

## Do You Know What You Owe? Students' Understanding of Their Financial Obligations

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### Overview

Access to and affordability of higher education are growing concerns. Rising tuition and declining state appropriations have shifted costs towards students and their families. As a result, loans play a major role in student financial aid packages, yet few financial products are as complicated as student loans. Furthermore, aggregate student loan debt has grown at an implicit annual rate of 23% between 1997 and 2010 (Kantrowitz, 2011). In particular, students who graduated with debt from four-year colleges in Iowa in 2010 owed significantly more than the national average, and Iowa State students had higher debt on average than students at other Iowa institutions. (Project on Student Debt, 2011). The debt picture at Iowa State University has declined for 5 years, but remains higher than average. This project explores students' understanding of their student loans.

### Study Objectives and Design

We assessed students' knowledge of having any student loans and the amount owed, as well as the impact of student characteristics on knowledge of student loan debt. A random sample of undergraduate, U.S. resident students completed an online survey in fall 2010 and their responses were matched with administrative data on student loans. For this study, our hypothesis was that student characteristics will predict knowledge of student loan debt; we analyzed 528 of 801 valid responses. We used logistic regression to model who accurately knew whether they held student loan debt (loan confused) and whether they could accurately report how much debt they held (debt confused).

### Results

About 12% of students were *loan confused* – that is, they reported no student loan debt when, in fact, they had a loan. About 43% were *debt confused* – that is, they underestimated the amount of student debt they owed. In the “loan confused” analysis (Do students know whether they owe *any* student loan debt?), females, seniors, lower GPA students, and students personally responsible for paying back their loans were *less* likely to be confused about owing any debt. In-state students were *more* likely to be loan confused. For the “debt confused” analysis (Who

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underestimates the amount of student loan debt they have?), transfer students and students personally responsible for paying back their loans were *less* likely to underestimate how much they owed. Students with a GPA between 3.0 and 3.49 and those who filed FAFSA forms were *more* likely to underestimate how much they owed.

### **Conclusions**

Significant numbers of students are “confused”—unaware of their student loan obligations. They may benefit from on-going financial counseling and education. Annual reviews of financial aid packages should not only focus on the current year, but also emphasize cumulative debt and the cost of repayment. Our findings support a policy initiative to provide an estimated monthly payment for all loans that might be expected for a 4-year degree (Date, 2011). Requiring both federal and private lenders to report loans in one location would allow students easy access to accurate information in one stop.

### **References**

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