Perspective on the Hybrid Mode of Student Financial Aid in American Universities

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Abstract. As one of the most developed countries, the United States of America (USA) has successfully established a relatively complete university student financial aid system including student loans, grants, national trust services and so on. Its successful experience has important enlightenment and reference for the improvement of the university student financial aid system in China.

Introduction
The United States is a country with a developed economy and a large scale of higher education. At the same time, the United States is a country with profound class and race contradictions in politics, great disparity between the rich and the poor in economy, and diversified local decentralization and cultural diversity in political system. In response to these factors, the U.S. government's university student funding policies are mixed and implemented simultaneously with multiple concepts, multi-channel funding, and multiple funding methods. Its successful experience has important enlightenment and reference for the improvement of the university financial aid system in China.

I. The System of Student Financial Aid in American Universities

1. Student loan scheme

In the United States, not only is there a variety of student loans, but also the financial aid budgets are very different. Among them, the Stanford Student Loan Program is best known. It offers two kinds of preferential loans to different students. The first is called discount loan, which refers to the government paying the loan interest for students during their school days. The second is called non-discount loan, which means that the government does not pay the loan interest for students during their school days. Applying for a discount loan requires a review of the cost of higher education and the financial situation of the student's family. However, non-discount loan can be applied for by all students who think they need financial assistance, and it is possible to obtain it. The amount of non-discount loans accounts for about 75% of the total federal student loans. The non-discount loan is the most important student loan program in the United States at this stage. The program is funded by the commercial banking system and guaranteed by state education guarantee agencies on behalf of the government. It can not only reduce and disperse the credit risk of banks, but also ensure that students get the desired amount of loans.

2. Grant

Grant is a kind of loans paid by the federal government or local government (state government) to colleges and universities or students. For the vast majority of students from poor families who cannot afford high tuition fees or cannot borrow money, obtaining grants is an important guarantee for them to complete their studies successfully. The grant program in the U.S. college financial aid system consists mainly of Pell Grants and some supplementary grants. Among them, the recipients of Pell Grants are not required to repay the grants after completing their studies. Eligibility to apply for such grants is jointly determined by family income and other relevant factors, and usually the...
maximum amount is 4,000 US dollars. About 30% of full-time undergraduates receive such grants. If the money received from Pell Grants was not enough to offset their expenses, they can turn to other sources of support. Perkins Loans, for example, are for students with special financial needs and give priority to the students who have received Pell Grants. In addition, the Supplementary Education Opportunity Grant is also set up for the students from low- and middle-income families.

3. National service trust and competitive funding

The federal government creates jobs for students in four areas: public security, health care, environmental protection and community education. As long as students complete 1,700 hours of work, they can earn no less than 11,000 US dollars. In terms of payment methods, cash payment or offsetting bank loans can be selected. This program is of great significance to those students with particular difficulties because it not only provides financial aid directly, but also free college students of their worries. In addition, the federal government and state governments, universities and charitable organizations also provide all kinds of competitive and conditional financial aid not based on economic needs such as the National Science Foundation (NSF) Scholarships, Robert C. Byrd Honors Scholarship. The federal government has strict control over this kind of funding. It stipulates that the maximum amount of scholarship funds should not exceed the costs required for higher education. It also imposes strict restrictions on the conditions under which scholarships are awarded and the number of awarded scholarships.

II. The Method for Evaluating Student Financial Aid

In order to ensure the fairness and reasonableness of college students' financial aid, the U.S. government has adopted a "financial aid package" approach. All federal and non-federal financial aid such as grants, student loans and work-study are mixed in a package so that every student can obtain certain financial aid commensurate with his/her financial difficulties. The U.S. Congress has developed formulas and standards for the proportion and amount of various funding types in the "financial aid package" to calculate how much each student should receive. The method is called Parliamentary Approach because it has certain authority. It consists of four core steps.

The first step is to evaluate the cost of attendance (COA) per student. The cost consists mainly of 5 indicators. They are tuition and miscellaneous fees (TMF), books and stationery fees (BSF), accommodation fee (AF), transportation fee (TF), and other personal living expenses (OPLE). The total cost of attendance (COA) can be obtained using Equation 1. The costs are calculated and announced annually by the American Council on Education according to 6 major regions and 4 types of colleges and universities in the U.S. Among them, TMF, BSF and AF are subject to those published by universities. The American Council on Education publishes the average costs of all regions, colleges and universities. The non-residential students' AF, TF and OPLE are subject to the national average costs published by the American Council on Education.

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COA = TMF + BSF + AF + TF + OPLE
\] (1)

The second step is to estimate expected family contribution (EFC). It is determined by a combination of factors including family income (FI), family property savings (FPS), family population (FP), and health status of family members affecting average living expenses (ALE), etc. The expected family contribution can be calculated using Equation 2. Because of the complexity of calculating EFC, the American Council on Education approves the reference standards for all regions of the United States based on a methodology developed by the United States Congress.

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EFC = (FI + FPS) - (ALE \times FP)
\] (2)

The third step is to assess a student’s financial need (FN), which is generally evaluated by colleges and universities using Equation 3.

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FN = COA - EFC
\] (3)
The fourth step is to provide hybrid financial aid to students according to their financial situations and based on the basic matching criteria of "package aid" released by universities.

The above evaluation method has standardized procedures, unified standards, clear information and strong operability, which greatly simplifies the extremely complicated funding work. Students, financial aid managers, student families, government, relevant social personnel and institutions can estimate and review the amount of financial aid according to the above procedures, supervise and judge whether the financial aid is fair and reasonable.

