

CHAPTER IV

THE STUDENT AS A FINANCIAL RISK

Education as a Commercial Venture

No well worked-out policy for the administration of student loans can be arrived at without examining the value of an education to the individual. The easiest way to measure values is, of course, in terms of money, and this is the value which is of greatest concern to those making the loans. In a general way it may be said that no bank or financial house of any kind will make a loan without some estimate of the ability of the borrower to repay. This ability is measured by the increased earning capacity of the individual or corporation due to the loan. The size and length of the loan is proportioned to the earning capacity of the concern and its business turnover. Carrying these elementary principles of lending over to student loans, it would seem that the amount which is to be loaned to a student and the length of time of the loan are to be measured by the cash value of the education he is to receive and how soon it will make financial returns to him. When a bank loans to the XYZ corporation it has a fairly accurate estimate of the additional profits which this loan will enable the XYZ corporation to make. So, too, when money is loaned to a student, some estimate should be made as to the additional earning capacity which the student will receive from such a loan—or the cash value of his education. Care must be taken, however, not to weigh the loan against the entire cash value of the education, for the student is investing other funds besides what he borrows, and in addition to this, four years of his time which in itself has a monetary consideration.

The Cash Value

The cash value of a college education has been estimated at various times by different people. The most careful studies are perhaps the one made by Dean Lord of Boston University and the one made at Northwestern University. These studies, though not intended at the time as a basis for making loans, form a good background for this discussion. Let it be understood that each university would have to make such a study for its own use. There are good reasons to believe that the cash value of a college education differs in the various institutions. It also differs in the several schools within the institution and again with individuals. There may be assigned, therefore, four elements which go to make up the cash value of a student's education: (1) the individual, (2) the field of learning, (3) the institution, (4) the opportunities which