

Leadership Exchange

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**Lessons from the
First-Year Experience**

**The Increasing
Federalization of
Higher Education**

**Supporting
Web-based
Student Services**

Student Indebtedness

What Student Affairs Can and Should Do About It

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Student Indebtedness

What Student Affairs Can and Should Do About It

BY KAREN GROSS AND RICHARD P. KEELING

The picture is not a pretty one: Many students are deeply in debt, and the situation is likely to worsen over the coming decade for reasons that are of no surprise. Financial aid is not keeping up with the rising cost of a college education. Forty-two percent of undergraduates and almost 80 percent of professional degree candidates need financial assistance, but the growth in the amount that students are borrowing is not offset by their prospective incomes. Many students will not earn enough following graduation to repay their debts in the near term. A 2005 Nellie Mae study reveals that 76 percent of undergraduate students have credit cards, and 79 percent of these students carry a balance forward each month. An increasing number of students are working to help meet ongoing expenses. In short, we are creating a debt-ridden generation.

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This problem is exacerbated by students' lack of adequate financial literacy skills—they cannot do basic credit math; they do not know how to determine their own credit worthiness either through establishing quality credit or by improving their credit reports and scores; they cannot create basic spending and saving plans; and they cannot unravel the myriad of lending scams to which they may be subjected. As a result, they are unable to make knowledgeable and thoughtful choices in consumer financial markets.

Raising Fiscal Literacy

Fiscal illiteracy cuts across all socioeconomic classes, genders, races, ethnicities, and levels of education. Earning a college or graduate degree is not synonymous with acquiring financial literacy skills. The recent National Adult Literacy Survey revealed that only 4 percent of the population could effectively compare and contrast two credit card offers. Even among college graduates, financial literacy levels are remarkably low. The National Council on Economic Education reports that college graduates are four times more likely than high school graduates (with no college experience) to get a grade of “A” or “B” on the council’s test of financial knowledge, while 39 percent of college graduates received a grade of C or lower.

Should colleges and universities be concerned about student debt levels? How can they address fiscal literacy—and students’ future indebtedness—within the framework of student learning? What should be the role of student affairs in helping students learn to manage money, credit, and debt? To be sure, teaching financial literacy is part of the preparation of the whole student as are alcohol and other drug prevention programs; promoting healthy eating; and enhancing mental health. Financial literacy education has not had a prominent place at the table at most institutions. Unless institutions believe that student debt loads matter—and that fiscal literacy is an important priority in student learning—they will focus on other issues (albeit important ones) and rely on others to resolve the student debt problem.

There are some systemic ways to address student debt. For example, legislation decreasing the availability of credit for

undergraduates is worth exploring. Institutions could ban on-campus credit card solicitations for first-year students. But these approaches just decrease the availability of cheap credit; they do not eliminate other more expensive mainstream or fringe financial products, nor do they produce graduates who understand fiscal issues and can make sound and thoughtful financial decisions. These are fundamental elements of learning, and they should be reflected in desired student learning outcomes.

Paying the Price

Student financial illiteracy has short-term and long-term implications for colleges and universities. Student money troubles hit institutions in the places where it really counts—in educational outcomes and in their pocketbooks.

First, students who are struggling with money also experience stress and anxiety that can affect their academic performance, relationships, and physical (and psychological) presence on campus. At the very least, financial problems become a serious distraction. Financial woes can lead to more work hours, which take time away from learning activities of all kinds. Debt levels may force some students to withdraw for a semester or two in order to replenish funds, and it can be hard for those students to return to academic life. Debt leads some students to accelerate the college experience and to use course overloads and summers to generate more credits. In doing so, they forfeit needed developmental time to reflect, apply knowledge, and “breathe.” Debt leaves some students no choice but to leave the academy altogether. Debt can also promote actual physical illness (there is a documented relationship between fiscal and physical health). Researchers have found that people with high debt levels have a greater risk of illness including, among other things, heart problems and sleeplessness. Maintaining student health is critical in terms of student and institutional well-being, and student attrition is costly in many ways. Departure prevents the accomplishment of institutions’ desired student learning outcomes and disrupts the educational process.

