Connecticut Community College Default Aversion Strategies: An inquiry into the perceptions of financial aid administrators in influencing student repayment behavior.

A thesis presented
by
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Abstract

This qualitative, multi-case study investigates the default aversion practices utilized by Connecticut community college financial aid administrators designed to assist student borrowers in avoiding the serious consequences of default. This study’s conceptual base drew on the concepts of the Transtheoretical Behavior Model. The research questions sought to determine what Connecticut community college financial aid counselors perceive as the most effective best practices in lowering cohort default rates and the influence of federal policy on their default aversion efforts. One on one in-person interviews, site observations and documents are all forms of data that were collected in this study. The data was analyzed using a constant comparison analysis and classical content analysis, which allowed research findings to emerge inductively from a set of data. The validity of identified themes were confirmed using a system of triangulation and member checking. The findings revealed that responding to changing borrower demographics, identifying “at risk” borrowers and improving borrower awareness were all factors that aided in the efforts of participants to maintain acceptable default rates despite the significant challenges posed by limited resources and a growing number of at risk borrowers. The participants embraced the implementation of stricter accountability measures but also felt that it should be accompanied with increased authority and greater regulatory clarity. The findings of this research study suggest opportunities for financial aid administrators to revisit existing default aversion practices and advocate for changes in federal student loan policy. Recommendations for future study include the need for Connecticut community colleges to reevaluate the amount of college resources dedicated towards default prevention.

*Keywords:* cohort default rate, federal loans, default aversion, Title IV funding
Dedication

I’d like to dedicate this doctoral thesis to the memory of my son Elias Jozef Lewis IV. Your dad loves you and you will always be in my heart.
Acknowledgments

I’d first like to acknowledge the contributions of the most influential person in my life, my dad, Jozef Lewis. I always felt like I could accomplish any goal, overcome any obstacle and fight any battle because I knew you’d be in my corner. I love you. We did it!

I would like to give a special thank you to Nicole. Your generosity and contributions to this research project cannot be overstated. Thank you for your honesty, your encouragement and being my second set of eyes. I also must thank you for your willingness to lend me your ears during moments of cathartic release. I love you.

This dissertation would not have been possible without the support of my wife Alicia. You are truly the backbone of our family. Your unconditional love and unwavering support helped me complete this doctoral program. I’d also like to thank my daughters Breonne and Aniyah for your understanding and patience in helping me fulfill a dream. I look forward to your futures and being there every step of the way in helping you fulfill yours. As I committed myself to completing this program, I missed more than a few special moments in your young lives. Know that you were my primary motivation for completing this program. It is my hope that as you grow older, having witnessed firsthand my dedication to completing this goal, you will gain an appreciation of the importance of acquiring an education and making a lifelong commitment to learning. Remember daddy loves you!

I would like to thank the members of my doctoral thesis committee, Dr. Kimberly Nolan, Dr. Joseph McNabb and Dr. Jacqueline Phillips. I feel very fortunate to have had an all-star doctoral thesis committee accompany me on this journey. I want to express my
appreciation for my lead dissertation adviser, Dr. Nolan. Your professionalism and
guidance throughout this research project gave me the confidence to continue to move
forward during times of adversity. I worked very hard to live up to your high standards.

Lastly, I would to thank my financial aid colleagues who participated in this
study. Thank you for your trust and openness in allowing me to share your experiences. It
is my hope that your contributions to this research project will benefit our profession and
Connecticut community college students. I look forward to implementing many of your
sage practices at my own institution.
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Chapter One: The Research Problem

A college’s cohort default rate (CDR) measures how many of its federal student loan borrowers default on their loans within two years of entering repayment (Cochrane & Szabo-Kubitz, 2011). Colleges and universities who have default rates which exceed 25% for three consecutive years lose the ability to disburse Federal Pell Grant funding, which is the largest source of grant aid to students. Within the past year, colleges nationwide have witnessed significant increases in their cohort default rates. This is likely due in part to the economy and recent changes to the formula that the federal government uses in calculating cohort default rates (U.S. Department of Education, 2011). The Higher Education Opportunity Act of 2008 instituted a new method of assessing student loan default rates, which will make it harder for higher education institutions to remain eligible to receive federal student aid funding. Under the new change, the Department of Education will be altering the current Cohort Default Rate formula by adding a third year to what was previously a two year calculation (Chitty, 2010). This regulatory change takes place during a time of great economic uncertainty for many community college student loan borrowers who are entering repayment. Historically high unemployment rates and an increased reliance on federal student loans as the primary means of funding the rising costs of higher education are all concerns when assessing the ability of student borrowers to meet their loan repayment obligations.

Despite the relatively low tuition, recent national data indicates that a growing number of students are unable to afford community college without borrowing (McKinney, Roberts & Shefman, 2013). Steele and Baum (2009) found that median debt levels increased between 2003-04 and 2007-08 for community college students earning
associate’s degrees (up 14% to $7,125) and certificates (up 44% to $6,534). Adding to the concern is research that suggests that community college students who borrow are more likely to drop out before earning their degree (Gladieux & Perna, 2005) and default (Field & Brainard, 2010) than their counterparts attending four-year colleges and universities.

Community college financial aid counselors can be a primary resource for students seeking information and guidance about using federal loans to pay for college. Researchers have found that consulting with a trained financial aid counselor can dramatically improve a student’s understanding and utilization of financial aid (McDonough & Calderone, 2006). Such advice may be of particular importance for community college students as studies have shown that these students are relatively uninformed about the financial aid process and college costs (Advisory Committee on Student Financial Assistance, 2008; College Board 2010). Community college financial aid administrators play an important role in advising students on college financing strategies and managing default aversion policies, therefore, collecting data directly from financial aid administrators can offer a deeper understanding of the practices they utilize as a means of influencing student repayment behaviors.

In order to maintain acceptable cohort default rates, community college financial aid administrators place a great deal of emphasis on default aversion practices, which are aimed at increasing the financial literacy of student borrowers but may not accurately take into account the awareness, skills and motivations that influence the repayment behaviors of community college federal loan recipients and the overall economic environment in which recent student loans borrowers are entering repayment.
Given the increasing number of community college students participating in the federal student loan program, it becomes imperative to determine whether current default aversion efforts are deemed effective in influencing the financial behaviors of loan recipients by the financial aid professionals who have the responsibility of administering them. Therefore, the purpose of this doctoral study will be to uncover the practices utilized by Connecticut community college financial aid administrators, which initiate counseling programs or processes designed to assist student borrowers in avoiding the serious consequences of default.

**Significance**

Developing effective default aversion practices, which stimulate positive student repayment behaviors, is a problem of practice that is significant within both the local and broader context of community college financial aid administrators. In the broader context, default aversion remains of vital interest to a variety of stakeholders including students, colleges, the federal government (lender) and ultimately U.S. tax payers. Citing a desire to protect students from future financial hardships (McKinney et al., 2013) and a desire to avoid the federal sanctions that can accompany high cohort default rates (Cochrane & Szabo-Kubitz, 2011), some community colleges have elected not to participate in the federal student loan programs. This fear has left community colleges nationwide to consider opting out of the Federal Direct Loan program in order to prevent the loss of Federal Pell Grant funding (Cochrane & Szabo-Kubitz, 2011). As of 2011, more than one million community college students in 31 states are enrolled at colleges that have chosen to opt out of the Federal Direct Loan Program. During the 2009-2010 award year, six California community colleges withdrew from the Federal Student Loan
Program. Administrators at these six community colleges stated that “a general concern about cohort default rate sanctions and the coming change that will capture a longer period of defaults” are the primary reasons their institutions made the decision to withdraw their participation (Cochrane & Szabo-Kubitz, 2011, pg. 6). By opting out of the Federal Direct Loan Program, community college students lose access to an important source of funding that contributes towards the costs of educational expenses such as tuition, fees, books, transportation and living costs. Additionally, denying community college students access to federal loans may also negatively affect their persistence by causing them to work more hours per week or attend college part time (Project on Student Debt, 2011).

Within a local context, default aversion strategies are of particular significance for more than half of Connecticut’s 12 community colleges (Gateway Community College 12%, Housatonic Community College 14.7%, Middlesex Community College 18%, Norwalk Community College 14.5%, Quinebaug Valley Community College 20%, Tunxis Community College 16.7% and Three Rivers Community College 12%), whose most recent double digit 2009 cohort default rates significantly exceed that of the national average of 8.8% (NSLDS, 2012). By interviewing community college financial aid professionals, this study has the opportunity to examine the way in which default aversion practices are being used in accordance with an overall institutional default aversion strategy. It is the researcher’s hope that the findings of this research study will contribute to a reevaluation of default aversion practices at his institution as well as within the other eleven community colleges in the state of Connecticut.
Research Questions and Goals

The objectives of this study are to: (a) determine what default aversion strategies are currently being utilized by financial aid administrators within the Connecticut Community College system; (b) explore the perceptions of Financial Aid Administrators in regards to the effectiveness of their current default aversion strategies; (c) compare the default aversion strategies against best practices; (d) explore what changes have been made or plan to be made to account for current economic conditions and/or changes to the federal cohort default rate formula.

In order to fulfill the above stated objectives, the overarching research question guiding this study is as follows.

- What do financial aid counselors perceive as the most effective best practices in lowering cohort default rates?

In utilizing a qualitative empirical study, the researcher plans to ask the following sub-questions as a means of collecting data that will further his understanding of the above mentioned intellectual goals:

1. How do community college financial aid administrators perceive the effectiveness of the Department of Education’s Default Aversion Best Practices in influencing student repayment behavior and maintaining acceptable federal default rates among community college student populations?

2. In what ways can federal financial aid policy be improved to assist community college financial aid administrators in their efforts of maintaining acceptable cohort default rate levels?

3. What perceptions do community college financial aid administrators have in
regards to the Department of Education’s use of cohort default rates as the sole accountability measure of effective institutional default aversion practices?

**Organization of the Doctoral Thesis**

The remainder of this doctoral thesis includes the following sections: theoretical framework, literature review, research design, a report of the research findings and a discussion of the research findings. The following section presents the theoretical framework, which framed the researcher’s understanding of the problem of practice that informs this study. A history and in-depth explanation of the selected Transtheoretical Model of Behavior Change (TTM) will be discussed with particular attention given to the model’s application in studies pertaining to the utilization of financial literacy in initiating financial behavior change. An explanation will be provided that describes to readers how TTM informs the parameters in which this study will be investigated and informs decisions regarding the study’s selected methodological approach.

This doctoral thesis will continue with a review of existing literature that (a) provides readers with background regarding the federal student loan program and the government’s use of cohort default rates as a measure of accountability; (b) examines what is already known about default aversion practices and how they relate to the study’s problem of practice and (c) concludes with an explanation of how the research study outlined in this proposal has the opportunity to contribute to a greater understanding of community college default aversion practices. The goal of this literature review is to examine the effectiveness of institutional default aversion strategies and their efficacy in the desire of community colleges to maintain acceptable cohort default rates. Guiding this review of literature will be the contributions of Kesterman (2006) and Volkwein (1995),
which view student default aversion through the prism of both borrower and campus characteristics.

Following the literature review, this proposal will describe the methodological process by which the researcher will investigate the study’s research questions. The researcher approached this problem of practice by conducting a multi-site case study on the current default aversion practices utilized by Connecticut community college financial aid administrators. The methodological section of this proposal included a description of (a) the case study sites and study participants; (b) the procedures and instruments used for data collection and (c) the procedures and models used for data analysis.

The researcher will present and discuss the themes that emerged by analysis of the data collected during this study. After presenting the study’s findings, this doctoral thesis will conclude by discussing the researcher’s interpretation of the research findings in light of the study’s selected theoretical framework and the study’s review of literature. Lastly, the significance of the research findings in addressing the study’s problem of practice, their implications for practitioners and recommendations for future study will be discussed.

**Theoretical Framework**

The President’s Advisory Council on Financial Literacy describes financial education as a process in which people become empowered to make informed choices regarding both their current and long-term financial well-being by increasing their understanding of financial products, services and concept (Kezar & Yang, 2010). The
council advocates that post-secondary students learn about financial literacy as a part of a complete liberal arts education. This emphasis in using education to influence financial behavior can be found echoed in the Department of Education’s Default Aversion Best Practices guidelines, which highlight the importance of financial literacy in maintaining low cohort default rates. The government’s desire for improved financial literacy requires that mandatory entrance and exit loan counseling be conducted for all students who participate in the federal student loan program.

The importance placed on “financial education” by the federal government makes the Transtheoretical Model of Behavior Change (TTM) a valuable theoretical lens through which institutional default aversion strategies can be analyzed. Despite a reliance on financial literacy as a means of minimizing institutional cohort default rates, scant data exists that examines the influence that counseling efforts have on federal student loan repayment decisions. However, existing in the literature is empirical data that suggest that an outstandingly low number of college students possess even basic financial literacy knowledge. Chen and Volpe (1998) conducted a survey in which college students who participated in a study correctly answered only 53% of questions relating to basic personal finance. A larger (N= 1,030) more recent study using the Jump$tart survey found only 62% of college students to be financially literate (Eitel & Martin, 2009). The results of such studies suggest that some student borrowers may not be knowledgeable enough to make sound financial decisions. Given the increasing number of students participating in the federal student loan program, it becomes imperative to determine whether current financial counseling practices are deemed effective by those financial aid professionals who have the responsibility of administering them.
The Transtheoretical Model of Behavior Change is commonly used in the health arena to help people stop unhealthy behaviors and/or develop healthy behaviors. With its foundations in the discipline of psychology, the TTM model was first developed by Dr. James Prochaska and his colleagues in the late 1970’s and applied to help people stop unhealthy behaviors such as smoking, alcohol abuse, drug abuse, and psychological distress (Ozmete & Hira, 2011), (Xiao et al., 2001). Since its inception, TTM has found wide spread usage in a variety research projects sponsored by the National Institutes of Health, Centers for Disease Control, the American Cancer Society and the American Heart Association. In addition to the United States, counties including Great Britain, Japan, and Australia have used the method to research behavior change (Xiao et al., 2001).

The term transtheoretical is derived from the model’s use of a combination of change variables found across many existing counseling theories including psychoanalytic, humanistic/existential, gestalt/experimental, cognitive and behavioral sciences (Xiao et al., 2001). Over the past 35 years, TTM has made significant contributions to the Health Sciences by demonstrating that behavior change is a process, not an event. The theory suggests that individuals change their behavior by moving sequentially through five stages of change: precontemplation (not intending to make a change), contemplation (considering making a change), preparation (making small changes), action (actively engaging in behavior change) and maintenance (sustaining change over time) (Basta et al., 2008). All five stages of TTM are analyzed within the constructs of decisional balance (a growing understanding that the advantages of behavior change outweigh the disadvantages), self-efficacy (confidence individuals can
make and maintain changes) and processes of change (strategies that can help individuals make and maintain changes) (Basta et al., 2008).

The model identifies ten processes of change that support movement between the five stages (see figure 2). The first five processes are cognitive/experiential in nature and include consciousness raising, dramatic relief, environmental reevaluation, social liberation and self-reevaluation. These initial processes are key in transitioning individuals from precontemplation through the action stage. The subsequent five processes of change are behavioral in nature and include stimulus control, helping relationships, counter conditioning, reinforcement management, and self-liberation. The later stages are vital in transitioning individuals from the preparation stage through the maintenance stage (Palmer et al., 2010) (see figure 1). Originally, the transtheoretical model was thought to be a linear progression through each of the five stages but later came to be described as consisting of a helix design, illustrating the frequency in which individuals relapse to a previous stage before permanently advancing.

<table>
<thead>
<tr>
<th>Change Stage</th>
<th>Precontemplation</th>
<th>Contemplation</th>
<th>Preparation</th>
<th>Action</th>
<th>Maintenance</th>
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<td><strong>Change Process:</strong></td>
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<td>Consciousness-Raising</td>
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<td>Dramatic Relief</td>
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<td>Environmental reevaluation</td>
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<td>Social liberation</td>
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<td>Self-reevaluation</td>
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<td>Self liberation</td>
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<tr>
<td>Contingency Management</td>
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<td>Counterconditioning</td>
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<td>Stimulus Control</td>
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<td>Helping Relationships</td>
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**Figure 2: Definition of Changes Processes under TTM**

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<tr>
<th>Change Process</th>
<th>Definition of Change</th>
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<tbody>
<tr>
<td>Consciousness-raising</td>
<td>Finding and learning new facts, ideas, and tips that support the healthy behavior change.</td>
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<tr>
<td>Social liberation</td>
<td>Realizing that the social norms are changing in the direction of supporting the healthy behavior change.</td>
</tr>
<tr>
<td>Dramatic Relief</td>
<td>Experiencing the negative emotions that go along with unhealthy behaviors.</td>
</tr>
<tr>
<td>Self-reevaluation</td>
<td>Realizing that the behavior change is an important part of one's identity as a person.</td>
</tr>
<tr>
<td>Self-liberation</td>
<td>Making a firm commitment to change.</td>
</tr>
<tr>
<td>Counter conditioning</td>
<td>Substituting healthy alternative behavior and cognition for the unhealthy behaviors.</td>
</tr>
<tr>
<td>Stimulus Control</td>
<td>Removing reminders or cues to engage in the unhealthy behaviors and adding cues or reminders to engage in the healthy behavior</td>
</tr>
<tr>
<td>Contingency Management</td>
<td>Increasing the rewards for the positive behavior change and decreasing the rewards of the unhealthy behavior.</td>
</tr>
<tr>
<td>Helping relationships</td>
<td>Seeing and using social support for the healthy behavior change</td>
</tr>
<tr>
<td>Environmental Reevaluation</td>
<td>Realizing the negative impact of the unhealthy behavior or the positive impact of the healthy behavior on one's proximal social and physical environment</td>
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The Transtheoretical Model has identified that people are in different stages of change. Therefore, successful intervention programs that will inspire and support change should be designed to meet the needs of people in the stage in which they fall (Proshaska, Norcross, & Di Clemente, 1994). An individual’s correct stage of change is commonly identified and assessed using self-reporting methods in which individuals provide...
responses to four questions regarding their intentions, past behavior and present behavior. Their responses are used to create a classification algorithm, which serves to identify the individual’s state of self-change (Xiao et al., 2001). Respondents are typically asked to provide binary responses (yes or no) to the following four statements.

1. I solved my problem more than six month ago.
2. I have taken action on my problem within the past six months.
3. I am intending to take action in the next month.
4. I am intending to take action in the next six months.

Each of the responses listed above describe an individual’s relationship with a change action in relation to a specific period of time and are used to assess a person’s state of readiness for change. For example, precontemplators will answer no to all four statements. Contemplators will answer yes to statement four and no to all others because they’re intending to change in the next six months. Those in the preparation stage will answer yes to statement 3 and no to the others because they intend to take action within the next month (Xiao et al., 2001). Knowledge of an individual’s stage of readiness to change is vital in determining which of the ten change processes (strategies) are relevant for continued behavior change advancement (Shockey & Seiling, 2004) (see figure1).

**Application of TTM in the Study of Financial Behavior Change**

Over the past decade, scholars such as Dr. Jin Jian Xiao have modified the transtheoretical model to study financial behavior change and have applied the revised model to study phenomena such as debt reducing behaviors, credit counseling and financial planning. The stage theory utilized in the health sciences has been modified from the health sciences into the study of financial behavior change by adapting the
original model to the following stages: (a) awareness of the problem and a need for financial behavior change, (b) motivation to make a change in financial behavior, (c) skill development to prepare for the financial behavior change, (d) initial adoption of the new financial activity or behavior, and (e) maintenance of the new financial activity and integration into the lifestyle (Ozmete & Hira, 2011).

