Discussion Draft: Dynamic Loan Limits Working Group Proposal

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NASFAA ADVOCACY

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

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Executive Summary

NASFAA convened the Dynamic Loan Limits Working Group in the fall of 2015 with the goal of determining whether the current Direct Loan limit structure should change, and if so, to make a proposal outlining those changes. NASFAA's Indebtedness Task Force and Reauthorization Task Force both tackled this issue in their 2013 reports, however, there remained a general sense that current statutory limits do not allow undergraduate students without parental support or graduate/professional students to finance higher education without turning to more expensive alternatives. To that end, the group explored the idea of varying, or dynamic, loan limits for different schools or students using established criteria like program of study or meeting certain thresholds. During the working group discussions of those ideas, five components for effective loan limits arose frequently:

- Flexibility.
- Retention of existing statutory limits.
- Institutional accountability.
- Simplification (for schools and students).
- Reduction of administrative burden.

Three members presented ideas to implement a dynamic loan limit structure, but the group did not reach consensus on a single idea. Ultimately the group agreed to support the Reauthorization Task Force (RTF) loan limit recommendations and to introduce its own proposal that would permit schools meeting certain Cohort Default Rate (CDR) threshold criteria the opportunity to increase loans for students beyond the RTF recommended limits.

This white paper is intended to be a discussion draft to stimulate conversation and debate about the structure of federal loan limits.

Working Group Participants

Members:

- Gisella Baker, Hawkeye College
- Lisa Blazer, University of Texas at San Antonio
- Mark Lindenmeyer, Loyola University Maryland
- Dan Mann, University of Illinois
- Christine McGuire, Boston University
- Eileen O'Leary, Stonehill College
- Richard Shipman, Michigan State University
- Diane Todd Sprague, University of Texas at Austin
- Laurie Wolf, Des Moines Area Community College
- Art Young, Brigham Young University

NASFAA Staff Liaisons:

- Justin Draeger
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Proposal

The Dynamic Loan Limits Working Group used the Reauthorization Task Force (RTF) loan recommendations as a foundation upon which to build its proposal, which includes school authority to limit loans, increased annual and aggregate loan limits and two new concepts developed by this group: *exceptional performers* and *bonus borrowing.*

1. School Authority to Limit Loans

The group recognized the importance of schools' ability to help students borrow responsibly to make loan repayment affordable and to keep borrowers out of delinquency and default. As a result, the group supports the following RTF recommendations:

- Allow schools to set lower loan limits for specific populations, academic programs, credential levels, or other categories established by the school (such as enrollment status, living arrangement, and dependency status).
- Allow aid administrators to increase a particular student's loan from the school's imposed limit, up to the regular applicable statutory limit, on a case-by-case basis under professional judgment.

2. Loan Limits

The group also supports the RTF recommendation to simplify the subsidized/unsubsidized structure of loan limits and to increase annual and aggregate limits (see blue chart in item 3 below) for both undergraduate and graduate/professional students. This structure:

- Establishes one annual subsidized limit by eliminating differences based on year in school.
- Increases annual and aggregate loan limits to a more realistic level.
- Steps aggregate limits, so that a lower limit applies to undergraduate students who have not yet successfully completed the second year of an undergraduate program.

3. Bonus Borrowing

The group proposes giving certain schools (exceptional performers) the ability to increase loan limits beyond the RTF recommended limits. Exceptional performers would be defined as those whose most recent cohort default rate is no more than 75% of the national average cohort default rate or, for institutions with low borrowing rates, the product of its most recent cohort default rate (CDR) and its percentage of borrowers is no more than 50% of the national average CDR. Students at exceptional performer schools would have the ability to borrow an additional $5,000 annually. It is important to note that this bonus borrowing would not affect an undergraduate student's ability to receive the additional $5,000 outlined in the RTF recommendations for independent students or dependent students whose parents are unable to obtain a PLUS loan. Increased aggregate limits would apply for students with bonus borrowing. The group agreed that bonus borrowing must be prorated based on enrollment status. Finally, bonus borrowing would not be required; institutions meeting the CDR threshold could choose whether they wished to take advantage of bonus borrowing.