Second, students who carry too much debt may face problems gaining employment upon graduation as more employers

Measuring Success

As with any new initiative, mechanisms must be in place to assess programmatic success. The number and satisfaction levels of participants are not enough. The rise or fall in the number of students leaving campus for financial reasons should be tracked, but that statistic alone is crude and insufficient. Testing financial knowledge alone is inadequate because the goal is to achieve a change in student attitudes and behaviors with respect to money and finance. One possible assessment strategy is a mandatory final project or test that must be completed successfully, such as a capstone course or a language proficiency test. Another option is a student self-assessment device with which students chart their own financial progress over their college years; Internet-based programs may facilitate this charting. An additional appealing alternative is to require students to elect from a smorgasbord of financial literacy offerings throughout their college careers (courses, lectures, community activities, online testing) and assess learning as evidence of efforts to increase their financial awareness through preparation of portfolios of their activities.

Although instituting systemic financial literacy education on campuses will be neither easy nor cheap, financial literacy skills are desired learning outcomes, and a coordinated, cross-

disciplinary, cross-divisional effort is required to fit these skills within the larger educational framework. Given rising student debt levels, the time for action is now. Schools that develop financial literacy programs early will reap rewards; their students will have better outcomes emotionally, physically, and financially in school and in their working lives. A national discount clothing chain (selling off-price designer and name-brand items) promotes this motto: "An educated consumer is our best customer." Colleges and universities would be wise to adapt a modified version of this motto: "A financially literate student is our best graduate." LE

Karen Gross is a professor of law at New York University Law School and a senior educational consultant with Keeling & Associates, Inc., a higher education consulting firm based in New York City, www.keelingassociates.com. She is also president of the Coalition for Consumer Bankruptcy Debtor Education, a nonprofit organization engaged in designing and assessing financial literacy programs.

Richard P. Keeling, M.D., is chief executive officer and executive consultant for Keeling & Associates, Inc. He is also senior fellow for the National Center for Science and Civic Engagement.



of the preparation of the whole drug prevention programs; enhancing mental health.

require quality credit reports as a hiring criterion; some professional licensing procedures ask about an applicant's financial condition. The premise is that a potential employee with monetary problems will be a less consistent and capable worker than one without financial woes. Moreover, in certain fields like banking and retail sales, there is a fear that over-indebtedness will lead to increased employee theft. The employment and licensing of graduates is a critical part of an institution's ability to attract and retain students. Employability also affects how graduates feel about their institutions. Loyalty wanes if employment prospects are dim.

Third, students who are overindebted when they graduate will pay a higher price for future credit (and perhaps for insurance as well), leaving them in a vicious debt cycle of paying more for what they need and want. Students may struggle so hard to make ends meet and pay student debt services in their initial employment years that they will be less likely to be capable of or interested in giving back to their alma maters. Alumni giving is a critical institutional financial gap-filler, and its robustness has long-term ramifications.

Any one of these reasons should be enough to convince administrators, faculty, and student affairs professionals that student debt is an issue they should not ignore. If institutions fail to address student debt levels and financial literacy skills effectively and systematically, both student learning outcomes and levels of institutional success will suffer.

