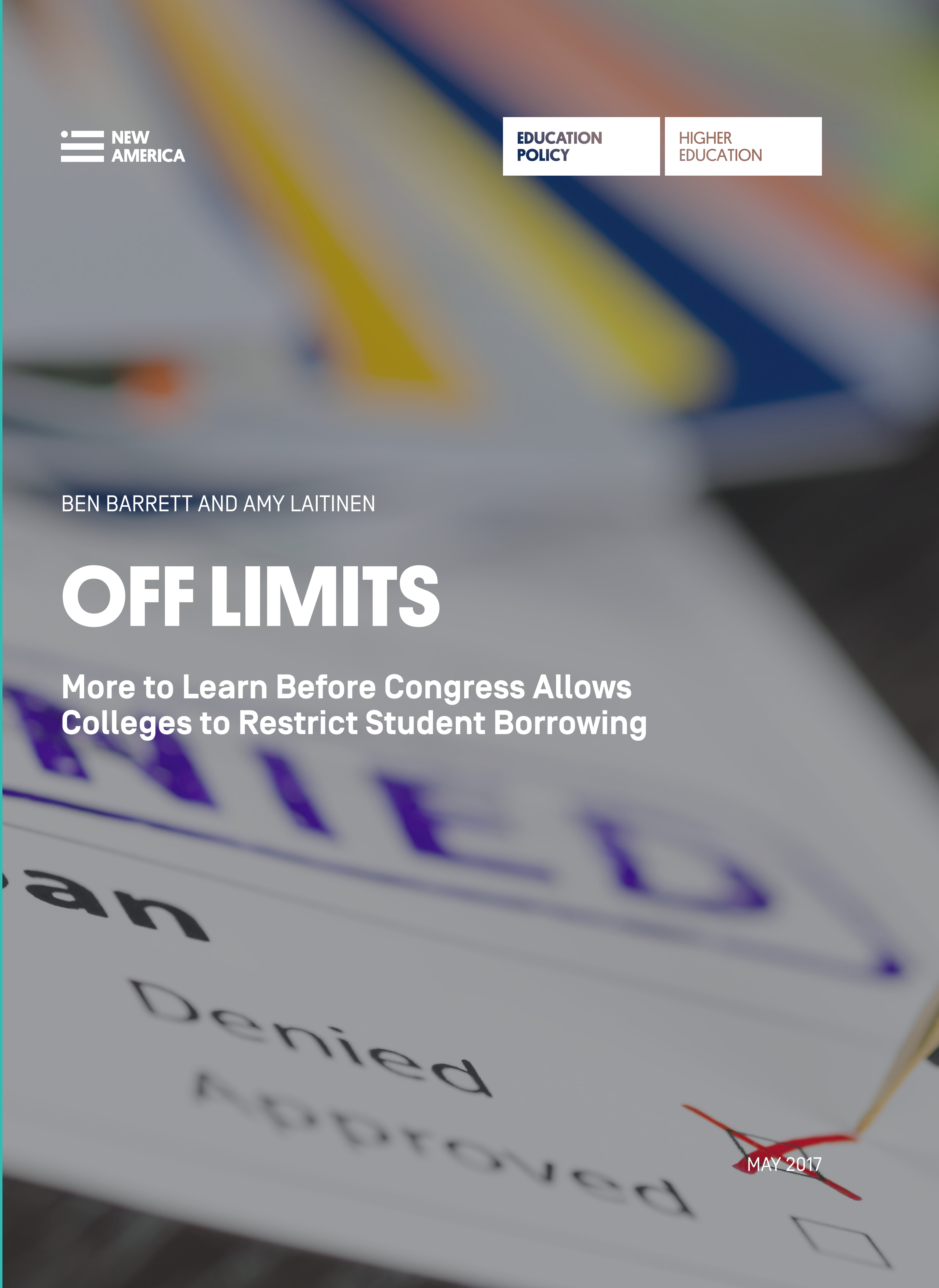

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EDUCATION POLICY | HIGHER EDUCATION

BEN BARRETT AND AMY LAITINEN

OFF LIMITS

More to Learn Before Congress Allows Colleges to Restrict Student Borrowing

MAY 2017

About the Authors

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INTRODUCTION

As a financial aid administrator at Atlanta Metropolitan State College (ATLM), Michelle Chapman had seen students struggling with debt for years. "When I got here, our default rate was not really good," she told us.[1] According to U.S. Department of Education (ED) data, this was an understatement. Although only 39 percent of students took on federal debt at the college in 2010, almost a quarter of ATLM borrowers had defaulted on their loans just three years later.[2] By defaulting, her students could face damaged credit, wage garnishment, and steep penalties.

