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Focus:HOPE: Using Unsecured Student Loans to Self-Finance Job Training for Disadvantaged Workers

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Focus: HOPE

Using Unsecured Student Loans to Self-Finance Job Training for Disadvantaged Workers

Focus: HOPE is a faith-based organization in Detroit that engages in many community development activities. A major activity is the provision of training to adults, most of whom come from economically disadvantaged backgrounds. Training is offered in skilled machining and in information technology (IT) occupations to individuals who have achieved a high school diploma or GED.

Started in 1967 in response to the Detroit riots, Focus: HOPE was founded with a mission of civil and human rights and community healing. Within a few years of its inception, the agency began to provide skills training to the unemployed and underemployed individuals in the city. The training was paid for through charitable contributions, public job training funds, and through a unique self-funding mechanism: Focus: HOPE became a manufacturer of machined parts. (Customers included the "Big 3" auto companies and the U.S. Defense Department, among others.) The manufacturing business provided direct on-the-job training, and sales provided revenue that was used to support training.

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About 10 years ago, faced with major reductions in public job training dollars and recessionary pressures squeezing the machining enterprise, Focus: HOPE devised the innovative plan to charge tuition for its training. Because of the rigorous training requirements, Focus: HOPE had no difficulty meeting the accreditation standards necessary for its students to access governmental grants-in-aid, such as Pell grants. The residual balance not covered by such aid is financed by an unsecured student loan, which, unlike most student loans, requires a weekly co-payment.

Upjohn Institute Evaluation

In 2003, Upjohn Institute staff won a competitive bid to receive Ford Foundation funding to evaluate the adult training programs at Focus: HOPE. Two features comprise this evaluation: a study of the loan fund and a net impact analysis of the training. This multiyear evaluation is still in progress, but we have identified some preliminary findings.

The primary finding is that the tuition/student loan innovation has been a struggle for Focus: HOPE. On the one hand, most students have been eligible for Pell grants or other educational grants-in-aid (public and private), which have on average covered about one-third of the tuition. But on the other hand, the loan fund has experienced an extremely high default rate. Roughly two-thirds of students who have completed their training and had their loans activated are in default.

Upjohn Institute staff have designed and programmed a simulation model of the loan fund to determine the fiscal sensitivity of the fund to parameters such as the interest rate, late fee, or co-payment structure of the loans. The results of the simulation model clearly indicate relatively little sensitivity to the parameters of the payment structure. Individuals who made any payments tended to maintain their payments—in other words, defaults emanated mainly from individuals who never made any payments. Part of the Institute's focus is to suggest ways to improve the viability of the loan fund. Based on preliminary evaluation, Focus: HOPE should, to the extent possible, 1) target its recruitment and admissions efforts at students with characteristics that are correlated with higher loan repayment rates (part of the Institute evaluation will conduct econometric analysis of repayment behavior), and 2) provide education and training on money management and debt repayment, such as through the GreenPath program.

The net impact analysis part of the evaluation is examining labor market and noneconomic outcomes for students who enrolled in Focus: HOPE and a comparison group of students who applied to and scored high enough to enroll in the program but chose not to. While this evaluation design is not a controlled experiment with random assignment, the comparison group has characteristics that make it a relatively strong benchmark. The members of the comparison group all applied for Focus: HOPE, indicating that they had comparable levels of knowledge about the program and the initiative to apply. Furthermore, Focus: HOPE requires certain levels of attainment in reading and mathematics to qualify for admission, and all of the comparison group members were chosen only if they scored high enough to qualify.

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Two main sources of data are being used to track program outcomes. A comprehensive telephone survey of a random sample of students and comparison group members is supplementing administrative data from the State of Michigan's wage record data. Results from the first wave of the survey suggest positive impacts of Focus: HOPE training, although these impacts are of limited magnitude. Relative to their employment rates at the time of application, the Focus: HOPE students showed a 26-percentage-point increase (from approximately 29 to 55 percent), whereas the comparison group increased by 19 percentage points (from about 36 to 55 percent). Furthermore, placement into manufacturing or IT, which would be a training-related placement for the Focus: HOPE students, was higher. Approximately 34 percent of the employed Focus: HOPE students worked in manufacturing or an IT position, whereas only about 22 percent of the employed comparison group students were in such a position.

