Debt and its use among Puerto Rican undergraduate students

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ABSTRACT

Student debt in the United States has been quickly increasing during the past decade. As to the first quarter of 2014, the student loan debt surpassed credit cards debt and auto loans. Puerto Rico ranks #17 by total debt among the United States and territories. Nonetheless, students in Puerto Rico have an average of $18,000 of student debt, positioning it at the lowest rank by average debt. This paper explores the debt phenomena among Puerto Rican undergraduate students. Specifically, we want to determine if students have debt, and if so, what type and how they spend it. A sample of 194 undergraduate students from a School of Business at a public higher education institution of Puerto Rico was surveyed. Results indicate that 28% of business students have debt. Female students were more susceptible to have debt. Furthermore, top expenses covered by debt are food, education, car expenses, clothing, and entertainment. The results reveal that 90 percent is not receiving counseling about debt management from the financial aid office. From those receiving the financial advising (10 percent), only 2 percent perceive it as useful. These results provide an exploratory look into the debt and its use among Puerto Rican undergraduate students.

KEYWORDS: student debt, loans, credit cards, Puerto Rico, undergraduate students

RESUMEN

Durante la pasada década, los préstamos estudiantiles han incrementado sustancialmente. Según el total de deuda estudiantil, Puerto Rico ocupa el decimoséptimo lugar entre los Estados y territorios estadounidenses. Sin embargo, el promedio por estudiante es de $18,000, posicionándolo así como el más bajo entre todos. Esta investigación piloto tiene como objetivo entender el propósito y la cantidad de deuda estudiantil en el que incurren los estudiantes. La muestra consta de 194 (10%) estudiantes de la escuela de Administración de Empresas de una institución pública de educación superior de Puerto Rico. Los mismos respondieron a un cuestionario relacionado a sus deudas y gastos. Los resultados indican que 28% poseen deudas y que las variables de rendimiento académico no están directamente relacionadas al nivel de deuda. Además, las mujeres fueron más susceptibles a tener deudas.

PALABRAS CLAVES: préstamo estudiantil, tarjetas de crédito, Puerto Rico, estudiantes subgraduados

Introduction

Student debt is a current ongoing debate. According to Stiglitz (2013), student loan debt might become the next crisis in our society. Moreover, some experts, such as the National Association of Consumer Bankruptcy Attorneys (NACBA) (2012), argue that debtors will be 35 to 49 years old when they pay off their debt. However, others such as Edmiston, Brooks, and Shelpelwich (2013) from the Federal Reserve Bank of Kansas, indicate that student loan debts do not necessarily pose a substantial burden on society at large.

Along this debate, headlines read *"Despite Lower Rates, more than 650,000 defaulted on Federal Students Loans"*; *"Student Debt Time Bomb"*; *"Americans are having more trouble paying off their student debt than their houses"*. On the Internet, one can find 60+ Ways to Get Rid of your Student Loans (Without Paying Them), an eBook published by SALT™[1]. This organization promotes the publication with the following statement: "*No one likes repaying their student loans – and you may not have to! Use this one-of-a-kind eBook to find out if you can get your student loans forgiven, discharged, or paid on your behalf*".

Student debt in the United States (US) has been quickly increasing during the past decade. As to the first quarter of 2014, the student loan debt surpassed credit cards and auto loans. The Federal Reserve Bank of New York reports that student debt in 2004 totaled $346 billion; whereas in 2012 it was $996 billion, $1.08 trillion in 2013, and $1.11 trillion for the first quarter of 2014. Furthermore, according to the White House (2014), 71 percent of those earning a bachelor's degree graduate with debt, with an average of $29,400. While most students are able to repay their loans, many feel burdened by debt as they start a family[2], buy a home, launch a business, or save for retirement. This reality worsens as student loans cannot be discharged in bankruptcy.

According to the latest statistics[3] of the National Center for Education Statistics (NCES) (2014), the average net price (total

[1] SALT™ is a nonprofit organization created by the American Student Assistance® (ASA). It describes itself as having 50+ years of experience helping millions of students make better decisions about paying for and paying back the cost of their education.

[2] Students from lower-income are more likely to have debt burden than those from higher income families (Price, 2004).

