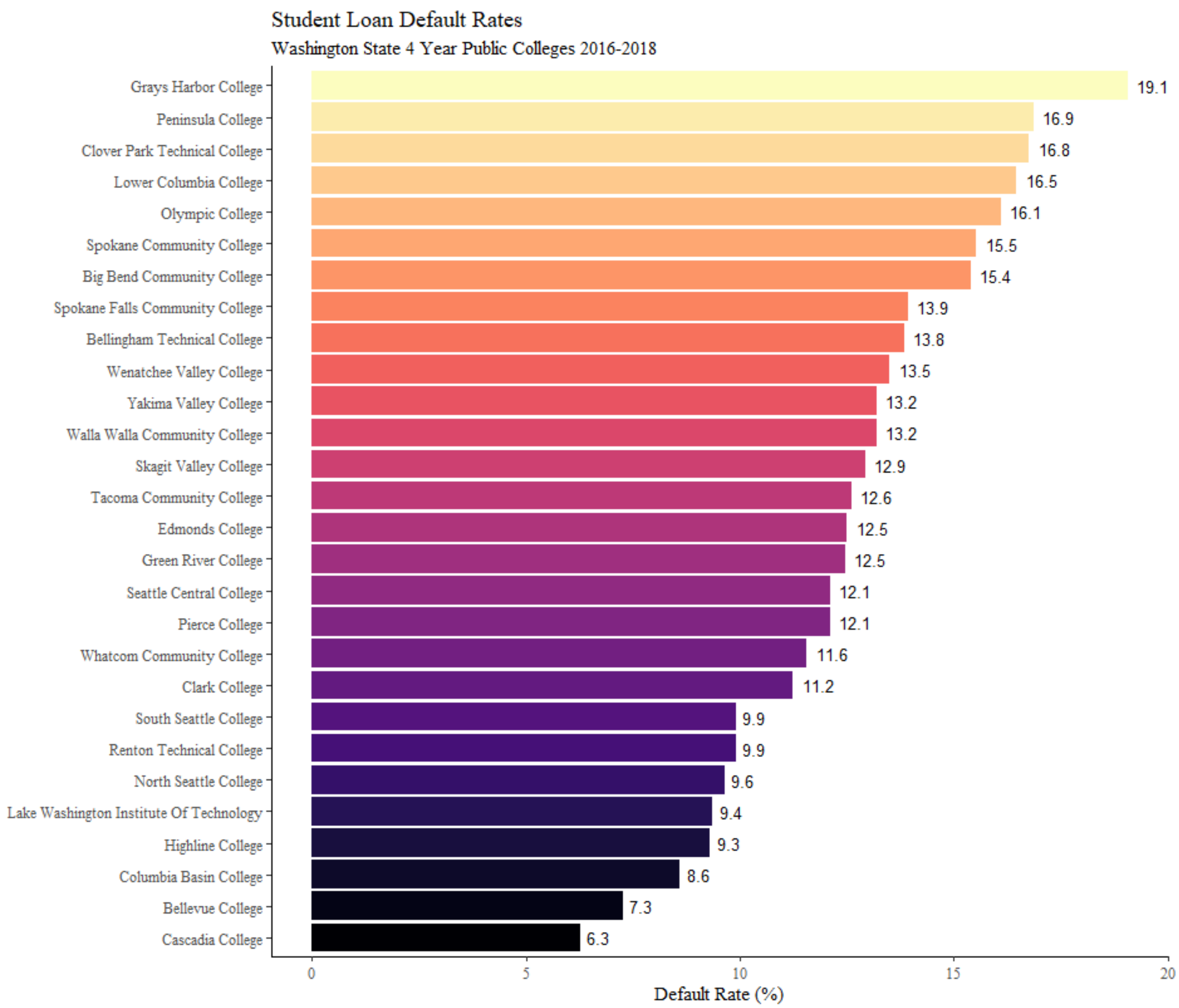
As the cost of college has risen, decisions about financial aid have become increasingly vital (Broton, 2019). Students' decisions about loans can have profound consequences not only for their education but also for their future earnings, creditworthiness, and overall life prospects. A growing amount of literature has documented students' need for timely and accurate information, as they make decisions about their financial aid (e.g., Jia, 2020; Meyer-Barrett, 2017). Students lack basic information about the way loans work, and they need guidance from their schools to ensure that they receive enough funding to stay on track with their education.

Student loans do not have a large impact on whether students decide to enroll in college. However, loans have a consistent relationship with decisions to persist in college (e.g., Long, 2007; St. John et al., 2004; Yang & Venezia, 2020). Good loan counseling may set the stage for student success by providing students with the means to concentrate on their education. In the absence of loans, students may be forced to work, which may distract them from their studies.

