

**THE STUDENT
LOAN PROBLEM IN
AMERICA:**



**IT IS NOT ENOUGH TO SAY, "STUDENTS WILL
EVENTUALLY RECOVER"**



By William Elliott and Melinda Lewis
September 9, 2014

FOREWORD

The Assets and Education Initiative (AEDI) is a center at the University of Kansas's School of Social Welfare (<http://aedi.ku.edu/>). AEDI's mission is to create and study innovations related to assets and economic well-being, with a focus on the relationship between children's savings and the educational outcomes of low-income and minority children as a way to achieve the American dream.

In today's financial aid landscape, advancing this mission requires attending not only to the role of assets in shaping educational attainment and equity, but also understanding the effects of student borrowing on the educational outcomes, return on educational investment, and long-term financial health of households. It is our hope that our research on these matters and analysis of others' findings add to the national conversation about the relative impacts of different approaches to college financing. In these investigations, we are particularly attuned to the implications of policy decisions and the drift of policy effects on disadvantaged children whose fates hinge more than anyone's—and more than ever—on educational attainment. We believe that the evidence clearly indicates that postsecondary education can be a path to economic mobility and an essential means of sustaining the American dream for some children. Through our research, dialogue, policy recommendations, and other efforts, we aspire to help make it a path authentically available to all children.

We look forward to imagining, together, how asset-based financial aid can make higher education a more valuable proposition for all of America's students—especially those disadvantaged in the current system—and to discussing how it can serve as an alternative to the current student loan program if combined with a bold vision of asset transfers in the spirit of the Homestead Act or the G.I. Bill of old. We assert that rebalancing current financial aid policies could bring their effects more in line with their original intents, restoring higher education to its role as a powerful arbiter of equity in a more prosperous U.S. economy. We further believe that addressing this policy challenge is among the most important tasks on the current domestic landscape, with nothing short of the American Dream at stake.

With warm regards,



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ACKNOWLEDGMENTS

This report could not have been completed without the generous support of the Kaufmann Foundation.

The Kaufmann Foundation is not responsible for the quality or accuracy of the report, which are the sole responsibility of AEDI, nor do they necessarily agree with any or all of the report's findings and recommendations.

Preferred Citation

Elliott, W. and Lewis, M. (2014). *The student loan problem in America: It is not enough to say, "students will eventually recover."* Lawrence, KS: Assets and Education Initiative (AEDI).

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INTRODUCTION

The Shifting Understanding of Education's Welfare Function in America

According to Shapiro, the American Dream “is the promise that those who work equally hard will reap roughly equal rewards” (Shapiro, 2004, p. 87); that is, the American Dream holds that this country is a meritocracy where effort and ability are the primary determinants of success. Institutions provide the economic conditions that make it possible for people to believe that their hard work and ability will determine their success or failure. This task is facilitated by Americans’ strong desire to feel as though their destiny can be controlled and that institutions will ‘echo’ their own contributions, rather than work against them.¹ Primed to look for evidence of this ‘effort plus ability equals outcomes’ equation, Americans cling to this ideal, even as it recedes in reality for many. There is no evidence that Americans today are less capable or less committed than in previous generations, in the aggregate. Instead, particularly in today’s highly specialized, technology driven, global world, the upward mobility that animates the American Dream is only possible if effort and ability are combined with institutional might.

Post-Great Recession, Americans are surrounded by examples of unsupportive institutions and the crumbling aspirations of those whose effort and ability have failed to yield advancement. These adverse conditions are not just constraining financial progress; they imperil the foundation of even this robust American Dream. Today, a majority of Americans (63 percent) no longer believe American institutions are able to facilitate children being better off than their parents (Luhby, 2014). Instead of aspiring to economic mobility, many now hope for financial security – not dreaming of getting ahead but striving not to fall behind. While some Americans display tremendous capacity to hope against all hope, the average person requires grounds for believing that achieving the American Dream is possible. In this sense, belief in the American Dream as it relates to one’s own life is more malleable than the vague ideal one might hold for the country; it can and does readily change depending on the economic context in which one finds oneself. This suggests that people see the American Dream as more or less achievable in their own lives based largely on how institutions like the education system, labor market, and economic markets are functioning for them (Hochschild & Scovronick, 2003).

The significance of the U.S. education system in sustaining the American Dream cannot be overstated. Americans’ understanding of ‘effort and ability’ features educational attainment prominently, particularly the higher education widely understood to correlate with superior employment and earnings prospects and, then, upward mobility. Here, too, though, the aspirations of a generation of young people are colliding with the economic realities they confront, contributing to the shaky foundation on which the American Dream stands today. While it is clear that it does pay to get an education, there is plenty of evidence to suggest that it pays off unevenly. First, economically disadvantaged students carry their inferior academic preparation—forged in inferior primary and secondary schools and exacerbated by familial differences in educational investments—into post-secondary education, where it contributes to lower completion rates (Bailey & Dynarski, 2011) and longer paths to degree because of the need to take remedial classes (Engle & Tinto, 2008). Second, even highly-qualified students do not achieve equitably in college, as the economics of higher education strongly influence institutional selection to steer even high-achieving low-income students or students of color to less selective schools that spend less per student on instruction, have lower graduation rates, and yield poorer labor market returns than more competitive institutions (Carnevale & Strohl, 2013). Indeed, analysis of this ‘undermatching’ (Hoxby & Avery, 2012) suggests the existence of two tiers of higher education and powerful forces that track students into one or the other, based more on socioeconomic status than innate ability. Higher education cannot be an equalizing force if it delivers an unequal product with highly disparate outcomes. As evidence of the gap between different types of institutions, more than half of community college students fail to complete a degree, receive a certificate, or transfer to a four-year institution within six years (NCES, 2011), considerably poorer interim outcomes than students at more selective, four-year institutions.

Completion does not erase the legacies of inequity either. Despite the fact that education nearly always ‘pays’ compared to failure to pursue post-secondary studies, research suggests that the precise level of economic advantage

¹ Perceived control is highly predictive of engagement/motivation (Skinner, Zimmer-Gembeck, Connell, Eccles, & Wellborn, 1998).

afforded from a higher education depends on school selectivity, major, and chosen occupation. Specifically, the rate of return on a bachelor's degree from a noncompetitive four-year private institution is under 6 percent while the rate of return on a bachelor's degree at the most competitive public institutions is over 12 percent (Owen & Sawhill, 2013). While there is certainly an economic need for diverse majors and a case to be made for the non-financial benefits of post-secondary education, the extent to which career choice may be influenced by the student's socioeconomic background also warrants examination, since the lifetime difference in earnings between, for example, a student who majored in engineering and a student who studied arts or humanities can be well over \$1 million (Schneider, 2013). And, finally, even when two students earn the exact same degree from the exact same institution, the real value of that credential may vary depending on the way in which they financed it, as student loan debt may erode asset accumulation for years following degree completion, thus increasing the real cost of the degree (e.g., Hiltonsmith, 2013).

Today, high college costs due in part to diminishing state funding, declining availability of non-repayable financial aid and poorer labor market outcomes may raise doubts in the minds of parents and children about whether the return on college is too risky to justify the investment of required financial and personal resources. In the lives of individual students and in the aggregate for this generation, then, education—one of the most critical institutions shaping opportunity in today's America—may be seen as less capable of facilitating a path to the American Dream.

SHIFTING UNDERSTANDING OF EDUCATION'S WELFARE FUNCTION IN AMERICA

Since the beginning of the 20th century, education has become a locus for the emphasis on opportunity, through expanded support for public schools, colleges, and universities, and eventually through provision of government subsidies to facilitate individual access to higher education. In 1976, in talking about the function of education in the American welfare system Janowitz wrote, "Perhaps the most significant difference between the institutional bases of the welfare state in Great Britain and the United States was the emphasis placed on public education – especially for lower income groups – in the United States. Massive support for the expansion of public education, including higher education, in the United States must be seen as a central component of the American notion of welfare—the idea that through public education both personal betterment and national social and economic development would take place" (pp. 34 & 35). Now such an accepted part of our approach to fostering upward mobility, it must be emphasized that placing education in this central role was not a foregone conclusion, but instead an explicit and intentional decision about how our nation, specifically, would build policy structures to complement individual effort and ability. While European nations have relied on the "direct redistributive role of the welfare state to reconcile citizenship and markets", the United States has chosen to use education as a lever for ensuring equitable outcomes (Carnevale & Strohl, 2010, p. 83). This distinctly American conviction—that economic disparity can be narrowed through individual effort in school, the pursuit of higher education, and calculated public investments in educational opportunities—runs deep. In the past few decades, though, while there is little evidence that Americans' beliefs about the importance of education as a gateway to opportunity have eroded, there has nonetheless been a repositioning and repurposing of education policies, within a shifting frame of 'welfare'. Education has been increasingly viewed as a primarily individual, rather than societal good, with the accompanying retrenchment paralleled by cuts in other arenas of welfare policy, as well. In the higher education domain, this shift can be clearly traced by examining political pronouncements about financial aid since the 1965 enactment of the Higher Education Act.

While education is certainly not the only policy sphere where shifts in arrangements between individuals and the government are reshaping opportunities and risks (Hacker, 2008), these trends are seen vividly in higher education, looking, for example, at the evolution of how presidents talk about, specifically, financial aid policy. In talking about the Higher Education Act Reauthorization of 1968 President Lyndon B. Johnson said, "So to thousands of young people education will be available. And it is a truism that education is no longer a luxury. Education in this day and age is a necessity." Here, the federal government's role is understood as making education available to all. Similarly, speaking of the Higher Education Act Reauthorization of 1980 President Jimmy Carter said, "We've brought college within reach of every student in the nation who's qualified for higher education. The idea that lack of money should be no barrier to a college education is no longer a dream-it is a reality." In education as in labor arrangements, income supports, and other policies that touch family finances, in the mid-1980s a shift occurred. Instead of education being framed as something in which the federal government had a large stake, the burden for

paying for college shifted to the individual. Because relatively few households could finance these new obligations without some external assistance, given the high cost of college, this ‘risk shift’ (Hacker, 2008) necessitated a larger role for student loans, absent policy innovations that would bridge these gaps. In 1983 President Ronald Reagan explicitly articulated this shift, “The cost of education is primarily the responsibility of the family. The Federal Government has a role to play in helping needy students get a chance to receive a college education.” Clearly, then, as with other welfare policies, one’s view of education is based on values, which then drive the metrics emphasized and the outcomes considered acceptable. In this report, a part of what we contend is that student loans do not align with the notion that effort and ability should determine who succeeds and who fails. Americans believe that people who work equally hard and have roughly equal ability should achieve similar outcomes, and our sharing of these values drive our assertions that, because education has a role in America as part of its welfare state, it matters not only that people have access to financial aid for paying for college. If the American Dream is to remain real, it also matters what type of financial aid they have access to and what its effects are. It is along these dimensions that we encounter concerns with the student loans.

THE STUDENT LOAN PROGRAM’S ROLE IN INSTITUTIONALIZING UNEQUAL OUTCOMES

When the Higher Education Act of 1965 was enacted, student loans were not meant to be the primary instrument for financing college. In fact, student borrowing did not become the primary instrument for financing college until about the mid-1980s. Instead, grants were primarily intended for lower-income students, with loans, a compromise of sorts between Democrats’ and Republicans’ different ideas about how to expand educational opportunities, meant to help middle-income students confront the short-term cash crunch associated with the cost of college. During this period student loans were made by private lenders. However, to get private lenders to be willing to offer loans to students who, for the most part, had no credit history, the banks had to be given a guarantee that they could recoup their losses if a student defaulted. The concessions that resulted took student loans down a path which has resulted in a fairly unique debt instrument, one with an outsized significance in U.S. policy and, today, Americans’ balance sheets. If we understand student loan default as a result of the inherent difficulty in accurately predicting the return on college and not simply borrowers’ unwillingness to pay, we see this request for rules that preference lenders, though practical from the perspective of financial institutions, as creating a kind of perverse outcome where the goal becomes more to protect the *financial institutions* than the *recipients*. Given the subsequent trajectory of student loans, where borrowing has become a primary mechanism of college access for most prospective students, this positioning of financial aid within the larger credit market should have perhaps raised more alarm. Again, here it is important to recognize education—and public support for the same—not as mere academic instruction, but as a sort of “American welfare”, vastly preferred to their alternative—direct payments. It is within this role of education that we find greatest concern over this protection of institutions instead of individuals. Here, for our particular emphasis on the educational attainment and equitable outcomes of low-income and otherwise disadvantaged students, for whom education functions more explicitly as a form of welfare than for high-income students, student borrowing may be especially ill-suited.