Xiao and his colleagues have expanded the study of financial behavior change by rigorously testing the appropriateness of TTM in studies, which examined changes in credit and debt reducing behaviors (Xiao et al., 2001), (Xiao et al., 2004). The results from such studies concluded that the TTM was effective in explaining and predicting behavior change processes related to credit and debt management. Xiao (2001), applied the Transtheoretical Model of change to a consumer education program titled Money 2000, which was developed by the Rutgers Cooperative Extension in 1996. At the time of its launch, Money 2000 was thought to be the only savings education program ever launched in the United States to include a behavior monitoring component over an extend period of time (O’Neill, 1997). A total of 13,338 participants, representing 29 states agreed to set financial goals, (i.e., specific amounts of savings or debt reduction). In the study, the Transtheoretical Model was used to identify and support the participant’s readiness to change by stage. Specific to the individual’s stage, change processes were provided to participants by the Rutgers Cooperative in the form of various educational services (e.g. quarterly newsletters, classes, state conferences, home study courses and websites). Participants were surveyed about changes in their asset and debt levels every six months. By the end of 2000, program participants had reported $20 million in aggregated savings and debt reduction, demonstrating how TTM can be applied as a part
of a financial counseling program, which elicited positive financial behavior change among its participants (Xiao et al., 2001).

The Transtheoretical Model has been found to be beneficial when studying the effects consciousness-raising in influencing financial behaviors. In a financial asset building program study that provided both formal education and expenditure tracking exercises to a group of lower income participants in various stages of the TTM, Shockey and Seiling (2004) noted that 60% of their sample population learned most about their own financial practices through tracking their own experiences. In contrast, only 20% of the study’s participants found formal classes or comments from friends helpful in learning about their financial behaviors. The effectiveness of self-awareness in influencing financial behavior change was also found in Larimer & Cronce (2002), which identified self-discovery as a prime motivator of financial behavior change.

TTM has also been applied to study the financial behaviors among college students. Palmer (2010) asked that a sample of 170 undergraduate students track their spending behaviors in a series of self-reflection papers. The results of the study found that awareness of spending behaviors increased universally among participants when combined with processes of change from the TTM. As a result of this counseling approach, significant portions of students modified their spending behaviors to more closely conform to personal values. The results of such studies raise the question of whether default aversion strategies that promote financial education should also include a counseling component that makes students borrowers aware of their own financial behaviors.
Implications for Inquiry

The purpose of financial education is to inspire change in financial management behavior and provide tools that will enable an individual or family to achieve their goals (Shockey & Steiling, 2004). The financial education provided by financial aid administrators mirrors this goal and is intended to encourage students to successfully enter and maintain their loan repayment obligations. As a result of these efforts, the hope is that students will be able to avoid the serious consequence that can result from defaulting on federal student loans. Default aversion is a process not a singular event. In the Department of Education’s Ensuring Student Loan Repayment Handbook, the government recommends intervention models, which emphasize the importance of ongoing loan counseling and communication, which begin once a student loan recipient has been awarded and extends beyond their term of enrollment at the college. The Department of Education’s best practices also recommend that higher education institutions implement loan-counseling practices, which tailor their message to the needs of individual borrowers (U.S. Dept of Ed, 2000). As a theoretical lens, the Transtheoretical Model provides the opportunity to analyze the default practices of community college administrators in three very practical ways. First, TTM can illuminate the measures taken by community college financial aid administrators, which seek to identify the readiness of student borrowers to fulfill their loan repayment obligation by stage. Upon determining a student’s readiness to enter and maintain desired repayment behavior, TTM can analyze default aversion strategies in terms of change processes that will assist students in developing positive and permanent repayment behaviors. Lastly, TTM provides the parameters in which this research study will be investigated. The focus
of this study will be the default aversion practices utilized by Connecticut community colleges. Although studies have shown that an individual’s self-efficacy can be a determinant in the success of achieving a desired behavior change, this research study will focus on institutional practices that contribute to behavior change, therefore, the motivations of change aspirants will not be explored.

The primary question guiding this research study is to determine what community college financial aid counselors perceive as the most effective best practices in lowering cohort default rates. With over thirty five years of empirical research validating the efficacy of TTM in producing desired behavior change, its use as a theoretical framework will provide a means of comparison between the default practices of community college financial aid administrators and a theoretical model that has found widespread acceptance in the area of financial counseling. As a theoretical lens, TTM will inform the data collection process by shaping interview questions, which seek to determine community college default aversion practices in terms of change stages and change processes. As illustrated in figure 1, the transtheoretical model has shown that certain change processes are found to be more effective in advancing behavior change when they are initiated during specific stages of change. For instance, consciousness-raising has been found to be effective in influencing individuals in the precontemplation stage, while contingency management has been a valuable strategy in assisting individuals in the maintenance stage. When analyzing the data collected in this research study, the TTM model will be used to view whether the default aversion practices utilized at the case study sites provide a similar alignment between a student borrower’s stage of change and the preferred loan counseling strategies of Connecticut community college financial aid administrators. The
following example illustrates how the transtheoretical behavior model can conceptually utilize change processes in accord with a default aversion practice that will promote desired behavior changes, which will advance federal student loan recipients through each of the five stages:

A student applies for financial aid and receives an award letter that indicates that the student has the option of taking out a federal student loan. At this point in the transtheoretical model the student is likely to be in the precontemplation stage and may be unaware of the financial behavior that will be needed in order to satisfy the loan’s future repayment obligations. Once the student accepts the loan offer, they are required to complete their master promissory note and fulfill a mandatory entrance loan counseling session, which informs them of their rights and responsibilities as a student borrower. This influx of knowledge will advance the loan recipient to the contemplation stage by making them aware of their future obligations to repay the loan. Students will also have the knowledge to begin thinking about action and how this might impact future financial obligations. An example of this would be a student considering whether it is better to work part-time as a way of minimizing the loan debt that they accrue.

As a student nears graduation he/she enters the preparation stage as they undergo a mandatory exit loan counseling session with a financial aid administrator. At this counseling session the student borrower is provided information regarding anticipated repayment dates and amounts, the total amount of loan debt accrued, interest rate information, repayment plans and possible deferment or forbearance options. It is during the preparation stage that students will once again be reminded of the consequences of loan default, including possible damage to their credit scores, wage garnishment, the
withholding of federal tax refunds and an inability to qualify for federal student aid should they decide to continue their education. Once the student graduates, they enter the action stage where they receive follow-up letters/emails from their loan servicer in which they are required to select a repayment plan. Based on their selection, the student will then receive a repayment booklet or select an auto-debit option that will allow monthly payments to be deducted from their saving or checking account.

During the maintenance stage the student will be required to continue to make monthly payments. A student borrower who has become delinquent for any number or reasons is likely to be contacted by their college and their loan servicer so that they can be reminded of possible deferment of forbearance options. The student might also be advised to change to a different repayment plan that will lower their monthly payments. Should the student go into a default status they will likely be contacted by both the college and loan servicer so that they can be made aware of loan rehabilitation options that will allow them to bring the loan back in to good standing.

The open-door policy at community colleges is unique in American higher education. Community colleges allow for all comers and provide opportunities for recent high school graduates; veterans or laid-off machinists, to all learn a skill or earn a credential. Each of these students bring with them varying experiences and knowledge concerning financial literacy. The use of different stages under the transtheoretical model as a theoretical lens allows for this differentiation to be investigated and provides this research study with the opportunity and flexibility needed to account for the customized counseling approaches used by community college financial aid administrators, which are
based on the individual needs of students in what is a truly diverse and distinctive student population.
Chapter Two: Literature Review

This chapter reviews the existing body of literature that is relevant to a study of federal student loan default aversion practices. This review begins by introducing the literature review questions, which guided this analysis of existing scholarly literature. Background is then presented in regards to the origins of today’s federal student loan program and the important policy changes that occurred under the Health Care and Education Reconciliation Act of 2010, which instituted new measures of accountability as a response to perceived abuses in the federal student loan program. The federal cohort default rate is defined and its implications on current default aversion strategies are analyzed through a review of the literature. Best practices in institutional default aversion are introduced from existing literature and are analyzed within the context of identifiable student characteristics, which lead to loan repayment vs. loan default. Having analyzed the literature on default aversion best practices and student default characteristics, the review of literature will conclude with a justification for future inquiry into the effectiveness of current default aversion strategies within two-year community college student populations.

Since the goal of default aversion strategies is to minimize the numbers of students entering default, the literature review questions selected for this analysis were formulated to elicit what is known about best practices in default aversion strategies. Central to any default aversion strategy is a knowledge of which student characteristics have been empirically linked to student loan repayment and default. With these factors as the basis for inquiry, the following literature review questions were selected.
1. What are the Department of Education’s recommend best practices for default aversion?

2. What has the literature identified as effective default management strategies?

3. What student characteristics have been identified in the literature as being predictors of student loan repayment vs. student loan default?

4. In what ways has financial literacy been used to influence student repayment decisions?

**Background of the Guaranteed Student Loan Program**

The Guaranteed Student Loan Program, later renamed the Stafford Loan Program (currently named the Direct Stafford Loans program), was created in Title IV of the Higher Education Act (HEA) of 1965. The HEA was considered to be a key piece of legislation in the Johnson administration’s “Great Society” program, which focused on the elimination of poverty and discrimination (Mumper & Ark, 1991). Title IV of the Higher Education Act notably established two new major federal programs whose goal was to expand educational access for those who previously might have forgone a post-secondary education due to an inability to meet the financial costs. The first program was the Educational Opportunity Grant, which targeted direct federal grant aid to low-income students. The second program that was created under the HEA was the Stafford Loan Program, which was designed to provide a convenient source of aid to middle-income students at a very low cost to the government (Mumper & Ark, 1991). Under the Stafford Loan Program, funds are allocated though an indirect mechanism of guarantees in which the federal government insures loans made by private lenders to students and subsidizes the interests accrued on such loans. Students are allowed to borrow amounts up to the
difference between their cost of attendance and expected family contribution as long as the amount does not exceed program limits (Mumper & Ark, 1991).

Despite its origins as a financial aid resource geared for middle class families, the Middle Income Student Assistance Act (MISAA) of 1977 expanded Stafford Loan access to all eligible students regardless of family income (Mumper & Ark, 1991). The expanded access to the Stafford Loan Program that resulted from the MISAA was dramatic. In less than three years, the number of loan recipients had surged from approximately one million students to two and a half million by 1980, surpassing the Federal Pell Grant program as the largest source of Federal Student Aid (Mumper, 1987). The rapid expansion of the Stafford Loan program was joined by increases in the program’s complexity and its affiliated costs. In an effort to reduce the costs and complications that resulted from post-secondary institutions having to potentially originate student loans from over 13,000 different participating lending institutions, President Clinton signed into law the Direct Loan program in which students who attended participating post-secondary institutions would borrow directly from the Federal Government without the use of private lenders as an intermediary (Burd, 1995). For the next 17 years, post-secondary institutions had the option of participating in either the Federal Stafford Loan Program or the Federal Direct Loan Program.

**Heath Care and Education Reconciliation Act of 2010**

On March 30, 2010, President Barack Obama signed into law the Health Care and Education Reconciliation Act (Quizon & Field, 2011). Much attention was given to the new law’s overhaul of the American Health Care system; however, for many in higher education, the focal point of the Heath Care and Education Reconciliation Act are the
substantial changes that have been made in area of student lending. The most significant change under the legislation is that beginning in July 2010; all federal student loans would now be originated solely under the government’s Direct Lending program. Under the Direct Lending program, students would borrow from the U.S. Treasury, thus ending the 45-year-old Federal Family Education Loan Program (FFELP) in which students could borrow federal student loans from private lenders (Quizon & Field, 2011).

In order to fully understand the changes to the Federal Student Loan Program under the Heath Care and Education Reconciliation Act of 2010, it is important to first understand both the financial and political realities that existed both nationally and internationally, which contributed to creating an atmosphere in which massive student loan reform became possible. In the decade leading up to the Health Care and Reconciliation Act, the news had been filled with reports of incentive-based relationships between financial aid professionals and student loan lenders. The basis of this new relationship is that some schools were offering lenders preferential treatment in exchange for inducements that benefit the colleges. Examples of these improprieties include requesting that lenders agree to sponsor financial aid workshops and recruitment events, arranging for lenders to make calls to student borrowers reminding them to sign their promissory notes, complete loan counseling and renew their applications for federal student aid along with other functions that are typically apportioned to financial aid offices (Field, 2007).

Some inducements offered to colleges were less subtle. For example, a national lender named ELP paid large amounts of money to universities in exchange for being added to their lender list. Boston University, Drexel University, Fordham University, St.
Johns University, Clemson University and the University of Mississippi are just some of the many colleges who partook in revenue sharing relationships with ELP (Johnson, 2007). Under such agreements, universities would receive a percentage of all student loan volume that they referred to ELP. Some schools such as Drexel University received over $100,000 in kickbacks during a single year (Johnson, 2007).

Student lending is now an $85 billion-dollar-a-year industry (Beaver, 2008). While there was nothing illegal about these arrangements between lenders and colleges, concerns began to mount regarding the integrity of such relationships and their effect on student borrowers. As a result, in 2007, then New York state Attorney General Andrew Cuomo investigated and uncovered questionable practices between colleges and private lenders (Klein, 2009). As a response, in May 2007 the U.S. House of Representatives passed the “Student Loan Sunshine Act” by a 414-3 margin to provide oversight to the relationship between colleges and lenders (Chitty, 2007).

The rising cost of education coupled with the credit crisis of the most recent recession have also been contributing factors in initiating student loan reform and increased measures of accountability. In order to offset the rising costs of higher education, loan debt for graduating seniors has more than doubled, from $9,250 to more than $20,000 over the past decade (Combe, 2009). Today, two thirds of all college students depend on student loans to assist them in funding their education (Beaver, 2008). Despite the heavy reliance of both students and colleges on the FFELP program, 2008 marked a year of uncertainty in which many of the banks who participated in FFELP would no longer commit themselves to future student lending. The rational given by many private lenders was that uncertainty in the global financial markets and the looming
threat of an end to government subsidies for federal student loans, made their once sure participation in the business of student lending a risky proposition (Krigman, 2009). The uncertainty of available credit forced many colleges to consider alternate and more reliable sources of lending like the Federal Direct Loan Program.

The Health Care and Education Reconciliation Act and the resulting changes to the nation’s federal student loan program that accompanied it have stirred a great deal of debate amongst the varying stakeholders within the higher education community. This divergence of opinions can be evidenced amongst those who have written about the subject. While the full impact of how loan reform will impact students has yet to be determined, Nelson (2009) expressed the concern that an end to the FFELP program would result in the elimination of borrower benefits offered by many lenders. Under the FFELP program, the borrower benefits offered by private lenders often included interest rate reductions for borrowers in repayment who made a certain number of consecutive on time payments or signed up for auto-debit repayment options. Nelson (2009) theorizes that the elimination of private lenders and the removal of incentive based repayment benefits could contribute to higher cohort default rates. Additionally, Combe (2009) suggests that under the Direct Loan program students will no longer be afforded the effective debt management and default prevention counseling provided by private lenders over the life of the loan. Over time, this lack of counseling could result in higher default rates for federal student loans.

Proponents of student loan reform such as Education Secretary Arne Duncan state that “the government should be in the business of investing in students, not subsidizing banks (Krigman, 2009 p. 10).” The Congressional Budget Office estimates that by
replacing the Stafford Loan Program with the Direct Lending program, the government would save $87 billion dollars, which would have otherwise gone to banks in the form of subsidies and administrative fees, over a nine-year period (Quizon & Field, 2011). A portion of these savings would go towards increases in the Federal Pell Grant program that without the additional funding runs the risk of becoming insolvent due to the higher than anticipated number of qualifying students who have returned to college during the current economic recession. The legislation also provides an additional $2 billion in funding for the nation’s community colleges (Klein, 2010).

As the original spirit behind the FFELP program became corrupted by some private lenders and financial aid administrators, it became evident that greater oversight and changes to the student loan industry were necessary. Today, all new guaranteed federal student loans are originated under the government’s Direct Lending Program. With the elimination of private lenders, colleges and universities have had to take on greater responsibility in managing student default rates.

**Increased Accountability**

The elimination of private lenders has forced colleges and universities to take on greater responsibilities in directly managing student population default rates to ensure the continuation of government funding critical to their survival. The federal government’s standards and mandates within this alliance have become their burden. Failure to repay federal student loans produces tremendous costs for the federal government during a time in which public scrutiny regarding spending has steadily increased during the past decade (Christman, 2000). The Great Recession of 2008 served as a focusing event, which allowed for the federal government to turn its attention towards addressing several
widespread issues relating to cost sharing, fiscal austerity and accountability in federal student aid funding. The growth of the for-profit sector of higher education presently resides among the top issues influencing federal financial aid policy and new measures of accountability. In 1999, for-profit colleges and universities enrolled approximately 629,000 students, representing a little over 4% of the nation’s 15.2 million college students (National Center for Education Statistics, 2002). By 2009, the for-profit sector had increased to 2.2 million students, or almost 11 percent of the nation’s 21 million students (Knapp, Kelly-Reid, & Ginder, 2011). With this growth has come increased scrutiny of the sector, driven in large part by the perceptions that at least some students attending for-profit colleges are “not receiving an adequate education” for the money the federal government is spending (Heller, 2011 p. 58).

The primary purpose of for-profit colleges is to make money for partners (in a privately held company) or for shareholders (in a publicly held company) (O’Malley, 2012). The revenue generated by for-profit higher education institutions is chiefly a result of federal funding derived from grants and student loans. O’Malley (2012) describes that 87% of revenue for the nation’s 14 largest for-profit colleges comes from the GI Bill, Pell Grants, Federal Student Loans and other government backed resources paid for by taxpayers. The heavy reliance of for-profit colleges on federal sources of funding has raised concerns regarding a disproportionate amount of federal student aid going to for-profit institutions as opposed to the not-for-profit public and private sectors.

The for-profit proprietary sector also represents the sector of higher education with the highest default rates. (Dervarics, 2009). When looking at a three-year window after beginning repayment, 22.7% of borrowers at for-profit institutions default,
compared with 11% of borrowers at public institutions and 7.5% at private colleges. Students at for-profit institutions represented nearly half of all federal student loan defaults (Stratford, 2012).

In a written statement released by Steve Gunderson, President and Chief Executive Officer of the Association of Private Sector Colleges and Universities, he describes that for-profit colleges tend to enroll underserved populations, such as working parents and first-generation college students whose financial disadvantages contribute to their higher default rates (Stratford, 2012). However, this assertion is contradicted by a report released in February 2012 by the Center for Analysis of Post-Secondary Education and Employment that found that even when controlling for demographics, financial aid, degree types, and other factors, for-profit institutions still had significantly higher rates of default when compared with their public and private peers (Stratford, 2012).