Solving Student Debt Problems

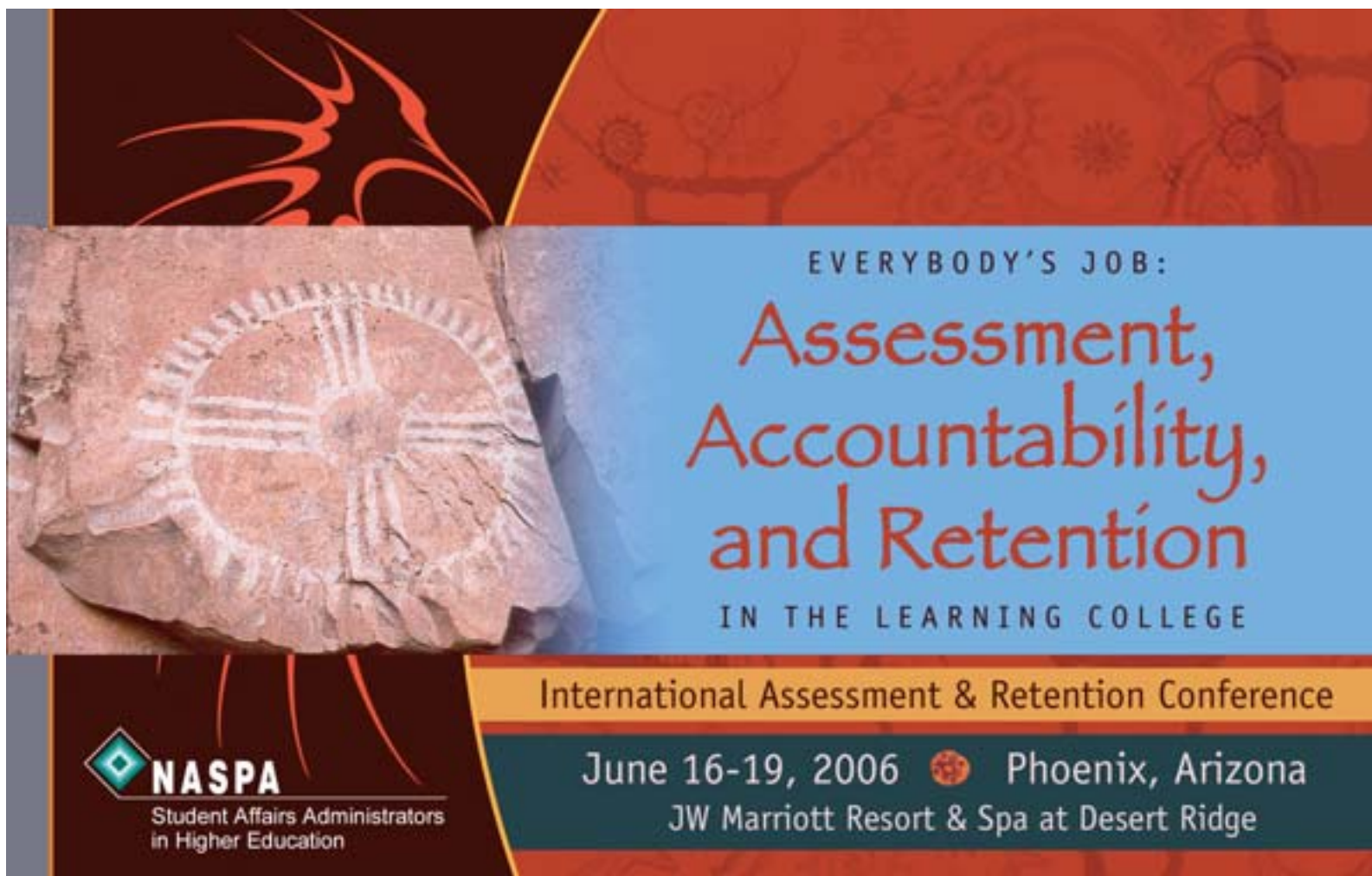
Let's assume we take the problem seriously. What can be done about it? Solutions should respond to the issues in ways that are at once educationally sound, administratively feasible, empirically verifiable, and fiscally wise. To be sure, there is no single approach to solving student debt problems. The problems extend far beyond the campus. There are systemic issues with respect to the financing of education and educational opportunity. Addressing the woes of a consumption and credit-based culture requires vast cultural shifts. Moreover, different institutions have vastly different student populations, and programs that work in one setting may not be appropriate or effective elsewhere.

To begin, we need to identify the framework into which new programs could be folded, explore the difficulties inherent in teaching about money, and articulate the probable programmatic goals. Then, we can identify the core features of any financial literacy program.

Financial Literacy Education Programs

All educational institutions offer their students financial aid advising, and the federal government requires that all students who obtain student financial aid participate in entry and exit interviews. However, many students do not use financial aid advising services. We suspect that this occurs, at least in part, because students, particularly graduate and professional ones, are embarrassed to show their lack of financial sophistication. Moreover, the existing federally mandated entry and exit interviews are not closing the financial literacy gap sufficiently. Mandated interviews, while they vary in quality, are frequently viewed by students (and some administrators as well) solely as "tickets" to "enter or exit" the financial aid system—not as opportunities for deeper learning. In part, this is a numbers problem; moving large numbers of students through extensive training in a short timeframe is neither logistically nor administratively feasible, and it may not produce strong learning outcomes.

Although there are certainly exceptions, financial literacy skills are not taught systematically in most undergraduate or graduate schools. These topics are usually not covered as part of either out-of-classroom learning activities or regular academic curricula. Even when courses address financial management, the content often ignores the pertinent, and immensely interesting, public policy and social justice issues (including, for example, the disparate impact of credit scoring on certain communities and predatory lending to the most vulnerable populations, including students). Still, it is important to note that efforts to teach economic literacy have a track record of success. Financial literacy education can change individuals' knowledge, attitudes, and behaviors with respect to money and finance.



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