Summary Data on Default Rates in Washington State

Although student loans have helpful qualities, they are not without their drawbacks for students and institutions. Certain student and institutional characteristics may make repayment problems more likely. However, demographics are not destiny. Colleges can mitigate the risk of default by providing comprehensive loan counseling; helping students persist and complete their degrees; providing career counseling for graduates; and keeping close track of students who drop out of college.

Figure 1 shows the average student loan default rates for Washington State 4-year public colleges over the 3-year period between the 2016 and 2018 academic years, also known as the Cohort Default Rate (CDR). For this analysis, only public colleges and universities that offered 2- and 4-year degrees were considered to best serve as a comparison to Centralia College. In Washington State, the CDR between 2016-2018 ranged from 19.1% at Grays Harbor College to 6.3% at Cascadia College. If a college's CDR exceeds 30% over three years or 40% in a single year, it loses the ability to offer federal student loans, Pell Grants, and could be in danger of being shut down. Between the 2016-2018 academic years, four postsecondary institutions exceeded a CDR of 30%, all of which are small schools with highly specialized degrees such as beauty or boat-making and offer very few loans in the first place.



Student Loan Default Rates
Washington State 4 Year Public Colleges 2016-2018
Grays Harbor College
Peninsula College
Clover Park Technical College
Lower Columbia College
Olympic College
Spokane Community College
Big Bend Community College
Spokane Falls Community College
Bellingham Technical College
Wenatchee Valley College
Yakima Valley College
Walla Walla Community College
Skagit Valley College
Tacoma Community College
Edmonds College
Green River College
Seattle Central College
Pierce College
Whatcom Community College
Clark College
South Seattle College
Renton Technical College
North Seattle College
Lake Washington Institute Of Technology
Highline College
Columbia Basin College
Bellevue College
Cascadia College
19.1
16.9
16.8
16.5
16.1
15.5
15.4
13.9
13.8
13.5
13.2
13.2
12.9
12.6
12.5
12.5
12.1
12.1
11.6
11.2
9.9
9.9
9.6
9.4
9.3
8.6
7.3
6.3
0
5
10
15
20
Default Rate (%)

Figure 1

Summary of Considerations:

In addition to a review of the literature, we interviewed several people about their perspectives regarding offering federal student loans. Below is a summary of considerations that arose from the literature review and personal testimonies collected during interviews.

Student Loans: The level of student loan debt nationally was recognized by many during interviews. Student loans are at a crippling level, nationally. According to the Brookings Institute, student loan debt just surpassed $1.5 trillion, and the disparities in access by race and income continue to grow. Other recent reports put the debt at $1.7 trillion. Either way, it is staggering. In addition to concerns for overall debt, there are equity concerns as well. White graduates owe an average of $25,000 less in student loans than Black college graduates four years after college graduation (Hanson, 2021). This gap has grown steadily since the early 1990's, largely affecting Black student borrowers but not Latino or Asian graduates (Brookings, 2016).

Consequences of Default: The federal government has "halted" federal loan payments for nearly two years, due to the pandemic. It is yet to be seen if debtors will pick back up with payments after getting used to no payments for two years. It would not be unlikely that default rates increase once the halt is lifted. Beyond the difficulty of repaying student loans is the negative consequences associated with defaulting on the loans. A person is considered to have defaulted on federal student loans once you go nine months without making payments. Once in default, creditors can garnish wages and credit scores drop. In addition, those who default on federal loans will likely be prevented from getting a job with the government (federal, state, or local). Likewise, private companies run credit checks and often decline candidates that have defaulted student loans. Finally, even if a person has received their degree, if they default on federal student loans, professional licenses could be revoked. In addition to these consequences, if a person is among those who go to college, drop out, and then seek to reenter, they cannot go back to school with defaulted student loans until they are no longer in default.

Being Unique Could Have Advantages: Some of those interviewed believed not offering federal student loans was a marketing advantage: "I think we should market the idea that everyone above 2.0 can go to college and not be saddled with debt. Market that." There was a general sentiment that students understand the burden of loan debt, and according to CC personnel, when taking into account Pell, WGA, College Bound, there is little gap between what students need and what they receive. One person reported, “With full Pell they get more than they need for tuition/fees and living expenses. No matter what there will always be additional ‘unmet need.’ That’s human nature. We always need more money no matter how much we have.” The fact that some students do need extra money: “But if students REALLY need more money we could offer scholarships, emergency grants, work opportunities rather than the loans.” If the goal is to motivate students to attend and complete college, being able to market that you can complete without loan burden and debt may, a one person stated, “… a great marketing angle.” Another person added, “I’m proud that our students can graduate and leave not having student loans: ‘Never leave with student loan from CC.’”