Chapman was worried, and not only for the struggling borrowers. Federal law prohibits an institution from having a default rate above 30 percent for three consecutive years or 40 percent in a single year. If the defaults did not go down, ATLM, which was within seven percentage points of passing the first threshold, could lose its eligibility to participate in federal student aid programs. Those most at risk would be the low-income students on campus who depend on need-based aid like Pell Grants in addition to loans to help pay for college. At ATLM, nearly three-quarters of students qualify for Pell.[3] Without the ability to access federal grants or student loans, thousands would likely drop out, forcing the institution to shutter its doors.

Mindful of this looming threat, Chapman started to question whether students needed to borrow as much as they were. "We are a commuter school, but you see students borrowing crazy amounts of money, and you wonder, what are they doing with it?" she said. At the time, ATLM's annual in-state tuition and fees were only $2,850. Books and supplies were an additional $1,300.[4] Yet she pointed to examples of students who lived across the street with their families who had taken out over $10,000 in debt.

The students with large loans that stood out in Chapman's mind were not necessarily the norm. In 2010, the average borrower at ATLM had taken on almost exactly the amount needed for direct educational expenses, just $5,061 in total federal debt, which left about $910 for living costs.[5] Nonetheless, Chapman considered the amount excessive for her students, since many of them received a full Pell Grant (up to $5,550 in 2010), had jobs, and lived at home with their families.

If students were overborrowing and therefore struggling to repay their debt, Chapman thought one way to help students and the institution was to limit borrowing for those most at risk of defaulting on their loans. But this is illegal: Congress explicitly prohibits financial aid officers from limiting loans for groups of students below the annual amounts to which they are entitled. These restrictions prevent potentially discriminatory behavior. While administrators can provide borrowers with smaller loans on a strict case-by-case basis, the

Some schools are resorting to drastic measures like pulling out of the federal loan program, which has significant implications for higher education access and equity.

process can be tricky and time consuming for under-resourced financial aid offices. Despite the range of other options available to her, the tight constraints around how much Chapman could directly intervene in students' decisions to borrow complicated her efforts to help them make what she considered more prudent borrowing choices. But one morning in 2011, she came across a news article highlighting an experimental initiative led by ED that would allow a small number of colleges to limit loans for certain groups of students. She showed the article[6] to ATLM's then-financial aid director, who forwarded it to the college's president. In 2012, Chapman received the green light to apply for a temporary waiver to the law, under something ED calls the "Experimental Sites Initiative."

For the last three years, Atlanta Metropolitan—along with 23 other colleges across the country[7]—has been permitted to lower unsubsidized federal student loan levels for certain groups of students by at least $2,000. "This experiment was the answer to our prayers," Kelly Morrissey, director of financial aid at Mount Wachusett Community College (Gardner, MA), another of the experiment's participants, told us.[8] While only the 24 institutions in the experiment have been permitted to limit loans below the federally mandated amounts or to deny student borrowing entirely, many others, mainly open enrollment community colleges and higher education trade groups like the National Association of Student Financial Aid Administrators (NASFAA), are pushing Congress to make this flexibility available to all.[9]

Citing insufficient evidence to continue, ED announced in April that the experiment will officially be cancelled in June. Lawmakers must now consider whether to expand a similar level of authority to all colleges despite inadequate information about how much this will affect students.[10] Following dozens of conversations with financial aid administrators who participated in the experiment, U.S. Department of Education officials, and other federal policy makers, we understand the realities that have led institutions to ask for this flexibility. But after looking at the experiment combined with research on borrowing and default, we do not believe there is adequate information to support such a broad change in federal policy.