To show how the student loan program is hindering the ability of education to fulfill its role as an equalizer, we pull together a growing body of research that suggests student loans, large and small, can have negative effects on far too many potential students’ college preparation, the decision to enroll in college, which college to select, whether to stay and complete college, which job to take after college, whether and when to marry, when to have kids, the amount of overall financial stress experienced, whether to buy a home, and whether, when, and how much to save for retirement. We acknowledge that, as with all secondary data analysis, there are no ‘perfect’ studies; however, this evidence on a variety of outcomes, from different researchers utilizing a range of methods and datasets, at a minimum, points to the need for a distinct and fuller assessment of the U.S. student loan system, including its potential role in contributing to Americans’ perceptions that their greatest hopes are increasingly elusive. Reviewing the growing body of research makes a compelling case on its own that the student loan program exacerbates uneven returns on a college degree and erodes, then, some of the equalizing potential of our higher education system.

We recognize, within the context of today’s financial aid debate, that some may view these student loan effects as small costs to pay for the right to receive an education. Indeed, some Americans may choose to delay buying a home or getting married, and generational differences may lead some to make different life choices altogether (Nielsen, 2014). Our intention here is simply to point out the unacceptable inequity of a system that asks some, but not all,

students to pay these costs, and frames such inequity as an inevitable price of higher education access. We believe that the American Dream requires that personal preferences and life goals must determine individuals' paths, not the constraints leveled by the way in which they financed the higher education they pursued on their journey. This leads to different conclusions about the seriousness of student loan effects and, then, the urgency of constructing alternatives. For example, Rose (2014) states, "A sizable number of people are certainly *inconvenienced* for their first 10 years after graduation and face a long period of repayments, but a relatively small percentage confront default" (p. 30, emphasis added). We would and have agreed with Dr. Rose that it still pays off to attend college, even if you have to take out student loans. However, this certainly does not mitigate the harsh reality that college pays off *more* for those who do not have to take out loans. It is that inequity that is problematic. And the disparity in outcomes is often quite consequential. The average time that it takes to repay student loans grew from about seven years in 1992 to a little more than 13 years in 2010 (Akers & Chingos, 2014), and this is likely to continue to grow as Income-Based Repayment plans grow in popularity (Akers & Chingos, 2014), touted as a way for overburdened students to cope with the strain of their debt burdens. These programs, which have doubled in use over the last two years itself a sign that there is a student debt problem in America, extend normal repayment plans from 10 years to up to 25 years. In light of evidence of the long-term financial implications of diverting income to debt repayment instead of asset accumulation, payment schedules that extend the period of indebtedness may only exacerbate the divides. Even if the advantage realized by a student who does not have to borrow for higher education is small, and even if the student who had to take out loans is better off than he or she would be without a college education, this just seems at odds with the goal of education being an equalizer in society. Even more fundamentally, this landscape is incompatible with the spirit of the American Dream that promises that effort and ability will determine who succeeds and fails in life. It is particularly disturbing as a proposed 'solution' to the growing public angst about student loans' effects on the economic mobility and financial security of young Americans, failing as it does to address the underlying causes of their distress.

Particularly out of sync with the stated and understood purpose of student loans to facilitate greater access to higher education, though, are the ways in which borrowing influences students' decisions prior to college entrance, again in highly unequal ways. Apart from the fact that the mere thought of having to finance college through the student loan program is associated with some students opting not to attend college—debt aversion—the student loan program helps to institutionalize separate educational paths for those who have money for college and those who do not. For instance, field evidence suggests that students facing the prospect of considerable debt may be steered toward two-year colleges as opposed to a four-year college by high school personnel such as teachers and counselors, even when they are academically qualified to attend more selective institutions (Elliott, 2013). One high school counselor put it this way,

Being able to see it made a big difference because I had students that were accepted into 4-year colleges around the state but once we looked at the aid packages, they realized, OK, it doesn't make sense for me to go down to [4-year college] and take out some loans when I can get money back if I start at [2-year college] and just get my associate's and then transfer so that, they have to see it, they have to be able to touch it. And I'm the same way, like you can talk to me all day but until I see the numbers, it's not really going to click with me. (Elliott, 2013, p. 19)

This idea that students who cannot afford to pay for college or cannot afford to take out loans should attend two-year colleges even when qualified to attend more selective colleges helps create the expectation that there are different paths for students with and without money to pay for college. And, yet, today's conversation about higher education and, specifically, financial aid, is dominated by this thinking. In justifying the student loan program as not diminishing the return on college, researchers have expressed a similar rationale as the counselor, for example,

Nonetheless, for many borrowers even modest student debt crowds out other spending. But our postsecondary system is huge and provides many options. Students can minimize debt by going to a less-expensive public four-year college or by starting at a community college and then transferring to a state four-year school. (Rose, 2014, p. 30)

This idea that to avoid debt students should have to make a decision to attend two-year colleges is also reflected in state and national policy. For instance, the Tennessee Promise offers last-dollar scholarships to ensure free two-year

degrees or certificates from the state's 13 community colleges and 27 technical schools. While we recognize the good intentions in these policy prescriptions, serving as they do to attempt to preserve routes to college completion for students facing significant cost burdens, this approach runs counter to education acting as an equalizer, particularly given evidence of unequal outcomes and returns on degree at different types of institutions. We acknowledge that a two-year college is the best option for some students, and the value of these institutions in the U.S. higher education system is clear, but the student loan program should not be part of why students have to decide to attend a two-year college or a four-year college, nor should financial aid options determine how educators advise students. This is an artifact of the overreliance on student debt and a distortion of how Americans believe higher education to work. Importantly, we do not ask this of students who have the financial resources to attend college. Potential students from upper-income families are much more likely to walk into a pattern of higher education, such that they may never consciously and intentionally 'decide' to attend college. For them, higher education still largely serves as an institution that supports the realization of their American Dream, which makes it even more imperative that we find policy levers capable of strengthening this same promise for less advantaged children.

It is because of the role that education has been given as part of our welfare system that education has become America's largest investment in ensuring equitable outcomes for all Americans. The stakes are high for properly financing and administering higher education, given its outsized function in our economy and our collective identity. Therefore, financial aid is not just a matter of providing students with the money they need to pay for college. We must assess whether or not these finances align with education's role as an important facilitator of the American Dream. Then, we must muster the political will to build a financial aid system up to this task.

OVERVIEW

In the first part of chapter one, we assert that the real concern should be about outcomes, equity, and the way in which policy is marching towards overreliance on student loans without much consideration of the effects, profound, troubling, and long-lasting though they may be. Often, efforts to raise concerns about the performance of student loans according to these other measures raises quick defense of student borrowing as a vehicle—often, the only available one—for college access. Here, then, we examine evidence that suggests that the student loan program may complicate the subjective calculation that post-secondary education pays off for students. Our point is not to debate that higher education is almost always a 'good' investment for American students, even when a student has to take out loans to finance it. Comparing the outcomes of less-educated adults to those of college graduates reveals that it clearly is. The question is whether students understand this, what might interfere with this assessment and its influence on their decisions, and how this process might lead to different actions for lower-income students, as compared to their higher-income counterparts, including in ways that may inhibit loans' potential stimulus of college access. Potential students from upper-income families are much more likely to walk into a pattern of higher education, such that they may never consciously and intentionally 'decide' to attend post-secondary institutions; for them, then, this subjective calculation is far less determinant of ultimate outcomes than for the lower-income children whose opportunity costs may loom much larger and whose pro-education cues may be interrupted by other forces. Chapter one goes on to discuss evidence on the long-term costs of borrowing as significant determinants of later well-being and, then, important considerations in evaluating loans' true individual and societal implications. Reviewing the growing body of literature makes it clear to us that the student loan program exacerbates uneven returns on a college degree and erodes, then, some of the equalizing potential of our higher education system.

In chapter two we posit that over-reliance on the student loan program is weakening the ability of the education path to act as the great 'equalizer' it is meant to be. Instead of dedicating our policy attentions to solving the problems created, exacerbated, or hastened by student loan reliance, we have mostly moved the goalposts, no longer expecting student loans to be a pillar of educational opportunity and equity. Policies respond to the angst that results from damage leveled by the status quo—by delaying requirements for debt repayment, suggesting different educational paths to reduce costs, and advising students to become more educated consumers—but without striking at the roots of the problem. When confronted by evidence of the potential harms—educational, economic, social—wrought by existing debt levels, we attempt to soothe with temporary and partial 'fixes' and console ourselves with the notion that most "students will eventually recover." We contend that the impetus for these well-intentioned but ultimately

short-sighted approaches stems in part from an incorrect and incomplete preoccupation with debt levels—for individual students and in the aggregate—as *the* indicator, an emphasis which may potentially confuse the debate.

However, at this point in the policy discussion of U.S. financial aid, it is not enough to merely point out limitations and drawbacks to student loans. Their prominent place within the policy landscape makes the hole that would be created by their absence loom too large, such that many struggle to even imagine alternatives. In pursuit of superior outcomes and in the belief that we need a new direction for our financial aid system, in the final chapter of the report we present asset-based, rather than debt-dependent, financial aid, embodied in Children’s Savings Accounts (CSAs), capable of being part of a strategy to restore higher education as a equalizing force and catalyst of a reinvigorated American Dream.

CHAPTER 1

EVEN IF WE SAY IT AIN'T SO, AMERICA HAS A STUDENT DEBT PROBLEM

The main contention in this report is that student loans should not be the centerpiece of the U.S. financial aid system, particularly for low-income students who turn to financial aid to bridge access to higher education. Instead, student borrowing may work best as a strategy for upper-income families, who can use student loans strategically, to make it possible to attend more expensive institutions than they could otherwise afford, reserve parental asset stores for other purposes, and/or prevent students from having to work while in school. While a case could be made that the student loan program should not be a part of the federal government's investment in facilitating access to post-secondary education, at a minimum we contend that the program should be gradually returned to the level seen in the 1970's, when loans constituted a much smaller portion of the financial aid packages for most students, as well as a smaller footprint within institutional budgets (Martin & Lehren, 2012). Relying on student loans as a primary mechanism for financing post-secondary education is a recent development. Geiger and Heller (2011) found that federal, state, and private grants were the largest form of financial aid until 1982, when loans began to outpace grants. During most years, this has only escalated. For example, in 2000, student loans made up 38 percent of net tuition, fees, room, and board; by 2013 they made up 50 percent (Greenstone, Looney, Patashnik, & Yu, 2013). This policy shift coincided with the solidifying expectation that students—not states or institutions—would bear most of the burden of college costs (Hiltonsmith, 2014). This shift fell particularly hard on disadvantaged students, who were least likely to have a cushion of parental support to sustain them (Elliott & Friedline, 2012) and the support of well-positioned K-12 institutions that could help them navigate the non-loan aid (Dynarski, 2002; Marin, 2002).

While students in poverty continue to face the greatest obstacles to financing post-secondary education, today student debt is a problem for the many, not the few. Fry (2012) found that 40 percent of all households headed by individuals younger than 35 years of age have outstanding student debt. Further, the proportion of undergraduate students who took out federal loans increased from 23 percent in 2001–02 to 35 percent in 2011–12 (College Board, 2012). This borrowing adds up. Total borrowing for college hit \$113.4 billion for the 2011–12 school year, up 24 percent from five years earlier (College Board, 2012). As a result, households are faced with ever-growing debt, and this heavy borrowing threatens the financial security of more than just young college students. According to the Federal Reserve Bank of New York, about 2.2 million Americans 60 years of age or older were liable for repayment of \$43 billion in federal and private student loans in 2012, up \$15 billion from 2007 (Greene, 2012).