In response to concerns regarding academic quality, student loan defaults and the proportion of federal aid utilized by the for-profit sector, the U.S. Department of Education issued a series of regulations applicable to all higher education institutions that are aimed at decreasing some of the alleged lending abuses. One such measure was a change in the cohort default rate formula that now captures a third year of defaulters in to what was previously a two-year calculation. This new regulation, which was targeted at proprietary schools, has implications for two year public colleges who must also seek default aversion strategies to maintain acceptable default rate levels while operating with comparably fewer resources to allocate towards default prevention than their for-profit and private peers.
With an open door policy that seeks to provide affordability and access, many community colleges serve student populations that are demographically similar to for-profit colleges. However, unlike for-profit colleges, the comparably low tuitions of community colleges have created a unique dilemma in the management of their default aversion efforts. With low tuitions, few community college students apply for federal student loans. As a result, even a handful of borrowers who do not successfully enter loan repayment can give community colleges a high default rate and possibly trigger federal sanctions (Dervarices, 2009). Therefore, the reality faced by some community colleges is that their high default rates actually represent a low number of students who enter default.

According to Mark Knatrowitz, publisher of finaid.org, which analyzes student aid programs, such concerns have prompted more than 200 community colleges nationwide to withdraw from the Federal Student Loan program to avoid the possibility of federal sanctions (Dervarics, 2009). As a result, a study from the Project on Student Debt found that one in ten community college students cannot get a federal student loan because their schools do not participate in the federal student loan program (Cochrane & Szabo-Kubitz, 2011). As a response to this growing concern, the American Association of Community Colleges has asked Congress to give financial aid administrators greater leeway to lower student borrowing by limiting the maximum amounts that students may borrow in order to more appropriately reflect the lower tuition costs of community colleges. Thus far, Congress refuses to give community colleges such discretion resulting in some community college students accruing debt which far exceeds the direct costs (e.g. tuition, fees & books) needed to complete their degree (Dervarics, 2009). Such a student is ultimately at high risk to default on loan repayment, creating a costly problem
for institutions, which must reduce default within newly established federal standards of
court default rates.

**Cohort Default Rates**

A college’s cohort default rate (CDR) measures how many of its federal student loan
borrowers default on their loans within two years of entering repayment (Cochrane &
Szabo-Kubitz, 2011, p. 7). Federal student loan recipients enter repayment six months
after the student graduates or is no longer enrolled in college for at least half time status.
A borrower enters default on federal student loans after not making payments for 270
days. However, a student is not included in a college’s official default rate calculation
until they reach 360 days of non-payment (Cochrane & Szabo-Kubitz, 2011).

Institutional cohort default rates are calculated by dividing the number of borrowers who
entered repayment in a specified two-year period by the number of borrowers who
entered repayment in a specified year. The following example illustrates the Department
of Education’s cohort default rate calculation (Cochrane & Szabo-Kubitz, 2011).

\[
\text{# of students attending college X who entered repayment in 2010, and defaulted in 2010 or 2011} \div \text{Number of students attending college X who entered repayment in 2010} = \text{2010 Cohort Default Rate for College X}
\]

It is in the interest of all of the various stakeholders to keep cohort default rates at
acceptable levels. As lender, the federal government has instituted measures, which it
hopes will enforce student loan repayment. Students who enter default run the risk of
wage garnishment, garnishment of federal income tax refunds, the inability to receive additional federal student aid and the risk of their credit rating being adversely affected. Colleges and universities who have default rates which exceed 25% for three consecutive years lose the ability to disburse Federal Pell Grant funding, which is the largest source of grant aid to students. Post-secondary institutions whose default rate exceeds 40% in any given year face the same sanction (Cochrane & Szabo-Kubitz, 2011).

In 2011, changes were made to the federal CDR calculation to include borrowers who default within three years after entering repayment. Beginning in 2014, the threshold for federal sanctions on post-secondary institutions will be raised from 25% to 30% (Cochrane & Szabo-Kubitz, 2011). A review of historical default rate data demonstrates that the longer the default rate measurement period in the life of the loan, the higher the default rate for the overall cohort (Kestermen, 2006). Findings from the same historical review indicate that the second, third and fourth years of repayment constitute the highest default risk period for students (Kesterman, 2006). In 2006, a federal study took place in which default rates were considered using a four-year calculation rather than the traditional two-year period. The results of the study were that some groups of students witnessed default rate increases by as much as 6% and some higher education institutions witnessed default rate increases by as much as 60% (Gross, Cekic, Hossler & Hillman, 2009).

The literature describes that past attempts to understand student loan defaults have essentially been drawn from four perspectives: economic, sociological, psychological and federal (Christman, 2000). The ability-to-pay theory attempts to provide an economic explanation for the possible reasons of student default. The theory posits that borrowers
should have enough income after attending college to pay for essential expenses, such as housing, food, transportation and still have enough discretionary income remaining to pay student loans (Flint, 1997). Those students who do not have enough income to repay loans will conceivably turn to friends or family members to assist in loan repayment (Christman, 2000). While the ability to pay theory does offer insight into the likelihood of loan collection, it fails to account for those student loan borrowers with sufficient levels of discretionary income who subsequently default on student loans (Flint, 1997).

The literature has also attempted to explain student defaults in terms of sociological perspectives. One such sociological perspective views student loan defaults as an act of deviance and pertains to students who default despite having previously indicated a willingness to enter repayment and having sufficient income to meet their repayment obligations (Flint, 1997). This theory does not however address the larger group of students who default for economic reasons.

Attitude formation is a psychological perspective that has been used to explain default behavior. According to this theory, a borrower’s friends and other professionals influence a student at the time of borrowing as well as after receiving the loan. As a result, later repayment behavior may be taken as representation of their satisfaction with their college experiences (Christman, 2000). Flint (1997) argues against the attitude formation theory and cites a lack of any social or educational surveys [which] include a complete battery of items needs to replicate measures of this theory.

The federal perspective posits that although default rates are related to income levels, they are more related to other factors within the control of the higher education institution including the intuition’s collection activities, the manner and quality of loan
counseling given to student borrowers, the degree of student satisfaction and the quality
of education provided by the school (Flint, 1997, p. 327). While this perspective
acknowledges that there may be a variety of non-school related factors, which may
contribute to instances of student default, it places primary accountability with higher
education institutions.

In one of the largest studies on default aversion strategies for federal student
loans, a mixed methods study surveyed 153 financial aid professionals and interviewed
12 “notable” scholars and experts on default aversion strategies (Kesterman, 2010).
Among the study’s significant findings is the belief that the federal government, state
governments, schools and lenders should increase funding for outreach programs to better
educate “high-risk” populations. In the study, 76% of survey participants either agreed or
strongly agreed that default rates among high-risk populations could be lowered through
outreach and education programs. This same view was shared by the scholars
interviewed for the study, who also included the need to incorporate programs that
promote degree completion as a means of avoiding student loan default. Consistent with
the increased risks associated with students in their second, third and fourth year of
repayment, the study’s participants agreed on the need for intensive default aversion
efforts in the first four years in which students enter repayment (Kesterman, 2010).

**Department of Education’s Best Practices**

In the year 2000, the U.S. Department of Education released a national handbook
of best practices in ensuring loan repayment. Derived from discussions at a two-day
symposium composed of experienced representatives from the financial aid community,
the intent of the handbook was to share expert knowledge on effective methods of
reducing student loan defaults. The handbook of best practices separates default aversion into three different phases (a) pre-college preparation; (b) in-school period and (c) grace period and repayment (U.S. Department of Education, 2000). In each of the three phases, an emphasis is placed on providing student borrowers with the information necessary to make more informed decisions. The U.S. Department of Education’s division of default aversion practices into separate phases is consistent with this study’s use of the Transtheoretical Model (TTM) of Financial Behavior change as its theoretical lens, which examines student repayment behavior through the use of five sequential phases (precontemplation, contemplation, preparation, action & maintenance) (Basta, Reece & Wilson, 2008).

The primary means by which post-secondary institutions inform student borrowers of their rights and responsibilities is through their compliance with mandatory entrance and exit loan counseling. Student borrowers who leave school understanding their repayment obligations and options, such as deferment and forbearance, are less likely to default (U.S. Department of Education, 2000). Loan counseling best practices recommended by the Department of Education advocate for the inclusion of parents in counseling sessions, the utilization of technology/websites and the distribution of carry-away materials (e.g. bookmarks, brochures, wallet cards) that contain pertinent information (U.S. Department of Education, 2000).

The Department of Education does not recommend a one-size-fits-all approach to student loan counseling and advises that schools target special counseling for those students determined to be “high-risk” borrowers in an effort to assist them in successfully entering repayment and avoiding default. Examples of counseling techniques
implemented for “high-risk” borrowers include one-on-one or small group counseling sessions, minimizing borrowing for first year students and asking “high-risk” students to consider their ability to repay their loan obligations given their individual career aspirations (U.S. Department of Education, 2000). The key to such interventions is dependent on the ability of post-secondary institutions to identify “at risk” borrowers and maintain ongoing contact with them.

**Characteristics of Default**

The literature on default aversion strategies is filled with a number of studies that considers the likelihood of default within the context of both student and institutional characteristics. Perhaps the most studied student characteristics examined in default aversion literature is a comparison among racial ethnic groups and the likelihood of default. The findings of researchers have been consistent in identifying that students of color are more likely to default on federal student loans than Caucasian students (Gross, Cekic, Hossler & Hillman, 2009). Studies have indicated a number of factors, which might contribute to this differential. A 2002 study based on the U.S. Department of Education’s 2000 Nation Post-Secondary Study found that 39% of all borrowers graduate with an unmanageable amount of loan debt, which is defined as being greater than 8% of a borrower’s gross month income. By comparison, 55% of all African American students and 58% of Hispanic student borrowers graduated with unmanageable debt burdens (King & Bannon, 2002). Both personal and family finances have been found to be attributable factors in students of color having to assume higher amounts of student loan debt when compared to white students (Wilms, Moore & Bolus, 1987). Students of color
are also more likely to be unemployed following graduation (Volkwein & Cabrera, 1998).

There exist in the literature mixed findings as to the impact of age and gender on student loan defaults. One study at a four-year public institution found younger students to be three times more likely to default than older students. However, when this study was later reproduced at the same institution, no such correlation was found (Steiner & Teszlar, 2003). While some studies have found no significant difference in defaults between genders (Harrast, 2004), some studies have indicated that men are more likely to default on federal student loans than woman, despite the fact that woman have comparatively lower average earnings (Flint, 1997).

Not surprisingly, socioeconomic factors were found to impact student loan default rates. Most students who default on federal student loans do so because their income is insufficient to keep up with loan payments (Flint, 1997). Students from low-income families generally accrue greater amounts of loan debt and were less likely to rely on family when encountering difficulties making repayment (Wilms et al., 1987). The greater the number of dependents claimed by a student, the greater the likelihood of default (Volkwein & Szelest, 1995). Being separated, divorced or widowed was also found to increase default rates by greater than 7 percent. Students whose parents had obtained a post-secondary education were found to be less likely to default than students who were first generation college students (Volkwein & Szelest, 1995).

In addition to student characteristics, the Ketsterman (2006) study also found that institutional characteristics appear to have an impact on federal default rates. The survey of financial aid administrators reached a consensus that the 25% default rate ceiling is out
of date as the only measure of an institution’s default management effectiveness and the sole benchmark for which federal sanctions can occur. Recommendations included having different default rates ceilings based on institutional type (Kesterman, 2010). Such changes would help to mitigate some of the potentially punitive sanctions that are likely to result from the already high default rates found at some proprietary schools, community colleges and historically black colleges (Gross et al, 2009).

There is not singular blueprint for minimizing default rates. Taking both student and institutional characteristics into consideration, colleges and universities must implement a multi-pronged approach to minimize the chances of loan default and there their risk of jeopardy in losing feral student aid eligibility.

**Default Aversion Practices**

Chitty (2010) describes that with rising student loan debt, a tough job market for recent graduates and tougher default standards, higher education institutions must look to strengthen default aversion efforts. A report from Education Sector titled “Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed” highlights the institutional practices taken by twelve HBCUs, which significantly lowered their cohort default rates in the early 1990’s. Each of the twelve HBCUs included in the report were in danger of losing their Title IV eligibility due to high cohort default rates. Among the holistic default aversion measures implemented by the HBCUs was creating a leadership buy-in, appointing a default prevention manager, creating a default management team, partnering with outside entities, changing the financial aid packing philosophy, connecting retention and default prevention, creating early alert systems, improving communications with borrowers and improving financial
literacy (Chitty, 2010). The basis of their successful default aversion blueprint was centered around the idea that there needed to be an institutional commitment that produced a campus-wide understanding of the issues and consequences of default aversion.

The literature describes the use of financial literacy as a widely held approach to default aversion. One such measure is the use of a pedagogically based curriculum in financial literacy that gives college students a foundation in key concepts, principles and technological tools that improve their understanding about money. Piccioli (2011) describes a one credit online course offered by Alvernia University designed to supplement an already mandated First Year seminar class aimed at expanding financial literacy education among its student population. Since 2009, an incentivized approach to financial literacy has begun at Syracuse University (N.Y.) through participation in the university’s Money Awareness Program (MAP). The MAP program targets students with an existing high debt burden and requires their participation in a financial literacy training session each semester in exchange for an annual grant totaling $5,000-$7,000 (Supiano, 2009).

St. Catherine University (Minn.) formed a University Financial Literacy Committee which developed and implemented the “Money Doesn’t Grow on Trees” money management program. The program, which was initially grant funded, has been institutionalized and provides students with outreach opportunities covering financial literacy in the form of guest speakers, peer mentors and the ability to meet one-on-one with certified consumer credit counselors from Lutheran Social Services who discuss budgeting, credit card debt and loan repayment options (Piccioli, 2011).
While some colleges have taken an incentivized approach (e.g. college credit, grants, access to financial services) to financial literacy, Tidewater Community College (Va.) requires that its students submit budgets detailing how they’ll repay their federal student loans prior to disbursing their loan funding. Deborah DiCroce, President of TCC, describes these measures as one way in which the large 46,000 student community college can take “greater responsibility for helping students better understand the financial process upfront (Sampson, 2011, p12).”

The drawback of teaching financial literacy is a lack of self motivation for the learner, who is participating in the learning due to an external force and is seldom required to reengage the material after the class or counseling session ends. Additionally, such literacy programs require that students retain such knowledge up to six months after graduation when their student loans enter repayment (Wilke, 2013). Such deficiencies require that colleges and universities continually rethink the timing, format and vehicles for their financial literacy efforts. The targeting of post enrollment communication with “at risk” groups such as students who withdraw from college prior to graduation, the delivery of financial literacy in multiple content formats (videos, interactive games, online chats, podcasts, articles, etc.) to satisfy different learning styles and the use and integration of social networking programs are all considerations for default aversion strategies (Wilke, 2013).

While the literature on community college default aversion techniques is both limited and dated, a 1989 report issued by the California Community Colleges Board of Governors recognizes the resource limitations faced by community colleges who seek to administer effective default aversion strategies (Meznek & Wilson, 1989). Among the
Board’s recommendations were that community college districts provide adequate funding and administrative support for the default prevention efforts being conducted by financial aid offices. The intent of the additional funding was to supplement current financial aid staffing, thus allowing for enhanced loan counseling and student follow up by financial aid administrators. The Board also recommends that the responsibility of student default be extended to include basic training for all college personnel who come in contact with students in an advisory capacity including counselors, Transfer Center personnel and instructors (Meznek & Wilson, 1989).

**Summation**

The topic of increasing loan dependence to cover skyrocketing college costs is a contemporary issue that is widely addressed in today’s higher education literature. On average, undergraduate student borrowers in the United States graduate with $18,900 in student loan debt (Gross et al., 2005). While the topic of increased post-secondary cost is a growing segment of today’s literature, much of the research regarding default aversion best practices is more than 15 years old. Equally as dated is the literature, which identifies the characteristics of community college federal student loan defaulters. As a demographic, community college students differ significantly from four-year college students in what have traditionally been predictors of student default characteristics including family income, degree completion and post-graduation income. The absence of new knowledge to address the expanding numbers of students who now rely on federal student loans to fund their educational costs has forced practitioners to either recycle existing default aversion strategies or develop their own strategies unique to their experiences. The most current Department of Education Default Prevention Best
Practices Guide was issued in the year 2000, predating both the 3-year default calculation and the most recent economic recession.

This review literature has challenged the author to consider the relevancy of the Department of Education’s standardized cohort default rate threshold of 30% on issuing sanctions. The linkage between both student and institutional characteristics and the likelihood of student default has led this author to consider the position of scholars who have advocated for revised measures of evaluating the effectiveness of institutional default aversion policies. One such recommendation made by default aversion experts is the elimination of the one-size-fits-all 30% default rate benchmark on sanctions. Such a change would allow community colleges, proprietary schools and 4 year colleges to be held to different default rate ceilings by taking into account general differences in student characteristics, available resources dedicated to default aversion, anticipated income of graduates, and differences in retention rates.

This proposed research study has the potential to influence policy and practice by examining community college default prevention in light of formulaic changes to the cohort default rate calculation. While existing literature is filled with numerous student and institutional characteristics that have been studied to predict the likelihood of student loan default, little is known as to whether financial aid professionals are able to integrate such knowledge into effective default management strategies. Additionally, through its theoretical framework, this qualitative study can seek to address the question as to whether those financial aid professionals charged with conducting financial literacy perceive their efforts to be an effective means of minimizing student loan defaults.
Chapter Three: Research Method

The research conducted in this doctoral research project sought to uncover whether current default aversion efforts are deemed effective in influencing the financial behaviors of Connecticut community college loan recipients by the financial aid professionals who have the responsibility of administering them. This research design was conducted using a qualitative research study. One on one in-person interviews, site observations and documents are all forms of data that were collected during this qualitative study. As recommend by Creswell (2013), the researcher utilized field notes both descriptive and reflective to record and describe personal observations. The researcher conducted in-person interviews that utilized open-ended questions, which encouraged participants to fully voice their experiences and perspectives on default aversion practices. Literature and forms distributed to students for the purposes of default aversion were also collected in the study.

In utilizing a qualitative empirical study, the researcher pursued the following research questions as a means of collecting data that will further his understanding of the study’s intellectual goals:

1. How do community college financial aid administrators perceive the effectiveness of the Department of Education’s Default Aversion Best Practices in influencing student repayment behavior and maintaining acceptable federal default rates among community college student populations?

2. In what ways can federal financial aid policy be improved to assist community college financial aid administrators in their efforts of maintaining acceptable cohort default rate levels?
3. What perceptions do community college financial aid administrators have in regards to the Department of Education’s use of cohort default rates as the sole accountability measure of effective institutional default aversion practices?

This study utilized social constructivism as its interpretive framework. Researchers utilizing a constructivist framework attempt to interpret the meanings others have about the world, while acknowledging the presence of the multiple, equally valid realities among the study’s participants. These views are formed through the participant’s interactions with others and through the historical and cultural norms that operate in individual’s lives (Creswell, 2013). A distinguishing characteristic among constructivist studies includes the utilization of open-ended questioning to stimulate interactive dialog between researcher and participant (Ponterotto, 2005). A constructivist framework aligns with the researchers’ preferred use of multiple data collection methods including in-person interviews with financial aid administrators from which sense making and theme identification are the desired result.

**Research Design**

Creswell (2013) highlights the importance of qualitative research in developing a detailed understanding of an issue by talking directly with people and allowing the study’s participants to feel empowered by sharing their stories within their own setting. By acknowledging the perspectives of financial aid administrators, this research hopes to gain insight on whether current default aversion strategies are successful in influencing student repayment behavior.

When researchers conduct qualitative research, they are embracing the idea of multiple realities (Creswell, 2013, p. 20). The intent of this research study is to report the
multiple realities of community college financial aid administrators through the collection of multiple forms of evidence. As is the case in qualitative research, the data collected for this study will be organized inductively to allow for the researcher to work back and forth between themes and data in order to establish a comprehensive set of the themes (Creswell, 2013).