[3] The data used by the NCES of the U.S. Department of Education was obtained online from the Integrated Postsecondary Education Data System (IPEDS). This database most recent data is from the academic year 2012 - 2013 and therefore not comparable to the results of this article, which were obtained in Fall 2014.

cost[4] minus grants) of attendance in 2011–12 for first time, full-time students was $12,410 at public, in-state 4-year institutions, $21,330 at private for-profit 4-year institutions, and $23,540 at private nonprofit 4-year institutions. On the other hand, students received an average student loan amount of $6,454 at public institution, $8,360 at private for-profit, and $7,610 at a private nonprofit in-state 4-year institution. Furthermore, the U.S. Department of Education indicates that the average amount of federal student loans received by undergraduate students of Title IV institutions was $6,911 in 2012-2013. Also, in 2012-2013 the percent of undergraduate students receiving federal student loans was 41%[5] including Puerto Rico.

Student debt also incorporates credit cards. In 2007, an average fourth year student in the US has four credit cards and a $3,000 credit card debt (Cahill, 2007; Ludlum & Moskalionov, 2010). Evidence from a survey made by the Montreal Bank, indicates that only 6 percent of college students had used their credit card for educational expenses (Marketwired, 2012). One real case example for this situation is the one of one British student who used her student loan for esthetic surgeries. Situations like this one might reveal that college students might not be using their debt to subsidize education and such they are not interested in paying it back either.

According to Fry, Parker & Rohal (2014), the biggest increase in borrowing has been among more affluent students. The rate of borrowing among upper-middle-income graduates has almost doubled in 2012 compared with 20 years ago. In addition, there has been a sharper increase in student borrowing among graduates with more highly educated parents and among females.

Another study shows that while student loans improve access to postsecondary education, repaying them has become increasingly difficult for students who are unemployed, underemployed, or earn a limited income. These peculiarities are more common among students who do not complete a degree (Wei & Horn, 2013). For 2009, non-completers borrow more money at for-profit institutions both in the percentage who borrowed and the cumulative amount borrowed. Furthermore, the percentage of non-completers whose cumulative federal debt equaled or exceeded 100 percent of their annual income was 18 percent higher in 2009 as compared to 2001.

In response to these issues and debates, on March 10, 2015, President Obama announced The Student Aid Bill of Rights. As expressed by him, this action would make it easier for students to pay for college and pay off their loans. In addition, the businesses that service loans are required to provide clear information about the amount of debt. This includes stating what are the repayments options, and if the debtor is falling behind, help them with reasonable fees to get back in good standing, among other things. The Student Aid Bill of Rights indicates that every student in America should (Gula, 2015):

[4] The NCES defines the total cost of attending a postsecondary institution as "the sum of published tuition and required fees, books and supplies, and the weighted average for room, board, and other expenses". Therefore, these costs are not comparable to our results because we categorized costs in two (educational and non-educational), thus our costs cannot be added nor averaged.

[5] Based on 6,923 institutions, including Puerto Rican institutions. Since Puerto Rico is not presented independently, the percentage is not comparable to our results.

1. Have access to a high-quality, affordable higher education.
2. Be able to easily find the resources they need to pay for college.
3. Be able to choose an affordable repayment plan for student loans.
4. Receive quality customer service, reliable information, and fair treatment when repaying loans.

Given this general backdrop, this research explores if: 1) Puerto Rican undergraduate students have debt? 2) If so, what type?, and 3) how they spend it? The current findings bring some light in this unexplored area. Moreover, the data might be used by local and federal authorities, scholarship funds, financial institutions, and universities' financial aid offices, among others. Getting to know the current behavior of this segment might result in better educational and awareness programs.

Methodology

A survey was conducted among 194 students[6] of a four-year public university in Puerto Rico. The survey consisted of a self-administered questionnaire with 31 items about student loans, credit cards debt, use of these debts, and demographics. The questionnaire was designed after a thoughtful literature review on students' debt. The aim of the questions was to determine if the college students have debt, which type, and how it was expensed.

