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## THE DAVIDSON TRUST: A CASE STUDY OF PROMOTING STUDENT ACCESS

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### EXECUTIVE SUMMARY

In March of 2007 following approval of its trustees earlier that year, Davidson College became the first national private liberal arts college to offer its students a financial aid package that meets 100% of their demonstrated need without any loan component. This paper discusses the reasoning behind this decision and provides an early assessment of the results from the College's no-loan policy, called "The Davidson Trust." The Davidson Trust has increased the access to Davidson College of students from lower and middle income families, contributing to an economically more diverse student body. The current international financial crisis will place heavy pressure on Davidson College and schools with similar financial aid packages to raise the funds needed to support their no-loan policies. A challenge for these schools will be to address their short-term financial shortfalls without compromising the longer-term goal of providing greater access to the education that they offer. Possible temporary remedies could include a return to providing some loans, moving toward need-sensitive admission, or explicitly capping the total financial aid expenditure by the institution. Each institution will need to assess the relative desirability of such modification of policy.

### INTRODUCTION

In March of 2007, following approval of its trustees earlier that year, Davidson College became the first private liberal arts college in the nation to offer its students a financial aid package that meets 100% of their demonstrated need without any loan component. This paper discusses the reasoning behind this decision and provides an early assessment of the results from the College's no-loan policy, called "The Davidson Trust."



**OVERVIEW OF DAVIDSON COLLEGE**

Davidson College<sup>1</sup> is one of the nation's leading liberal arts institutions offering a range of courses in traditional academic disciplines and interdisciplinary clusters. The primary purpose of Davidson College is to assist students in developing humane instincts and disciplined and creative minds for lives of leadership and service. Its curriculum is rigorous, and its faculty is known for their strong commitment to undergraduate teaching and for their professional accomplishments. All Davidson students must fulfill a broad set of distribution requirements that cross academic disciplines and elect a major, either one within an academic department or a self-designed interdisciplinary one. Graduates have had great success with admission to graduate and professional schools; the Davidson pre-medical program has long had a remarkable record of admission to medical school. Other students have excelled in strong Ph.D. programs or gone directly into the job market.

Davidson College has 1,850 degree-seeking students, of whom approximately 1,700 are studying on campus. During the 2008-09 academic year, the College received 4,494 applications for the class of 2013. From the pool, 157 were admitted in Early Decision Round I in December 2008; 58 in Early Decision Round II in January 2009; and 969 through both regular decision (in late March 2009) and the use of the wait list between April and June, for a total of 1,184 admitted students. This corresponds to an overall acceptance rate of 26%. With 491 students beginning their studies in August 2009, the yield rate for the class of 2013 was 42%.

**HISTORY OF ADMISSION POLICY**

Davidson archives reflect that the College has had the privilege of practicing need-blind admission since the inception of a true admission office in the 1960s. As a result, the college admitted, and does to this day, those students best suited for Davidson, independent of their ability to pay the cost of attendance. During those years, while not guaranteeing full financial aid, the College did provide a variety of financial resources, including need-based grants, loans, and student employment to many admitted applicants. In fact, beginning with the 1963-64 academic year, Davidson committed to providing some financial aid for all with demonstrated need.

In 1966, the College essentially committed to covering the full financial need of a student. ["Every student who needs financial assistance is awarded financial aid equal to his need." Davidson College Catalogue, 1966-67. p. 72] In subsequent years (1986-87 onward), the College explicitly stated that it would meet 100% of "all established financial need" with grants and loans. [Davidson College Catalogue, 1986-87. p. 35]

With binding financial constraints, the College from 1994-95 to 2007-08 reluctantly was forced to "cap" or "limit" its overall financial aid expenditure. For the 1994-95 year, approximately \$ 5.8 million was provided by the College as financial aid, allocated to 60% of Davidson students. In some cases, however, with this capping, the College was not able to meet 100% of demonstrated financial need, with families needing to rely on external sources to meet the cost of the Davidson education, were they to enroll. It should be noted that Davidson has long awarded merit (or non-need-based) financial assistance. In the 1994-95 academic year, approximately \$ 750,000 or 13% of total financial aid expenditure was non-need-based honors, awards, and scholarships.