Some research correctly notes that about 20 percent of the growth in student debt since 1989 can be explained by increases in the number of people attending post-secondary education (Akers & Chingos, 2014), a core objective of the student loan program as it is framed in the policy debate. But while 20 percent is meaningful, that still leaves 80 percent left unexplained by growth in attendance, revealing it to be an inadequate explanation for the sharp upward trajectory of student borrowing. Some of these same researchers also correctly point out that growth in the number of people continuing their educations into post-graduate study has played an important role in the rise in student debt, by extending the educational path and, therefore, increasing the total cost of higher education (Akers & Chingos, 2014; Delisle, 2014). As Akers & Chingos (2014) indicate, student debt levels among graduate degree holders quadrupled (\$10,000 to \$40,000) between 1992 and 2010; however, during the same time period student debt amounts among bachelor degree holders almost tripled (\$6,000 to \$16,000), again pointing to the inadequacy of this supposed explanation for increasing debt. Certainly, looking at amount of borrowing as an indicator of the scope of the problem, just because bachelor debt *only* tripled does not mean that it does not warrant serious concern.

As other forms of financial aid, particularly means-tested grant assistance, have eroded in value, while college costs have risen, not only have students become more likely to borrow; they are borrowing more. The amount borrowed by the average student increased only marginally between 2003-04 and 2007-08; however, debt loads increased by \$4,700 (19 percent) between 2007-08 and 2011-2012 for bachelor's degree recipients and by \$3,100 (23 percent) for associate's degree holders (Miller, 2014). So, judged by indicators of incidence and amount of debt, this perceived 'crisis' only appears to be growing. Critically, however, viewing America's student debt problem using only an accounting lens largely obscures the most significant issues. Particularly given the role higher education plays in facilitating economic mobility, energizing the U.S. economy, and sustaining the American Dream, our real concern

should be about outcomes, issues of equity, and the real risk that the U.S. might inadvertently imperil our most treasured collective narrative in our almost unthinking adherence to a mantra that student debt is, at least basically, a sound way to finance an advanced education.

A STANDARD OF “STUDENTS EVENTUALLY RECOVER” IS NOT GOOD ENOUGH

When the college debt conversation takes into consideration outcomes and equity some media and researchers speak as though there is no problem unless college debt rises to the level of creating a national financial crisis. This is too narrow of a lens from which to view the student debt problem. A financial aid program that in 2011-2012 school year cost Americans \$70.8 billion (College Board, 2012), from which the federal government earned \$41.3 billion in 2013 (Jesse, 2013), and from which Sallie Mae (the nation’s largest private student loan lender) made \$939 million in net profit for 2012 (Hartman, 2013) should be held to a higher standard than ‘some students will eventually recover’. It should actually have to be shown to be an equalizing force with regard to educational attainment and financial wellbeing. It is not just our financial investment that makes this so important; we have also invested considerable regulatory and legislative legitimacy in student borrowing, imbuing these loans with tremendous significance in our policy structure—including preventing discharge in bankruptcy and deploying collection agencies to recoup debts—in ways that ‘leak’ into other policy dimensions.

There is little evidence that we are holding student loans to this higher standard, however. Today, largely as a result of media depiction, problematic debt has been roughly defined as \$100,000 or more. This inaccurate definition moves the goalposts, allowing some analysts, policymakers, and pundits to divert attention from the negative effects associated with student debt by merely demonstrating that average student debt is far less (latest estimates \$29,400 (Miller, 2014)) than \$100,000 (also see, Sanchez, 2012; Edmiston, Brooks, & Shepelwich, 2012). Significantly, this accounting ignores compelling research that shows that amounts much smaller than \$100,000 can create financial hardship. For example, Akers (2014) finds that “high-debt borrowers face financial hardship at only slightly higher rates than comparable households with less debt” (p. 4). What this suggests is that high debt does not necessarily lead to hardship, because people with high debt often have higher earnings; equally important, it also means that low debt does not necessarily mean absence of hardship. Additionally, this simplistic accounting glosses over the significance of variables such as how people come to borrow and why, factors that may matter more than how much they borrow, particularly when it comes to disadvantaged students, who borrow as their only option, versus wealthier students whose loans complement other financial aid and who likely have resources with which to confront obligations post-graduation.

The fact that debt of any size may bring about financial hardship raises the question of whether making student loans the centerpiece of the U.S. financial aid system is an inherently flawed idea. It also points to the potential futility of policy reforms that merely seek to ‘tweak’ the student loan system in order to mitigate its worst effects. As we understand student borrowing today, the factors that influence whether student debt will be harmful for a given student include not only the amount of debt but other, more complex considerations, including the kind of post-secondary institution attended, the major pursued, the kind of job students secure after graduation, what the economy will be like, and the options they have before, during and after higher education. Beyond the fact that answering these questions accurately is nearly impossible for a super computer, let alone a high school graduate, even if answered correctly (i.e., college will pay off), the need for this calculus may itself weaken the ability for the education path to act as an ‘equalizer’. In fact, getting more information about how harmful student debt can be could just further depress post-secondary education participation, particularly among low-income and minority students who are more likely to be loan-averse, unless an alternative way to pay is provided.

THE STUDENT LOAN PROGRAM’S INFLUENCE ON THE DECISION TO BORROW

The economic model of human capital investment assumes that individuals decide to invest in postsecondary education by making a subjective calculation that expected long-term benefits of attending would exceed expected short-term costs (Becker, 1962). Long-term expected benefits include both monetary and nonmonetary benefits while short-term expected costs include the costs of attendance and foregone earnings. In addition to weighing costs and benefits, economists recognize that this calculus also depends on the “demand for human capital and the supply of resources for investing in human capital” (Perna, 2006, p. 107). In this section we will focus on how the student

loan program can complicate the subjective calculation of the return on receiving a post-secondary credential, particularly in the case of lower-income children, and touch on the demand for human capital and resources for paying for post-secondary education.

Student Loans Complicate the Calculation of the Return on Post-Secondary Education

Institutions influence human decision-making in nearly invisible ways, such that what is sometimes perceived as a rational choice really is the product of institutional structures. In an analysis of institutions and rational choice, North (2005) describes rational decision making this way, “much of what passes for rational choice is not so much individual cogitation as the embeddedness of the thought process in the larger social and institutional context” (p. 24). The student loan program, as a type of institution, provides high school graduates contemplating post-secondary education with an embedded thought process that plays out in the subjective calculation these students make about the return on college. While not often discussed, the role of student loans in this subjective calculation is likely as much of a problem as the actual loan amount. It is important to emphasize that we recognize student loans are not the only institution influencing student decision-making in this context; students may also be guided in their decisions by parents, peers, and their secondary schools, among others. One of the reasons that student loans may fail disadvantaged students, however, is that these students may not have the support of countervailing institutions to mitigate loans’ negative effects.

Again, this subjective calculation is likely particularly salient for lower-income students. Potential students from upper-income families are much more likely to walk into a pattern of higher education, such that they may never consciously and intentionally ‘decide’ to attend college. For instance, as children from upper-income families are more likely to have parents who have attended a post-secondary institution (e.g., Terenzini, Cabrera, & Bernal, 2001), they have access to and support from institutions other than the student loan system as they face the prospect of higher education. Significantly, educated parents are more likely to counsel their children on availability of financial aid (Goldrick-Rab, 2006; Terenzini, et al., 2001) and provide more accurate information about the cost of college (Horn, Chen, & Chapman, 2003), which mediates the role of student loans in these students’ accounting. Moreover, for many upper-income students, alternative forms for paying for college exist (Sallie Mae, 2014), such that student loans feature less prominently in their financial and mental preparation for higher education.

The Economic Context in which Decisions are Made

It is important to also point out that these calculations of subjective costs occur within an economic context that can obscure the benefits of college. As the subjective calculation includes potential students’ image of the economy and their role in it, today’s relatively adverse conditions, including for college graduates, may alter post-secondary education decision-making in ways that have lasting repercussions. The Great Recession contributed to fewer jobs for college graduates, rising college costs as states reduced support to universities, stagnant incomes, and a shift away from societal responsibility toward individual responsibility for financing post-secondary education (Hiltonsmith, 2014). While college graduates inarguably continue to outperform their less-educated peers on many economic and social measures, between 2000 and 2010 unemployment among college degree holders rose from 2.0 percent to 5.7 percent (Mishel, Bivens, Gould, & Shierholz, 2013). Between 2002 and 2012 wages were stagnant or declining for the bottom 70 percent of U.S. families (Mishel & Shierholz, 2013).

Even more disturbing is the unequal distribution of risk exposure in this economy. Because different groups of people face different economic conditions, the subjective calculations potential students must make are not the same. For instance, the college-educated unemployment rate is higher among racial minorities. Between 2000 and 2010 the unemployment rate for White workers with a college degree increased from 1.8 percent to 4.9 percent, but for Black college graduates it increased from 2.8 percent to 9.8 percent (Mishel, Bivens, Gould, & Shierholz, 2013). Recent U.S. economic history complicates these decisions, too, particularly as prospective college students today cannot rely on either earnings achieved by recent college graduates or their parents’ economic experiences as accurate predictors of what they will be able to earn if they attain a college degree, or not. And even though economic times change, perceptions of the current economic climate, good or bad, weigh into the decision.

The economic model's focus on short-term costs—particularly the time during higher education—has resulted in neglect of the long-term costs of student debt in policy and research. Because the full effects of student loans, including the constraints they place on asset accumulation and, potentially, earnings, post-college, do not show up as short-term financial costs as currently defined (largely confined to the cost of attending and forgone earnings), this is an unrealistically narrow conception of the 'costs' of college. This is important because it narrows the lens through which many observers view the student loan problem. For example, Rothstein and Rouse (2011) state: "student debt has only an income effect—proportional to the ratio of debt to the present discounted value of total lifetime earnings—on career and other post-college decisions" (p. 149). They go on to calculate that \$10,000 in student debt represents less than one percent of the present value of the average college graduate's potential lifetime earnings. The implication is that college pays off eventually, even if, in the short term, loans are expensive.

With this as the standard for success, with some exceptions, pundits and analysts have largely concluded that student loans should not play a negative role in students' decisions to attend college (i.e., it is rational for a potential student who is disadvantaged to conclude that college is 'worth it'). Our point is not to debate the calculation that adults who have a college degree have higher lifetime earnings than adults without a college degree (e.g., Rose, 2014). There is considerable evidence that college does pay off. However, we aim to raise questions about the extent to which anyone really can accurately predict costs and benefits; the extent to which the focus should be on costs associated with the period of attendance and not outcomes before, during and after post-secondary attendance; and the extent to which earnings alone are the right standard, rather than considerations of equity and economic mobility.

Does Anyone Really Think that Way? Information is Important, but Not Sufficient

It must be emphasized that the subjective calculation of the return on college is not a scientific analysis. The data potential students collect to make this calculation are largely anecdotal, tested through life experience rather than a statistical package. The decision to borrow is primarily based on prospective students' ability to accurately predict what their particular future earnings will be. Since little of the information needed for making the calculation is known (e.g., whether he/she will get a job after graduation, whether that job will be in his/her field, if the field will even exist 10 years from now, how much the borrower will earn over the course of his/her life, and so forth) at the time the decision is to be made, it is a qualitatively different type of calculation than what the economist makes, for example, when calculating lifetime earnings. Even in the best of economic times, there is no guarantee that past returns will come to pass. This is further complicated by the fact that graduating with a four-year degree is almost a 50/50 proposition in America, so initiating degree pursuit does not at all guarantee that one will complete college. For instance, Avery and Turner (2012) find that about 55 percent of dependent students who expect to complete a bachelor's degree and about 50 percent who expect to complete an associate's degree do so within six years after graduating high school. So, even looking at the very short term, prospective students cannot even be sure that they will graduate.

