

Iowa State University
Enrollment Services
Office of Student Financial Aid

Alternative Student Loans – A Borrower Analysis

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Abstract

The intent of this project was to profile the student borrows from our alternative loan vendor. Our staff perception was that much of the alternative loan borrowing has been based on convenience, or borrowing that occurs to cover the Expected Family Contribution (EFC), as reported by the Free Application for Federal Student Aid (FAFSA). Results indicated that alternative borrowing occurred across all incomes, and was highest among non-FAFSA filers, and FAFSA filers with higher income ranges. The outcome substantiated the convenience borrowing perception. However, the results indicated alternative loans are also used for accessibility purposes. Providing access to alternative loans is an essential part of the financial aid role in supporting retention and graduation objectives.

Program

The alternative loan program is administered by Iowa Student Loan. This service is contracted by Iowa State University (ISU) and offers student and family loans to aid in the financing of a college education.

Executive Summary

Purpose

- Determine if the results indicate a majority of borrowing is convenience based.
- Replicate this data on a yearly basis to chart trends within alternative loan borrowers.
- Review and potentially modify financial aid awarding strategy based on study outcomes.
- Utilize ISU Office of Student Financial Aid resources to educate borrows on debt management responsibility and availability of other types of financial aid.

Methodology

- The review included two academic years of ISU students who borrowed from Iowa Student Loan: 2000-2001 and 2001-2002. Undergraduate students and their families were the focus population.
- Iowa Student Loan provided data on ISU student and family loan applicants and recipients. The information was matched, using social security number, to the financial aid records maintained by the Office of Student Financial Aid (OSFA).
- All data files from Iowa Student Loan and OSFA were maintained in an Access database for comparison and summation purposes. The ISU online financial aid system, Passport, was used to validate results at summed intervals.
- Demographic data from the Federal FAFSA Application, ISU registrar data, and ISU financial aid award data were the primary elements used to compile results.

Findings

Based on the borrower profile, the majority of borrowing occurred for students and parents in the non-need categories of no FAFSA on file, or not Pell eligible. This lends credit to the original theory that the predominant borrowers are using the loan for convenience purposes.

Additional points of interest from the borrower profile:

- In the 2000-2001 academic year, 10 families had both a student and parent partnership loan. This number increased by 20%, to 12 families for the 2001-2002 academic year.
- In 2000-2001, out of the 5,934 ISU applicants for partnership loans, 7.5% (441 applicants) were denied funds based on poor credit. This number increased in 2001-2002 by 10% (632 applicants) from 6,282 total ISU applicants that failed to secure funds from partnership. This represented a net increase of 2.5% in the denial rate for ISU partnership loan applicants.

	2000-2001	2001-2002	% Change			
*Total Undergraduate Registered Students	22,714	23,527	3.58			
	Student as Borrower 2000-2001	Student as Borrower 2001-2002	% Change	Parent as Borrower 2000-2001	Parent as Borrower 2001-2002	% Change
Total Loan Recipients	5,099	5,514	8.14	73	92	26.03
Gender						
Female	2,248	2,385	6.09	37	44	18.92
Male	2,851	3,129	9.75	36	48	33.33
Ethnicity						
American Indian/ Alaska Native	19	19	0	0	0	0
Asian of Pacific Island	91	122	34.07	3	3	0
Black	142	170	19.72	0	0	0
Hispanic	76	100	31.58	0	2	0
White	4,591	4,877	6.23	67	83	23.88
No Response Preferred	17	19	11.76	1	0	0
Not Available	163	207	26.99	2	4	100.00
Major College						
Agriculture	614	575	(6.35)	5	6	20.00
Business	868	955	10.02	15	21	40.00
Design	479	489	2.09	3	7	133.33
Education	533	605	13.51	6	10	66.67
Engineering	849	976	14.96	17	20	17.65
FCHS	293	316	7.85	2	3	50.00
Interdisciplinary	7	9	28.57	0	0	0
LAS	1,456	1,589	9.13	25	25	-
FAFSA Filers	4,824	5,168	7.13	73	92	26.03
Avg. Gift Aid	\$2,427	\$2,481	2.22	\$1,976	\$2,089	5.72
Avg. Partnership	\$5,651	\$6,225	10.16	\$5,219	\$5,367	2.84
Avg. Family Income	\$61,501	\$64,568	4.99	\$46,554	\$65,637	40.99
Pell Eligible Filers	1,129	1,209	7.09	3	2	(33.33)
Avg. Gift Aid	\$2,647	\$2,719	2.72	\$850	\$1,338	57.41
Avg. Partnership	\$4,469	\$4,883	9.26	\$3,972	\$4,448	11.98
Avg. Family Income	\$28,872	\$30,991	7.34	\$16,384	\$48,991	199.02
Non-Pell Eligible Filers	3,695	3,959	7.14	70	86	22.86
Avg. Gift Aid	\$1,844	\$1,941	5.26	\$3,102	\$2,219	(28.47)
Avg. Partnership	\$6,696	\$6,634	(0.93)	\$6,466	\$5,884	(9.00)
Avg. Family Income	\$71,470	\$74,813	4.68	\$76,724	\$83,418	8.72
No FAFSA on File	275	346	25.82	0	4	0
Avg. Gift Aid	\$1,159	\$1,295	11.73	\$0	\$0	0
Avg. Partnership	\$6,997	\$7,378	5.45	\$0	\$5,814	0
Avg. Family Income	N/A	N/A	N/A	N/A	N/A	N/A

Discussion and Recommendations

Alternative loans help to serve the primary purpose of student financial aid. They provide access. Their existence is critical to some students and a convenience to others. Alternative loans differ greatly from traditional Federal student loans; they are less flexible in repayment options, they don't have any type of forgiveness clause and qualification is dependent upon a person's credit rating. These differences are what drive the recommendations as provided.

- Borrower Education: start email communication to students on the importance of protecting their credit rating. Obtaining an alternative student loan is not 'guaranteed', it is based on a person's past and present financial behavior as reported by the credit bureaus.
- Partner with professional organizations that support student access, including Iowa College Student Aid Commission, Iowa Student Loan and Iowa Association of Student Financial Aid Administrators to secure funds for campus outreach events highlighting debt management.
- Tighten the rules pertaining to increases allowed within an ISU student financial aid budget.
- Advise students to continue researching all fund options other than student loans, via the ISU Financial Aid website or in direct one-on-one counseling.
- Continue to refer students to resources available on campus for budgeting and debt management, including the ISU Financial Counseling Clinic.