1 Davidson College is located in the town of Davidson, twenty miles north of Charlotte, North Carolina. Established in 1837, original courses of study included moral and natural philosophy, evidences of Christianity, classical languages, logic, and mathematics. In recent years the College has expanded its interdisciplinary offerings into areas such as environmental studies and neuroscience. The College is considering the offering of structured interdisciplinary majors. Davidson maintains a residential character with close student and faculty interaction. Davidson has long had a commitment to international study, both on and off campus. Moreover, the College boasts of a strong Division I athletic program.

**CONCEPTION OF THE DAVIDSON TRUST**

In the summer of 2006, the Office of Admission and Financial Aid and the Office of Institutional Research conducted a study on the correlation of application and enrollment patterns versus the application and awarding of need-based financial aid. At the time of this study, the College was meeting 100% of the demonstrated financial need: with work study obligation for \$2,000, a yearly loan amount of \$3,000 (capped at \$12,000 over four years) and the remainder being college grant. A number of critical findings came from this study that was presented to the Trustees of Davidson College in January 2007.

First, the College was starting from a position of strength, as the then current financial aid program was healthy and effective. Historically, Davidson had maintained a higher yield rate<sup>2</sup> for needy students in comparison to non-needy, and the higher the need of the family the higher the yield, indicating a perception that the College was affordable. A point of significance was that early-decision enrollees were being awarded both need-based and merit aid at close to the same rate as those awarded at regular decision.

At the time of the study, Davidson was meeting financial need with students being packaged with a \$3,000 loan per year. The percentage of students assuming loans (22%) was lower than the College's percentage of students on need-based financial aid (32%). This difference was due to families not accepting packaged loans and/or through the receipt of athletic, merit and outside scholarships which eliminated the packaged loan. Of those with loans, 13% of the enrolled students had assumed a packaged loan, while 18% of the students and or their parents had taken an additional loan. Parent loans (PLUS) accounted for about 45% of the total loans taken. Of interest relative to loans was the number that were assumed by both no-need and no-aid application families, most likely as an individual financial strategy for covering college costs. Issues of liquidity were reasons for families at all need levels in assuming additional loans.

The final suggestion from the study referenced cost sensitivity, message, and timeliness of its delivery and possible affordability actions. Cost sensitivity is increasingly found at the time of application, for families will not apply to a college that is perceived to be unaffordable. Creating an affordability tool that could be promoted at the time of application was viewed as paramount. The College sought one that would be easy to articulate, applicable to all students and could serve as a form of hope for students and families that would have previously considered the college too expensive. Proposed affordability actions included the total elimination of loans, a reduction in loan amounts required, the introduction of college financing (with interest rates more attractive than those of the market) and the awarding of aid based on income (and asset) levels.

In addition to the issue of affordability and attracting more applicants from both middle and lower income families, the no-loan strategy was aimed at giving students greater freedom of choice with respect to academic program at Davidson College and post-Davidson opportunities. Students would then feel that they could choose a major and a first job without concern for the need to earn sufficient income to pay off undergraduate student loans.

Following consideration of the results of this study, the Trustees of Davidson College spent their January 2007 retreat reviewing costs and strategies for making a transformational change to their need-based financial aid program. The trustees unanimously decided to eliminate loans from the packaged need-based awards, becoming the first national liberal arts college in the country to adopt such a progressive policy. This commitment was accompanied by a pledge to raise new funds (and not divert existing funds) to support this policy. The College announced the policy change in March 2007, applicable to all returning students and those that would be enrolling in the Class of 2011. In the spring of 2008, this no-loan initiative was formally named as The Davidson Trust.