**Research Tradition**

Judging by the number of times they are cited, two of the key recent advocates of the use of case study in social research are Stake and Yin (Tight, 2010, p. 331). Stake (1978) describes that most case studies feature “descriptions that are complex, holistic, and involve a myriad of non-isolated variables; data that are likely to be gathered at least partly by personal observation; and a writing style that is informal, perhaps narrative, possibly with verbatim quotation (p 7).” In a later work, Stake (2005) argues that the five key requirements for case study research are issue choice, triangulation, experiential knowledge, contexts and activates.

When determining when it is appropriate to utilize a given research method, Yin (2009) suggests that the researcher consider (a) the type of research question proposed, (b) the extent of control an investigator has over actual behavioral events, and (c) the degree of focus on contemporary as opposed to historical events. The research approach selected for this study appears appropriate in that it seeks to answer “how” and “what” questions, without researcher control over events, which pertain to a contemporary issue of national significance.

As presented in Creswell (2013), case study research involves the study of a case within a real live contemporary context or setting, which is bounded by time and place
Case studies often use multiple data sources, including researcher’s personal observations to generate a contextual narrative (Stake, 1978). For his doctoral thesis, the researcher will be conducting a multi-site case study, which examines the default aversion strategies of two different organizations and will rely on multiple sources of information (e.g. interviews, observations, policy and procedure manuals). Now is a critical time to examine default aversion strategies due to regulatory changes in the government’s calculation of cohort default rates that are set to take place during the 2013-2014 award year and the historically high unemployment rates in which many recent federal student loan recipients are entering repayment. Therefore, the structure of a bounded system (e.g. space and time) will be imperative in providing context to this research study.

Recruitment and Access

The data collection in case study research is typically extensive, drawing on multiple sources of information (Creswell, 2013 pg. 100). In order to gain an in-depth understanding of each of the case sites, this empirical study utilized in-person interviews, field observations and incorporated the use of literature provided to students in regards to default prevention. Wolcott (2008) suggests that any case over 1 dilutes the level of detail that a researcher can provide. However, Creswell suggests that the benefits of conducting a multisite case study are that they are likely to provide the researchers with ample opportunity to identify themes as well as generate the data necessary to conduct a cross-case theme analysis (Creswell, 2013 pg. 157). Therefore, this research study limits its data collection to two case study sites as a means of minimizing the dilution of the rich
qualitative detail required of this research approach, while allowing for a comparable analysis of each of the case site findings.

Permission to gain access to research sites began by seeking approval by the university’s Institutional Review Board (IRB). Once IRB approval was granted, study participants were recruited via email correspondence. Eleven of Connecticut’s twelve community colleges were invited to participate in the study (Capital Community College was excluded as the researcher currently serves as that institution’s default aversion specialist). Of the eleven colleges invited to participate in this research study, four accepted. The two colleges ultimately selected to participate in this research study were chosen on the basis of differentiating institutional characteristics and availability.

**Protection of Human Subjects**

Prior to participating in research, individuals need to know the purpose and aims of the study, how the results will be used, and the likely social consequences the study will have on their lives (Creswell, 2012). At the launch of the proposed study, the researcher provided participants with written notification regarding the purpose of the research being conducted and their role as a participant in sharing perspectives regarding default aversion practices for Connecticut community college federal student loan recipients. Participants were notified in writing that the results of the study will be analyzed to determine whether those charged with managing student loan defaults perceive the need to change current default aversion practices in order to maintain acceptable cohort default rate levels. Participants received written notification regarding any anticipated risks involving their participation and affirming the protection of their anonymity.
Written notification detailed why the participant was selected for the study, the anticipated time commitment that their participation will require and the potential benefits of their participation. Those financial aid administrators selected for the study were notified in writing that their participation is strictly voluntary and that they have the right to refuse participation. Participants were also reminded that they will maintain the right to withdraw their consent at any time.

The researcher sought permission to audio tape the interviews for the purpose of future transcription. The researcher also received permission to collect documentation that demonstrates current default aversion practices including student literature issued by the college. Institutional Review Boards implement guidelines based on three ethical principles: respect for persons, beneficence and justice. By following these guidelines, researchers guarantee that participants retain their autonomy and judge for themselves what risks are worth taking for the purpose of research (Creswell, 2012). Prior to their participation in the study, the researcher asked participants to sign an Informed Consent form agreeing to their participation in the study and acknowledging the protection of their rights as participants.

Written consent was administered and the study’s participants were made aware of issues relating to confidentiality and their right to withdraw their participation in the research study at any time. Participants were provided with a written description of the researcher’s use pseudonyms to protect the identity of interviewees and the college for which they are employed. Participants were also made aware of possible limitations to their confidentiality. For instance, Rubin & Rubin (2012) suggests the possibility that those who work in the same field may recognize one another through the background
information found in the researcher’s report. Therefore, prior to requesting their consent, participants were presented with the background information that was used to describe their community college. This provided the information needed for prospective participants to judge for themselves their own comfort level regarding the expectation of confidentiality for this research project.

**Case Study Settings**

In order to uncover default aversion practices that influence the repayment behavior of Connecticut Community College federal student loans recipients, this research study used maximal variation sampling to conduct face-to-face interviews with two Connecticut community college financial aid administrators who work directly with the default aversion efforts of their college. In 2009, the official loan default rate among U.S. community colleges totaled 9.9%, up from 8.4 percent in 2008. This rate is significantly above the nationwide default rate of 6.7% among all higher education institutions (Dervarices, 2009). The decision to use maximal variation sampling is rooted in a desire to determine whether common themes develop regarding the default aversion strategies utilized by Connecticut community colleges despite their different institutional characteristics (e.g. size, location, student demographics). The use of maximal variation sampling is preferred for some qualitative studies in that it increases the likelihood that the findings will reflect differences or different perspectives, an ideal in qualitative research (Creswell, 2013).

Nutmeg Community College (pseudonym) is one of the smaller community colleges in Connecticut’s twelve community college state system. Graduation rates at Nutmeg are among the highest within the Connecticut community colleges system,
providing students with the opportunity to earn credentials in a few dozen associate
degree and certificate programs. Among Nutmeg’s many strengths, are small class sizes
and the variety of its allied health and manufacturing technology offerings, which support
local community and workforce activities by attracting students from neighboring towns
to its suburban campus. When examining Nutmeg’s student demographics, the average
age of the student population is in their late-twenties, slightly more than half of the
student population is female, and minorities make up a little more than 10% of the
college’s population.

Constitution Community College (pseudonym) is among the largest of
Connecticut’s community colleges. Course offerings for its many associate degree and
certificate offerings are available in a variety of formats including weekend, evening,
online and accelerated formats. Constitution has a strong commitment to community
engagement and partners actively with local business and community organizations to
enhance student learning and meet the needs of shared constituencies. The college’s
campus is easily accessible to one of the state’s large urban centers and attracts a diverse
student population. Slightly more than half of the student population is female, while the
average age of the student population is in their mid-twenties. Approximately one third of
Constitution’s student population consists of underrepresented racial and ethnic groups.

Participants

The participants of this study were comprised of two experienced Connecticut
community college financial aid administrators who directly oversee the default aversion
practices of their colleges. To protect the identity of participants and their colleges’,
pseudonyms were assigned, while descriptions were generalized to reduce the likelihood
that personally identifiable details would pose a threat to participant confidentiality. Face-to-face interviews and the collection of documentation pertaining to default aversion practices took place at each of the case study campuses in a location that was selected by the interviewees.

Samantha Jennings (pseudonym) has twelve years’ experience working as a financial aid administrator at Nutmeg Community College. As the college’s loan officer, Samantha, deals directly with all student loan borrowers, guiding them through the whole loan process from the initial loan request through the student’s exit loan counseling. Samantha’s role in her college's default aversion efforts continues beyond the student’s enrollment at Nutmeg Community College as she has initiated a set of practices that communicates with students in repayment who are facing delinquency.

Sophia Rose (pseudonym) has over a decade of experience working as a financial aid administrator at Constitution Community College. Sophia has the responsibility of overseeing all aspects of her college’s student loan process and default aversion. Among Sophia’s wide ranging responsibilities include the review of loan applications, the awarding of student loans and the administration of several counseling activities designed to increase borrower awareness and minimize the college’s institutional cohort default rate.

**Data Collection**

This study was designed to determine the perceptions Connecticut community college financial aid administrations have in regards to effectiveness of their college’s default aversion efforts. The data collected from this study provides insight into how
Connecticut community financial aid administrators administer a host of financial literacy and counseling efforts in an attempt to minimalize institutional cohort default rates.

During in-depth interviews, study participants described their perceptions of and experiences with managing their college’s default aversion practices. They discussed the challenges faced by their colleges, the solutions they have found, and the actions they had personally taken to respond to the needs of their student population and changing government accountability measures. Participants also shared the many documents utilized in their college’s default aversion efforts, providing a rich source of data from which a greater, more complete understanding of default aversion policies and practices could be formulated. Researcher observations of the case study sites helped to provide insight into how the study’s participants developed default aversion practices that are unique to the needs of their college and student populations.

**Data Storage**

Both the names and colleges of the study’s participants were replaced with pseudonyms to protect confidentiality. All paper documents, transcripts and recordings are secured in a locked cabinet. Electronic data, and interview notes are stored on a secure password protected laptop. Only the researcher and study participants (upon request) will have access to examine the collected data during the research period. At the conclusion of the study and the approval of the dissertation committee, all collected data will be maintained and destroyed within one year of the completion of the study.

**Data Analysis**

Saldana (2013) describes the benefits of CAQDAS software storing, organizing, managing and reconfiguring data to enable human analytic reflection. This study
imported Microsoft Word documents into the MAXQDA software program to organize and visually display color codes to refine First Cycle coding and to create new or revised categories. The reclassification of coding during the Second Cycle enabled the researcher to reorganize initial coding into a series of sub-codes. A rigorous and systematic reading and coding of each of the transcripts allowed for major themes to be identified. When examined in relation to the specified research questions, these themes along with the similarities and differences found across each of the three interview transcripts helped in formulating the data analysis and findings of this research study.

This study was designed to be qualitative in nature. In research utilizing qualitative techniques, Leech and Onwuegbuzie (2007) advocate for the use of two or more, analysis tools in a process called analysis triangulation. In this study, participants’ answers to the interview questions and notes taken from the documentation collected were analyzed using a constant comparison analysis and classical content analyses, which allowed research findings to emerge inductively from a set of data.

Developed by Glaser and Strauss (1967), constant comparison analysis has become a commonly used form of analysis for quantitative data. In the analysis of this study, the researcher undertook a deliberate reading of the entire set of data. After doing so, the researcher chunked the data into small parts, symbolically assigning a descriptive title or code to each data chunk. As the coding process advanced, comparisons were made to previous codes allowing for like codes to be grouped by similarity. In most instances, subsequent readings of the transcription data required a refinement of the coding process to provide a more detailed and accurate account of respondent answers. Given the large number of codes identified within the data set, a classical content analyses was used to
determine the frequency in which codes appeared in the data.

Ensuing readings and the resulting coding of each of the transcripts imported into the MAXQDA software allowed for major themes to be identified. When examined in relation to the specified research questions, these themes along with the similarities and differences found across each of the two interview transcripts and collected documentation formulate the data analysis and findings of this research study.

Limitations

Holloway and Wheeler (1997) argue that focusing on a particular case, in a particular setting makes the findings from case studies hard to apply to wider populations. Palmquist (2006) calls into question the validity of findings and trustworthiness of case studies that rely on a small number of subjects, arguing that such studies run the risk of identifying circumstance rather than fact. Due to its small sample size, this study has no way of knowing, empirically, to what extent the default aversion practices of two community colleges are similar or different from the practices of other community colleges nationwide.

Hodkinson & Hodkinson (2013) describe case study research as being strongest when researcher expertise and intuition are maximized, but caution that such an approach will raise doubts about the study’s objectivity. In this study, factors under the researcher’s discretion included what questions to ask, how to ask them, what to observe and what to record. Furthermore, case study researchers are constantly making judgments about the significance of the data, deciding how to present the individual stories of the participants and determining what data to include and exclude (Hodkinson & Hodkinson, 2013). As a result, the research is not, and cannot be, completely objective. To compensate for
researcher bias, this study attempted to present adequate evidence, from the data, to support the study’s findings.

**Trustworthiness**

The purpose of validation in a qualitative research study is to check for quality in the data and results of the study (Creswell, 2013). Creswell (2013) recommends various strategies for validation that will be utilized in this research study including: (a) allowing participants the opportunity to review summaries of the findings and correct data; (b) providing the reader with a rich description of reported experiences which will allow the applicability of the study to other setting that share similar characteristics; (c) documenting all codes with additional forms of research data through the process of triangulation, and lastly the researcher will be self-reflective when commenting on past experiences and biases that are likely to shape the interpretation of the study.

The validity of identified themes were confirmed using a system of member checking in which the study’s participants were asked to confirm whether the themes and assertions developed from the coding process accurately describe their statements and views regarding the default aversion efforts of their college. This study also utilized the process of triangulation by which multiple sources of information (e.g. interview transcripts, observations, college issued literature and forms) were used to increase the credibility and validity of the results.

In order to maintain the quality of the study, the researcher took steps to minimize the potential threat of researcher bias. Clarifying researcher bias from the beginning of the research is critical so that those reading the study “understand the researcher’s position and any biases or assumptions that may impact the inquiry” (Creswell, 2013, p.
The concern of researcher bias can potentially negatively influence this study in two ways. As a financial aid administrator who has the responsibility of implementing default aversion policies at his own college, the researcher may already have preconceptions about best practices regarding federal student loan repayment. Additionally, the participants of this study are the researcher’s colleagues within the Connecticut Community College system and thus there will be some existent familiarity. Therefore, the researcher must acknowledge his concerns that the study not comes across as being in anyway judgmental of his colleague’s default aversion practices in influencing student loan repayment behavior. It is important that the possibility of researcher bias be openly addressed in the doctoral thesis, so that readers can more fully understand the context in which researcher conducts this study in a familiar environment. Such candor will assist readers in making informed decisions regarding the research.
Chapter Four: Findings and Analysis

The 2013-2014 award year marked a significant change in federal student loan policy, as the federal government transitioned to a new more stringent accountability measure which requires higher education institutions to capture an additional third year of defaulters into their cohort default rates. Since a college’s cohort default rate serves as a lagging indicator, the most recent draft FY 2011 cohort default rate (released February 2014) primarily captures student loan borrowers who entered repayment from the years 2009-2012. This timeframe coincides with the most severe economic downturn the United States has encountered since the Great Depression. Given the threat of federal sanctions for colleges with high default rates and a desire to assist students in avoiding the serious consequences of default, it becomes imperative to determine whether current default aversion efforts are deemed effective in influencing the financial behaviors of loan recipients by the financial aid professionals who have the responsibility of administering them.

The purpose of this multisite case study was to examine the perceptions of Connecticut community college financial aid administrators on the effectiveness of current default aversion practices as a means of influencing student loan repayment behavior and minimizing institutional cohort default rates. The study attempted to compare existing default aversion practices against federally identified best practices and considers whether current financial aid policy supported or hindered default aversion efforts.

This research study was guided by the following questions: (1) What do financial aid counselors perceive as the most effective best practices in lowering cohort default
rates? (2) How do community college financial aid administrators perceive the effectiveness of the Department of Education’s Default Aversion Best Practices in influencing student repayment behavior and maintaining acceptable federal default rates among community college student populations? (3) In what ways can financial aid policy be improved to assist community college financial aid administrators in their efforts of maintaining acceptable cohort default rate levels? (4) What perceptions do community college financial aid administrators have in regards to the Department of Education’s use of cohort default rates as the sole accountability measure of effective institutional default aversion practices?

Findings

The researcher will present and discuss the themes that emerged by analysis of the interview transcripts, collected documents and personal observations collected during this study. The analysis of responses from the study’s participants revealed that responding to changing borrower demographics, identifying “at risk” borrowers and improving borrower awareness were all factors that aided in their efforts to maintain acceptable default rates despite the significant challenges posed by limited time, resources and a growing number of “at risk” borrowers. The participants embraced the implementation of stricter accountability measures but also felt that it should be accompanied with increased authority for financial aid administrators and greater regulatory clarity.

Themes

When investigating what financial aid counselors perceive as the most effective best practices in lowering institutional cohort default rates, the themes and subthemes identified by the participants’ answers were: 1) Identifying Borrower Characteristics (1.1
Responding to changing borrower demographics, 1.2 Concerns with borrowing for indirect costs, 1.3 Identifying “at risk” borrowers, 1.4 Improving Borrower Awareness, 1.5 The challenge of limited resources; 2) The influence of federal policy (2.1 Desire for greater authority, 2.2 Desire for regulatory clarity, 2.3 Embracing increased accountability. Table 1 provides a listing of the above mentioned themes and subthemes, which organized this chapter’s analysis of findings.

| Table 1 |
| --- | |
| **Identification of Recurring Themes** | |
| Themes, Subthemes | |
| 1) Identifying Borrower Characteristics | |
| 1.1 Responding to Changing Borrower Demographics | |
| 1.2 Concerns Borrowing for Indirect Costs | |
| 1.3 Identifying At Risk Borrowers | |
| 1.4 Improving Borrower Awareness | |
| 1.5 The Challenge of Limited Resources | |
| 2) Federal Policy’s Influence on Default Aversion Efforts | |
| 2.1 Desire for Greater Authority | |
| 2.2 Desire for Regulatory Clarity | |
| 2.3 Embracing Increased Accountability | |

**Identifying Borrower Characteristics**

This study’s analysis revealed a number of overlapping themes found in each of the sites regarding their view of effective default aversion practices. The participants of this research study describe a common comprehensive default aversion effort, which seeks to understand the individual characteristics of student loan borrowers. In doing so, the financial aid administrators who participated in this study create an opportunity to
better assess the needs of their students and mitigate the potential risks of student populations whom they recognize as potentially being at high risk of default.

**Responding to Changing Borrower Demographics**

The default aversion efforts at both Nutmeg Community College and Constitution Community College begin with trying to identify the reason why many of their student loan borrowers have elected to request a federal student loan. The comparably low cost of tuition offered at Connecticut’s twelve community colleges has greatly minimized the need for wide scale student borrowing. Students with the highest financial need, as determined by the Free Application for Federal Student Aid (FAFSA), will generally qualify for enough grant aid to cover their direct educational costs (tuition, fees and books). Monthly payment plans, which spread out tuition costs over the course of a semester, serve as an affordable alternative for many students whose calculated financial need was too low for them to qualify for grant aid. According to the Estimated Family Contribution (EFC) found on their FAFSA applications, such students (and their families) have the income and assets available to cover the expenses of attending Connecticut community colleges.

When asked to describe some of the primary reasons why students attending Nutmeg Community College make the decision to take out federal student loans, Samantha described a new third scenario in which previously eligible financial aid recipients lost their grant eligibility due to changes in Connecticut’s state grant program, formerly known as the Connecticut Aid for Public College’s Grant (CAP grant). In previous award years, CAP grant money played an important role in providing grant aid for students whose EFC was too high to qualify for federal grant aid but may have lacked
the financial resources needed to afford the monthly payment plan. Samantha was passionate when describing the effect the new Governor’s Scholarship program has had on students attending Nutmeg Community College and student lending at her institution.

