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News

No Repayment Plan, No Loan

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Tidewater Community College, in Virginia, will soon require students to go above and beyond Education Department requirements to receive federal loan funds. Starting next fall, students who want the college to certify their eligibility for student loans must complete personal budget worksheets, outlining a "realistic picture of their financial situation" both before and after graduation, and a student loan repayment plan estimating how their monthly payments fit into those budgets.

Tidewater's recognition that it needs "to take greater responsibility for educating its students on the implications of financial aid debt," as its administration recently **argued to its board**, comes at a time when other community colleges are actively discouraging their students from taking out loans to pay for their education. For example, last month in North Carolina, the state legislature voted to allow community colleges to **opt out of offering federal loans** to their students, a requirement that had been approved only a year earlier. Several community college presidents in the state had expressed concern that participation in the federal loan program would put their students at risk of losing federal financial aid if too many students at their institution do not repay their loans.

By most measures, Tidewater has a firm handle on student loan debt. Last academic year, the college disbursed nearly $85 million in all types of financial aid to more than 19,000 of its students. Of that amount, it disbursed more than $31 million in student loans to 7,880 students. The average one-year loan debt was $3,990, and the college's official cohort default rate for 2008 was 7.6 percent.

While her institution looks to be in good shape, Deborah DiCroce, Tidewater's president, said she felt the college could do more to help its students "borrow responsibly" and make "sound investments" in their education.

"It's not a handout," DiCroce said of student loans. "It's not something that goes away when the college experience is completed or not completed. There's a commitment to repay a loan that has as much weight to it as any other kind of borrowing one might do. My concern, as we are ramping up our financial aid program, is keeping a close eye on our default rates, as one of our measures of accountability. It just became clear that we needed to take a step beyond what the feds require. Where is our responsibility to educate a borrower on this type of investment?"

With this in mind, last summer, DiCroce charged her administrative team to come up with a new set of steps, in addition to those required by the Education Department, for approval of student loan requests at Tidewater.

"When you look at the current loan process, one could argue it's oversimplified," said Daniel DeMarte, Tidewater's vice president for academic and student affairs. "In about a half an hour, a savvy student could zip through it and have access to thousands of dollars. Nowhere in the process does it slow you down to realize that you're borrowing a lot of money. We needed to get them to slow down and require them to do some more thinking before we disburse anything. To do that we need to get them to think ahead, 'What's the return on investment?' The second step is to keep in front of them and not forget that they borrowed money."

When Tidewater's central financial aid office receives a student direct loan request next fall, it will prepare a student loan repayment plan for each application. This **student loan repayment plan** provides a summary of the student's borrowing history, at Tidewater and all other institutions, and estimates a monthly payment based on the existing debt and the new loan request. The plan outlines the obligations of loan repayment and demands student acknowledgment of them. In one example provided by college officials, a student who borrows $7,500 is told that one year after graduation, he or she would need to make an estimated monthly payment of $86.

The student must then fill out **two budget worksheets**. One asks the student to estimate his or her current monthly expenses -- from rent and transportation to insurance and childcare -- and income. The worksheet ends showing the student his or her remaining discretionary funds. Tidewater officials hope students will consider how their estimated student loan payments might fit into their current budgets if they left college, either by dropping out or by graduating.

The second worksheet asks students to fill out a similar budget to anticipate their financial situation after graduation. It includes resources to help them estimate their future job titles and average starting salaries in specific fields. Student loan payment is part of their new projected monthly expenses on this worksheet, which notes that loan repayments should never exceed 15 percent of one's monthly income.

Tidewater students will then submit both the loan repayment plan and the worksheet to the central financial aid office, constituting their official acceptance of the loan and accompanying responsibilities. After these documents are processed, the loan award will be made. Tidewater officials stress that “no loan funds will be made until the [students have] completed all steps.” College officials will also review these forms to see if the plans students are submitting are realistic. As students have to reapply for aid each year, they will have to complete Tidewater’s additional requirements each year as well.

Phyllis Milloy, Tidewater’s vice president for finance, said she is aware that some students may choose not to list their monthly expenses in such an itemized fashion, citing privacy concerns over categories like “child care” and “medical.”

“There will always be somebody who will say, ‘none of your business,’ ” Milloy said. “They don’t have to list all their expenses under different categories. They can just list them all under ‘other expenses.’ We’ll roll with it. Still, we are operating under the principle that the students will appreciate the education we’re going to provide them and embrace these extra steps and the value added here.”

Milloy added that she doesn’t think many students will find these extra steps burdensome or too personal. She said she ran the worksheets by her two daughters, who are both taking out student loans to pay for graduate school, to get their impression. She said both told her they wish they’d had something like this when they first took out loans.

Tidewater officials say they are prepared to deny student loan requests and renewals if students do not complete the extra steps they have developed. Jennifer Harpham, Tidewater’s director of central financial aid, explained that the federal government mandates that, unless a student tells the college he or she has no intention to repay a loan, the college does not have a right to deny him or her a student loan. But, she said, the federal government does require that students complete entrance counseling, and each college determines what that process will be for its students. The additional steps at Tidewater constitute this counseling, she said.

In this context, DiCroce said, if a student refused to complete the worksheets, it would give the college “cause to believe” that that student had no intention of repaying his or her loans. And so, “we wouldn’t hesitate" to decline to certify the student's eligibility.

From a cost standpoint, DiCroce expects that she may have to hire additional financial aid advisers, given the additional work required of them by these new requirements. She is convinced, however, that the change will make a big difference on her campus.

“It’s the right thing to do for the student,” DiCroce said. “It’s also the right thing to do for the institution in terms of its accountability. How can we move forward with a student making this kind of investment without educating them on the obligations of this investment?”

— **David Moltz**