2 The percentage of admitted students who send deposits to a particular college.

Tom Ross, who became Davidson's president in 2007, was a trustee at the time the decision was made. A 1972 graduate of the college, and the father of two Davidson alumni, Ross said he has "never been more proud" of his alma mater. "There was an incredible feeling of emotion and pride in the room when the trustees decided to eliminate loans," Ross said. "It was an historic decision, and a brave one—at the time, the only other school that had taken such a step was Princeton. But we didn't do it to make history; we did it because we knew—we just knew—that it was the right thing to do."

Ross notes that Davidson College's Statement of Purpose calls on the College to help prepare students "for lives of leadership and service." Ross said the trustees knew that "reframing our financial aid policies this way would allow every Davidson student the opportunity to graduate without debt, to pursue their dreams without taking on the burden of loans. We knew that this would make a profound difference in our students' lives. It frees them up to make life and career choices worrying less about how those choices will be compensated."

### **COST PROJECTIONS FOR THE DAVIDSON TRUST**

The incremental cost projections of The Davidson Trust have been greatly complicated by several factors. Ideally, the comparison should be of financial aid expenditures, growing from a base year, without The Davidson Trust to those in a given year with The Davidson Trust. The incremental costs would be two-part in theory: a) the cost of converting loans to grants and b) the impact of The Davidson Trust on the number of need-qualifying students both applying and accepting admission to Davidson College; in other words, an increase in the average package funded internally and in the number of students receiving assistance.

Several factors make this analysis complicated in practice:

- Prior to the March 2007 announcement of The Davidson Trust, the College had been limiting the amount of loans in a need-based package. For instance during the 2005-06 academic year, the maximum loan component over the four-years of aid was \$ 18,000. In the 2006-07 year, with the assistance of a five-year grant for this purpose, the College reduced that amount to \$ 12,000 per student over four years. Then, beginning in the 2007-08 year, all students had no loans in their package for that year and subsequent years. Thus, the 2005-06 academic year serves as the best base year even though it was a full year before the no-loan initiative was proposed and accepted by the Board of Trustees.
- The actual assessment of the number of new applications and new acceptances of Davidson's offer of admission is complicated by our inability to know with certainty, in the post-Davidson Trust years, what these admission data would be in the absence of The Davidson Trust.
- The severe economic down-turn that began in late 2007 has increased need-based financial aid outlays as household income has fallen; more families qualify for need-based aid and those qualifying might be deserving of higher aid packages.
- The need to raise funds for The Davidson Trust has increased, while the College's endowment has not grown at the pace assumed in earlier planning. In fact, of course, the value of the endowment has actually declined in the last eighteen months.

Over the following years, total financial aid expenditures have been:

2005-06	\$16,226,767
2006-07	17,282,387
2007-08	19,338,006
2008-09	22, 570,916
2009-10 (estimated)	27,500,000

The increase from 2005-06 to 2006-07 results both from capping loans at a lower level, as well as normal tuition and fee increases that raise aid packages. From 2006-07 to 2007-08, there is an increase in financial aid expenditures attributable to The Davidson Trust that results from eliminating loans in our financial aid packages for all students (both returning and new) and from a possible increase in the yield of students in the class of 2011 who would receive need-based aid and had learned of the decision to eliminate the loan component.<sup>3</sup> Some of the total increase, however, results from the increase in tuition and fees and subsequent upward adjustment of financial aid packages.

The increase in outlays from 2007-08 to 2008-09 may well be a function of an expanded applicant pool in the fall of 2007 for those entering into the class of 2012. These students may well have applied to Davidson as a result of the no-loan policy. The increase in the number of first-generation college students applying to Davidson would suggest that The Davidson Trust has been successful in increasing applicants from lower-income segments of the population. Subsequent increases in financial aid outlays are the result of continued success of The Davidson Trust in attracting both applicants and enrolling students who qualify for financial aid. Pre-Davidson Trust, need-based financial aid was accorded to approximately 33% of our students. Post-Davidson Trust, an average of 45% (49% in the Class of 2013) of entering students are qualifying for need-based aid (table 1). Some of them, however, will also have their need covered by a merit scholarship or an athletic award. Recent increased outlays in Davidson-provided financial aid is also attributable to higher financial aid packages resulting both from higher tuition and fees, as well as from reduced family contributions linked to the economic recession.