Things have actually changed this year with the change in the Governor's Scholarship. We won’t be able to give our students as much money with them changing it from CAPS to the Governor scholarship. Our students, [who] we were usually able to help with grant money, had the need to take out student loans just to cover their college costs. This has really been the first year that really had a majority of the students borrowers taking out student loans to pay for college versus using it to help them cover their books or transportation needs and that kind of stuff.

Stricter eligibility requirements that limited the number of students eligible for state grant aid has caused an increase in the number of loan recipients at Nutmeg Community College and created a shift in the type of student borrower. In terms of its implication on Nutmeg’s default aversion practices, the decrease in state grant aid has resulted in a new, more financially needy segment of loan borrowers who conceivably may have fewer financial resources to meet their repayment obligations. In addition, state grant aid previously offered a financial resource for middle-income students with marginal academic histories. The loss of state funding and limited institutional grant aid in effect opens the door for additional student lending to a segment of Nutmeg’s student population who Samantha identifies as being “high risk” due to their academic standing.

One of the ways the participants of the study help to determine the needs of a changing borrower demographic is through a process of applicant screening. Like
Nutmeg Community College, Constitution Community College has a loan request application process. A differing characteristic of Constitution’s loan request process is that its Loan Request form serves as a screening process and asks students to provide, in writing, a full explanation describing their reason for requesting a federal student loan. Sophia describes this as an important first step in her college’s default aversions efforts as she seeks to identify possible alternatives to student borrowing, especially for students whom her college identifies as “high risk “borrowers.

On the application it asks why you are requesting this loan. So the student tells us in detail what they want the loan for. This is important because a big part of our default prevention process is finding an alternative to student loans. For example, students may ask “I need a loan for a computer”; this is a student who has full [grant] aid. Well, we have a computer program on campus from our IT department that refurbishes computers. So I’ll explain to the student how to enter, that they draw names every semester, every month actually, and several students have gotten computers that way and then they don’t need the loan.

Constitution Community College also uses the loan application process for identifying students who could be potentially eligible for grant aid but were not initially identified as being eligible for grant aid through the regular FAFSA application process. The income and asset information provided on the FAFSA application provides a picture of a family’s financial situation as of the most recent tax year ending December 31. Therefore, if a family were to experience a loss of income due to job loss, divorce or medical expenses late in a tax year or after the tax year ends, such potentially significant changes in a family’s ability to pay higher education expenses would be unlikely to be captured in the
current year’s FAFSA information. However, federal regulations grant financial aid administrators the authority to conduct appeals (commonly referred to as professional judgments), which enable them to react to extenuating circumstances by adjusting a student’s FAFSA information to more accurately reflect a family’s current financial situation. Sophia went into great detail regarding how her college’s loan request process has helped to detect students experiencing financial hardship and reduce the number of “high need” loan recipients.

Another example is they may tell me on the application my parent lost his job and we have no money now. So then we do an appeal, so that we can provide grant aid to those students who weren’t eligible for grants before. With this new information we could do a professional judgment. They get free money and they avoided taking a loan. So the loan application is very important to identify why [students] are actually asking for the loan.

A student considered to be in “high need” due to altered conditions beyond their previously reported FAFSA year-end information can become eligible for grant money if additional and more up-to-date income changes are taken into consideration. Thus, the participants of this study, sought to meet the direct costs of students through the awarding of grant aid, rather than a costly loan.

Recognizing that changing borrower demographics has resulted in what these experienced financial aid counselors perceive as a larger, riskier, higher need student borrower population, has prompted greater screening of loan applicants at both of the participating colleges. The objectives of such changes to each of the college’s default aversion strategies are to curtail student lending by identifying alternative financial
resources for a new population of middle-income students considering federal student loans. However, such efforts to minimize student lending are increasingly challenged by declining state and institutional grant aid allocations, which limit the financial resources with which the participants could previously mitigate student lending.

**Concerns Borrowing for Indirect Costs**

A common theme identified by both colleges is the desire of some community college students to borrow federal student loans for expenses other than their direct educational costs. The attraction of federal student loans over other higher education financing options are that they offer an accessible, non-credit based, non-collateralized, low interest option in which repayment can be deferred until after the student graduates. Higher education institutions are permitted to award federal student loans for items included in the institution’s cost of attendance beyond direct costs (tuition, fees, books). Such indirect educational expenses including living expenses, transportation and childcare; can represent a significant cost to non-residential community college students.

The responses of participants suggest a disconnect between the expectations of student borrowers and the intent of federal policy. Federal regulations place annual loan limitations for first year college students (< 30 cumulative credits) at $9,500 and second year students (30-59 credits) at $10,500. The annual limitations of federal student loans reflect the government’s intent that federal financial aid contribute towards meeting the cost of a student’s education as opposed to covering, in full, both the direct and indirect costs of attending college. The participants of this study expressed their concerns with managing the financial expectations of their student borrowers while counseling wise borrowing practices for students whose direct education costs are already fully covered
by grant aid.

When asked to consider her college’s history of defaulted and delinquent borrowers, Samantha stated “I think we’re most concerned about our students who feel they need to take out student loans to help with either living expenses or day care or transportation costs.”

Sophia also described her apprehension at awarding student loans to cover indirect costs.

I mean, sometimes students will say well I want to get done [with school] and I have no job and I need a loan for all of my living expenses. I explain to them this loan isn’t designed to just cover all of your expenses outside of school. If you have no other resources maybe you should consider working and going to school part time, instead of, you know, going to school full time.

Expenses such as transportation, childcare and living expenses present a significant financial challenge for some community college students. These borrowers, who are typically low to moderate-income students and qualifying for full grant aid, also present a challenge for the financial aid administrators who participated in this study. Despite receiving the grant aid necessary to cover their direct educational costs, both financial aid administrators appear to agree with studies such as Flint (1997) and Wilms, Moore & Bolus (1987) that identify low-income students as being at significant risk of default.

The early screening discernment utilized by these financial aid administrators is invaluable in addressing the potentially unrealistic expectations of a student who is anticipating that grant aid will cover all of their life financial needs. Because ultimately an overextended student is at risk of default, these financial aid administrators can glean
information from a through and comprehensive loan request process to customize the best financial aid fit on an individual basis.

**Identifying At Risk Borrowers**

In its Best Practices Guide, the Department of Education advises that higher education institutions identify and focus special efforts on high-risk borrowers (U.S. Department of Education, 2000). When asked if there are any specific student borrower demographics that are of particular concern in terms of their ability to meet their loan repayment obligations, Samantha was able to identify several potentially “high risk” populations. Among Nutmeg’s “high risk” populations are students who borrow for expenses other than direct costs, students with a previously defaulted student loan who regained their financial aid eligibility and are requesting new loans, students with a high amount of loan debt, students who are not doing well academically and students who withdraw from the college prior to obtaining their degree.

Sophia described many of these same “at risk” characteristics for the students attending Constitution Community College. She expressed great concern for students who are not doing well academically and “strongly encourages them that they should not take loans.” Sophia went on to describe other populations at Constitution Community College that she has identified as being at risk of default.

Definitely students who withdraw, another group would be those that are either unemployed or those that are underemployed and who may have high previous loan debt. These are the applicants that we’ve seen later on after they leave school become late with their loans or end up defaulting. Um, factors such as high previous loan debt, long term unemployment, students who have been in
college for a long time but have not earned a degree, students who have all their 
tuitions, fees and books already covered by grants are all factors that I look at and 
have seen over time that impact student’s ability to pay their loans back.

In order to make sure that the loan recipients at Constitution Community College are 
fulfilling their obligations as students, Sophia requires that students confirm their 
enrollment. Just prior to the disbursement of their federal student loan(s), students are 
mailed and are required to return an Enrollment Verification form to the financial aid 
office, which must be signed by their professors indicating that they are actively 
attending classes. Sophia describes the enrollment confirmation process at Constitution 
Community College as an important default prevention tool because “if students are not 
going to class and they end up withdrawing then they’re not interested in paying their 
loans back.”

The classical comparative analysis utilized in this study found the most frequently 
identified code to be “individualized counseling”, appearing a total of twenty times (20) 
in the researcher’s analysis of the transcription data. The contrasting ways in which each 
financial aid administrator has chosen to augment their college’s default aversion 
practices concerning “at risk” student borrowers sheds light on the counseling approaches 
present in their overall default aversion practices. The loan counseling practices found at 
both Nutmeg Community College and Constitution Community College represent a 
highly personalized, continuous process, which utilizes a variety of consciousness raising 
efforts to increase borrowers’ awareness and influence positive student repayment 
behavior.
Improving Borrower Awareness

Once a student has been awarded a Federal Student Loan, students are required to complete a mandatory Entrance Loan Counseling session that covers their rights and responsibilities as student borrowers. Samantha tries to meet with all of her loan recipients as they complete the online Entrance Loan Counseling session found on the Department of Education’s website. Samantha describes that being present as the student completes the online loan counseling session has several advantages, including making sure that students “truly understand what they are reading” and making sure that they realize that the responsibilities and repayment obligations of the loan are “theirs and not their parents.”

Meeting with students individually also allows Samantha to address the specific concerns and questions of the borrowers at Nutmeg Community College.

For example, I do tell students if they do have to take an unsubsidized student loan, I make sure that I go over with them that they should pay the interest while they’re in college. Even if they only send ten dollars a month to their loan servicer, because I don’t want them to go into repayment paying interest on interest. So I really make sure I go through that completely with them and does it help, I think it does help. I get good feedback from the students, even the parents that come with the student sometimes are thankful and they’re like “o.k. we didn’t get that from the last school we went to especially if it’s a proprietary school.”

The counseling practices at Constitution Community College begin during its loan application screening process. Based on the information provided on the FAFSA, the Student Loan Request Application and a student’s loan history on the government’s
National Student Loan Data System (NSLDS) website, Sophia first looks for alternatives to student borrowing. For example, a student whose FAFSA calculates a high Estimated Family Contributions (EFC) is contacted and made aware of the college’s repayment plan. Sophia describes the reaction that she often gets is that students were unaware of the college’s repayment plan and thought that full tuition payment was due upfront. For students who indicate on the loan request form that they need to take out a loan because they need additional money or don’t have a job, Sophia strongly encourages them to consider work-study. Every effort is made to work in conjunction with the college’s work-study coordinator to secure jobs for those students and avoid the necessity of taking out a federal student loan.

After the screening process examines all possible loan alternatives and a student still decides they want a federal student loan, they are contacted to partake in one of two types of a mandatory Entrance Loan Counseling sessions. Students who fall into one of the previously identified “risk categories” are asked to make an appointment with Sophia so that they can undergo one-on-one in person counseling. Those loan recipients determined to be less risky are asked to attend a group loan counseling session. In both Entrance Loan Counseling approaches, Sophia describes a methodical line-by-line review of the student’s obligations. Students are encouraged to and often ask a variety of questions regarding student loans and repayment, which Sophia believes adds to their awareness and understanding.

Entrance Loan Counseling is designed to serve as an initial loan review of a student borrower’s rights and responsibilities prior to the loan money disbursement. While both of the financial aid administrators who participated in this research study are
confident in the effectiveness of their entrance loan practices in enhancing student financial awareness, each describe different realities when it comes to the financial knowledge students possess preceding their initial loan counseling session. Samantha describes a growing financial awareness among the students attending Nutmeg Community College.

You know what? I actually think it has gotten better recently. In the past four or five years it seems that the recent high school grads all have to take a financial literacy course to get out of high school, at least in this area. So when they’re coming in and they’re doing the entrance loan counseling, after they get through the first two sections, where it goes into the financial literacy part, they’re like “oh we did this stuff in high school”. So, yah, that’s much better. And then of course the older students who already have mortgages and stuff are very well prepared. They know what a loan means.

This view of increasing student financial literacy is dissimilar to Sophia’s experiences at Constitution Community College. Sophia finds “that most students are overall very lacking in knowledge about loans in particular and financial literacy in general.” In her experience, the students at Constitution have not previously been exposed to financial education either at high school or with their parents. While such information makes increasing student financial literacy all the more challenging, it also validates the importance of the entrance loan counseling practices of her college.

The Department of Education describes the moment a borrower leaves school as being the most complicated part of the default prevention process (U.S. Department of Education, 2000). Community college students may elect to separate from a college for a
variety of reasons including transfer, graduation, and withdrawal. Adding to the complexity is the uniqueness of each borrower that enters repayment. For example, following their six-month grace period, students enter loan repayment with differing financial circumstances, different views towards loan repayment as being a financial priority and differing amounts of loan debt. While the Department of Education emphasizes a tailored approach to counseling in each of its three phases, having the time and resources to dedicate to each student who separates from the college may be a challenge for community college administrators.

When asked to describe the default aversion practices Nutmeg Community College initiates during the time of separation, Samantha explained that when her office receives notification that a student has withdrawn or fallen below half-time status, she sends them both an email and postal mail notification that they must complete their exit loan-counseling requirement. The mailing packet provided by Samantha contains detailed instructions for completing the online exit interview as well as a resource sheet containing important contact information for students entering repayment. Although the exit interview is considered to be a mandatory requirement that reminds students of their repayment obligations upon leaving college, many students elect not to participate in exit loan counseling. Since the student is no longer enrolled at the college, there exists no real way for colleges to enforce the exit interview requirement.

Nutmeg Community College receives notifications from loan servicers whenever a student becomes delinquent with their repayment. While Samantha describes that time restrictions don’t permit a great deal of communication with students during the repayment phase, the documentation she shared for this research study indicates that she
shares a great deal of valuable information with students who may be experiencing difficulty repaying their student loans.

Students who are in repayment but are currently delinquent with their payments are sent a letter from the college about the many options available to them. The letter mentions that the Nutmeg Community College is aware that a student may be experiencing difficulty making payments and provides them with the information necessary to view their loan account information online and contact their loan guarantor. The letter also reminds the borrower of the consequences of default to the student. Another unique feature of Nutmeg’s delinquency letter is that it addresses the possible implications defaulting on student loans can have on Nutmeg Community College and their ability to offer low cost loans to future students. A brochure describing possible deferment and forbearance options accompanies the loan delinquency letter. Should a student have questions or require additional help, the letter encourages them to contact Samantha directly.

Sophia describes a similar approach to exit counseling at Constitution Community College. The one key difference being that she attempts to contact by phone those students who have not completed their exit interviews by a certain designated deadline. Exit Counseling is required by federal regulations; students need to do exit counseling upon leaving school or dropping below six credits. So as soon as we become aware that a student has withdrawn we contact them actually three times, we email them, we send a paper letter along with some information in a pamphlet about exit counseling and the website. We tell them they must do the exit counseling within seven days. Actually, I give them about seven days after the
email and the paper letter and I check to see if they have done it or not and if they
don’t done it, then I call them and I discuss this with them by phone. So
actually they are notified three times that they have to do the exist counseling.

When describing her college’s efforts to communicate with delinquent borrowers, Sophia
discussed the importance of working with loan servicers to closely monitor students who
are late with their payments. She utilizes the government’s National Student Loan Data
System (NSLDS) website to extract specific information regarding delinquent borrowers.
This data is used in conjunction with a Microsoft Word mail merge to generate letters
notifying students of the number of days they are late, the different repayment options
available to them (including deferment or forbearance) and the contact information for
their loan servicer. The letter also notifies the student that they can contact Sophia should
they need additional help. The combination of online borrower repayment data and their
college’s automated letter generation practices provides an example of how the
participants of this study have chosen to incorporate technology into their default
aversion practices as a means of overcoming the challenge of limited resources.

The Challenge of Limited Resources

According to the Department of Education’s Best Practices Handbook, the
financial aid office can play a critical role while the borrower is in school. Maintaining
frequent contact with student borrowers and working with other school offices such as
student support services can greatly aid financial aid administrators in proactively
preventing defaults (U.S. Department of Education, 2000). In analyzing the interview
transcriptions and collected default aversion documents, the researcher found that both
resources and the college-wide commitment to default aversion significantly impacted the
ability of the case study participants to influence student repayment behavior during the in-school period.

When asked to describe some of their general responsibilities, both financial aid administrators described managing federal student loans and default aversion as being only a part of their many job responsibilities. At Nutmeg Community College, Samantha splits her time between being her college’s veteran’s affairs counselor and a financial aid administrator, which requires that she manage a number of daily financial aid processes including the college’s data load (the electronic importing and review of student financial aid records). Sophia also is required to split her time between several job responsibilities at Constitution Community College including the verification of financial aid files, review of the Satisfactory Academic Progress eligibility for all financial aid recipients and the review of financial aid appeals. Sophia describes her management of the college’s entire loan program as just “one piece of her whole job duty.”

When asked to describe the ways in which her college reminds student borrowers who are currently enrolled at Nutmeg Community College of their rights and responsibilities, Samantha demonstrates a purposeful redundant approach to counseling in which each award year student borrowers are required to go through the college’s loan request process and are reminded of their obligations. If Samantha had all of the resources she desired, she would dedicate more time to “personal outreach” and utilize a wider variety of default aversion tools including email communications and the use of informative websites to supplement her existing loan practices.

Samantha’s current in-school default aversion practices appear to be somewhat limited by the constraints of both time and resources. When describing the campus-wide
commitment to default aversion, Samantha observes that the financial aid office is the only department within the college community that plays a role in default aversion. According to Samantha, Nutmeg has chosen to direct its limited time and resources to efforts other than default prevention.

We just don’t have the time to really do it. The time goes into the Student Center here and it needs the money now and also to take care of enrollment. There are only two and a half of us here in the office cause my time here is usually split between financial aid and veteran’s affairs.

As a larger community college with significantly more in terms of resources, the in-school default aversion practices of Constitution Community College reflect a larger institutional commitment towards default prevention. As is the case at Nutmeg Community College, Sophia must contend with a lack of time and staffing resources to dedicate towards default prevention.

Well, the biggest challenge is time. [laughing] The fact that we continue to be understaffed, in financial aid office in particular but also college-wide. We’re running at way less staff than we really need to provide optimal services, this means that I have less time to spend on default prevention. Everybody is stretched to the max in every office.

Despite limitations on time and staff resources, Constitution Community College has a rather robust in-school default prevention plan. Following a loan’s disbursement, students receive a mailing with information about their loan servicers and a form titled “How to Find Your Loan”. The purpose of this mailing is to remind students about the Department of Education’s NSLDS website, which provides individualized student
information about the amount loan debt that the student has accrued and provides them with the information needed to develop a relationship with their loan servicer. Loan requests are revaluated on a yearly basis and periodic mailings that cover topics such as loan forgiveness takes place as a means of staying connected to student borrowers during the in-school period.

At Constitution Community College, the shortage of time and staff resources appears to be offset by a college-wide commitment towards financial literacy. The financial aid office at Constitution benefits greatly from collaborative efforts with different areas of the college that are focused on student retention. There exists at Constitution Community College a natural overlap between the college’s overall student retention efforts and those “at risk” loan recipients who benefit from an organizational culture that addresses student success from a variety of areas. Sophia describes how this holistic approach to retention has created a climate where academically “at risk” students feel comfortable developing a relationship with college staff which has benefited her default aversion efforts.

We have a staff member who is currently finalizing a financial literacy program, which is going to be presented to the loan recipients first. Also our Retention Services Office works very closely with all students regarding their satisfactory progress and work especially with students who are struggling and or leave school. So the involvement of the whole enrollment services and retention services are important for [our college’s loan recipients].

Both of this study’s participants has found success in using a broad, multi-pronged contact approach throughout a student’s enrollment that contributes to a successful
outcome of the college program and reduces the risk of future default.