In sharp contrast to this uncertain context facing borrowers, lenders have policy protections that allow debt collectors to garnish wages, including huge penalties that balloon what is owed, which some worry may even encourage practices that contribute to borrower default. They also benefit from policies that make discharging student loans within bankruptcy nearly impossible and can obtain government assistance in collecting unpaid debts. With these and many other protections, the risk to lenders is far less than for borrowers. Lenders also benefit from having a large asset store not available to most borrowers, which further reduces their risk. And they benefit from the changing landscape of financial aid, which essentially drives 'captive' customers to their doors, as non-loan aid loses more of its capacity to meet rising college costs. Critically, this business model diverges dramatically from how student loans are framed, as an almost altruistic intervention that puts college within reach for those who otherwise would never be able to afford it.

Costs before Post-Secondary Attendance

The true costs of higher education include not just foregone earnings during post-secondary attendance and the 'hard' costs of tuition and fees, but also those prior to and well beyond college. For example, when two college-age children, one who will have to rely on loans and one who will not, contemplate their opportunities, including what college they will attend and what major they will pursue, they may view these decisions very differently. Research

on student debt aversion shines light on how student loans restrict opportunities for those who rely on them (Campaigne & Hossler, 1998; Fenske, Porter, & DuBrock, 2000; Paulsen & St. John, 2002; Perna, 2000). For example, Perna (2000) finds that student loans reduce the chance that Black students enroll in four-year colleges. She attributes this, in part, to an aversion to borrowing. In essence, student loans may provide these students with an embedded thought process that four-year college is out of their reach, not because they do not have the desire, effort, or ability to succeed in more selective institutions but because they fear taking on debt in order to pursue this education.

Beyond loan aversion, other embedded institutional thought processes may be at play, but these influences may also be shaped by the reality of the debt-dependent financial aid system. For instance, field evidence suggests that students facing the prospect of considerable debt may be steered toward two-year colleges as opposed to a four-year college by high school personnel such as teachers and counselors, even when they are academically qualified to attend more selective institutions (Elliott, 2013). This field evidence is supported by survey data that indicates that 37 percent of school guidance counselors believe that low-income students should avoid student loans because of risk of default (National Association for College Admission Counseling and the Project on Student Debt, 2007). Similarly, McDonough and Calderone (2004) also find that counselors may steer low-income students toward community colleges because they believe that they are more affordable. Critically, these same restrictions on the attendance decision are not placed on students who do not require student loans, thus exacerbating the inequity of institutional selection. And, again, since different types of institutions do not deliver the same educational outcomes, these choices may have serious—even lifelong—effects. This is not how most people think that U.S. higher education works for bright but poor students.

Costs during Post-Secondary Attendance

Student debt also appears to play a negative role in some children's decisions to stay and complete college if they go. For instance, Baum and O'Malley (2003) find that 40 percent of students with student loan debt reported that they did not return to school or transferred to a lower-cost school due to student loan debt. Significantly, loans' depressing effects on educational attainment may be particularly salient for disadvantaged students. Kim (2007) finds that higher student loan debt in the first year of college is associated with lower probabilities of graduating from college among low-income and Black students but not high-income and White students. Kim (2007) suggests that higher loan aversion by low-income and Black students might come from having less certain job prospects, less familiarity with financial institutions, and a higher risk of not graduating from college than higher income and White students. Additionally, there is evidence that students' decisions do not unfold as economic models would suggest, reinforcing the importance of making policy based on real conditions, not idealized abstractions. With respect to student debt and college completion, Cofer and Somers (2000) state,

...rather than being incremental, the effect of debt is felt in lump sums. That is, a student borrows in a lump sum...at the beginning of the semester. When the next semester begins, the student has to again make a decision to persist based, in part, on this new, higher level of debt. Students view threshold levels as intimidating, especially when they move from one perceived level to another. (p. 35)

Further, Millett (2003) finds that students with college debt are about 60 to 70 percent less likely to apply to graduate school than students without college debt, potentially evidence of other ways in which student borrowing distorts the educational paths of those who depend on loans.

Merely 'counting' total student borrowing cannot answer our most urgent questions about how to build a financial aid system equipped to meet the challenges of the twenty-first century. In the end, determining how many students are borrowing exactly how much money is not the right evidence with which to measure what we most need to know: whether the student loan program is delivering the best return on investment or whether other approaches might be better. The question, then, is not whether or not student loans are creating the next financial crisis or even whether students are crippled with unprecedented repayment burdens. Instead, the United States must determine whether the student loan program is another source of inequality in the education system, compromising economic mobility following college and, then, effectively closing off one of the only few remaining viable vehicles to upward

progress in the U.S. economy. Indeed, particularly in the context of limited government resources, a financial aid program worth billions of federal dollars of investment should do more than only temporarily harm some students. It should create greater economic equality, through the medium of the education system.

If there are good reasons to believe that student loans may not be fulfilling this function, it seems reasonable to ask if there is a better way to provide access to college that more closely aligns with American values. However, the current political environment of inaction with regard to funding education, the constant fear of deeper cuts, and an emotional attachment to the student loan program as an access vehicle—including considerable defensiveness in those who do now view their own use of student loans as having been detrimental—has created resistance to acknowledging that they do not work for many students today. Instead of imagining alternatives more capable of creating equity, the policy debate centers on the false counterfactual of whether students are better off taking on loans to go to college than not attending college at all. To focus our collective attention where it belongs, we must extend the time horizon on which we look for indicators of the success or failure of the student loan system. In the next section we discuss evidence of the potential negative long-term costs of student loans.

COSTS ASSOCIATED WITH HAVING DECIDED TO BORROW

The student debt problem cannot be understood solely by its influence on the subjective calculation of students' decision to borrow and, by extension, whether and where and how to attend post-secondary education. It is also about the costs students face *after* making the decision to borrow, as they leave college with debt. We posit that, if the student loan program strengthened the education path as an equalizer in society, upon graduating, two students with similar degrees should be able to achieve similar returns on their credentials, holding all else equal. However, research indicates that student loans may, instead, reduce the return on college. Either way, there is very little evidence, if any, to suggest that it is strengthening the education path as an equalizer.

Career and Social Choices

Survey data from American Student Assistance (2013) finds that 30 percent of respondents say that student debt played a role in their career choice. In line with the survey data, Rothstein and Rouse (2011) find evidence that student loan debt drives graduates away from low-paying and public-sector jobs (also see, Minicozzi, 2005). Similarly, Field (2009) finds that the rate of placements in public-interest law are roughly a third higher when law students are given tuition waivers instead of loan repayment assistance. Taken together, what these findings suggest is that borrowers may see their career opportunities differently than non-borrowers, in ways that distort their post-college planning. Given the widespread reliance on student loans across this cohort of college students, these selection pressures may have significant repercussions in the broader economy.

Beyond career decisions, student loans also appear to provide people with an embedded thought process that conveys the message that they should wait to start their social lives. For example, Gicheva (2011) finds that students with outstanding student debt have a lower probability of marriage than students without outstanding debt, among people younger than 37 (also see, Baum and O'Malley, 2003). If they marry, graduates with student debt express less satisfaction with their marriage than students with no debt (Dew, 2008). Moreover, when asked, survey data indicate that 43 percent of student loan borrowers say they have delayed having children (American Student Assistance, 2013; also see, Baum and O'Malley, 2003).

Financial Stress

Not surprisingly then, Fry (2014) discovers that 18- to 39-year-olds with two- or four-year degrees who have outstanding student debt are less satisfied overall with their financial situations than similarly-situated young adults without outstanding student debt (70 percent versus 84 percent, respectively). Further, he finds that 18- to 39-year-olds with two- or four-year degrees who have outstanding student debt are less likely to perceive an immediate payoff from having gone to college than similarly-situated young adults without outstanding student debt (63 percent versus 81 percent, respectively). Compounding the problem of financial stress associated with repaying student loans may be the evidence of abusive debt collection practices and the lack of enforcement collection agencies face for these excesses (Burd, 2014). Student borrowers face large penalties if they are late or fail to pay

back their debt on time, and they may be frustrated in their efforts to better manage their debts by onerous restrictions, many of which are peculiar to this type of consumer borrowing (CFPB, 2013). While media attention and cohort effects may increase the perception of distress among student borrowers, it must be emphasized that the strains felt by many student borrowers today are, indeed, grounded in the economic realities they face.

Delinquency and Default

Considerable popular attention, and significant financial resources, have been dedicated to the problem of student loan delinquency and default. Student loans become delinquent when payment is 60 to 120 days late. In 2011 the U.S. Department of Education spent \$1.4 billion to pay collection agencies to track down students whose loans are delinquent or in default (Martin, 2012). While all types of consumer debt have some experiences of repayment difficulty, there is evidence that something about the student loan product, or the context in which it is situated, makes it particularly difficult to service successfully. According to Brown, Haughwout, Lee, Scally, and van der Klaauw (2014), the measured student debt delinquency rate is currently the highest of any consumer debt product. Cunningham and Kienzl (2011) find that 26 percent of borrowers who began repayment in 2005 were delinquent on their loans at some point but did not default. By 2012, Brown, Haughwout, Lee, Scally, and van der Klaauw (2014) report that just over 30 percent of borrowers who began repayment were delinquent at some point. And some of the practices utilized by borrowers and lenders to cope with repayment difficulties may have the perverse effects of deepening loans' negative implications for student borrowers. About 21 percent of borrowers avoid delinquency by using deferment (temporary suspension of loan payments) or forbearance (temporary postponement or reduction of payments for a period of time because of financial difficulty) to temporarily alleviate the problem (Cunningham and Kienzl, 2011). While this may allow borrowers to stay out of official 'trouble' with their loans, by stretching out the period of total indebtedness, these practices may further retard capital development. In total, Cunningham and Kienzl (2011) find that nearly 41 percent of borrowers have been delinquent or defaulted on their loans. Again, these trends have effects far beyond the cohort of young adults most plagued by student loan difficulties. Accompanying the increase in student loan indebtedness, delinquency is also a growing problem among older adults. Among student loans held by Americans aged 60 or older, 9.5 percent were at least 90 days delinquent, up about 7.4 percent from 2007 (Greene, 2012).

Defaults are also on the rise. According to the U.S. Department of Education (2012), the national 2-year student loan default rate was 9.1 percent in 2010 and the 3-year default rate was 13.4 percent. Not surprisingly, defaults occur unevenly. Students from lower-income households are more likely to default (Woo, 2002), along with students of color (Herr & Burt, 2005). With fewer familial resources to cushion the payment strain prompted by student loan obligations and greater likelihood of inadequate income upon leaving college (Woo 2002; Lochner & Monge-Naranjo, 2004), these borrowers may have to confront the failed economics of student loans very shortly after exiting higher education.

Given rising rates of delinquency and default some researchers have suggested making loan eligibility determinations on an individual basis, taking into consideration all of the circumstances faced as well as the outlook for future ability to repay (see Akers, 2014). This concept, predicated as it is on the availability of nearly unattainable information, seems born of a desperate attempt to justify the continued existence of the student loan program, while mitigating its most visibly negative effects. That is, there are too many ways in which the student loan program fails (individuals and society), so we try to patch solutions together when the reality is that only reducing the prominence of student borrowing as a part of the financial aid system will address the roots of the problems. In sharp contrast, these patchwork solutions are likely to exacerbate inequality, perpetuating the survival of a program that will continue to fail whole cohorts of aspiring college students, while diverting massive resources that could be deployed toward more promising approaches.

Overall Debt

Since recent college graduates' annual earnings are usually much lower than they will be during later, prime earning years, most young adults with student loan debt are forced to rely on credit as a key mechanism for purchasing wealth-building items like a home (Keister, 2000; Oliver & Shapiro, 2006). However, delinquent and defaulted accounts may be reflected in students' credit scores. For many students, this reveals another way in which student

loans may haunt them as they embark on financial independence. Research by Brown and Caldwell (2013) indicates that students with student loans have credit scores that are 24 points lower than students without student loans.

Contrary to idea that student loan borrowers face credit constraints, however, research using data from 2010 or earlier finds that there was a positive correlation between having outstanding student debt and other debt (such as mortgage, vehicle, or credit card), when comparing graduates with and without debt. For instance, Fry (2014) uses 2010 Survey of Consumer Finance data and finds that 43 percent of households headed by a college graduate with student debt have vehicle debt and 60 percent have credit card debt. However, using 2012 data, Brown et al. (2013) find that households with student debt have lower overall debt than households without student debt. They speculate that borrowers post-Great Recession have become less sure about the labor market, causing a drop in the demand for credit. Additionally, lenders may have become more reserved about supplying loans to high-balance student borrowers in the tighter credit markets that followed the financial collapse.