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Current Loan Limits and Proposed Loan Limits with Reauthorization Task Force and Bonus Borrowing Recommendations

Current Undergraduate	Yr 1	Yr 2	Yr 3 and Beyond	Aggregate
Sub	$3,500	$4,500	$5,500	$23,000 Sub $31,000 Sub and Unsub
Unsub	$2,000	$2,000	$2,000	
Yearly Total	$5,500	$6,500	$7,500	
Additional Unsub for Indep Students or PLUS Denials	$4,000	$4,000	$5,000	$57,500
Yearly Total	$9,500	$10,500	$12,500	

Proposed Undergraduate	Yr 1	Yr 2	Yr 2 +	Aggregate for through 2nd Year	Yr 3 and Beyond	Bonus Borrowing	Aggregate
Sub	$5,500	$5,500	$5,500	$16,500 Sub $22,500 Sub and Unsub (or $37,500 with bonus borrowing)	$5,500	N/A	$33,000 Sub $45,000 Sub and Unsub (or $75,000 with bonus borrowing)
Unsub	$2,000	$2,000	$2,000		$4,500	$5,000	
Yearly Total	$7,500	$7,500	$7,500		$10,000	$5,000	
Additional Unsub for Indep Students or PLUS Denials	$5,000	$5,000	$5,000	$37,500 (or $52,500 with bonus borrowing)	$6,000	N/A	$75,000 (or $90,000 with bonus borrowing)
Yearly Total	$12,500	$12,500	$12,500		$16,000	N/A	

Current Graduate	Annual	Annual Addtl Unsub[1]	Annual Addtl Unsub[2]	Aggregate
Unsub	$20,500	$16,667	$26,667	$138,500 $224,000 if former HEAL eligible
Yearly Total	$20,500	$16,667	$26,667	

[1] For Graduate in Public Health; Dr. of Pharmacy or Chiropractic; Dr. Degree in Clinical Psychology; Masters or Doctoral Degree in Health Administration.

[2] For Doctor of Dentistry, Veterinary Medicine, Optometry, Allopathic Medicine, Osteopathic Medicine, Podiatric Medicine, Naturopathic Medicine, or Doctor of Naturopathy.

Proposed Graduate	Annual	Annual Addtl Unsub[1]	Annual Addtl Unsub[2]	Bonus Borrowing	Aggregate
Sub	N/A	N/A	N/A	N/A	$169,000 (or $202,800 with bonus borrowing) $274,000 if former HEAL eligible (or $309,000 with bonus borrowing)
Unsub	$25,000	$20,326	$32,521	$5,000	
Yearly Total	$25,000	$20,326	$32,521	$5,000	

[1] For Graduate in Public Health; Dr. of Pharmacy or Chiropractic; Dr. Degree in Clinical Psychology; Masters or Doctoral Degree in Health Administration.

[2] For Doctor of Dentistry, Veterinary Medicine, Optometry, Allopathic Medicine, Osteopathic Medicine, Podiatric Medicine, Naturopathic Medicine, or Doctor of Naturopathy.

Bonus Borrowing Examples

For all examples, the national CDR is 12 percent; therefore, the bonus borrowing threshold is 9 percent (75 percent of the 12 percent national rate). For low borrower schools, the threshold is 6 percent (50 percent of the 12 percent national rate).

	CDR	Percentage of Borrowers	Eligible for Bonus Borrowing?
School A	8.5%	90%	**Yes** 8.5% is lower than the 9% threshold.
School B	20%	5%	**Yes** 20% x 5% borrowing rate = 1%, which is lower than the low borrowing threshold.
School C	22%	30%	**No** 22% x 30% borrowing rate = 6.6%, which is higher than the low borrower threshold of 6%.
School D	15%	60%	**No** 15% is higher than the 9% threshold.