The practices described by participants demonstrate a link between identifying borrower characteristics and effective default aversion efforts. Considering the borrower characteristics of their college has enabled the participants of this study to engage in the process of sense-making, by which they are able to utilize their observations of their college’s student borrower population to inform decisions regarding appropriate default aversion policy. Although the participants describe differing counseling approaches, both community colleges have implemented policies that seek to minimize student defaults by identifying students whom they view as being “at risk” or borrowing for expenses other than their direct educational costs. Once identified, the participants of this study can better target limited resources towards curbing student borrowing and increasing borrower awareness.

**Federal Policy’s Influence on Default Aversion Efforts**

Federal financial aid policy influences the default aversion practices of higher education institutions in a variety of ways. The Department of Education determines both the annual and aggregate loan limits of student borrowers, sets the academic and enrollment criteria for student borrowers and determines the cohort default rate formula, which is used as the benchmark for sanctions against colleges or universities with a high numbers of student loan defaulters. The fact that federal policies regarding student lending are common to all higher education institutions presents a challenge for community college financial aid administrators, who attempt to manage effective default aversion practices at institutions that differ significantly from traditional four-year
universities in terms of the financial needs of their student population and the resources available to dedicate towards student default prevention.

Following multiple detailed readings of transcription data and the resulting codes, the data analysis for this study revealed that the following nested themes influenced the views of the participating financial aid administrators towards federal financial aid policy: 2.1) A desire for greater authority, 2.2) A desire for greater regulatory clarity and 2.3) Embracing increased accountability measures.

Desire for Greater Authority

As highly experienced student loan professionals, both participants were passionate about the need for greater authority in determining the loan eligibility of community college students. The government’s regulations on the awarding of Title IV funds are the same regardless of institutional type (e.g. two-year, four-year, proprietary). Community colleges have historically served a unique student demographic centering on widespread access and affordability. While the comparably low tuition costs eliminates the need for many community college students to incur loan debt to cover their direct educational costs (e.g. tuition, fees and books), the participants of this study describe that increasing numbers of community college students have found Federal Student Loans to be an easily accessible form of unsecured credit that can contribute towards indirect educational costs such as living expenses, transportation and child care.

In their experience, both participants describe the use of loan funding for purposes other than direct educational costs to be of particular concern when assessing the likelihood of default. When asked to describe any changes in federal financial aid policy that they felt would be beneficial in their college’s ability to maintain acceptable cohort
default rates, Sophia unhesitatingly expressed her view that financial aid administrators be granted greater authority.

Yes, it would be very helpful if the federal policy had more concrete reasons for [financial aid] administrators to be able to deny a student loan. Factors such as high previous loan debt, long term unemployment, a student who has been in college for a long time but has not earned a degree, students who have all their tuitions, fees and books already covered by grants are all factors that I look at and have seen over time that impact student’s ability to pay their loans back. Yet none of these factors can be considered when we’re certifying a loan.

While expressing some slight differences in terms of whom she identified as “at risk” students, Samantha expressed a similar desire for greater authority in the awarding of student loans. Of particular concern for Samantha are students who are in danger of not meeting her college’s Satisfactory Academic Progress (SAP) standards and those students who borrow to cover expenses other than their direct educational costs. Samantha went on to share her concerns for community college students in general.

For community colleges, most students qualify for the Pell Grant that covers their educational expenses and it usually gives them some extra money to help with transportation. I hate to see students take out these student loans to cover what we consider to be living expenses for them; so I wish there was legislation that said you can only give student loans twenty percent over what the cost of tuition and fees would be or something like that so students wouldn’t incur all this loan debt because it is just so easy to get loans.
When these experienced financial aid administrators identify financial minefields but lack the authority to limit borrowing, they describe an outcome in which the effective management of cohort default rates becomes hindered. Regulatory changes in the forthcoming Higher Education Reauthorization Act, scheduled for renewal in 2014, provide Congress with an opportunity to address the concerns advocated by the participants of this study by granting community college financial aid administrators with the regulatory authority to limit student borrowing.

**Desire for Regulatory Clarity**

Federal regulations require that financial aid administrators review loan requests on a case-by-case basis. However, the regulations do not provide clear guidance regarding the grounds on which a college can deny student access to federal student loans. For the financial aid administrators who participated in this study, this lack of clarity led to some apprehension as to whether the actions they have taken to discourage lending amongst “at risk” populations are in compliance with federal regulations. Such regulatory confusion has placed financial aid administrators in the unenviable position of having to balance concerns over managing their institution’s default aversion practices in ways that will help minimize the threat of federal sanctions due to high default rates vs. utilizing awarding practices that would stand up under the scrutiny of a federal audit. Sophia describes the struggle of having to contend with such a dilemma.

Basically the regulation states we can deny a loan on a case-by-case basis but we are not given anything concrete on which to deny the loan. So that makes it difficult in dealing with default prevention.
Samantha describes the lack of regulatory clarity as having caused confusion specifically among students whose financial aid eligibility was pulled due to not meeting SAP standards but was reinstated through the college’s appeals process.

It would be easier if we can just say listen you are not making SAP so you can’t get your student loan. We’ll give you your Pell but you can’t get loans. But [the regulations] are not written that way and some students do a lot of research and say listen you can’t deny me my student loan.

Samantha also expressed a general concern over the amount of students’ indebtedness the federal regulations permit students to accrue at two-year community colleges. Currently undergraduate students have a Direct Loan cumulative aggregate limit of $57,000 regardless of the institution(s) they have attended. While there are annual restrictions placed on how much a student can be awarded during a given award year (e.g. $9,500 for independent first year students), community college loan recipients taking more than two years to complete their degree requirement can amass tens of thousands of dollars in loan debt restricting their future loan eligibility should they choose to continue their education and pursue their bachelor’s degree. Such concerns over the need for stricter annual and aggregate loan limits for community college students appear warranted given the fact that the part-time status of many community college students requires that they take more than two years to complete an Associate’s Degree.

Samantha’s desire for financial aid administrators to have greater authority to limit borrowing is based on the experiences of some of the borrowers at Nutmeg Community College who have accrued significant loan debt on expenses other than direct costs.
I wish we didn’t have to give students their maximum loan eligibility if we don’t think they really need it to pay for educational expenses. We’ve had students here who graduated with twenty six thousand dollars in loan debt, so they max out their student loan eligibility here at the community college level. While the educational needs of students who go on to pursue a bachelors degree are not within the scope of these financial aid administrators, they share a concern that exhausting all future loan options beyond community college depletes the future financial aid piggy bank and puts the strapped students at risk of default for their community college obligations. To that end, the financial aid administrators who participated in this study suggest that improved regulatory clarity would assist them in establishing clear boundaries in which student loan eligibility could be determined.

Embracing Increased Accountability

The responses provided by both participants were surprising in that both aid administrators described having positive reactions to the increased governmental accountability. Studies have demonstrated the likelihood of students entering default increases in the third and fourth years in which a student enters repayment (Kesterman, 2006). Additionally, as discussed earlier in the findings of this research study, once separated from the college, student borrowers present a challenge to the default aversion efforts of financial aid administrators. Despite such factors, both of the study’s participants found benefits in the government’s implementation of a new cohort default rate formula, which factors in an additional third year of defaulted borrowers.

When asked if the new federal default rate calculation impacted their college’s default aversion practices, the participants described different reactions. Sophia remarked
that the default aversion efforts at Constitution Community College had not changed as a result of the new 3-year default formula and that “we basically do the same default prevention program; it hasn’t really changed.” However, Samantha recalls a vastly different experience to the changing default rate formula at Nutmeg Community College. Prior to its implementation of the new FY 2011 cohort default rate formula in the 2013-2014 award year, the federal government allowed higher education institutions to preview their 3-year default rate in each of the previous two year fiscal years (2009, 2010). Although this preview of the 3-year cohort default rate would not trigger sanctions for higher education institutions that exceeded the 30% default rate threshold, it did serve the purpose of providing a warning for schools with high default rates that new measures possibly needed be taken to address and improve default prevention.

After a long and successful history of Nutmeg Community College maintaining low 2-year cohort default rates, Samantha recalled that the preview draft 3-year cohort default rates provided a learning opportunity in which her college made significant changes to its default rate aversion practices after undergoing a federal audit.

Yah, the three-year, when it first started really hit us hard. Our numbers jumped from five percent to like fourteen percent, so that was a huge thing. And at one point we even got to the twenty four percent mark, so we did get audited for our loan practices. And that’s when I learned more of the regulations. I learned that with the auditors. They gave me some best practice information, which was invaluable. So I’m right on top of my exit interviews with students now and I make sure [the students] get everything that the government has that we can send
to them. It has made me step up and do more for default aversion. I don’t want to
be audited again.

The new federal 3-year cohort default calculation provided a learning opportunity for
Nutmeg Community College, allowing them to revisit existing default aversion practices
and make the changes necessary to lower their default rate and avoid the possibility of
federal sanctions. The idea of stricter accountability measures resulting in improved
default aversion practices was echoed by Sophia. While Constitution Community College
did not change its default aversion practices in relation to the new 3-year calculation,
Sophia felt strongly that both higher education institutions and student borrowers
benefited from increased accountability. When asked if despite differing institutional
characteristics and student demographics, the threshold for federal sanctions should be
the same for all types of higher education institutions, be they 2 year, 4 year, public,
private or proprietary, Sophia expressed the idea that all higher education institutions
should be held to high standards.

I think the thirty percent (threshold for sanctions) is very high and I think all of us
should be working on, I mean traditionally community colleges have higher loan
default rates than other schools, we know that, but I think thirty percent is too
high for any school. So I don’t think, to have funding pulled because of that
number should be higher for community colleges than others. At the same time,
just in the interest of schools not losing their funding, [the sanctions] are more of
a deterrent not only for community colleges but for every school. High default
rates not only hurt the schools but more importantly it hurts the borrowers, when
we are in a situation where schools are approaching that [high of a] default rate. It
gives us that indication that we really have to tighten things up and help more and have more discretion as to who is borrowing and who is not borrowing.

While Nutmeg Community College improved its default aversion practices as a result of the change in the default rate formula, Samantha expressed a different view as to whether all higher education institutions should be made to adhere to the same federal threshold on sanctions.

No, our students are more at risk absolutely than let’s say a four-year student. So I think the government has to take that into consideration. There are probably social and economic reasons why some students go to a community college first and I think that needs to be taken into consideration too.

Samantha’s experience is that the demographic differences of community college student borrowers as compared to other types of higher education institutions should be taken into account when considering federal sanctions. However, both of the financial aid administrators who participated in this study agreed that increased federal accountability ultimately resulted in improved default aversion standards.

The participants of this study credit federal financial aid policy as creating significant accountability measures that have ultimately led to more effective default aversion practices. However, participants also strongly expressed the view that with increased federal accountability should come increased authority for financial aid administrators, allowing them to implement more nuanced default aversion practices, which specifically address the concerns of community colleges. Regulatory clarity regarding the circumstances in which student loan requests could be denied, lower borrowing limits for community college students and stricter limitations on the academic
qualifications for loan recipients were all identified by participants as ways in which federal financial aid policy could be changed to improve the effectiveness of community college default aversion.

**Conclusion**

The study’s aim was to examine the perceptions and experiences of two community college financial aid administrators employing existing and augmented financial aid practices to minimize their college’s default aversion rates, obviate federal sanctions, and guide students in avoiding costly default. While this study revealed significant variations in the counseling approaches taken to meet the individualized default aversion needs of their college, each college financial aid administrator shared a core belief that effective default aversion policy benefits with gaining an understanding of the unique borrower characteristics of their student population. While different components of default aversion practices were deemed effective by these administrators, both agreed that within the scope of borrower characteristics, a keen understanding of borrower demographics, recognizing “at risk” borrowers, improving borrowers’ awareness, and managing their college’s limited resources were ultimately vital to a more favorable outcome.

Challenging economic conditions and significant reductions in state grant funding have resulted in the participants implementing default aversion policies that respond to the needs of a changing borrower. In order to better assess the needs of their students, the participants of this study attempt to ascertain the reason why their students are electing to request a federal student loan. Low income students borrowing for daily life needs beyond the academic necessities of tuition and books, students with poor academic
standing, students with high loan debt and students who have previously defaulted on loans all garner the focus of this study’s administrators as a red flag for potential high risk of default.

The implementation of new default practices which seek to identify potentially “at risk” borrowers have been successful in identifying alternatives to student borrowing while also targeting “at risk” students with increased and repetitive counseling designed to both improve and maintain awareness of their fiscal obligations. Despite their best efforts, the participants of this study found that their efforts to elicit responsible borrowing practices were mitigated by limited time, resources, declining funding and minimal campus-wide support.

The participants identified several ways in which federal financial aid policy impacted the effectiveness of their default aversion practices. A new more stringent cohort default rate formula has provided both a learning opportunity and a barometer of success that has enabled the participants to revisit and improve existing practices. Participants have embraced the new measure as a means of assessing whether they are effective in providing students with the information needed to elicit responsible borrowing practices. Furthermore, increased scrutiny and the fear of federal sanctions have led participants to accept greater accountability in ensuring successful student loan repayment. However, with the increased accountability, the participants of this study describe the need for increased authority and improved regulatory clarity when determining the basis in which federal student loan access could be denied.

The following chapter will examine the implications for the research findings presented in Chapter 4. The context of the findings will be considered along with what is
already known in the existing literature regarding effective community college default
aversion. The significance of the research findings of this study will be presented in terms
of how they address the study’s problem of practice and their implications for
practitioners. Chapter 5 will conclude with a discussion of the study’s recommendations
for future study and suggestions for improved default aversion practice and policy.
Chapter Five: Discussion and Implications for Practice

This chapter examines the implications for the research findings presented in Chapter 4. The chapter begins by restating the themes and subthemes found in the analysis of this study. Next, the findings for each of the research questions will be discussed and interpreted in light of the study’s selected theoretical framework and the review of literature that directed this study. The chapter will continue by discussing the significance of the research findings in addressing the study’s problem of practice and their implications for practitioners. Lastly, recommendations for future study and suggestions for improved default aversion practice and policy will be discussed.

Interpretation of Findings

This multisite case study provided data on the perceptions Connecticut community college financial aid administrators have regarding the effectiveness of current default aversion practices as a means of influencing student loan repayment behavior and minimizing institutional cohort default rates. The study attempted to compare existing default aversion practices against federally identified best practices and considers whether current financial aid policy supported or hindered default aversion efforts. The findings of this inquiry identified the following themes and subthemes: 1) Identifying Borrower Characteristics (1.1 Responding to changing borrower demographics, 1.2 Concerns with borrowing for indirect costs, 1.3 Identifying “at risk” borrowers, 1.4 Improving Borrower Awareness, 1.5 The challenge of limited resources; 2) The influence of federal policy (2.1 Desire for greater authority, 2.2 Desire for regulatory clarity, 2.3 Embracing increased accountability.
This study’s conceptual base drew on the concepts of the Transtheoretical Behavior Model (TTM) in interpreting the findings from the interview transcripts, default aversion documentation and personal observations collected during this study. Over the course of the past 35 years, TTM has contributed to the Health Sciences by viewing behavior change as a process in which people move sequentially through five stages of change as they develop and implement “change processes” which support the desired behavior change.

**Identifying Borrower Characteristics**

For the participants of this study, the selected default aversion policies and practices are predicated on gaining an understanding of the unique characteristics of prospective federal student loan borrowers as a means of minimizing student loan indebtedness, identifying student populations “at risk” of default, initiating appropriate financial counseling practices and increasing borrower awareness. The desired outcome of such efforts is to transition community college federal student loan borrowers, who possess varying degrees of financial literacy, aggregate loan totals and household incomes, to achieve successful loan repayment.

Financial aid counselors play a significant role in shaping the financing strategies of community college students. Often these administrators serve as a primary resource for students seeking information and guidance about the use of federal student loans to pay for college. McDonough & Calderone (2006) found that consulting with a trained financial aid administrator can dramatically improve a student’s understanding and utilization of financial aid. Findings from the literature indicate that such guidance may be of greater significance for community college students, whom studies have shown are
more likely to come from home environments and high schools that do not provide them with the information needed to make judicious college financing decisions (Perna, 2008; Vargas, 2004).

In transitioning community college borrowers to successfully meet their post-college repayment obligations, the participants of this study describe the utilization of change processes throughout the student’s enrollment with the college, which increase borrower awareness and support the goal of future loan repayment. These change processes are imbedded in the default aversion practices used by both of the colleges which participated in this multi-site case study and constitute a personalized approach to student counseling, which takes into account the needs of potential student borrowers on a case-by-case basis. As the needs of student borrowers are assessed, the participants of this study are able to identify borrower characteristics to target limited financial aid resources and specific counseling approaches. This finding is consistent with the literature of default aversion best practices, which encourage colleges to get to know the individual circumstances of student borrowers.

Volkwein and Szelest (1995) describe the background characteristics of borrowers as those attributes that a student brings with him or herself to college, such as age, gender, ethnicity, parents education, income, borrower aptitude and attitude towards future repayment obligations. Of the above mentioned borrower characteristics (each of which have been studied individually in terms of their propensity to default), the only borrower characteristics which colleges have the ability to affect are the latter, aptitude and attitude towards repayment. Therefore, effective default aversion practices must be
geared towards increasing the awareness of current student loan borrowers and shifting attitudes towards adopting one’s repayment obligations.

In its National Handbook of Best Practices, the U.S. Department of Education recommends that financial aid administrators tailor their default aversion practices to meet the needs of individual borrowers. Counseling practices should be a reflection of borrower circumstances and take into account whether they are dependent or independent students, whether they have family responsibilities, other accrued debt and where they are in relation to completing their academic program of study (U.S. Department of Education, 2000). Best Practices that seek to understand the needs community college loan applicants are supported by studies conducted by the Institute for College Access & Success and the California Community College Student Financial Aid Administrators Association (CCCSFA). The findings from such studies indicate a desire among community college financial aid administrators to have some sort of one on one contact with potential borrowers (Burdman, 2014). As with the participants of this study, other community colleges, such as Antelope Valley College, have adopted a Loan Request Form as a means of assessing student needs and requiring that loan applicants have at least some direct contact with financial aid staff. Interactive approaches such as these also have the added benefit of providing students with an opportunity to have questions answered prior to committing to their loan obligations (Burdman, 2014).

The documents collected in this study demonstrate that the Loan Request form provided to federal student loan applicants serves as the primary instrument used in assessing the needs of potential borrowers on a case-by-case basis. Counseling approaches which emphasize “social liberation”, a change process that requires
increasing the opportunities and alternatives for those seeking change, has proven to be a particularly effective instrument during the applicant screening process used to identify the specific needs of loan applicants (Ozmete & Hira, 2011).

The participants of this study described how reductions in state grant funding and historically grim economic conditions resulted in a new, more challenging borrower demographic. These borrowers consist of students whose household income did not permit them to qualify for federal grant, yet they lack the financial resources to afford the comparatively low tuition rates offered by Connecticut’s community colleges. The use of loan request process, based on the principals of social liberation has been effective in mitigating unnecessary student borrowing by pairing would-be borrowers with alternative resources. Such actions are supported by the Department of Education’s best practices that advise the use of institutional grant aid to minimize the loan debt for students with high financial need (U.S. Department of Education, 2000).

