8 How do Promise programs benefit students? Borrowing

Lead authors: Danielle Lowry and Amy Li

Promise programs may reduce the need for borrowing to cover college costs.

Promise programs benefit students by providing a new source of funds to cover college tuition, making it less necessary to rely on loans. The research on this question is incomplete, but there is some evidence from both the state and local level that students making use of Promise programs borrow less on average than those who do not. Of course, there are many costs associated with college attendance beyond tuition, and most Promise programs only cover tuition, so for many students some level of borrowing will still be needed.

Policy Considerations

- Promise stakeholders should help ensure that students apply for any federal, state, or institutional aid for which they may be eligible beyond the Promise scholarship itself.
- Financial literacy or college-access activities carried out in connection with Promise programs can help students understand the risks and rewards of borrowing for college costs.
- Promise program designers may want to actively monitor award displacement (for example, if a student's Promise award reduces their institutional aid award) and decide on a strategy should displacement occur.

What We Know

Although the sticker price of college attendance has been rising faster than the rate of inflation over the past several decades, the net cost (out-of-pocket costs students pay after grants and scholarships have been deducted from the total price) has remained flat since 2015.[1] Nonetheless, 55% of public and nonprofit four-year graduates in the 2019–2020 school year held college loan debt. Additionally, around 20% of borrowers are in default, which has serious consequences for their financial well-being,[2] including their capacity to own a home.[3] While recent efforts such as the Biden administration's student-loan forgiveness plan and borrowing caps have attempted to mitigate financial hardships for some students, they do little to address the underlying causes of high student loan debt.

1 Ma, J., & Pender, M. (2021). *Trends in College Pricing and Student Aid 2021*. College Board.

2 The Pew Charitable Trusts (2020). *Student loan default has serious financial consequences: Department of Education and Congress can do more to help borrowers repay*. The Pew Charitable Trusts.

3 Mezza, A., Ringo, D., Sherlund, S., & Sommer, K. (2020). Student loans and homeownership. *Journal of Labor Economics*, 38(1), 215–260.

There is currently little research on the effects of Promise programs on student debt and later life outcomes. One study of a statewide merit-based program, the West Virginia Promise Scholarship, found that Promise recipients are more likely to earn a graduate degree, own a home, and live in a higher-income neighborhood. The authors reported that these positive effects are mainly due to a reduction in time-to-degree rather than a substantial reduction in debt upon graduation.[4]

However, other research on state merit aid programs found that these programs significantly reduce student loan debt.[5] A study examining the effect of the Tennessee Promise on student loan-borrowing behaviors concluded that the Promise reduced the percent of students borrowing loans by 8–10 percentage points. Additionally, the Promise reduced the average loan amount by 32%.[6]

Although rigorous research on debt burdens of place-based Promise recipients do not yet exist, research from the Upjohn Institute found that 40% of Kalamazoo Promise recipients reported borrowing no money to attend college, compared to 28% of students nationwide.[7]

The level of debt held by Promise recipients may be affected by the program's design and the response of institutions accepting Promise students. For example, Kalamazoo is a first-dollar program, which means Promise funds are provided to students before any other financial aid the student receives. In contrast, the Pittsburgh Promise is a last-dollar award, where a student first receives financial aid from other sources before receiving the Promise award. The benefits of the former model are that students retain use of their federal financial aid to help cover living expenses, and the guarantee of tuition is both generous and easy to explain. The latter model, however, is far more widespread due to limited financial resources.

Some institutions—especially private institutions—may practice an award displacement policy. Award displacement occurs when a student's financial aid award is displaced by another. For example, an institution may allow a student's Promise award to replace a partial or full amount of an institutional grant the student would otherwise qualify to receive. If an institution displaces aid, a Promise student may not experience a meaningful reduction in debt, and a Promise program may inadvertently

[4] Scott-Clayton, J., & Zafar, B. (2019). Financial aid, debt management, and socioeconomic outcomes: Post-college effects of merit-based aid. *Journal of Public Economics*, 170, 68–82.

[5] Chakrabarti, R., Nober, W., & Van der Klaauw, W. (2020). *Do college tuition subsidies boost spending and reduce debt? Impacts by income and race* (No. 20200708d). Federal Reserve Bank of New York.

[6] Odle, T. K., Lee, J.C., & Gentile, S. P. (2021). Do promise programs reduce student loans? Evidence from Tennessee Promise. *Journal of Higher Education*, (92)6.

[7] Bolter, K., & McMullen, I. (2022). *The Kalamazoo Promise 'sweet 16,' summary study results: 16 key findings from 16 years studying The Kalamazoo Promise* (Report). W.E. Upjohn Institute for Employment Research).

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subsidize the institution rather than the student. The National Scholarship Providers Association (NSPA) recommends private scholarship providers reach out to financial aid offices to prevent this practice. In fact, growing concerns over college affordability have, as of July 2022, led four states (Maryland, New Jersey, Washington, and Pennsylvania) to ban award displacement at public institutions. DisScholared is an ed-tech platform that contains a database of individual institutions' award displacement policies, as well as information on the status of award displacement policies in the United States.

With few exceptions, Promise programs cover only tuition and fees, whereas the cost of attending college has many other components. Thus, Promise programs are not a panacea for student loan debt, but they can create a base level of grant aid that reduces debt levels. They can also catalyze efforts among stakeholders to help students procure additional aid that will reduce loan debt further.

Recommended Reading

Hershbein, B. J., & Kevin M. Hollenbeck. (Eds). (2015). *Student loans and the dynamics of debt.* W.E. Upjohn Institute for Employment Research.

This edited volume serves as a reference for researchers and policy-makers seeking to understand how, why, and which students borrow for their postsecondary education; how this borrowing may affect later decisions; and what measures can help borrowers repay their loans successfully.

Lowry, D., Page, L. C., & Iriti, J. (2022, March). *Subtraction by addition: Do private scholarship awards lead to financial aid displacement?* Annenberg Institute at Brown University.

This paper explores whether the presence of financial aid programs can affect disbursements of other scholarships by examining the case of Pittsburgh Promise after the amount of the award doubled in 2012. The study compares financial aid data from Pittsburgh Promise students to other students entering the same institutions the same year. It finds that receiving the Promise had no effect on the amount of aid received from other sources.