Asset Accumulation

Student debt's most troubling financial effects may be its constraints not on other borrowing, however, but on asset accumulation, particularly given the emerging understanding about the significance of initial assets as catalysts for later economic mobility (Elliott & Lewis, 2014). Research indicates that students who graduate with average student debt may be forced to invest significantly less in retirement savings or to delay purchasing other wealth-building items like a home during the early part of their working lives. Critically, this may account for a meaningful amount of the wealth inequality seen later in life between college graduates with and without outstanding student debt. In this section we will review research on the correlational relationship between student debt and asset accumulation.

Net worth. Survey data indicate that 63 percent of young adults with student debt report delaying purchasing large ticket items such as a car. Therefore, it is no surprise that researchers are finding that young adults with student debt have less net worth (i.e., total assets – total liabilities) than students without student debt. For example, Elliott and Nam (2013) find that families with college debt may have 63 percent less net worth than those without outstanding student debt. Similarly, over the life course, Hiltonsmith (2013) finds that an average student debt load (\$53,000) for a dual-headed household with bachelors' degrees from four-year universities leads to a wealth loss of nearly \$208,000. Fry (2014) also finds a net worth loss among households headed by a college-educated (i.e., bachelor's degree or higher) adult younger than 40 who has outstanding student debt. Specifically, he finds that a household headed by a college graduate without outstanding student debt has seven times (\$64,700) the typical net worth of a household headed by a college graduate who has outstanding student debt (\$8,700).

Homeownership. There is evidence to suggest that credit constraints as a result of student loan debt may force young adults with outstanding student debt to either delay purchasing a house or to purchase it at a much higher interest rate in the subprime loan market. The higher interest rate may make it harder to earn equity in the house and can price indebted households out of the most desirable real estate markets. For context, Mishory, O'Sullivan, & Invincibles (2012) find that the average single student debtor would have to pay close to half of his or her monthly income toward student loans and mortgage payments. As a result, the debtor would not qualify for an FHA loan or many private loans (Mishory, O'Sullivan, & Invincibles, 2012)). In line with this, Stone, Van Horn, and Zukin (2012) find that 40 percent of students graduating from a four-year college with outstanding student loan debt delay a major purchase, including a home.

Quantitative analysis supports descriptive findings. Shand (2007) finds that student debt has a negative effect on homeownership rates when comparing four-year college graduates with and without debt. Hiltonsmith (2013) finds that households with four-year college graduates and outstanding student debt have \$70,000 less in home equity than similarly-situated households without outstanding student debt. Potentially explaining this gap, Houle and Berger (2014) find that student debt is associated with a delay in buying a home among college graduates with outstanding student debt compared to those without outstanding student debt. Though Houle and Berger's findings are significant but not very strong, if we push the student loan system to perform above a standard of 'do no harm', this still raises serious concerns. Moreover, even though the effects are not strong in the aggregate, again, some groups of students may be disproportionately affected by these pressures. Significantly, for example, Houle and Berger (2014) find evidence that suggests these effects are much stronger among Black graduates with outstanding student

debt. This is important to the question of whether student loans are helping to strengthen the ability of the education path to act as an ‘equalizer’ in society, given the structural barriers Blacks already face in the housing market (e.g., Oliver and Shapiro, 2006).

Raising doubts about options to quickly maneuver away from these adverse outcomes, Shand (2007) finds little evidence to suggest that this wealth loss is the result of credit constraints. That is, the presence of student loans on a household’s balance sheet may not render the household unable to obtain a mortgage. Instead, households with outstanding student debt might be averse to obtaining a mortgage for a home. In this manner, student loans may introduce additional levers of inequality into students’ post-college lives, artificially constraining home purchase and, then, preventing the development of a powerful asset base (Shapiro, Meschede, & Osoro, 2013). The reason for these differences, with regard to the role of credit constraints, might be due to the different years examined. For example, as discussed above, Brown and Caldwell (2013) find credit scores of student loan borrowers and non-borrowers were essentially the same in 2003, but by 2012 borrowers had lower scores. Further, Brown and Caldwell (2013) show that as credit scores of borrowers declined and student debt per borrower increased, homeownership rates of 30-year-old student loan borrowers have decreased by more than five percent compared to homeownership rates of 30-year-old non-borrowers. This is a fairly substantial drop, particularly given that the overall homeownership rate for 30-year-olds is below 24 percent. The Federal Reserve Bank of New York speculates that the drop in housing rates post-Great Recession is due in part, not only to credit score declines, but tighter underwriting standards and higher delinquency rates (Brown et al., 2014).

These findings suggest that student loans are simultaneously more and less alarming for the future of the United States than commonly believed. While student debt may not incite the next financial collapse, despite the sensationalist claims in some popular media coverage (for discussion of this coverage, see Karsten, 2014; Harvey, 2014), the long-term and aggregate effects of these derailed asset aspirations may constrain economic mobility and threaten the financial security of student borrowers throughout their lives, and *these* effects could transmit significant, albeit indirect, economic fallout from student loans. Unfortunately, difficulties in adequately assessing these effects, particularly on a timeline that lends itself to policy deliberations, contribute to the overly narrow frame through which student loans are judged. Even if some of the corrosive effects of deterring homeownership, for example, may not be felt until today’s indebted youth lack the asset foundation with which to leverage a secure retirement (Pew Charitable Trusts, 2013), that slow-moving threat is no less deserving of our urgent policy attention.

Retirement savings. In the American Student Assistance (2013) survey on young adults with outstanding student debt, 73 percent of borrowers say they have put off saving for retirement or other investments. In support of this finding, Elliott, Grinstein-Weiss, and Nam (2013) find that families with outstanding student debt have 52 percent less retirement savings than families with no outstanding student debt. Hiltonsmith’s (2013) results indicate that dual-headed households with a college graduate and median student debt (\$53,000) have about \$134,000 less in retirement savings in comparison to dual-headed households with a college graduate and no student debt. Similarly, Egoian (2013) finds that four-year college graduates with median debt of \$23,300 have \$115,096 less in retirement savings than a four-year college graduate with no student loans by the time they reach age 73.

With so many potentially intervening factors unfolding over the next few decades, the full impact may be even worse. Egoian’s (2013) estimates assume that seven percent of an indebted college graduate’s earnings go toward yearly loan repayments. This is more conservative than the recommended cutoff for unmanageable student debt of eight or ten percent (Baum & Schwartz, 2005). That is, he finds negative effects that kick in even at levels of indebtedness lower than recommended levels. He also bases his estimates off of relatively small amounts of debt -- \$23,000, at least far less than that apocryphal \$100,000 (and even less than current estimates of average debt loads), yet he finds these relatively large effects. Moreover, his estimates assume that households will pay off their student debt in 10 years. However, current approaches to dealing with escalating student debt largely seek to make unsustainable debt levels more bearable by extending the period of repayment. This makes monthly payments smaller, certainly, but also lengthens the period of depressed capital accumulation. Schemes such as Income-Based Repayment and the Pay as You Earn plans usually require consolidating student loans and have largely been designed to prevent debt burden (how much of the borrower’s monthly income has to be devoted to paying back student loans) from becoming excessive. In order to reduce payments, income-driven repayment plans extend the time students typically have to pay off their loans from 10 years to up to 25 years in the case of the Income

Contingent Repayment plan. We suggest that this *adds* to the student loan problem rather than solving it. Even before the growth in use of these types of programs, the length of time borrowers took to pay off loans was increasing. For example, Akers and Chingos (2014) find that the mean term of repayment in 1992 was 7.5 years; it increased to 13.4 years by 2010 largely because of students consolidating their loans. The time it takes to pay off loans is only likely to grow as income-driven repayment plans are ‘sold’ as a way to increase affordability.

As examples of how making minor changes to the terms of student loans will ultimately fail to address the problems caused by their underlying structure and mere presence in the financial aid landscape, utilization of these modifications is growing rapidly, alongside continued increases in concerns about the consequences of student borrowing. In 2013 these programs accounted for 6 percent of borrowers in repayment and, by 2014, nearly 11 percent of borrowers were in such a repayment modification (Delisle, 2014). Further, these programs account for almost 22 percent of the Direct Loan portfolio in repayment (Delisle, 2014). While these programs are lauded by many as a great way to manage loan burdens, the fact that so many borrowers require such programs should be a warning sign that the current program is flawed. That is, if so many borrowers find their regular payment plan to be unbearable, and in fact, such payments are officially deemed to be unbearable, one could reasonably conclude that the U.S. has a student debt problem. This realization is even more disturbing in light of evidence that the ‘solution’ adopted to address this problem may only intensify the long-term harmful effects of student loans, while reducing the policy momentum for more substantive reforms by easing some of the pressure exerted by overburdened borrowers. Indeed, as Egoian’s (2013) research and others makes clear, putting off asset accumulation for 10 to 20 years has real consequences; even having to divert seven percent of one’s income to paying back loans may have a large effect on long-term wealth accumulation, let alone the 10 to 20 percent required by income-driven repayment plans.

From the evidence discussed in this report it appears clear to us that the student loan program exacerbates uneven returns on a college degree. This conclusion is all the more convincing when we consider that it is not based on any one study but a body of evidence conducted by a variety of different researchers and ranges across a number of different outcomes (e.g., marriage, homeownership, financial distress, etc.) using a variety of different methods and samples. However, at the same time, it is important to emphasize that as a whole, this evidence does not suggest that higher education does not pay. Human capital is created by student debt, and graduates can leverage their human capital into earnings and wealth accumulation potential. That promise makes these findings, which call into question the soundness of the U.S. financial aid system, all the more alarming, since aspiring students who cannot finance their post-secondary educations from family wealth largely have to choose between foregoing valuable educational investments, on the one hand, or taking on potentially crippling student loans on the other. Faced with these undesirable ‘options’, students’ fates seem largely out of their control, contrary to the American ideal of reward for effort and ability. In the end, students with outstanding student debt still end up behind their peers whose family asset stores or other advantages enabled human capital accumulation without significant borrowing.

IN CONCLUSION

Scratching the surface of the U.S. student loan debate reveals that we allow student debt a sort of grace unparalleled in U.S. policy, continually moving the goalposts as we seek to console ourselves that a financial aid system predicated largely on borrowing can, somehow, work. Instead of carefully considering the kind of policy we want, in order to facilitate our children’s access to the higher education that most Americans believe is essential for economic mobility (Newport & Busteded, 2013), we look for approaches that would modify the student loan system enough to allow it to survive, even while holding very low expectations for this very significant investment. Perhaps like the apocryphal frog in boiling water, we have gradually come to expect that, for many if not most U.S. college students, the only path to college and the prosperity that lies beyond is high debt. As it has become clear that this debt is difficult for many students to afford post-college, we have sought to adjust their repayment schedules extending over longer periods of time. As it became apparent that even these modified obligations were exerting some negative influences on students’ decisions prior to college and on adjustment to adulthood after, we consoled ourselves that these effects are temporary, a new rite of passage as Americans come of age. As evidence reveals that this borrowing has lifelong effects, compromising graduates’ ability to engage in the very wealth-building behaviors their educations were supposed to make possible, we have reflexively defended student loans as a vehicle for college access, perhaps overlooking that merely *accessing* college is not the American Dream. When we acknowledge that

student loans are underperforming even as an access tool, we helplessly claim that we cannot imagine an alternative (Woluchem & George, 2014). We are far enough down the policy path of student indebtedness to make it difficult to see our way out and, so, have adjusted to burdensome student debt as a ‘natural’ part of the American life cycle, normalizing a rather extraordinary phenomenon that sees many U.S. college graduates *worse off*, in measures of financial well-being, health, and even overall life satisfaction (Dugan & Kafka, 2014), as an apparent side effect of their use of a financial aid product that is supposed to facilitate ultimate improvements in all of these indicators.