The best estimate of the annual incremental cost (from a base of 33% receiving need-based aid and loans capped at \$12,000 over four years) of The Davidson Trust, as its impact becomes more fully applicable, is in the \$7 to \$8 million range over the near term. Growth of the total endowment, annual donations, and a specific Davidson Trust endowment are expected to cover these additional annual costs. Were these total incremental costs to be capitalized into a single endowment, with a 5% annual off-take rate, there would be a need for a \$140 to \$160 million endowment.

**IMPACT OF THE DAVIDSON TRUST ON ADMISSIONS**

At this point, given the brief period of time over which The Davidson Trust has existed, coupled with the concurrent down-turn of the international economy, it is somewhat difficult to assess the independent impact of The Davidson Trust on the College’s admission process. A combination of “soft” data and anecdotal information does yield some conclusions, however.

1. The Davidson Trust has led to an increase in applications from students with greater financial need, including students of first-generation college households.
2. There has been an increase in the yield rates from students who have demonstrated financial need. Table 1 shows the increased percentages of those qualifying for aid in successive academic years (or graduating class).

3 These students would not have known of Davidson’s intent to eliminate loans when they applied to Davidson in the fall of 2006.

3. Davidson College’s historic decision to provide a no-loan financial aid package has likely been instrumental in encouraging other institutions to move in this direction. In this sense, Davidson College has had an impact on admission policy throughout the country.

**TABLE 1  
NEED-BASED FINANCIAL AID AT DAVIDSON COLLEGE**

	<b>ACADEMIC YEAR</b>	<b># IN FIRST-YEAR CLASS</b>	<b># QUALIFYING FOR NEED-BASED AID</b>	<b>% QUALIFYING FOR NEED-BASED AID</b>
Class of 2010	2006-2007	464	188	41
Class of 2011	2007-2008	467	179	38*
Class of 2012	2008-2009	482	220	46
Class of 2013	2009-2010	491	239	49

\* Given the small number of first-year students, the sensitivity of percentage changes to small changes in absolute numbers may account for the decrease from 41% to 38% of students qualifying for aid between the Classes of 2010 and 2011.

Source: Office of Admission and Financial Aid, Davidson College

**CHALLENGES OF THE DAVIDSON TRUST**

Raising the additional \$7 to 8 million dollars per year to support the incremental costs of The Davidson Trust is a significant challenge, at least in the short run. Davidson is committed to maintaining The Davidson Trust and has succeeded through this 2009-10 academic year. Annual expendable gifts for The Davidson Trust have been substantial, permitting the College to fully fund all financial aid expenditures. Gifts to endow the trust have been more difficult to raise in the current economic climate as many potential donors have experienced significant wealth loss.

Were Davidson to take temporary measures to reduce its financial aid outlays, it could consider the following strategies:

- *Return to Including a Loan Component in the Aid Package*—Such a retreat of the policy, even for a short period of time, is not attractive. Graduates would again be constrained in their post-Davidson choices as they would need to repay loans from their income stream. In addition, it would likely reduce the number of Davidson applicants with significant financial need.
- *Need Blind to Need Sensitive Admission*—A possibility would be to increase the number of full-pay students (all fully qualified), which essentially reduces the percentage of students on need-based financial aid, perhaps capping that at 35 to 40%. This would still represent an increase from the pre-Davidson Trust norm of 33% for an in-coming class.
- *Capping the Financial Aid Outlay at a Pre-Determined Dollar Aggregate*—In this case the College would continue to be need-blind in admission, but would ration the financial aid awards within the capped dollar aggregate. Some admitted students who do not receive a financial-aid offer equal to their demonstrated need would still have the opportunity to borrow funds externally or find other support to attend Davidson College.