Table 1 provides the demographic information of the sample. As it shows the majority of the sample were females (53%) between the ages of 19 and 21 (61%), and single without children (91%). The bulk of students were in their fourth or fifth year of study (35% and 29%, respectively), report a high overall GPA (77% with 3.00 or higher), and aspire to earn a Master's degree (42%).

[6] This number represents approximately 10 percent of the population of the Business School of Fall 2014.

Table 1
Sample demographics

Variable		Amount	%
Gender	Female	101	53
	Male	91	47
Age	≤ 18 years	12	6
	19 - 21	118	61
	≥ 22 years	62	33
Marital status	Single with children	10	5
	Single no children	174	91
	Married with children	5	3
	Other	3	1
Year of study	1st	9	5
	2nd	18	10
	3rd	41	22
	4th	64	34
	≥ 5th	53	29
Overall GPA	3.5 - 4.0	72	39
	3.49 - 3.0	69	38
	≤ 2.99	42	23
Highest academic aspiration	Bachelor's	39	20
	Master's	81	42
	Doctorate	36	19
	Juris Doctor	60	16
	Other	6	3

Table 2 presents the resources student use for paying their academic expenses[7]. Over half of them (58%) pay for their education with the Federal Pell grant. The second funding resource is savings from their parents or themselves (27%), followed by part-time job (21%), and, to a lesser degree, credit cards of parents (12%).

The high percentage of students using the federal grant as a major source is not a surprising result given the reality of the sample. The students are from the public sector which provides the lowest cost per credit on the Island. This cost is, in average, 74 percent lower than in private institutions; and a lot lesser in comparison with the US. The difference in cost per credit provides an

[7] According to the Higher Education Act of 1965, academic expenses include tuition and fees, books and supplies, transportation, dependent care expenses, and disability-related expenses.

opportunity for students to solely rely on the federal grant and do not have to look for other resources. Indeed, according to the Department of Education (2014), Puerto Rico ranks among the states with the lowest average debt per student ($18,000 per student). This amount is 39 percent lower in comparison with the US average.

Table 2
How students pay for their academic expenses

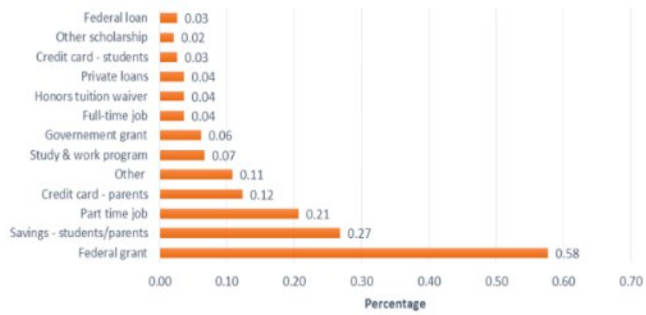


Table 3 shows the amount of debt by type (loans vs credit cards) classified by students' household income. On the left side the table shows the distribution of students with loans, and on the right side the distribution of students with credit card debt. The results show that the majority of students do not have any debt. Only a small portion of students have loans or credit card debt. In regards to those students with loans, they come from low and middle income households. On the same token, the amount of the loans is minimal, and do not exceed the national average per student on the US ($29,400). The use of credit cards is also minimal and the amount of the debt does not exceed the $1,000 (this amount is a third of the US average).

Students in Puerto Rico have an average of $18,000 of student debt, this is the lowest rank among the US and territories. Only a few undergraduate students (28%) of the business school in the sample, have loans, credit cards, or both. The majority does not receive financial aid counseling nor taken a financial planning course