The seeds for this bitter harvest were sown long ago, with the ill effects only brought into sharp relief by the Great Recession, with its colliding forces of further increases in college costs, reduced job prospects for graduates, and tightened family finances that preclude, for many, the luxury of just trusting that higher education will be a good investment. We have now turned our attention to different measures of the extent to which student loans are failing us, and the evidence is not just disappointing. It is alarming. There is reason to believe that, if we expected student loans to actually help us address our greatest collective challenges, particularly those that threaten the viability of the American Dream—rising inequality and constrained economic growth—they are not only falling short, but they may be constructing a higher hill for other policy structures to climb.

The depression of asset accumulation that may result in the immediate post-college period as a result of real financial strains of debt repayment may really matter when it comes to understanding the financial well-being of young adults and growing wealth inequality (Elliott & Lewis, 2014). Even students with outstanding debt who do well in college may struggle to understand why they are not reaping the gains of that academic achievement to the same extent as their counterparts who have no student debt. And, of course, there are real opportunity costs to the student loan system, which has largely crowded out our collective capacity to imagine anything else. The policy energy consumed by tinkering with a fundamentally flawed student loan system, in an effort to blunt its most negative effects, could be otherwise deployed to construct new asset-empowered financial aid models that could improve student outcomes (see, Elliott & Lewis, 2014). Instead, the corrosive effects of placing our collective financial aid ‘eggs’ all in a problematic basket may be compromising the educational prospects of a generation of students whose futures—economically and otherwise—depend on the attainment of a higher education. U.S. policy should prioritize outcomes over instruments, and we must not allow ourselves to cling to an intervention for sentimental value or because we are afraid of what would follow in the breach. Overheated debate about the ‘next financial crisis’ notwithstanding, evidence reveals real dangers in continuing on our current path with student loans—for individuals, for the macro-economy, and, perhaps most importantly, for our vision of ourselves and the Dream that animates us. Just as importantly, there is evidence to suggest significant advantages from shifting course and resetting the default to saving for post-secondary education, rather than leveraging one’s future for it. Taking this alternate path requires the vision to imagine better outcomes, which, even with research to recommend it, can demand a leap of faith, but our children deserve that.

CHAPTER 2

CUTTING OUR LOSSES TO BUILD A BETTER FUTURE: REPLACING STUDENT LOANS WITH CHILDREN’S SAVINGS ACCOUNTS FOR A MORE EQUITABLE, EFFICIENT, AND EFFECTIVE FINANCIAL AID SYSTEM

To date, our analysis of the U.S. student loan system has mostly critiqued ‘over-reliance’ on student debt and discussed asset-based initiatives such as Children’s Savings Accounts (CSAs) as *complements* rather than *alternatives* to student loans (see Elliott & Lewis, 2013). This nuance was in part informed by our understanding of the evidence at that point, which seemed to suggest that debt loads above a certain threshold (say, \$10,000) were particularly problematic (e.g., Dwyer, McCloud, & Hodson, 2011), and that ensuring that students did not depend entirely on student borrowing might mitigate the worst effects. However, we acknowledge that some of our reluctance to more completely indict the student loan system was rooted in our recognition of the considerable policy inertia and significant vested interest behind it, and our concerns that our core message—the potential for superior educational and financial outcomes through the lever of asset development (Assets and Education Initiative, 2013)—might be lost if our voices were marginalized as stridently or unrealistically opposed to student loans. It is intentionally, then, that we here pivot to this more absolute critique of student loans and a clearer proposal to move away from debt-financing of higher education.

We are still willing to admit that the evidence is not clear that there can be absolutely no role for student loans; however, their role may be more justified in the case of higher-income students, to facilitate attendance at more selective institutions, avoid employment while studying, or preserve familial assets, but we no longer see a compelling rationale for maintaining a significant government stake in perpetuating a student loan system. Nor do we see a way to adequately capitalize the asset-based alternative that holds such tremendous promise to restore higher education as a catalyst for equity and prosperity in our society as long as we continue to divert such high levels of precious resources to a student loan program whose greatest recommendation is that its customers seem to, for the most part, eventually rebound from their use of its products. The realizations below, which cumulatively lead to our proposal to replace the current student loan system with a coherent savings structure and a robust reparation for damage already inflicted on student borrowers, have not come without careful consideration.

INCLUDING MEASURES OF EQUITY IN THE ACCOUNTING OF THE STUDENT LOAN PROGRAM CAN MORE CORRECTLY DIAGNOSE THE NEED FOR A NEW DIRECTION

The U.S. federal student loan program has received considerable policy attention in recent years, particularly as popular media coverage of repayment woes skyrocketed following the financial collapse (see Frizell, 2014; Korkki, 2014; Levin, 2013) and the associated increase in unemployment for even college graduates (Mishel, Bivens, Gould, & Shierholz, 2013). However, the policies proposed in the aftermath have almost exclusively focused on softening the blow dealt by student loans, rather than avoiding the damage in the first place. Approaches such as income-based repayment plans, in their various iterations (Talbot, 2014), are designed to help borrowers cope with the consequences of their student borrowing, yet none have been demonstrated to truly avoid the educational, social, and financial hazards of our debt-dependent system. Temporary reductions in interest rates would reduce the cost of borrowing, at least in the short term (Lindstrom, 2013), but would not address loans’ deterrent effects (Baum & O’Malley, 2003), particularly since few prospective students understand the real cost of financing.

Even as understanding of student loans as a dis-equalizing force has permeated popular discussion to some degree (see Thompson, 2014), there has been little reconsideration of the fundamental wisdom of relying on debt to facilitate such an important part of the U.S. path to economic mobility. Indeed, some proposals might exacerbate inequity in higher education. For example, if we encourage low-income students to enroll in less expensive two-year schools to reduce their expenses (Goldrick-Rab & Kendall, 2014) and, then, need to borrow, but economically-advantaged students can choose their schools without such considerations, we run a real risk of creating an explicitly

two-tiered structure, particularly since all institutions are not created equal in terms of educational outcomes (for an example of how institutions are not created equally see NCES, 2011).

Reimagining, and, then, rebuilding, the U.S. financial aid system must begin with more completely accounting for the true costs of student loans, to students and the larger economy (see, Hiltonsmith, 2013; Elliott & Lewis, 2013; Dugan & Kafka, 2014). In this light, it is clear that, while current proposals center on reducing monthly payment burdens because these ‘tweaks’ can reduce the incidence of delinquency and default (Sheets & Crawford, 2014), potentially masking the problems, they do little to address the long-term effects of student loans, before and after college, and may even move in the wrong direction. Indeed, innovations that seek to reduce the strain on student borrowers by extending the repayment period or making other modifications may only prolong the harmful effects on financial and life outcomes (e.g., Egoian, 2013).

Today, we cannot claim ignorance of student loans’ failure to catalyze greater educational achievement, increase students’ engagement in school, and foster stronger economic foundations (Cofer & Somers, 2000; Perna, 2000; Heller, 2008; Kim, 2007; Dwyer, McCloud, & Hodson, 2011; Fry, 2014, among others). There is a growing body of evidence that reveals the dimensions on which student loans endanger the well-being of individual borrowers, the institutions dependent on them, and our macro-economy (Frizell, 2014; Korkki, 2014). Data reveal that disadvantaged students, particularly low-income and students of color, are disproportionately affected by these forces (Fenske, Porter, & DuBrock, 2000; Kim, 2007). These disparate effects are particularly unacceptable given the role of higher education in fostering greater equity and upward mobility (Greenstone, Looney, Patashnik, & Yu, 2013). When we measure the student loan system comprehensively, looking beyond repayment burden to consider the fullness of what we should expect from our financial aid system, the imperative for reform becomes more urgent, and our way more apparent.

REDUCING ABSOLUTE BORROWING IMPERATIVE TO RELIEVE ILL EFFECTS OF STUDENT LOANS

This fuller accounting of the effects of student loans reveals not only the different dimensions on which student loans may harm prospective, current, and former college students and their households, but also the serious limitations of any reforms that do not reduce absolute dependence on student borrowing. Contrary to popular belief (Sanchez, 2012), it is not only the extremely ‘high-dollar’ loans—still relatively rare—that should be alarming (Egoian, 2013). Indeed, since some of these loans are incurred by relatively advantaged students pursuing exceptional degrees, these outliers may be far less dangerous than the ‘routine’ assumption of several thousand dollars in debt by millions of Americans. What is increasingly clear is that there is no ‘safe’ level of student loan debt. Analysis reveals negative effects on asset accumulation and subsequent financial well-being at levels even far below ‘recommended’ thresholds, revealing the limitations of any efforts to protect students by simply trying to avoid huge loans (Akers, 2014; Egoian, 2013).

Indeed, to the extent to which the collective narrative focuses on high-dollar debt as the problem (e.g., Edmiston, Brooks, & Shepelwich, 2012), the psychic toll may be increased for those who wonder why their ‘small’ loans are still crippling. Additionally, while talk of high-dollar debt may be particularly off-putting to debt-averse low-income students, even the prospect of relatively small student loans may deter some prospective college-goers and, certainly, does little to motivate their engagement (Cunningham & Santiago, 2008). It is absolutely true that some students manage to borrow for college and still do fine, at least eventually. It is also true that, in what is becoming a predictable outcome, many students who borrow even fairly small amounts experience disruptions in their college experience, thwarting of their academic aspirations, and/or delay in their life progression (American Student Assistance, 2013; Mishory, O’Sullivan, & Invincibles, 2012). In no other area of U.S. commerce do we invest so heavily in a product that we acknowledge may be quite harmful, without knowing the threshold at which such negative effects might commence. With the caveats required before student loans can be safely recommended, we should focus our policy energies on reducing the utilization of student loans through the most efficient and equitable means possible.

CONSTRUCTING A FINANCIAL AID SYSTEM NOT DEPENDENT ON DEBT CAN RESTORE HIGHER EDUCATION’S EQUALIZING FUNCTION

Some of the policy proposals circulating today are only explicable in the context of somewhat desperate attempts to salvage the existence of the student loan system. For example, reducing costs by steering students to two-year institutions based on their ability to pay rather than their academic qualifications or their career aspirations (Hall, 2014) is an inefficient and un-American move towards greater caste divisions in higher education. Popular calls to dramatically reduce the cost of tuition, across the board, would reduce the need for all types of financial aid, but at a tremendous public cost, much of which would be squandered on students who would attend college no matter the price (Bennett, 2011). Making only some colleges free would be more affordable but (Weissman, 2014), again, would likely ensure that these institutions would be concentrated with lower-income students without other options. Plans to recoup college costs after graduates obtain employment masquerade as no-cost approaches but really exact the same ultimate price as do student loans (Hammond, 2014). Attempts to help students navigate their way to smarter use of student loans through provision of better information (Consumers Union, 2013) are not bad ideas—more financial education is probably helpful—but place an impossible burden on young people, particularly when even economists have difficulty predicting future labor market demands for specific industries or explaining the return on investment for various degrees and institutions. Schemes to improve debt collection, including plans to garnish even Social Security payments to meet past student loan obligations, focus narrowly on the government—and private lenders’—interests in repayment, while glossing over the obvious human costs (Kitroeff, 2014). And proposals to introduce a more traditional underwriting approach to student loans would likely reduce the default rate (Akers, 2014), but would also undercut the core mission of student loans, to facilitate access to higher education for those without assets for collateral.

We recognize that most, if not all, of these suggestions are well-intentioned, rooted in a concern about the effects of student loans evidenced in the lives of an entire generation of Americans. Just as clear is their inadequacy, particularly given the stakes involved. The U.S. policy debate about student loans, financial aid, and the higher education system is in dire need of a truly new direction and rhetorical ‘permission’ to acknowledge the need to change course. Our read of the cumulative body of evidence about student loan effects today is that it justifies such license.

ACKNOWLEDGING THE FAILURES OF THE STUDENT LOAN POLICY EXPERIMENT CAN CREATE THE FISCAL AND POLITICAL SPACE FOR ALTERNATIVES

Our interest has never been to poke holes, so to speak, in the student loan system. Indeed, we embarked on analysis of student loans and their effects rather reluctantly, since our primary interests are in the transformative effects of educational assets on the lives of disadvantaged children (Assets and Education Initiative, 2013). We recognized, however, the amount of political ‘oxygen’ consumed by student loans within the financial aid arena, and so sought to better understand the role of loans, their interactions with assets, and their effects—and lack thereof—on the educational outcomes of central concern.