Current Loan Availability: Centralia College longer offers federal student loans, after default rates jeopardized funding approximately two decades ago. Since then, CC made the decision for students. One person said, “It is not good for you. If you really need a gap loan, we will figure that out for you through an ‘Alternative Education Loan:’ Sallie Mae, Wells Fargo, Discovery.” It was pointed out that at one time, student loans were only available from private banks. Now the Department of Education is offering student loans – subsidized and unsubsidized federal loans. However, private loans are still available.

Private lenders provide Alternative Education Loans to pay for tuition and other educational expenses. These loans may have variable interest rates and are largely based on the credit history of the student and, possibly, co-signer. A bad credit history could result in higher rates, making the loan much harder to pay back after graduation. This results in a higher overall level of debt for graduates, as there are also higher fees depending on the lender chosen. The student must shop lenders to make sure they get the best possible loan, whereas a government backed loan is a single rate offered. There can be several percentage points difference between government and private student loan interest rates; typically about 5%.

Additional Loan Options:

In addition to Alternative Education Loans, there were suggestions to maybe explore additional loan options for students who express need: One participant stated, “Our foundation has $27m in the bank. Our foundation could focus scholarships based on need rather than on GPA. I think this is an opportunity for us. I think we can look at our scholarships differently.”

A concern for many is how easy it is to accept federal loans when they are part of the financial aid package: “If we offer loans as part of their financial aid package, they will accept it. Very few will reject loans.” Some felt that loans prey on the underprivileged and most vulnerable. But, if a loan is through the foundation it would be purposeful. Students would need to apply and express a need. This seemed preferrable to the easy and convenience of the federal loans. One participated shared, “If federal, it automatically calculates need and students click ‘yes’ without thinking. Make students apply. Don’t let them just click yes.” One participant added to the idea of alternate support. Some colleges are beginning to move away from federal financial aid, with help from their associated foundation. For example, Smith College.

Not a Huge Demand: Centralia College discontinued offering federal student loans about 20 years ago. According to reports, at that time 70% of CC students were dependent students with parent income of $70k/yr. And, there were less than 50 students borrowing. According to reports, demand continues to be low. When need is expressed, CC staff work with students to get them the needed support.

Staff recognized that there are cases where a need gap exists. One participant stated: “BS benefit most from the alternative loans options. For our BA/S programs WCG can cover within a couple hundred $ + Pell $2100 check. In addition, need is minimalized by the creative packaging of grant aid. One participant said, “There is less of a need for extra funds from loans because the financial aid department works hard to package offers in a way that provides additional support for students. We have worked hard to package funding for support. Front load. We make sure we get them cash built in.”

Losing Students to Other Colleges: If other colleges are offering loans, and CC is not, there could be a concern that CC is losing enrollment to other area colleges. However, according to an analysis using NSC data, it does not appear that CC is losing students to other area colleges that do provide loans. Very few students from the Centralia area, including graduating seniors from W.F. West and Centralia High Schools, attend South Puget Sound Community College or other colleges in the area.

Operating Budget: It was agreed by most that offering federal student loans would add more work to the financial aid office. This would at the very least require reassignment of current staff, but more likely require additional staff to manage the program. The general consensus was that it would require approximately 2.0 FTE from the current operating budget. One person said with concern, “We would need at least two full-time people – we cannot add out of operational budget.”

The Finish Line: In addition to looking at federal loans as a possible motivator for enrollment, perhaps another area of exploration is the large number of students who attend college but do not finish their certificates or degrees (McKibben, La Rocque, & Cochrane, 2014). “These students have less debt on average but have a higher probability of defaulting on their loans.” In this case, efforts to reengage students and support to completion may be a higher priority.

What’s on the Line: Institutions may be concerned about the consequences of student default. Institutions with high cohort default rates may lose their ability to offer Pell grants and federally subsidized student loans (Office of Federal Student Aid, 2020), which would have a devastating impact on their financial viability. The greatest protection against default rates is continuing your focus on engagement and program completion. “These findings indicate that institutions must ensure that students finish their degrees and find gainful employment to mitigate the higher risk of default.” Additionally, students who complete their degrees are much less likely to default than students who drop out (Dynarksi, 1994; Hillman, 2014; Woo, 2002).

This was the case for CC. According to reports, CC stopped offering student loans in 2002. It has now been approximately 20 years. Due to high default rates and institutional probation, many colleges stopped offering federal student loans as part of their financial aid support. However, over the last 20 years, all of the other colleges have returned to offering student federal loans. One participant stated, “Centralia College stopped because we were afraid of losing our Pell Grant support. Pell is huge for community colleges.”