Table 3
Amount of debt by type and household income

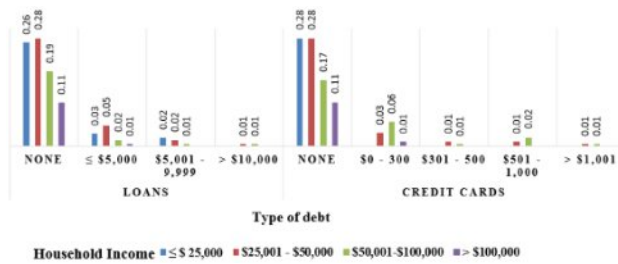
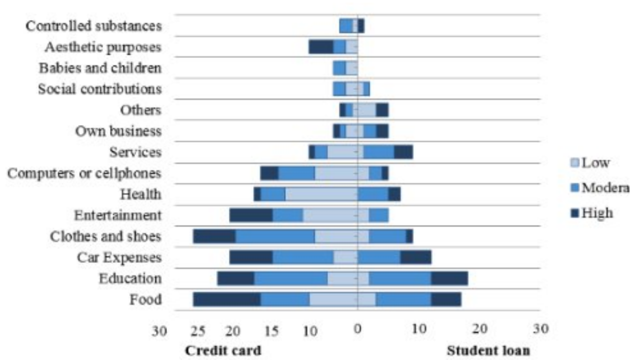


Table 4 provides the specific expense category, funding source (loans vs. credit cards), and to what level (low, moderate or high). Food, education, car expenses, and clothing and shoes were the most frequently expense category financed among the students with debt, which are all considered as academic expenses. However, the results show that credit cards tend to be used more frequently for clothing and shoes and even entertainment. It is interesting to note that babies and children and aesthetic expenses are not financed with loans, but with credit cards. Six percent of the sample indicated the use of loans to buy controlled substances. These results are unforeseen because money used from student loans for non-academic purposes – going out to restaurants and bars, vacations, fashion, electronics, and gifts – implies contractual violations with financial, state, and federal institutions.

Looking into the characteristics of debtors, we found that 70 percent of students with debt have a high GPA that is over 3.00 (on a 4.0 scale). This result contradicts previous studies (such as Wei & Horn, 2013) that have related high amount of debt with no completers or students with low GPAs. On the other hand, our results provide support for the data (such as Fry et al., 2014) suggesting that a greater proportion of females are most susceptible than males to have debt (mostly loans). For our sample, 60 percent of students with loans are females.

Table 4
Expense category for credit card vs. loans



The survey included questions about whether the students were receiving financial advice. The results reveal that 90 percent is not receiving counseling about debt management from the financial aid office. From those receiving the financial advising (10 percent), only 2 percent of this group perceives it as useful.[8] On the other hand, 86 percent of the students report that they have not taken financial planning courses at the university. From these students, 38 percent do not plan to take it.

According to Lyons (2004), to classify a college student as "financially at-risk (FAR)", the balance of the credit cards should exceed $1,000, among other things. Therefore, we can suggest that Puerto Rican undergraduate students might not be at financial risk because the amount they owe. However, this risk is increased due to their current lack of knowledge and background. Research has shown that college students might face credit card problems despite their financial knowledge. Furthermore, business students, with comparative higher levels of knowledge about finance, had higher bad debt balances on credit cards lines (Fagerstrom and Hantula, 2013).

Conclusions

In conclusion, only a few students (28%) of the business school undergraduate students in the sample have loans, credit cards, or both. The majority does not receive financial aid counseling or has not taken a financial planning course. It is important to emphasize that our sample was business students, whom will be expected to get involved on financial counseling activities, and micro and macro aspects of economy because of the nature of their majors. These results raise the question about the capacity of business schools of providing the necessary resources, to effectively educate students about their financial life.

Furthermore, on other results, top expenses covered by debt were food, education, car expenses, clothes, and entertainment. However, 6 percent indicated they had spent student loan money on controlled substances, and spent credit cards for aesthetic purposes, both with a scale of high spending amount and frequency. Money used from student loans for nonacademic purposes—going out to restaurants and bars, vacations, fashion, electronics, and gifts—implies contractual violations with financial, state and federal institutions.

The incorrect use of credit can have long-term life consequences in the financial

[8] This percentage represents 0.4% of the whole sample.

status of students (Robb & Pinto, 2010). Higher costs of borrowing, unnecessary fees, and the increase in debt rates, might result in life quality consequences such as anxiety and poorer health conditions (Joireman, Kees, & Sprott, 2010). Moreover, Hogan, Bryant and Overymyer-Day (2013) indicate that students with debt problems react with dysfunctional behaviors such as drinking, drugs, depression, and eating. Therefore, it is important for universities, counselors, and financial aid offices to be aware of the possible consequences of bad credit decisions and promote healthy financial habits.

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