Our study of student borrowing has led to the conclusions reflected here, and so we come full circle, to again propose a shift from debt-dependent to asset-empowered college financing. Today, though, we see that we cannot articulate Children’s Savings Accounts (CSAs) as mere ‘complements’ to student loans, although we still believe that it might, theoretically, be possible to build a policy structure that incorporated both elements to some extent. In the footprint of the current U.S. system, however, garnering the political will and fiscal resources needed to catalyze national commitment to children’s asset-building must begin with a shared acknowledgement of the failures of our student loan experiment, particularly as practiced in the past few decades. In part, this need for a moment of departure is fiscal and pragmatic, though it would have to happen incrementally, as a long-term strategy. As long as the U.S. is spending heavily on student loans—at the individual, family, and government levels—there are simply comparatively few resources to redirect to asset approaches, even if we recognize their potential for superior results. There is also real cognitive and psychological investment in borrowing as a vehicle for college access, which constrains our thinking today. We believe that this is fueled in part by nostalgia from those who used student loans and lived to tell the tale and in part by defensive fear from those worried about removing student loans without knowing what will come in their place. Still, if we can reconnect with the ideals that motivated the creation of the student loan program (Mettler, 2014)—a desire to ensure that limited financial resources would not prevent children from pursuing college education—we can begin to imagine alternatives to our current overreliance on debt.

We must recognize that we cannot simply pivot away from loans' central role in financial aid and pretend that we then begin with a blank slate. Instead, in addition to a new future direction, we must also extend some reparation for those harmed by debt-dependence. Critically, if constructed correctly, such an initiative could not only help millions of American households escape oppressive debt loads and the footprint left by their discharged debt but could also improve families' asset positions. This should include debt forgiveness on a wider scale than seen to date, with the objective of ensuring that college leavers are out from underneath their debt in time to build positive financial assets during the critical young adult period. Occurring in tandem with a collective 'mea culpa' that acknowledges the difficulties students have faced in trying to finance college safely with a flawed product, a thoughtful and fair policy of debt forgiveness need not incur moral hazards. Debt forgiveness alone may only increase the ire of those who have already fulfilled their obligations, though; additionally, looking only at debts still on the books would ignore the effects of student debt on capital accumulation in the immediate post-college period and the real ways in which depressed asset bases can reduce household financial well-being even years later.

To help former student debtors 'catch up' and to address the relatively anemic savings rate that threatens overall economic health, U.S. policy could facilitate asset investments, including homeownership and retirement savings. This could take the form of savings matches, in the case of contributions to Individual Retirement Accounts (IRAs) or employer-sponsored 401(k)s; direct transfers to 'Economic Mobility Accounts' to be used for home purchase or other capital need (Elliott & Lewis, 2014); preferred credit terms for investments in real estate and/or entrepreneurship; creation of special savings vehicles with tax-based and direct incentives; and/or additional support in saving for children's post-secondary education, to the extent to which parental student debt has disadvantaged many households in preparing for educational expenses for the next generation.

ASSET-BASED FINANCIAL AID CAN DELIVER ON THE TRUE PROMISE OF HIGHER EDUCATION

We have long acknowledged that Children's Savings Accounts (CSAs) are not necessarily superior to other financial aid approaches for the sole purpose of paying for college. While there are many reasons why they are preferable to debt dependence, as outlined here, certainly need-based grants and scholarships can prove just as useful in financing the actual costs of tuition and fees. Indeed, to the extent to which households may not be able to save enough to finance all of their post-secondary costs, coupling CSAs with other assistance from institutions and/or government sources may be necessary. When considered through a lens that looks beyond mere access, though, to account for the role of assets in helping children prepare for, engage with, and benefit from college, there may be no other single policy lever as well-suited to these challenges as CSAs.

Designed correctly, CSAs can deliver transformative asset opportunities, ideally through automatically-opened accounts, to every American child, along with meaningful opportunities to experience success as a college saver. Largely through the mechanism of increased postsecondary expectations and the creation of an institution that facilitates children's aspirations, assets can improve equity in the postsecondary education system, improving outcomes for disadvantaged students, even at relatively low levels of actual asset accumulation (e.g., Elliott, Song, & Nam, 2013; Huang, Sherraden, Kim, and Clancy, 2014). To succeed as an alternative to student borrowing, however, CSAs will need to be capitalized adequately to confront actual college costs, requiring far greater investment than needed to trigger the asset effects found in CSA research, and far greater levels of asset accumulation than realized in most CSA programs (see Mason, et al., 2013). This is where simultaneously moving away from student borrowing is so critical, as redeploying resources currently diverted to student loans can help ensure sufficient budgetary 'room' to capitalize CSAs.

Certainly the student loan program is not the only potential source of funding for CSAs, however. In fact, freeing ourselves from the frame that urges us to cling to student loans, despite their admitted failings, may reduce anxiety associated with other policy changes, including reimagining the Pell Grant program as an early commitment asset initiative (e.g., Elliott and Lewis, 2013; Rethinking Pell Grants Study Group, 2013), leveraging child support enforcement systems to build children's assets (Johnson, 2013), and using K-12 education appropriations to seed CSAs for young children. Building an asset-based financial aid system would revolutionize the calculation faced by aspiring college students, pivoting from confronting the specter of high borrowing to working steadily toward college financing as an expected part of academic development. It could similarly upend the thinking of parents,

college administrators, and state and federal policymakers, about how Americans pay for college and why that matters. In this new calculus, today's scary frontiers could become tomorrow's promising opportunities.

There is reason to believe that a Children's Savings Account program would not, in fact, be tremendously expensive (Cramer, 2010), particularly in comparison to our current investment in student loans (College Board, 2012). For example, according to Cramer (2006), it is possible to fund the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act for only \$3.25 billion in the first year. ASPIRE would create Lifelong Savings Accounts for every newborn, with an initial \$500 deposit, along with opportunities for financial education. Canada may provide us with additional information on the cost of administering a national CSA program. Canada's CSA program is housed within the Canada Education Savings Program (CESP) and features public transfers for low-income households and progressive savings matches—the Canada Education Savings Grants (CESG). Administration of the CESG costs \$12.85 per beneficiary over six years, on average, for annual administrative costs of just \$0.06 for every \$1 of financial assistance (Leckle, Dowle, & Gyorf-Dyke, 2008), although these costs would likely be higher if the government was responsible for all of the administrative functions currently conducted by private financial institutions.

However, costs cannot simply be calculated based off of administration costs. Asset-based financial aid maybe more efficient than borrowing, given the potential of the former to improve outcomes (including college completion) and the propensity of the latter to compromise attainment and distort decision-making. While the specter of high debt can lead families to put off confronting college financing until it is unavoidable, time works in the favor of positive outcomes in an asset-based structure, in interest accrued in accounts and in the power of expectations. CSAs leverage aspirations to ensure that families and children are contributing all they can to the shared task of facilitating educational attainment, while the well-developed theory and empirical base in the U.S. today should fuel public transfers on a scale adequate, alongside these familial contributions, to prevent ongoing debt dependence.

CHAPTER 3

FROM INDEBTEDNESS TO ASSET BUILDING: CHILDREN'S SAVINGS ACCOUNTS AS AN ALTERNATIVE TO STUDENT LOANS

Children's Savings Accounts (CSAs) are savings vehicles, most commonly designed for higher education savings, that often incorporate specific incentives and explicit structures to encourage savings by disadvantaged youth and families who otherwise may not have equitable access to financial institutions. While they have specifically designed features for encouraging saving among disadvantaged youth and families, they are meant to be universal programs that serve all young people. Unlike basic savings accounts, CSAs leverage investments by individuals, families, and, sometimes, third parties. Ideally these investments are leveraged with an initial deposit and/or matching funds adding public or philanthropic dollars to families' savings, usually on a ratio ranging from 1:1-5:1, in order to extend meaningful incentives for saving and support for building balances to low-income savers, as are already available to higher-income households through tax benefits.

CSAs Do More than Help Children Pay for College

When thinking about the role CSAs may play in increasing college enrollment and completion rates, researchers, practitioners, and policymakers tend to focus on the interventions' ability to help children pay for college. That is too narrow a frame through which to evaluate their effects, though, given the accumulated disparities that drive whether children even reach the point of college enrollment. It was not until the last 10 years that researchers began examining the effectiveness of CSAs in improving children's educational outcomes and changing the way they think about college. The emerging research (for a review of this research see Assets and Education Initiative, 2013) linking asset development with children's academic achievement and college preparation suggests that CSAs may be a valuable tool for addressing long-term barriers to closing the college attainment gap as well as inadequate financial resources for college.

EVIDENCE OF THE EFFECTS OF CSAs

Growing interest in CSAs in the early 2000s led to the first national test through the Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative. Begun in 2003, SEED was a 4-year demonstration project, in which over 1,300 low-income children and youth in 12 locations across the country received matched savings accounts and financial education. The SEED for Oklahoma Kids (SEED OK) research experiment tests the effects of CSAs opened at birth in a full population.² In the first rigorous U.S. research on the principles of universal CSA access and automatic account opening, the SEED OK experimental sample was drawn randomly from birth records provided by the Oklahoma State Department of Health for all infants born during certain periods in 2007 (Treatment n = 1,358; Control n = 1,346). By combining random selection from a full population of births, random assignment, and longitudinal data collection, SEED OK is well-positioned to answer key questions about effectiveness of universal and progressive CSAs for a general population (Nam, Kim, Clancy, Zager, & Sherraden, 2013).

Before College

The link between social-emotional well-being and academic achievement has been rigorously tested with strong support. For example, Durlak, Weissberg, Dymnicki, Tylor and Schellinger (2011) conducted a meta-analysis of 213 school-based, universal social and emotional learning (SEL) programs involving 270,034 kindergarten through high school students. Employing an experimental randomized design, SEL participants, compared to controls, demonstrated significantly improved social and emotional skills, attitudes, behavior, and academic performance that reflected an 11 percentile-point gain in achievement.

² For more information and initial findings go to <http://csd.wustl.edu/AssetBuilding/SEEDOK/Pages/SEEDOK.aspx>

This is important for building a link between experimental data from SEED OK and children's long-term educational outcomes. SEED OK's experimental test of CSAs finds no significant differences at baseline and a significant impact on children's socio-emotional skills at age four, particularly for children from relatively disadvantaged households.³ That is, infants from households with incomes lower than 200 percent of the poverty line who were randomly assigned to receive the CSAs plus \$1,000 demonstrated significantly higher social-emotional skills at age four than their counterparts who did not receive a CSA (weighted mean treatment-control difference [a negative difference indicates a positive outcome on the measure], -2.21; 90% CI, -4.01 to -0.42; $p = .04$) (Huang et al., 2014).⁴ Attrition (18%) was low and did not differ across treatment and control groups. According to Huang et al. (2014), the effect of the SEED OK CSA is similar in size to estimates of the effect of the Head Start program on early social-emotional development.⁵ CSAs also have a positive impact on mothers' depressive symptoms, and social-emotional well-being of children appears to mediate these effects (Huang, Sherraden, & Purnell, 2014). In regards to the first study on children's social-emotional well-being and the second on mothers' depressive symptoms, importantly, CSAs have a greater impact among subsamples that report lower income or lower education levels.

Findings from the SEED OK experiment with young (about age four) children that are consistent with theory and research developed and tested using secondary data among older children give us additional confidence in the secondary data findings discussed here. Theory and research developed using secondary data sets suggest that, by turning college into an important and achievable goal and giving students and families a clear strategy for overcoming cost barriers, CSAs may increase the likelihood of college enrollment (Assets and Education Initiative, 2013). In line with this, researchers find an association between having savings designated for college and college enrollment. For example, Elliott, Song, & Nam (2013) find that 45 percent of students from low- and moderate-income families (annual incomes below \$50,000) with no savings accounts enroll in college. That compares to 65 percent with school savings from \$1 to \$499 and 72 percent of students with school savings of over \$500. Research suggests that these effects likely occur largely through reinforcing a college-bound identity that increases student engagement and builds parents' expectations of higher education throughout a student's academic career (for a review of these and other findings see, Assets and Education Initiative, 2013; Oyserman, 2013).