At this point, Davidson is maintaining the assumption that it will fully fund the obligations from The Davidson Trust, and it has not made any explicit plans to move from that commitment.

As President Tom Ross stated, “The Davidson Trust remains the college’s highest priority and one of our most important assets.” Ross noted that The Davidson Trust has already changed the socio-economic profile of the College. “It has brought to our campus talented students who otherwise never would have believed that they could enroll at Davidson,” he said. “It is making a difference in the life of the College—and the lives of our students—and we are committed to making it a permanent part of Davidson.”

## **CONCLUSION**

In 2007, the trustees of Davidson College announced that beginning with the Class of 2012 there would no longer be a loan component in the financial aid package offered by the College. Davidson was the first private liberal arts college to make this decision. This move has been path breaking, as other schools like Davidson now have “no-loan” financial aid policies. The Davidson Trust has increased the access to Davidson College of students from lower and middle-income families, contributing to a more economically diverse student body. The current international financial crisis will place heavy pressure on Davidson College and schools with similar financial aid packages to raise the funds needed to support their no-loans policies. A challenge for these schools will be to address their short-term financial shortfalls without compromising the longer-term goal of providing greater access to the education that they offer.



## **ABOUT THE AUTHORS**

Christopher (Chris) Gruber is Vice President and Dean of Admission and Financial Aid, Davidson College. Gruber came to Davidson in 2005 from the University of Richmond. Gruber received his B.A. in economics in 1985 from the University of Richmond and enjoyed a 20-year career in admissions at his alma mater. As he became increasingly interested in the business aspect of admissions, he enrolled in Richmond's M.B.A. program and received that degree in 1992. At Richmond he established an enrollment planning model that helped ensure that the university achieved target enrollment at all times and that reduced the year-to-year variance in first-year class enrollments. Gruber presently serves on the Board of Directors for The Common Application, as President-Elect and Treasurer.

Clark Ross, the Frontis W. Johnston Professor of Economics, Davidson College, received his undergraduate degree from the University of Pennsylvania and his Ph.D. in Economics from Boston College. Ross has taught economics at Davidson College since 1979 and chaired the economics department from 1984 until 1998. He has served as the Vice-President for Academic Affairs and Dean of Faculty at Davidson since 1998. With departmental colleague, Peter Hess, he has authored two texts, one for introductory economics and one for economic development. Prior to coming to Davidson College, Ross worked for the University of Michigan, principally in West Africa where he conducted studies relating to food grain self-sufficiency. Ross also served as the Chief Faculty Consultant for A.P. Economics from 1998 to 2004, and continues to conduct workshops for high school A.P. economics teachers.



**APPENDIX****TABLE A1****IMPACT OF THE DAVIDSON TRUST ON ADMISSIONS AND COST****CLASS OF 2010-STARTING FALL 2006****(1,185 ADMITTED, 464 INITIALLY ENROLLED, 39.2% OF ADMITTED STUDENTS ENROLLED)**

<b>NEED LEVEL</b>	<b>ADMITTED</b>	<b>YIELD</b>	<b>ENROLLED</b>	<b>% OF CLASS ENROLLED AT THIS NEED LEVEL</b>	<b>AVERAGE NEED PER ENROLLEE AT THIS LEVEL</b>	<b>COSTS FOR ENROLLED STUDENTS AT THIS NEED LEVEL</b>
Very High Need	92	47.8%	44	9.5%	\$40,206	\$1,769,044
High Need	148	41.9%	62	13.4%	\$30,134	\$1,868,307
Medium Need	125	43.2%	54	11.6%	\$18,421	\$994,726
Low Need	84	33.3%	28	6.0%	\$5,685	\$159,172
No Need	350	39.1%	137	29.5%	\$0	\$0
No Application	386	36.0%	139	30.0%	\$0	\$0
Totals for students determined to have need	449	41.9%	188	40.5%	\$25,407	\$4,791,248