Conclusion

While the proposal needs refinement it is a solid start on a potential policy position for the association. The group believes this dynamic loan structure addresses commonly-expressed pain points felt by both schools and students. Under this proposal, schools with low costs like community colleges could minimize overborrowing by setting lower-than-statutory loan limits while schools with higher costs and a proven record of low default rates could use bonus borrowing to keep their students from having to turn to more expensive and riskier financing options. Furthermore, it addresses the five identified components of effective loan programs in the following ways:

- ***Flexibility*:** Schools would have the authority to reduce loan amounts for groups of students, but also have the option of providing bonus borrowing if the institution meets established thresholds.
- ***Retention of limits*:** If the school does not wish to reduce loan amounts, the proposal still provides both annual and aggregate loan limits for the subsidized and unsubsidized loan programs.
- ***Institutional accountability*:** In order to participate in bonus borrowing, schools must meet an established threshold, making them accountable to assisting former borrowers.
- ***Simplification (for schools and students)*:** Loan limits are the same for all undergraduate grade levels, which makes calculating and explaining available amounts easier. The bonus borrowing amounts are also the same for all students.
- ***Reduction of administrative burden*:** Schools are already familiar with CDRs as an institutional measure, and using it to determine eligibility for bonus borrowing likely would not impose as much of a burden as implementing a new accountability measure.

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Appendix A

SCHOOLS THAT WOULD QUALIFY FOR BONUS BORROWING

Calculated January 21, 2016

How many schools would qualify as exceptional performers using the proposed CDR threshold?

Criteria: The institution's most recent cohort default rate is no more than 75% of the national average cohort default rate.

2338 schools (38.5%) would qualify based on FY2012 data.

Fiscal Year	National Average CDR	75% Threshold	Total # of Schools	# of Qualifying Schools	% of Qualifying Schools
2012	11.8	8.9	6071	2338	38.5%
2011	13.7	10.3	5992	2237	37.3%
2010	14.7	11.0	6071	1980	32.6%

Source data: Excel file provided by ED on the CDR webpage.

How many students would qualify for bonus borrowing?

Methodology: Using the CDR data, NASFAA counted the number of borrowers in the CDR denominator (borrowers who entered repayment during the fiscal year) for schools that qualified for bonus borrowing. In the FY 2012 example above, nearly 2.2 million borrowers would have qualified for bonus borrowing due to attendance at a school with a CDR of 8.9% or less.

As an aside, ED provides a unique borrower count of DL student borrowers, and if we exclude PLUS loans for graduate students, the total number of unique borrowers for the 2014-15 award year is nearly 9.7 million borrowers. So, those students who may qualify for bonus borrowing account for approximately 22.6% of the total number of borrowers.

There are some limitations to these figures:

- The CDR counts students who enter repayment during the fiscal year, not current borrowers.
- Borrowers may count in more than one school's CDR if they attended multiple schools and the loans all entered repayment during the same fiscal year.

How many schools that made Perkins Loans would qualify?

Working group members were concerned about potential future gaps in aid packages after the Federal Perkins Loan Program expires and were interested in learning if their bonus borrowing proposal would help to fill those gaps at Perkins-participating institutions.

Using 2013-14 data*, 1496 schools made at least one Perkins Loan during the 2013-14 year. Of those schools, 1,106 (or 73.9%) would qualify for bonus borrowing using FY 2012 CDRs. The 1,106 schools that would qualify for bonus borrowing lent Perkins Loans to 466,886 Perkins Loan borrowers, which accounts for 86.6% of the total Perkins Loan borrowers for that year.

NASFAA identified a small number of schools that were not found in the FY 2012 CDR data, but the percentage change was negligible.

**The most recent campus-based aid report available is 2013-14 from the FSA Data Center.*

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