During College

In contrast to high-dollar student loans, which show some negative effects on college graduation, evidence suggests that college savings may improve a student's chances of persisting through graduation. The results are encouraging, though not yet definitive: five percent of low- and moderate-income (below \$50,000) students with no account, 25 percent who have school savings from \$1 to \$499, and 33 percent of students who have school savings of \$500 or more graduate from college (Elliott, Song, & Nam, 2013; for a review of research, Assets and Education Initiative, 2013). There are several ways in which this relationship may unfold, all of which require additional study. Students who come to college with assets to spend may be less worried about financial considerations and the stress of taking on expensive debt, allowing them to focus on their studies. The psychological effects of asset holding, including increasing students' sense of ownership of their educational experience, may qualitatively shift how they engage in class. The way that assets affect students' expectations and preparation for college may better position them for success.

After College

Getting through college is not the ultimate aim of higher education, however. If college completion is to be the potent tool for economic mobility that it is imagined to be, it should facilitate meaningful improvements in financial wellbeing, positioning children for greater success in life. Here, too, assets appear to improve the return on investment. By instilling habits of savings, reducing the long-term cost of financing, and connecting young adults to financial institutions, asset holdings, uniquely among college financing options, show promise for improving

³ This study meets the What Works Clearinghouse Evidence Standards without reservations.

⁴ Approximately 84% of participants completed a follow-up survey in the spring of 2011.

⁵ Findings, on parent expectations are currently under review. For additional information on all current and upcoming SEED OK findings see <http://csd.wustl.edu/Publications/Pages/displayresultitem.aspx?ID1=1198>.

graduates' financial status following college completion. In addition to the positive financial effects of reducing dependence on student loans (Elliott, Lewis, Nam, & Grinstein-Weiss, 2014), children who have savings accounts while they are young maybe more likely to own savings accounts as young adults, have more diversified asset holdings, and accumulate higher net worth (Friedline & Elliott, 2013). These outcomes, of course, are in addition to the spillover effects of improved educational outcomes, which may, in turn, improve employment prospects and lifelong earning potential. And, given the potential connection between initial asset levels and the subsequent ability for income to generate more assets and additional income (Elliott & Lewis, 2014), young adults who leave college with at least some asset ownership may initiate a trajectory of superior earning and asset accumulation.

GROWING INTEREST IN CSAS

CSAs are gaining traction around the country, not as a fad or a merely interesting alternative but as a potentially powerful tool with which to improve educational attainment and make existing institutions—K-12 schools, universities, the financial aid system—work better, especially for disadvantaged students. In the absence of passage of national CSA policy, some states and localities have developed their own children's savings initiatives, including programs that incorporate elements of CSA design into state 529 college saving plans. While the details vary, these CSA-style investments in children's futures include publicly-funded initial contributions and matching contributions for low-income savers, opening accounts for children who reach specific educational milestones (such as kindergarten enrollment), and experimenting with school-based savings and financial literacy initiatives (Goldberg, Friedman, and Boshara, 2010). North Dakota, for example, provides a \$100 grant for any newborn in the state, provided that the \$100 is matched by a private contribution before the child's fourth birthday.⁶ Enacted in 2010, Nevada's Silver State Matching Program provides a 1:1 match on contributions for households earning annual incomes below \$41,400 and a 50% match up to \$300 per year for households earning annual incomes between \$41,400 and \$61,950. The Alford Challenge automatically opens a 529 account with an initial deposit of \$500 for any parent of an infant in Maine. A number of other states are in the planning stage for beginning a CSA in the next year or two. In other parts of the country, school districts, counties, and municipalities are also stepping into the breach. San Francisco, California, became the first locality in the United States to provide "opt out" college savings accounts to all enrolled kindergarteners, in 2010.⁷ Cuyahoga County, Ohio, began a similar effort in fall 2013, specifically citing as a rationale for their investment the potential for improved educational outcomes by helping families and students finance college through savings.⁸ Collectively, these innovations are helping thousands of low-income students, while testing different policy mechanisms and strengthening the case for broader CSA implementation.

Further, in the last several years, the Department of Education (ED) has shown interest in validating CSAs linked to children's academic performance. In 2010, ED, the Federal Deposit Insurance Corporation (FDIC), and National Credit Union Administration (NCUA) established a new partnership to increase financial literacy, access to federally insured bank accounts, and savings among students and families across the country.⁹ The next year ED announced an invitational priority as part of the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP).¹⁰ In 2012, ED announced a new college savings account research demonstration project implemented within the GEAR UP program.¹¹ However, it was canceled when administrative challenges prohibited state GEAR UP programs from initiating projects. This attempt by ED demonstrates their desire for a validation study. It also underscored barriers in bringing CSAs to scale at the time. Since that time, city, county, and statewide CSA programs have been started, as described above, making a validation study possible. Further, entities administering CSAs now recognize the need for a validation study that tests the underlying process model and addresses questions of how, when and with whom CSAs work so that future programs can be tailored to address specific needs.

⁶ The Child First Program, Section 529, enacted in 2011.

⁷ For more information on the Kindergarten to College initiative, see <http://www.k2csf.org/>.

⁸ See, for example, statements by the Cuyahoga County Executive, <http://executive.cuyahogacounty.us/en-US/113012-college-savings-account.aspx>.

⁹ <http://www.ed.gov/news/press-releases/fdic-and-ncua-chairs-join-education-secretary-announce-partnership-promote-finan>

¹⁰ <http://www.gpo.gov/fdsys/pkg/FR-2011-06-14/pdf/2011-14736.pdf>

¹¹ http://newamerica.net/events/2012/financing_college_success

Significantly, despite a lack of incentives, low-income households that save for college save a higher percentage of their incomes than do wealthy families (Sallie Mae, 2013). Still, low-income families seldom manage to accumulate enough assets to finance higher education, so their children typically must shoulder significant student debt to enroll in college. Families that earn less than \$35,000 per year possess only a median of \$2,000 in college savings (Sallie Mae, 2009). If saving reinforces the idea that going to college is a viable option, and if believing that one is going to college increases engagement in schoolwork and time spent on homework (and hence academic outcomes) then, as a nation, the United States can only reap the full potential effects of CSAs when they are structured so as to help families—all families—accumulate assets early enough to shape students’ educational trajectories, and in amounts great enough to finance at least a considerable portion of college expenses.

FINDING WAYS TO INCREASE ASSET ACCUMULATION – REPURPOSING PELL GRANTS

Much of what is described above about CSAs stems from their potential to have psychological effects, but if they are going to truly be effective tools for helping, in particular, low-income and minority students reduce the need for student loans, creative ways for resourcing these accounts are needed. For example, research from demonstration programs such as SEED (Saving for Education, Entrepreneurship, and Downpayment) suggests that, on average, families in CSA programs save approximately \$10 per month (Mason, Nam, Clancy, Loke, & Kim, 2009). While this savings activity clearly reflects a commitment to asset accumulation, particularly given families’ limited incomes and the often-high opportunity costs of diverting money for saving, these balances alone are inadequate to provide households with true opportunities to reduce student debt, particularly in the context of rising college costs. However, it is important to note that, while there is no national CSA program in the U.S., Canada has a national program from which we can learn (Lewis & Elliott, forthcoming). The average low-income Canadian participating in their CSA program saves about \$1,031 annually. It cannot be determined whether this higher savings rate is because the Canadian program is a national program or other differences (such as the influence of savings expectations within the group plans or access to universal income supports from which low-income households can save for post-secondary education) but it does suggest higher savings rates are possible in a CSA program than demonstrated in the U.S. and raises the possibility that intentional policy design may serve as a lever through which to induce greater savings activity.

Even if U.S. families are able to achieve savings amounts commensurate with Canada, it does not appear that they can on their own save enough to equal what they can currently receive in student loans. Significantly, in Canada, college costs are somewhat lower than in the U.S., making it more feasible for families to save close to what is required for post-secondary education, while fairly generous asset transfers capitalize the CSAs of low-income Canadians, in recognition of the very real savings constraints these families face (Lewis & Elliott, forthcoming). Therefore, funding CSAs by diverting money from the student loan program or by some other means will be needed. One way to enable low-income children and their families to build significant amounts of assets for college may be to redeploy Pell Grants as an early commitment program. Such an approach also presents the political advantage of using monies already dedicated to higher education financing. Conversations about using Pell Grants as an early commitment program started without considering linking them to CSAs (e.g., Advisory Committee on Student Financial Assistance, 2005; 2008; Heller, 2006; Schwartz, 2008). Recently, however, the College Board (2013) recommended supplementing the Pell Grant program by opening savings accounts for students as early as age 11 or 12 who would likely be eligible for Pell once they reached college age and making annual deposits of five percent to 10 percent of the amount of the Pell Grant award for which they would be eligible.

FINDING WAYS TO BUILD INITIAL ASSETS IS IMPORTANT FOR BUILDING FUTURE ASSETS FOR COLLEGE

The idea behind providing people with early assets as a way to help level the playing field is a concept with which most people are familiar. For simplicity, if you put \$1 in a bank account or other investment vehicle (such as a state 529 plan or 401k) that has no money in it, you will earn far less from that same \$1 than if you put it into a bank account that has \$10,000 in it already. More concretely, research reveals important relationships between initial asset levels and future asset accumulation (Elliott & Lewis, 2014; Shapiro, Meschede, & Osoro, 2013). For example, Shapiro, Meschede, and Osoro (2013) find that a \$1.00 increase in income later translates to a \$5.00 increase in

wealth for Whites, but only a \$0.70 increase for Blacks. However, when initial assets are considered, they find that Blacks have a return of \$4.03 for each dollar increase in income. These findings point to the fact that initial asset levels may play an instrumental role in the power of income to generate assets. Moreover, they suggest, if we can help people build initial assets levels through repurposing the Pell Grant or other innovations, we can help people better leverage the money they have. Particularly when seen in contrast with the current debt-dependent financial aid system that results from our reliance on student loans, the superior economic position students could secure through accumulation of positive financial assets in a CSA—capitalized with their own savings effort and the adequate transfer of public resources from repurposed Pell Grants and other sources—becomes evident. With the potential for improved outcomes on a variety of indicators across a child’s lifespan, pivoting to asset-empowered financial aid is a policy move worthy of the significant political lift it would require.

IN CONCLUSION

As American college graduates encounter an increasingly globalized economy, U.S. higher education policies need to go beyond focusing on how to increase college enrollment and even graduation. They must turn to enhancing opportunities for students to increase their expectations related to educational achievement and for their families to prepare financially in advance of college. We also must consider whether our policies place college graduates in a strong position to succeed financially as young adults.

CSAs may be a way to make progress on all of these goals and maximize the benefit of going to college. For example, post-secondary debt reduces the return borrowers receive on their educational investment. Having assets may help to eliminate the student debt burden on students and their families, and thus increase the value of a college education. In addition, if CSAs correlate with better student engagement at an early age, saving may allow them to take full advantage of the primary and secondary education they receive and position them for greater college achievement. Given the relationship between engagement and academic attainment, the prospect of affecting children’s orientation toward their education for relatively small initial investments deserves greater attention. Also, if savings is a gateway financial instrument that leads to greater asset accumulation in other vehicles, children may be more likely as adults to maximize the financial benefit of having a college degree. While more research is needed to determine the precise mechanisms through which to realize the potential outcomes evidence suggests are associated with Children’s Savings Accounts, in order to inform policy development, on balance, it seems clear that there are real advantages to reshaping our financial aid system from one that hinges on students’ willingness to borrow—sometimes fairly recklessly—to one that invites families to partner with government to prepare in advance for their futures. Certainly a model that builds on CSAs conveys greater hope that, through expenditure of considerable effort, children can achieve the dreams they and their families forge. Such a promise is the core of the American Dream and a force demonstrably potent enough to carry this generation forward.

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Project supported by:

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