Despite a deficit of literature that provides guidance specifically for addressing the default prevention needs of community college student populations, the participants of this study have developed default prevention strategies, which are organic to the needs of their college. The ability of this study’s participants to put into practice procedures, which allow them to better identify and understand the needs of their unique student population, has contributed to the effectiveness of their college’s default aversion activities. In addition to mitigating student borrowing, identifying borrower characteristics allows the participants of this study to recognize students whom they deem to be at risk of default and target specific counseling approaches as a means of reducing the likelihood of student default.
Identifying At Risk Borrowers & Concerns Borrowing for Indirect Costs

Given their knowledge of the history of delinquent and defaulted borrowers who attend their institutions, the participants of this research study were asked if there were any specific student borrower demographics that were of particular concern to their default aversion efforts. The responses of this study’s participants both confirmed some of the findings regarding “at risk” students found in the literature (Christman, 2000; Flint, 1997; Volkwein & Szelest, 1995) and also addressed certain student characteristics absent from the literature. Participants of this study identified several potentially “at risk” populations including students with a high amount of loan debt, students who are not doing well academically, students who withdraw from the college prior to obtaining their degree and students who borrow for expenses other than direct costs.

Much of the literature addressing effective default aversion practices is centered on identifying student characteristics that increase the likelihood of default (Christman, 2000; Volkwein et al., 1995; U.S. Department of Education, 2000). The U.S. Department of Education recommends that higher education institutions identify and focus special efforts on “high risk” borrowers. Numerous studies have helped to create a generalized picture of the common student characteristics that have been associated with student loan defaults (Gross et al., 2009; McKinney et al., 2013; Woo, 2002; Volkwein & Caberea, 1998). Consistent with the perceptions of this study’s participants, Flint (1997) and Wilms (1987) demonstrated that socioeconomic factors increase the amount of student loan debt accrued by low-income students and ultimately lead to higher incidences of default. While Volkwein & Szelest (1995) have linked the likelihood of default to familial factors including the number of dependents a student has and their marital status.
Studies such as Woo (2002) found that being female decreased a borrower’s chance of default by 36 percent. These findings are supported by Podgursky’s (2002) study of Missouri borrowers and a national survey conducted by Flint (1997), which also found that men are more likely to default than women. However, these findings are inconsistent with studies including Knapp and Seaks (1992) and Volkwein and Szelest (1995), which found no link between gender and default. Contradictory findings also appear to exits when age is examined in relation to the likelihood of default. Studies such as Woo (2002) found younger student as greater risk of default as compared to Podgursky (2002) and Flint (1997) which found that age increases default probability.

Although the participants of this research study have access to data pertaining to the ages, gender and ethnicity of their college’s federal student loan applicants, neither the interview transcripts nor loan documents collected for this research study indicate that the participants take these factors into consideration during their default aversion practices. Interestingly, absent from any of the data collected in this research study was the mention of race or ethnicity as a borrower characteristic. The nonappearance of race in this study was noticeable in that race and ethnicity was found to be among the most examined student characteristic in this study’s review of literature (Gross, Cekic, Hossler & Hillman, 2009), (King & Bannon, 2002), (Wilms, Moore & Bolus, 1987), (Vokwein & Cabrera, 1998). Despite the sizeable minority student population at Constitution Community College, race and ethnicity did not appear in the transcriptions for either college and the loan documentation provided to the student loan recipients of both colleges was only provided in English.
Among the forefront of concerns expressed by this study’s participants are the challenges posed by federal student borrowers with poor or marginal academic records. These concerns were consistent with findings from the literature. While federal regulations do not offer guidelines on the basis of restricting loan access for students in an academic warning status, a number of studies suggest a link between academic preparedness and performance with the likelihood of student loan repayment. Steiner and Teszler (2003) found that the higher a student’s class rank the less likely they are to default. A similar finding demonstrated that students with higher SAT scores have lower default rates (Steiner & Teszler, 2003). At two year college’s, having a GED as opposed to a regular high school diploma was associated with higher default rates (Christman, 2000).

Contrary to the beliefs held by the participants of this study, the literature suggests that borrowers with high indebtedness are actually less likely to default than borrowers with low indebtedness. Woo (2002) posits that an association between high indebtedness and more schooling may lead to lower instances of default. Steiner and Teszler (2003) found that borrowers who take out smaller loan debts are more apt to stay in school a shorter period of time and hence have lower graduation rates.

Both participants of this study expressed concern for low income student borrowing. The literature on low income student borrowing provides support for this findings. Baum and O’Malley (2003) found that students who received Federal Pell Grants as undergraduates (i.e. low income borrowers) report lower starting salaries and current earnings than other borrowers resulting in higher payment-to-income debt ratios.
While Knapp and Seaks (1992) found that for every ten thousand dollar increase in income, the probability of default decreases by two percentage points.

Recognizing the higher default risk associated with low income students, the participants of this study took great care in targeting specific counseling approaches for members of this particular demographic. Nutmeg community college strongly encourages that “at risk” students meet with and complete Entrance Loan Counseling with the college’s financial aid loan administrator. After assessing borrowers through their screening process, Constitution Community College requires that “at risk” borrowers attend a mandatory entrance loan counseling session, while borrowers deemed to be less risky complete an online loan counseling session.

The change processes used by the participants of this study to assist “at risk” borrowers in increasing their awareness and developing an understanding of their repayment obligations include “counter conditioning”, a process by which these financial aid administrators require student loan borrowers to examine their college financing decisions in light of their individual financial situations (Ozmete & Hira, 2011). During these one-on-one counseling sessions, students receive specified information on the benefits and consequences of borrowing a federal student loan. Students examine their own financial needs and spending habits and are encouraged to make sensible choices to improve both their short-term and long-term financial outlook.

Regardless of student income, the participants of this study expressed great concern for those student borrowers who described the need to borrow federal student loans for expenses beyond their direct educational costs. While the topic of borrowing for indirect costs has yet to be fully explored in the existing literature, one multi-state study,
which examined the perspectives and experiences of community college financial aid
counselors, found that among their chief concerns were that too many community college
students are taking out federal loans to increase their standard of living, without
considering the long term consequences of their debt (McKinney et al., 2013). This belief
is consistent with the views held by the financial aid administrators who participated in
this study and reinforce the importance of counseling practices, which improve borrower
awareness.

**Improving Borrower Awareness**

The transcripts, student literature and websites analyzed during this research study
suggest that each of the participating colleges place great emphasis on increasing
borrower awareness as a means of maintaining acceptable institutional cohort default
rates. Student borrowers at both colleges are required to undergo purposeful redundant
loan counseling throughout their enrollment at the college. The financial literacy
information provided to loan recipients at each of the case study settings demonstrates a
counseling approach, which emphasizes “consciousness raising”. Consciousness raising
is the process by which the financial aid counselors who partook in this study introduce
pertinent information to student borrowers with the purpose of influencing student
repayment decisions (Ozmete & Hira, 2011). Without exception, all of the literature and
websites shared with student loan recipients at both community colleges inform students
of their rights and responsibilities as student borrowers. Such efforts support the findings
of existing studies (ACSFA, 2008; College Board, 2010), which found that community
college students need to be better educated about the cost and benefits of borrowing
loans.
Although the participants of the study report varying levels of success with maintaining contact with student borrowers upon separating from the college, efforts are made to remind students of their rights and responsibilities as they near repayment of their student loan obligations. Upon separating from the college, either do to graduation or withdrawal; students are required to complete a mandatory exit loan counseling session. The exit counseling process provides student borrowers with relevant information regarding their aggregate loan totals, various repayment options, anticipated monthly repayment amounts and information regarding possible consolidation, forbearance and deferment options. Throughout a student’s enrollment, the participants of this study demonstrate a willingness to craft a “helping relationship” with borrowers in which they serve as both a counselor and a resource that supports loan repayment. The participants of this college self-identify as the sole individual at their institution responsible for providing students with the necessary service of increasing borrower awareness.

The President’s Advisory Council on Financial Literacy describes financial education as a process in which people become empowered to make informed choices regarding both their current and long-term financial well-being by increasing their understanding of financial products, services and concept (Kezar & Yang, 2010). Empirical studies on student financial literacy suggests that a majority of college students lack basic financial literacy knowledge, calling into question their ability to make sound financial decisions when it comes to student borrowing (Chen and Volpe, 1998), (Eitel & Martin, 2009). In its handbook of Best Practices, the U.S. Department of Education
advises that colleges and universities take a holistic approach towards improving student financial literacy (U.S. Department of Education, 2000).

The literature provides examples of successful financial literacy programs that have been implemented nationwide to address the unique default aversion needs of a variety of higher education institutions, all of which differ in the recourses available to commit to default aversion. Piccioli (2011) describes a mandatory First Year seminar class aimed at expanding the financial literacy of students had Alvernia University, while St. Catherine University institutionalized a previously grant funded program that provided outreach opportunities that enabled its loan students to meet one-on-one with certified consumer credit counselors. Twelve HBCU’s were able to significantly reduce their cohort default rates by creating a default management team that connected retention and default prevention. What each of these financial literacy measures has in common is the idea that there needed to be a campus-wide commitment towards addressing default aversion.

Each of this study’s participating colleges describes different experiences in terms of improving borrower awareness by connecting default aversion practices with other existing college resources. At Nutmeg Community College, Samantha describes an improved understanding of the financial literacy knowledge among incoming student loan borrowers attending Nutmeg Community College. However, her financial counseling efforts are not supported by a broader campus-wide commitment towards improved financial literacy, with Nutmeg Community College electing to direct its limited resources towards the college’s enrollment efforts. Perhaps programs, like those
utilized by HBCU’s, which link student retention and default aversion would be a way to link Nutmeg’s default aversion efforts with other campus-wide resources.

Consistent with best practice literature that emphasizes the importance of a campus wide commitment towards default aversion; a synergistic approach appears to already be in effect at Constitution Community College. Finding that her students are “very lacking” in knowledge about loans and financial literacy, Sophia’s default aversion practices have benefited from her college’s Retention Office that works very closely with students who are struggling or leave school. While the efforts of the Retention Office are not designed to address financial literacy, they influence and support ongoing default prevention by specifically placing students who are in danger of separating from the college in contact with the resources that will allow them to persists towards achieving their goal of transferring or earning a credential. Further demonstrating its institutional commitment towards default aversion will be Constitution’s forthcoming financial literacy program, which will initially be offered to loan recipients as a means of expanding their awareness of personal financial management.

The participants of this study have the responsibility of managing the needs of several stakeholders as they work towards achieving the shared goal of successful student loan repayment. Despite their common interest in minimizing the number of student defaults, each of the various stakeholders presents a challenge to the financial aid administrators who participated in this study. For the community colleges for which they are employed, the primary challenge is in maintaining acceptable cohort default rates that will allow the college to avoid the possibility of federal sanctions. Student borrowers share in the common interest of avoiding default and the resulting consequences, which
can include wage garnishment, damage to their credit rating or the loss of continued financial aid eligibility.

As discussed earlier in this chapter, the participants of this study face a variety of challenges as they seek to institute counseling practices, which transition federal student loan borrowers to adopt behaviors that will enable them to meet their repayment obligations. Such efforts are made all the more demanding when one examines the influence of federal policy on default aversion as the participants of this study expressed the desire for increased authority and regulatory clarity during a period of changing federal accountability measures.

**Embracing Increased Accountability**

The second, third and fourth years of repayment constitute the period of the highest risk of default for federal student loans (Kesterman, 2005). By adding a third year to its cohort default rate calculation, the federal government is introducing a revised position in regards to how long higher education institutions should be held accountable for students who default after graduating or leaving school. Given the many non-school related factors that have been shown to influence student default (borrower characteristics, regional job market, economy), the period in which higher education institutions should assume responsibility for its past student loan borrowers appears debatable. Yet, with its change to a 3-year default calculation, the Department of Education has expanded upon the belief that suggests that higher education institution’s benefit greatly from the tuition paid by student loan assets and therefore must assume the greatest share of liability in making sure that student borrowers receive the education that
will enable them to find employment and successfully enter repayment (Kesterman, 2005).

The literature describes past attempts at understanding student loan defaults as having been drawn from four perspectives: economic, sociological, psychological and federal (Christman, 2000). Not surprisingly, concerns over the possibility of federal sanctions appear to have significantly influenced the participants of this study in adopting a “federal” perspective towards default prevention. While the “federal” perspective acknowledges that there are a variety of non-school related factors (e.g. economic, social, psychological), which may contribute to instances of student default, it holds the position that default rates are primarily related to factors under the control of higher education institutions including the manner and quality of loan counseling and the satisfaction with and quality of the education provided by the school (Flint, 1997). The federal perspective held by this study’s participants is supported by literature which found that concerns over federal sanctions is the most commonly cited reason for community colleges to withdraw their participation from the Federal Direct Loan Program (Project on Student Debt, 2011).

Despite the serious challenges faced by the Connecticut community college financial aid administrators who participated in this study regarding significant reductions in state funding, limited financial and staff recourses and increasing numbers of “at risk” student loan borrowers; the participants of this study have embraced the accountability measures of the “federal” perspective. The willingness of the study’s participants to support the federal government’s 3-year default rate formula was surprising in that both colleges would have achieved lower cohort default rates for FY 2010 (Nutmeg -2.3%,
Constitution -7.5%) had the government continued under the old 2-year formula (U.S. Department of Education, 2014).

Superseding their concerns over federal sanctions was the belief that stricter accountability measures provided an opportunity for improved default aversion practices. While both of the study’s participants suggested that a more nuanced approached to federal sanctions should be considered, both believed that there was value in having a default rate ceiling, which kept pressure on schools to improve their default aversion practices. This finding was not consistent with a Likert-scale survey of 153 financial aid professionals that found that 61% of respondents either agreed or strongly agreed that the government’s one-size fits all default rate ceiling was out of date (Kesterman, 2005).

As a result of the change to the government’s default rate formula, Nutmeg Community College revised its default aversion practices by altering its exit interview practices. Although Constitution Community College did not alter its default aversion practices as a result of the new federal regulation, it did recognize increased accountability as a potential deterrent for ineffective default aversion policies and practices.

The Desire for Greater Authority and Regulatory Clarity

The Higher Education Act (HEA) is a law almost 50 years old that governs the nation’s federal student aid program for higher education institutions. Initially signed into law by the Johnson administration in 1965 as a part of his Great Society domestic agenda, the HEA has been reauthorized nine times since its inception (Mumper & Ark, 1991). The Higher Education Act is up for renewal in 2014 and lawmakers have begun the
process of holding hearings and soliciting input from stakeholders to assist in informing decisions regarding the future of federal student aid.

In 2013, the National Association of Student Financial Aid Administrators (NASFAA) issued a taskforce report consisting of 61 recommend changes to legislation for the upcoming reauthorization. The preliminary report of recommend changes represents the policy feedback of NASFAA membership, representing nearly 20,000 student financial aid professionals nationwide from approximately 3,000 colleges, universities and career schools. NASFAA member institutions serve nine out of every ten undergraduates in the United States. In its preliminary report regarding the forthcoming 2014 HEA reauthorization, NASFAA advocates for several changes to federal financial aid policy, which would provide financial aid administrators with greater authority and clarity in their administration of the federal student loan program (NASFAA, 2012).

Among the statuary changes recommended in the NASFAA taskforce report are changes that would provide financial aid administrators the authority to set lower loan limits for specific populations, academic programs, credential levels or other categories established by the school (NASFAA, 2012). Such changes in policy are consistent with the findings of this study in which the participants describe the importance of default aversion processes that places great emphasis on utilizing borrower characteristics to aid in identifying the likelihood of default. In their responses, participants overwhelming expressed the desire to limit borrowing to students whom they’ve identified as being at a high risk of default, including students who borrow for expenses other than direct costs, students with a previously defaulted student loan, students with a high amount of loan debt and students who are not doing well academically.
Additionally, the responses of the study’s participants reflect an agreement with the principles outlined in the NASFAA taskforce report, which recognize that no two higher education institutions are alike and if granted additional authority financial aid administrators are the one’s best suited to determine the financial needs of their student population. This assertion is especially true when considering the diverse needs of community college students. The reality of degree completion at Connecticut Community Colleges is that an Associate’s degree represents different prospective earnings contingent upon a student’s selected major. Hence, students earning an Associate’s degree in Nursing or Radiology are likely to accrue differing lifetime earnings when compared to students graduating with a degree in Early Childhood Education. When considering the likelihood of default, NASFAA’s recommendation that financial aid administrators be granted authority to take into account such factors as the earning potential of their college’s academic programs supports a common sense approach toward default aversion, which recognizes the unique needs and lower cost of attendance of students attending community colleges.

Conclusion

This research study was guided by the following questions: (1) What do financial aid counselors perceive as the most effective best practices in lowering cohort default rates? (2) How do community college financial aid administrators perceive the effectiveness of the Department of Education’s Default Aversion Best Practices in influencing student repayment behavior and maintaining acceptable federal default rates among community college student populations? (3) In what ways can financial aid policy be improved to assist community college financial aid administrators in their efforts of
maintaining acceptable cohort default rate levels? (4) What perceptions do community college financial aid administrators have in regards to the Department of Education’s use of cohort default rates as the sole accountability measure of effective institutional default aversion practices?

While there appears to be no singular blueprint for default aversion that can be applicable to all higher education institutions, the participants of this multisite case study have demonstrated the ability to implement effective default aversion practices, which enable them to adapt to the needs of their students, college and changing federal accountability measures. In numerous instances, the participants of this research study elected to use many of the Department of Education’s Best Practices in their own institutional default aversion practices affirming their view of its effectiveness. However, the findings of this research study and the differences in counseling approaches also recognize the unique variations and approaches each college has taken to meet the individualized default aversion needs of their student population.

In its national handbook of Best Practices titled “Ensuring Student Loan Repayment”, the U.S. Department of Education views effective institutional default aversion practices occurring over the course of three distinct phases, (a) Preparation Period (prior to loan disbursement), (b) the In-school Period (post loan disbursement) and (c) Grace Period and repayment (post student enrollment at the institution) (U.S. Department of Education, 2000). This is a model that promotes a continuity of contact between higher education institutions and student borrowers that are designed to provide the information necessary for students to make better decisions and take advantage of the many default prevention options available to them.
According to the Department of Education’s Best Practices Handbook, the financial aid office can play a critical role while the borrower is in school. Maintaining frequent contact with student borrowers and working with other school offices such as student support services can greatly aid financial aid administrators in proactively preventing defaults (U.S. Department of Education, 2000). In analyzing the interview transcriptions and collected default aversion documents, the researcher found that both resources and a college-wide commitment to default aversion significantly impacted the ability of the case study participants to effectively influence student repayment behavior during the in-school period.

The Department of Education describes the moment a borrower leaves school as being the most complicated part of the default prevention process (U.S. Department of Education, 2000). Community college students may elect to separate from a college for a variety of reasons including transfer, graduation, and withdrawal. Adding to the complexity is the uniqueness of each borrower that enters repayment. For example, following their six-month grace period students enter loan repayment with differing financial circumstance, different views towards loan repayment as being a financial priority and differing amounts of loan debt. While the Department of Education’s emphasizes a tailored approach to counseling in each of its three phases, having the time and resources to dedicate to each student who separates from the college may be a challenge for community college administrators.

The experiences of Connecticut community college financial aid administrators who participated in this study describe the strategies they utilize to effectively manage both the bureaucratic and consultative elements of their profession. For both community
colleges, identifying borrower characteristics serves as the foundation of their effective
default aversion practices. Gaining an understanding of the financial needs of their
student borrowers, especially those whom they deem to be “at risk” of default, has
allowed these financial aid administrators to better tailor appropriate counseling practices
on an individual basis and minimize the need for student debt by targeting alternative
resources. A process of purposeful redundant counseling is utilized to make student
borrowers aware of their rights and repayment obligations both during their time of
enrollment and subsequent to their separation from the college.