**CLASS OF 2011-STARTING FALL 2007****(1,127 ADMITTED, 467 INITIALLY ENROLLED, 39.2% OF ADMITTED STUDENTS ENROLLED)**

<b>NEED LEVEL</b>	<b>ADMITTED</b>	<b>YIELD</b>	<b>ENROLLED</b>	<b>% OF CLASS ENROLLED AT THIS NEED LEVEL</b>	<b>AVERAGE NEED PER ENROLLEE AT THIS LEVEL</b>	<b>COSTS FOR ENROLLED STUDENTS AT THIS NEED LEVEL</b>
Very High Need	107	49.5%	53	11.3%	\$42,154	\$2,234,155
High Need	127	52.8%	67	14.3%	\$30,201	\$2,023,471
Medium Need	111	33.3%	37	7.9%	\$18,490	\$684,116
Low Need	74	29.7%	22	4.7%	\$7,188	\$158,143
No Need	353	48.2%	170	36.4%	\$0	\$0
No Application	355	33.2%	118	25.3%	\$0	\$0
Totals for students determined to have need	419	42.7%	179	38.3%	\$28,491	\$5,099,885

Source: Office of Admission and Financial Aid, Davidson College

**APPENDIX (CONTINUED)****TABLE A1 (CONTINUED)****IMPACT OF THE DAVIDSON TRUST ON ADMISSIONS AND COST****CLASS OF 2012-STARTING FALL 2008****(1,133 ADMITTED, 482 INITIALLY ENROLLED, 42.5% OF ADMITTED STUDENTS ENROLLED)**

<b>NEED LEVEL</b>	<b>ADMITTED</b>	<b>YIELD</b>	<b>ENROLLED</b>	<b>% OF CLASS ENROLLED AT THIS NEED LEVEL</b>	<b>AVERAGE NEED PER ENROLLEE AT THIS LEVEL</b>	<b>COSTS FOR ENROLLED STUDENTS AT THIS NEED LEVEL</b>
Very High Need	153	57.5%	88	18.3%	\$42,310	\$3,723,280
High Need	133	48.9%	65	13.5%	\$30,176	\$1,961,419
Medium Need	102	40.2%	41	8.5%	\$18,896	\$774,717
Low Need	73	35.6%	26	5.4%	\$6,455	\$167,835
No Need	323	42.1%	136	28.2%	\$0	\$0
No Application	349	36.1%	126	26.1%	\$0	\$0
Totals for students determined to have need	461	47.7%	220	45.6%	\$30,124	\$6,627,251

**CLASS OF 2013-STARTING FALL 2009****(1,185 ADMITTED, 491 INITIALLY ENROLLED, 41.4% OF ADMITTED STUDENTS ENROLLED)**

<b>NEED LEVEL</b>	<b>ADMITTED</b>	<b>YIELD</b>	<b>ENROLLED</b>	<b>% OF CLASS ENROLLED AT THIS NEED LEVEL</b>	<b>AVERAGE NEED PER ENROLLEE AT THIS LEVEL</b>	<b>COSTS FOR ENROLLED STUDENTS AT THIS NEED LEVEL</b>
Very High Need	188	62.2%	117	23.8%	\$43,154	\$5,049,069
High Need	130	51.5%	67	13.6%	\$30,496	\$2,043,239
Medium Need	101	31.7%	32	6.5%	\$19,280	\$616,948
Low Need	73	31.5%	23	4.7%	\$6,998	\$160,958
No Need	290	37.9%	110	22.4%	\$0	\$0
No Application	403	35.1%	142	28.8%	\$0	\$0
Totals for students determined to have need	492	48.6%	239	48.7%	\$32,930	\$7,870,214

Source: Office of Admission and Financial Aid, Davidson College