III. The Methods for Repaying Student Loans

1. The repayment methods

The repayment of student loans in the United States is characterized by long term, flexible arrangement and strong restraint. In terms of time limit, it is generally stipulated that the repayment starts after the student leaves school or receives the last payment, and the term is usually 10 years. Regarding to repayment arrangements, there are generally four kinds of plans to choose from. They are described as follows.
(1) Standard repayment plan. It requires the borrower to pay a fixed amount of principal and interest every month with a repayment period of no more than 10 years, and the specific repayment time depends on the loan amount and monthly support amount.
(2) Extended repayment plan. It can extend the repayment period to 12~30 years with the monthly repayment amount lower than that of the standard repayment plan, but the total amount of interest paid is higher than that of the standard repayment plan.
(3) Progressive repayment plan. The monthly payment increases every two years, the minimum is 50% of the monthly repayment amount of the standard repayment plan, and the maximum is 150% of the monthly repayment amount of the standard repayment plan. Generally, the repayment period is between 12 and 30 years, so the total interest paid is higher than that of the standard repayment plan.
(4) The income-driven repayment plan. The monthly repayment amount is determined according to the borrower's annual income, household size and loan amount. The monthly repayment amount correspondingly increases or decreases as income rises or falls. After 25 years, the remaining portion of the debt will be exempt, but the borrower must pay tax on the exempted debt.

2. The measures to compensate for the loss of funds

From the point of view of repayment obligations, once the borrower defaults, it will lead to serious consequences, and the borrowing agency will take all measures to compensate for the loss of funds. The measures are described as follows.
(1) The borrower loses the qualification of applying for extension of repayment and debt relief.
(2) The agency informs the national credit bureau of the borrower's default, thus affecting the borrower's credit rating for a long time, making it very difficult for the defaulter to borrow money from the bank to buy a house or car in the future.
(3) The defaulter's account is transferred to a special collection agency for recovery, and the defaulter is required to pay late fees, additional interest, costs required for the recovery process, etc.
(4) The U.S. Department of Education may require the National Tax Bureau to withhold the personal income tax returned to the defaulter or require the employer to reduce the salary paid to the defaulter to make up for the principal and interest of the loan owed.
(5) If the defaulter returns university, he/she will not be able to apply for any federal student aid.
(6) The most severe punishment for a malicious defaulter is to impose legal sanctions, and the defaulter shall bear the trial fees and legal fees, etc.
IV. The Enlightenment of the Hybrid Mode of Student Financial Aid in American Universities to China

In comparison, the current student aid system in China is very similar to that in the United States, which takes student loans, scholarships and work-study as the main means for universities to support students. Therefore, the American student financial aid system and fund management mode have important enlightenment significance for improving the student financial aid system in China.

1. To build a multi-level student financial aid system

First of all, we should broaden the funding channels for college students' financial aid and expand the sources of student aid funds. On the one hand, all sectors of society such as enterprise groups, non-governmental organizations and individuals should be mobilized to provide loans or set up special scholarships to donate money to aid students; on the other hand, a government-guaranteed scholarship fund may be set up to solve the problem of insufficient financial resources through public financing to expand the source of funds for student aid. Last but not least, more student aid methods should be utilized. The national student loan is only one of the important measures to help students with financial difficulties complete higher education. According to the characteristics of China's large population, the obvious differences between urban and rural areas, and the diverse needs of college students' financial assistance, China's higher education funding system should be set up as a "package" of financial aid mainly including student loans supplemented by scholarships, grants, work-study programs and relief measures, etc., to make the complicated aid work standardized, transparent, and easy to operate so that university students' aid resources can be allocated in a standardized and reasonable way, thus ensuring that every student receives financial assistance commensurate with his/her financial difficulties.

2. To establish an effective risk prevention mechanism

At present, China's commercial banks generally lack the enthusiasm to issue student loans because the risk of default is too high. Drawing on the successful experience of the United States, the effective way to solve this problem is to establish an effective risk prevention mechanism. The first is to establish a personal credit file and credit rating system in line with China's national conditions, and network the system nationwide. Once a borrower defaults, it should be recorded in his/her credit file making it difficult for him/her to apply for any loan in the future, which would have a huge impact on the defaulter's work and life. The second is to design flexible and reasonable repayment methods and relief measures. Whether students can make repayments on time depends not only on their willingness to repay but also on their ability to do so. According to the repayment period in China, students are generally required to pay off all loans within five years after graduation, and according to the loan contracts, students have to repay interest to the bank every quarter. However, the wage level of most university graduates is relatively low. Requiring students to pay off their loans within a few years after graduation is very difficult for most of the students who are poor. The four alternative repayment plans for American student loans are not only flexible and effective but also avoid the psychological burden of soliciting loans for students.

3. To actively create more work-study jobs

At present, the development and utility of human resources for work-study programs in colleges and universities are very inadequate, and the channels for work-study programs are not unblocked. When students go to work off-campus, the problems such as law, security and the conflict with the time of study are not easy to solve. In addition, it is difficult to achieve the purpose of student financial aid via working off-campus in a competitive market environment due to the limitation of students' time and skills. In order to meet the actual needs of students, the construction of both on-campus and off-campus work-study bases should be strengthened, colleges and universities should employ fewer temporary workers, and set up more work-study jobs combining labor-service jobs with intellectual jobs for students.
References