Hopes to drive enrollment: Strong sentiments that ‘Loans will not increase enrollment’ Several colleges in the area stopped offering student loans in the early 2000s. According to reports, Seattle colleges were out for 10 years. North Seattle CC decided to reinstate the federal loan program with the hopes it might improve enrollment. One participant described, “When they started back up, they developed their advertising around the sales pitch based on loans available – However, loans did not drive enrollment. It was the existing students who attended. They were certain they would get new enrollment. They did not get a new student.” The went on to state, “I think it is a good idea to continue to learn about federal loans and the feasibility of offering loans at CC but it, currently, has many drawbacks."

Arguments for Maintaining Current Position

Fundamental argument: Federal loans are burdensome and not necessary

- Centralia College is unique because they do not offer student loans. This could be a marketing advantage. For example, "We will help you graduate without any debt."
- Loans are already available for students that request them (Alternative Education Loans).
- There does not appear to be a high need for loans.
- Loans have very little impact on student enrollment directly from high school.
- Grants offer a greater incentive than loans for enrollment, persistence, and completion. Focusing on existing CBS and WCG (grants rather than a new loan program) may have a greater impact on student enrollment from high school to college
- Many of the demographics that are correlated with higher default rates are similar to CC. This coupled with federal loan debt collection be halted the last two years, could be a receipt for default when collections start up again.
- At this time, adding positions to the financial aid department out of the General Fund would be difficult. Maintaining the current policy, there would be no added burden to current personnel or there would be no need for additional staffing to manage a loan program (estimated 2.0 FTE).
- CC would not have to be concerned about federal sanctions related to federal grant programs such as Pell.
- Default rates could interfere with reengagement strategies. Reengagement is very difficult when students do default on federal loans. By not offering federal loans, Centralia College would not be creating possible barriers for reengagement. Students would not "hide" due to unpaid debt.
- Some colleges are beginning to move away from federal financial aid, with help from their associated foundation: ie. Smith College?
- Along with no need for credit collections outsourcing, CC would not be put in the position of creating a negative relationship with former students due to dept collection activities.

- Centralia College can continue to develop private loan options for students that request. This may include developing relationships with local banks in partnership with SAI to provide lower rates.
- CC could work with the Centralia College Foundation to offer a loan program through their endowment.
- It is just too easy to take out the federal loan and it adds to crushing debt.
- Centralia College Foundation could set up a loan endowment whereby students purposefully apply versus spontaneously select to take on student loan debt.
- Loans are add-ons. No matter how much money goes in first, there will always be perceived unmet needs. However, this gap could be addressed through many avenues, including scholarships (need/merit), work, foundation subsidized loans through local lenders, Centralia Foundation loans.
- Research shows that students who take out loans to pay for some or all of their postsecondary education at community colleges have a lower persistence and completion rate than students that rely on gift aid, such as grants (Cox, 2019).
- Researchers estimate that the average graduate of a four-year college leaves with a debt of $29,650 (TICAS, 2020). Perhaps more concerning is the large number of students who attend college but do not finish their certificates or degrees (McKibben, La Rocque, & Cochrane, 2014). These students have less debt on average, but have a higher probability of defaulting on their loans.
- The bulk of the borrowing and loan defaults were concentrated among students who “tend to be older, often enroll less than full time, and are living independently of their parents” (p. 2). These findings indicate that institutions must ensure that students finish their degrees and find gainful employment to mitigate the higher risk of default.
- Studies consistently find that for-profit and two-year colleges have higher default rates than four-year colleges

Arguments for Offering Federal Student Loans

Fundamental argument: Federal loans could be a boost and SAI will help

- The most likely beneficiaries of federal loans are those in the growing bachelor's degree programs. Offering loans could help students persist, complete, and gain living-wage employment. All three of these conditions increase the likelihood of repayment.
- Existing evidence suggests that offering student loans is associated with slight increases in college enrollment.
- There is evidence that grants provide a greater incentive for enrollment, but loans provide greater support for retention and completion.
- A large number of those enrolled at CC are working adults who are more likely to need money, as they do not have the access to funds that direct-enrollment students have such as scholarships and grants. After graduating, these are more likely to pay those loans back.
- Because of comprehensive efforts associated with SAI it is likely enrollment, persistence, and completion will increase, thus reducing the risk of default.
- Everyone else is doing it. In educational research we try to identify effective, promising, and common practices to help guide program development. In the case of federal financial aid, most colleges do offer loans, while increasing the availability of financial literacy programs associated with the loans.
- Growing the financial aid department at CC may provide more synergy to the department.
- As part of the SAI, the Smith family has funded a reengagement specialist at W.F. West that can help students navigate reentry to CC, including students that have or are in danger of defaulting on a loan.
- For working professionals, it could be the reason to receive a 4-year or higher degree, and they might be more likely to pay back since they are working.
- According to Washington State data of similar schools, CC would have a low risk of students defaulting on federal loans to the point of receiving federal sanctions that would jeopardize Pell, CBS, and WCG.

- The financial aid department could “toggle down” the award to minimize the amount of debt accrued.