Question three sought to uncover ways financial aid policy could be improved to
assist community college financial aid administrators in their efforts of maintaining
acceptable cohort default rate levels. Consistent with the literature of federal student loan
policy, these financial aid administrators expressed a desire for greater authority and
regulatory clarity when it came to limiting student indebtedness for “at risk” students.
Concerns over easy federal student loan accessibility, and lowering annual loan limits for
part-time students were also among the expressed changes to federal policy identified in
this study.

The fourth research question sought to determine the perceptions that Connecticut
community college financial aid administrators have in regards to the Department of
Education’s use of cohort default rates as the sole accountability measure of effective
institutional default aversion practices. The responses provided by both participants were
surprising in that both aid administrators described having positive reactions to the
increased accountability measures, finding that they serve as an appropriate benchmark of
success. However, support for the new 3-year cohort default rate was tempered by an
understanding that their ability to maintain effective default aversion practices are increasingly constrained by limited intuitional resources to support their efforts.

**Recommendations for Practice**

The findings of this research study suggest opportunities for financial aid administrators to revisit existing default aversion practices and advocate for changes in federal student loan policy. The participants of this study expressed concern for the growing extent of student borrowing at their respective colleges. Adding to their apprehensions are the challenges posed by “at risk” student populations who may not fully understand the long-term consequences of accumulating loan indebtedness and are using federal student loans for the purposes of financial survival as opposed to financing their direct educational costs.

The participants of this study have successfully adapted their default aversion practices to identify the borrower characteristics of loan applicants. In doing so, these financial aid administrators provide an example of how instituting a loan application screening process can assist the default aversion efforts of practitioners by better assessing the needs of would-be borrowers. In support of existing studies (ACFSA, 2008; College Board, 2010; McKinney et. al, 2009), the experiences of the financial aid counselors in this sample conclude that community college loan recipients benefit from tailored counseling practices, which provide one-on-one guidance to loan recipients. Unfortunately, the findings of this study also suggest that opportunities for personalized loan counseling processes and the awarding of alternative financial aid resources are increasingly constrained by the limited commitment of institutional resources towards default prevention. However, the prompt development and implementation of a Loan
Request/Intake form is a simple yet seemingly cost effective way in which today’s practitioners can support existing default aversion practices by targeting counseling approaches with individual borrower characteristics and more effectively linking loan applicants with alternative resources which will enable them to avoid or minimize debt.

The history of federal student loan policy described in chapter 2 of this doctoral thesis demonstrates the slow pace of influencing significant policy change. While this literature review highlights many of the landmark changes in federal student loan policy, one would be correct in arguing that the evolution of financial aid policy can equally be described as a reactive process, that has in its history waited several generations before there was national cause and opportunity, by which the government was willing to accept a significant new policy regarding federal financial aid. As a result, those advocates who seek to influence federal student aid policy must be mindful of the link between politics, policy and a desire to address nationally significant problems. Therefore, the drivers of 21st century changes in financial aid policy must remain patient, resilient and opportunistic in linking their change agenda to broader national interests.

Federal higher education policy has shifted over the past few decades from grants to loans as the primary means for providing access to postsecondary education (Jacob et al. 2009). The topic of increasing loan dependence to cover skyrocketing college costs is a contemporary issue that is widely addressed in today’s higher education literature. The costs of postsecondary education are now so high that half of all undergraduates need to borrow to finance all or some portion of their education (Berkner, Wei, He, Cominole, & Siegel, 2005). On average, undergraduate student borrowers in the United States graduate with $18,900 in student loan debt (Gross, Ingham & Matasar, 2005). Issues concerning
the effects of student indebtedness are beginning to take root in the public consciousness. A growing public awareness on the consequences of student debt coupled with the forthcoming aid reauthorization of the Higher Education Act provide a realistic opportunity to advocate for significant changes in future federal student aid policy.

The financial aid administrators who participated in this study are members of the National Association of Student Financial Aid Administrators (NASFAA), Eastern Association of Student Financial Aid Administrators (EASFAA) and the Connecticut Association of Professional Financial Aid Administrators (CAPFAA). These national, regional and statewide professional organizations provide a platform to confer with colleagues from different sectors of the higher education spectrum and provide financial aid administrators with perhaps the greatest opportunity to advocate for long-term changes to federal student aid policy.

**Recommendations for Future Study**

The literature of student loan repayment is ripe with research, which explores the influence of individual student characteristics on student loan repayment and the consequences of student default. Such research suggests that students may default do to a variety of reasons, including misinformation, lack of awareness or the lack of tools needed to manage responsible borrowing practices (Looney, 2011). Absent from the literature, is research that studies how post-secondary institutions and their practices may shape student repayment behavior. Increasing federal accountability standards, which place greater responsibility on post-secondary intuitions to ensure the successfully repayment of student loan borrowers, has placed greater emphasis on the necessity of higher education institutions to reassess existing default aversion practices. This is
especially true when considering the paucity of literature specifically pertaining to the
default prevention needs of community college student borrowers, whose unique student
population appears to have been shortchanged in the literature in favor of the default
aversion best practices of traditional college students.

While it is the hope that this research study makes a small contribution to the
continued study of the default aversion practices of community college financial aid
administrations, the findings of this study highlight a number of avenues worthy of
continued study. One of the chief findings of this research study are that the participants
described a scenario in which few college resources were dedicated towards default
prevention given the considerable consequences which could result from federal
sanctions.

The long tenured financial aid administrators who participated in this research
study described a commitment of resources, which has essentially gone unchanged over
the past decade. Having underwent substantial changes in economic conditions,
reductions in state grant allocations, increased borrowing among financially needier
student populations and changes to the calculation of the institutional cohort default rates,
the participants of this study have demonstrated a willingness to adapt their default
aversion practices to meet the needs of these increasing demands. What is also clear is
that the institutions they work for have not demonstrated the same commitment in terms
of providing these financial aid administrators with the desired additional resources
needed to manage the effective default aversion practices at their community college.

At its best, such college-wide inattention to default aversion suggests a lack of
prioritization in terms of the college’s strategic planning. At its worse, it reflects a
potentially dangerous willful neglect towards the protection of the colleges’ Title IV revenue and a willingness to accept a reactive stance towards the commitment of resources dedicated to default prevention. While the scarcity of resources at community colleges has been a long studied topic, absent from the literature are studies that examine recommendations regarding the appropriate amount of resources that community colleges should dedicate towards default prevention. Research that investigates the allocation of college resources specifically dedicated towards default aversion can make an immediate contribution by providing community college fiscal administrators with the empirical data on which they can make better informed decisions. The addition of such research could be vital in supporting the efforts of community college financial aid administrators in maintaining effective default aversion practices.

Given the scarcity of institutional resources committed to default aversion found in this study, an area of long term research may seek to address how higher education institutions with limited resources have approached their default aversion practices and to what degrees have they demonstrated their effectiveness. In its Handbook of Best Practices regarding student default, the Department of Education recommends the use of technology to support institutional default aversion practices (U.S. Department of Education, 2000). However, since the publication of the Department of Education’s last Handbook of Best Practices in the year 2000, advances in technology have produced several new avenues in which colleges can now communicate with students including the use of social media, webinars and text messaging. What remains unexplored in the literature is the extent to which these new technologies have been incorporated into the default aversion practices of community colleges. Should the integration of these new
forms of communication prove to be effective and affordable, they may serve as a
panacea for community colleges looking to supplement or replace existing default
aversion practices order to meet the innumerable challenges faced by today’s community
college financial aid administrators.
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Appendix A: Informed Consent Form

Northeastern University, College of Professional Studies, Department of Education
Principal Investigator: Dr. Kimberly Nolan, PhD, (617) 390-3622
Student Investigator: Bryan Lewis, (203) 232-9698
Title of Project: Connecticut Community College Default Aversion Strategies: An inquiry into the perceptions of financial aid administrators in influencing student repayment behavior.

[insert date here]

Dear [insert name here],

My name is Bryan Lewis, and I am a doctoral candidate at Northeastern University in the Doctor of Education Program. Presently I am conducting research, which examines the perceptions of community college financial aid administrators on the effectiveness of current default aversion practices as a means of influencing student loan repayment behavior and minimizing institutional cohort default rates.

The objectives of this study are to: (a) determine what default aversion strategies are currently being utilized by financial aid administrators within the Connecticut Community College system; (b) explore the perceptions of Financial Aid Administrators in regards to the effectiveness of their current default aversion strategies, (c) compare the default aversion strategies against best practices; (d) explore what changes have been made or plan to be made to account for current economic conditions and/or changes to the federal cohort default rate formula.

Why am I being asked to participate in this research study?
You are invited to participate in this research study because you have been identified as someone whose professional background can help to contribute to a greater understanding of the perceptions of Community College Financial Aid Administrators who provide oversight over the default aversion policies of their college.

What will I be asked to do?
Documentation: I would like your permission to collect and analyze the literature that is distributed by your college to Federal Student Loan recipients for the purpose of default aversion and student financial literacy. This may include such items as sample letters, entrance/exit interview packets, brochures or bookmarks that provide guidance for federal loan recipients. In order to better understand the loan processes utilized by your college, I am seeking your consent to collect copies of sections of your college’s policies
and procedures manual that pertains to the awarding of student loans and cohort default rate management.

Interview: You will be asked to participate in a comprehensive face-to-face interview lasting no longer than 45 to 60 minutes in length. Your interview will be held at the location of your choice and you be provided with the interview questions in advance of the interview date. All interviews will be audiotaped and transcribed by the interviewer.

Validity: Your review of my interpretations of the data collected in this study as it pertains to your personal perceptions will be a valuable part of ensuring the validity of the study’s findings. Therefore, I will ask that you review the findings and conclusions of certain aspects of this study so that you may verify the accuracy of my interpretations. I will do my best to limit the time required of you but your participation establishing the trustworthiness of this study will be valuable.

**How will my confidentiality be protected?**
All information will be kept confidential to the extent allowed by applicable State and Federal laws. To protect anonymity, pseudonyms for participant names and colleges will be assigned and utilized in the reporting of all data. All paper documents, transcripts and recordings will be secured in a locked cabinet. Electronic data and interview notes will be stored on a secure password protected laptop. Only the researchers of this study and study participants (upon request) will have access to examine the collected data during the research period. In rare instances, authorized people, such as the Northeastern University Institutional Review Board will be granted permission to access the research information from this study as a means of ensuring that the research was conducted properly. At the conclusion of the study and the approval of the dissertation committee, all collected data will be maintained and destroyed within one year of the completion of the study.

**Will there be any risks or discomforts to me?**
This research study will rely on the collection of multiple sources of information (e.g. interviews, student literature) from each of the case study sites and will seek to provide a rich description of the policies and procedures that your college uses as a part of its default aversion practices. While significant steps will be taken to protect the anonymity of participants and their colleges through the use of pseudonyms and a generalization of institutional characteristics, one cannot fully eliminate the possibility that inferences can be made reading the identity of your college.

**Will I receive compensation for my time and inconvenience?**
You will not be paid for you participation in this study.

**Will it cost me anything to participate in this study?**
There are no monetary costs for participating in this study, but the study will require a small time commitment by you as a participant.
What are the possible benefits of this study?
While there are no direct benefits for participating in this study, you participation may help us to learn about what default aversions strategies or deemed effective or ineffective by Connecticut community college financial aid administrators. Findings from this study may assist financial aid administrators in revising existing default aversion strategies through the inclusion of financial literacy practices designed to increase student borrower awareness.

What are my options should I choose not to participate in the study?
Your participation in this research is voluntary. If you do not want to participate in this study, you may refuse to participate. Also, you may refuse to participate and withdraw your consent at any time during this study without penalty.

What do I do if I have questions about the research study?
Please free to contact me with any questions regarding the study either by email at lewis.bry@husky.neu.edu or by phone at (203) 232-9698. You may also contact Dr. Kimberly Nolan at k.nolan.neu.edu or (617) 390-3622.

If you have any questions or concerns and you would like to talk to some other that the researcher(s), you are encouraged to contact Nan C. Regina, Director of Human Research Protection, 960 Renaissance Park, Northeastern University, Boston, MA 02115. Tel: (617) 373-4588, Email: irb@neu.edu.

Please indicate your consent by signing below.

_______________________________________________
Signature of person agreeing to take part                   Date

_______________________________________________
Printed name of person above

_______________________________________________
Signature of person who explained the study to participant above and obtained consent                   Date

_______________________________________________
Printed name of person above
Appendix B: Script of Scheduling Interview

Once recruitment has been completed, individual interviews will be scheduled over the phone. The following script will be used to schedule interviews with the study’s participants.

Student Investigator: Hello this is Bryan Lewis, the researcher who is completing the study titled *Connecticut Community College Default Aversion Strategies: Connecticut Community College Default Aversion Strategies: An inquiry into the perceptions of financial aid administrators in influencing student repayment behavior*. How are you doing?

Participant: [response]

Student Investigator: I was just calling to say thank you for participation in the study and submitting your Consent Form. I also wanted to ask about your availability in the coming weeks so that we may meet for the interview?

Participant: [response]

Student investigator: That’s great. Would it be convenient for us to meet at [insert name of participant’s home school] at either your office or you’re the college’s library?

A. If participant is able to meet at their home school at their office or library:

Student investigator: Okay. I look forward to meeting with you on (date) at (time) in your (office/school library). Just as a reminder, when we meet for the interview I would like to collect documentation that will further my understanding of your college’s default aversions practices. Do you have any questions for me?

Participant: [response]

Student investigator: Well again, I would like to thank you for your time and agreeing to participate in this research study. I am going to send you an email confirmation of our interview appointment and I look forward to meeting with you soon. Have a good day.

B. If the participant in unable to meet at their home school:

No problem. I am open to meeting at a time and location that is more accommodating for you. Please let me know what is your preferred time and location? Also I’m available to schedule an online interview via Skype if that works for you?
Participant [response]

Student investigator: Okay, I look forward to meeting with you on (date) at (time) at (location of interview). Just as a reminder, when we meet for the interview I would like to collect documentation that will further my understanding of your college’s default aversions practices. Do you have any questions for me?

Participant: [response]

Student investigator: Well again, I would like to thank you for your time and agreeing to participate in this research study. I am going to send you an email confirmation of our interview appointment and I look forward to meeting with you soon. Have a good day.
Appendix C: Acceptance/Scheduling Confirmation Email

Good Morning [Name of participant],

Thank you so much for your interest in participating in my doctoral thesis study entitled *Connecticut Community College Default Aversion Strategies: An inquiry into the perceptions of financial aid administrators in influencing student repayment behavior.* You have been selected as a participant for the study and your school administrators are aware that you are taking part in this study.

In this study you will be asked to provide documentation regarding your college’s default aversion practices (e.g. sample letters to students, entrance/exit interview packets, brochures or bookmarks that provide guidance for federal loan recipients). You will also be asked to participate in an individual interview that will last approximately 60 minutes in lengths. Accompanying this email is an attachment containing the questions that will be asked during the interview. Your interview is scheduled to be conducted at _________________ on --/--/---- at -:-- am/pm.

At the conclusion of this interview you will be provided with a report containing my interpretations of the data collected in this study as it pertains to your personal perceptions and the documentation you provided during this study. I will ask that you review these findings and conclusions to verify the accuracy of my interpretations.

Please remember that your participation in this research study is voluntary and you may withdraw your participation at any time. If you have any questions or concerns, I ask that you please feel free to contact me at (203) 232-9698 or lewis.bry@husky.neu.edu.

Thank you,

Bryan J. Lewis  
Doctoral Candidate, Northeastern University
Appendix D: Interview Script and Questions

Student Interview Protocol

Institution: _________________________________________________

Interviewee (Title and Name): ______________________________________

Interviewer: _____________________________________________________

Date: _____________________________________

Location of Interview: ____________________________________________

Doctoral Research Interviews

Part I: Introductory Question Objectives (5-7 minutes). Build rapport, describe the study, verbally review the informed consent form with participants, acquire signatures on the informed consent form and answer any questions the participant may have.

Bryan: Thank you again for your participation. You have been invited to participate in this research study because you have been identified as someone whose professional background can help to contribute to a greater understanding of the effectiveness of current default aversion practices within the Connecticut Community College system. I’m hopeful that the results of this study will add to the existing knowledge of what is already known about default aversion practices.

Bryan: Because your responses are important and I want to make sure to capture everything you say, I would like to audio tape our conversation today. Do I have your permission to record this interview?

Start of Recording

Student Researcher: I will also be taking written notes during the interview. I can assure you that all responses will be confidential and only a pseudonym will be used when quoting from the transcripts. I will be the only one privy to the audio recording, which will be eventually destroyed after they are transcribed.

Student Researcher: We have planned this interview to last about 60 minutes. During this time, I have several questions that I would like to cover. If time begins to run short, it may be necessary to interrupt you in order to push ahead and complete this line of questioning. Do you have any questions at this time?
Part 2: Interview

Q1. Student Researcher: Can you please tell me about your experiences as a financial aid administrator? How long have you been in the profession? What are some of your general job responsibilities? I’m also very interested in finding out your responsibilities in terms of default aversion.

Q2. To the best of your understanding, can you please describe some of the primary reasons why students attending your community college make the decision to take out federal student loans? And does the student’s rational for borrowing impact your default aversion efforts?

Q3. Based on your college’s history of delinquent and defaulted borrowers. Are there any specific student borrower demographics that are of particular concern to your institutions? If so, what measures have been taken to specifically educate these populations in terms of wise borrowing practices and the overall repayment responsibilities that come with being a federal student loan recipient?

Q4. In terms of their overall financial literacy, can you please describe the ability of students to understand their rights and repayment obligations as a student loan borrower, prior to receiving entrance loan counseling?

Q5. What if any impact has the most recent recession had on student borrowing or repayment at your institution? If there was an impact, can you please describe any changes that your college has made as a response?

Q6. Has the change in the federal default rate calculations impacted your college’s default aversion practices? If so, can you please describe those changes?

Q7. Please describe your college’s default aversion efforts prior to the disbursement of federal student loans? This may include any entrance counseling practices or the distribution of student literature.

Q8. In what ways does your college remind students who are currently enrolled at your college of their rights and responsibilities as a student borrower?

Q9. In their Best Practices Guide, The Department of Education recommends that particular attention be given to student borrowers who leave the college either because of withdrawal or graduation? Can you please describe the default aversion practices that your college initiates during this time of separation?

Q10. Can you please describe how your college maintains contact with student borrowers after their six-month grace period has expired and repayment begins?
Q11. In what ways does your college reach out to past student loan recipients who may be delinquent or in default?

Q12. How would you describe the campus wide interest and commitment to default aversion at your college? How many professionals at your college engage in student default aversion practices?

Q13. In terms of resources, can you please describe any challenges that your college may have in regards to implementing an effective default aversion plan?

Q14 If you had all the resources you desired, what would you do alter your college’s default aversion efforts?

Q15 Given that the federal government gives financial aid administrators very little discretion over which students can qualify for federal student loans, can you please describe any changes in federal financial aid policy that you feel would be beneficial in your college’s ability to maintain acceptable cohort default rates?

Q16. Despite differing institutional characteristics and student demographics, the threshold for federal sanctions is the same for all types of higher education institutions, be they 2 year, 4 year, public, private or proprietary. Do you agree with this regulation? If you do can you please explain why? If you disagree, I would like to know why and also hear if you have any thoughts about how these accountability measures should be revised.

Q17. How would you describe the overall effectiveness of your college’s default aversion practices?