The comparison group members had slightly higher levels of wages, hours per week, job tenure, and health insurance coverage, although the differences were not statistically significant. This occurred because many of the comparison group members were employed and gaining tenure during the time that the Focus: HOPE students were receiving training. Wages and health insurance coverage are, of course, highly correlated with tenure.

Conclusions

Very preliminary analyses from a multiyear evaluation of the Focus: HOPE training and loan programs suggest that the loan fund has a serious default issue with which it needs to resolve. Upjohn Institute analyses of repayment behavior and thorough review of loan procedures during the coming years should contribute to an amelioration of this problem.

So far, the net impact analyses have focused on a limited set of short-run labor market outcomes. Focus: HOPE has had, at best, a limited positive impact on individuals moving into employment and, hopefully, careers in machining or IT. Future analyses will examine longer-term employment outcomes, as well as savings, wealth, and expenditure effects. When the study is completed, we will have a clear picture of the viability of using unsecured loans for training disadvantaged adults.

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Staff Working Papers

Upjohn Institute working papers present research by staff or by outside scholars affiliated with the Institute. The purpose of the papers is to present preliminary findings and to generate review comments and discourse. Full-text working papers are available on our Web site: www.upjohninstitute.org.

The Wage Effects of Schooling under Socialism and in Transition: Evidence from Romania, 1950–2000
Staff Working Paper 04-108
Daniela Andren, *University of Gothenborg*
John S. Earle, *Upjohn Institute, Central European University*
Dana Sapatoru , *Upjohn Institute*
November 2004

We estimate the impact of schooling on monthly earnings from 1950 to 2000 in Romania. Nearly constant at about 3–4 percent during the socialist period, the coefficient on schooling in a conventional earnings regression rises steadily during the 1990s, reaching 8.5 percent by 2000. Our analysis finds little evidence for either the standard explanations of such an increase in the West (labor supply movements, product demand shifts, technical change) or the transition-specific accounts sometimes offered (wage liberalization, border opening, increased quality of education). But we find some support for institutional and organizational explanations, particularly the high productivity of education in restructuring and entrepreneurial activities in a disequilibrium environment.

Some Reflections on the Use of Administrative Data to Estimate the Net Impacts of Workforce Programs in Washington State
Staff Working Paper 04-109
Kevin Hollenbeck, *Upjohn Institute*
October 2004

The purpose of this paper is to reflect on the results, methodology, and processes used in a series of net labor market impact studies done for the State of Washington over the past six years. All of the studies relied on administrative data and used a technique referred to as quasi-experimental evaluation. The program interventions were the federal- and state-funded workforce development programs. The paper sets out eight “reflections” for analysts and policy makers to consider. These reflections identify lessons learned and uncertainties or issues that need more consideration and scrutiny.

Personal Reemployment Accounts: Simulations for Planning Implementation
Staff Working Paper 04-110
Christopher J. O’Leary, *Upjohn Institute*
Randall W. Eberts, *Upjohn Institute*
May 2004

The proposed Back to Work Incentive Act of 2003 recommended personal reemployment accounts (PRAs) that would provide each eligible unemployment insurance (UI) claimant with a special account of up to $3,000 to finance reemployment activities. Account funds could be used to purchase intensive, supportive, and job training services. Any funds remaining in the PRA could be paid as a cash bonus for reemployment within 13 weeks, or drawn as extended income maintenance for exhaustees of regular UI benefits. Personal reemployment account offers would be targeted to UI beneficiaries most likely to exhaust their UI entitlements using state Worker Profiling and Reemployment Services (WPRS) models. The draft legislation called for a budget of $3.6 billion for PRAs, with the money to be committed over a two-year period. This report provides a simulation analysis of questions relevant to implementation of PRAs by states. The analysis is done using data for the state of Georgia. Simulations rely on recent patterns of intensive, supportive, and training services use.