We begin this paper with an overview of the policies that have spurred many open enrollment institutions to seek greater control over student borrowing. We then explore what it means for students when their colleges opt out of the federal loan program instead of facing the consequences of high default rates. Finally, we consider the fact that there has been much speculation about what institutions *would do* if they had the authority to limit the amount that students could borrow, but no one has examined what colleges *have done* when given the opportunity. We therefore evaluate five specific strategies that institutions taking part in ED's experiment have implemented to limit borrowing. We weigh the obstacles that students may face if they are denied loans because of factors like their dependency status, outstanding debt balance, academic performance or chosen course of study. Considering the problems each of the most common loan limit categories attempts to solve, and without adequate information to assess whether these interventions may impact student success, we conclude that a policy authorizing colleges to limit student borrowing requires more analysis. But we also understand that schools are grappling with difficult decisions and some are resorting to drastic measures like pulling out of the federal loan program, which has significant implications for higher education access and equity. To address administrators' concerns without limiting financial access, we recommend alternative approaches that colleges, the Department of Education, and Congress can take to minimize student loan defaults and ensure students are borrowing what they need.

No Substitute for Addressing the Problem of College Affordability

Any solution to the problems of student indebtedness must first confront the prohibitive cost of going to college and the bleak reality that many students find it challenging to even put food on the table or pay rent.[11] Despite relatively low prices at community colleges, students are often not receiving adequate financial aid to cover basic needs. Average tuition for community colleges nationally is $3,520, but the average annual cost of attendance, which includes books, supplies, transportation, and other living expenses, totals to over $17,000.[12] In the 2014–15 academic year, researchers with the Wisconsin Hope Lab reported that among the two-year college students it studied, 45 percent had gone hungry, because they lacked money.[13] Over a quarter indicated that they had gone an entire day without food. And an equal number said that they were unable to pay utility bills or rent within the past year.[14] While outside the scope of our analysis here, ensuring affordable access to higher education for all students remains integrally connected to any discussion about federal student loan policy.

HOW DID WE GET HERE?: COMMUNITY COLLEGES, COHORT DEFAULT RATES, AND THE COST OF LIVING

Over the last several years, colleges have pressured policymakers to give them greater leeway to control the amount of debt that students take on. But the story really begins in the late 1980s when the federal government began using default rates to prevent unscrupulous institutions from accessing federal funding.[15] After news emerged that numerous for-profit trade schools were abusing access to easy student loan dollars, Republican Secretary of Education Bill Bennett and a Democrat-controlled Congress decided enough was enough.[16] They stepped in to make colleges ineligible to receive federal financial aid if a significant number of students could not repay their debts during the first few years after they left school. Lawmakers argued that subsidizing colleges that left former students heavily indebted but without the necessary skills for life after college put taxpayer dollars at too much risk.[17] Congress eventually settled on the three-year cohort default rate (CDR), the percentage of borrowers who default on their loans within three year of entering repayment, as its measure of choice. Colleges at which more than 30 percent of borrowers default for three consecutive are ineligible to receive federal student aid. Those who exceed 40 percent in a single year cannot authorize federal loans but can still access Pell Grants and other free aid.

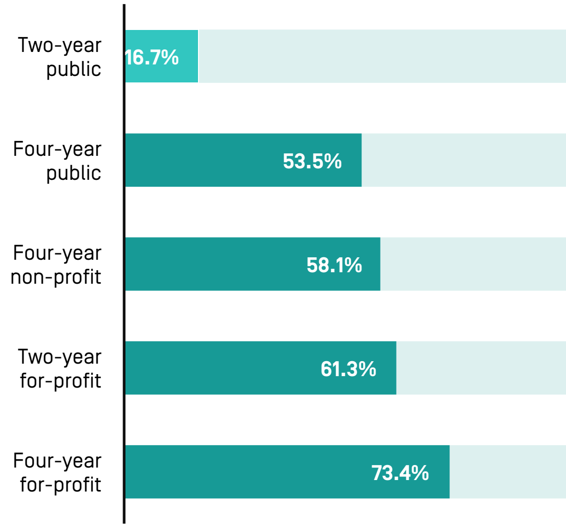
Between 1999 and 2015, only 11 institutions have been excluded from receiving Title IV federal aid because of high default rates. Seven more faced but were not ultimately issued sanctions in 2016.[18] Given the high stakes of student loan default, colleges work hard to ensure that they remain below the cutoff point. But since a great deal of borrowers' behavior is outside their control once a former student enters repayment, many schools still worry and are looking for additional ways to reduce defaults.

When the government started using default rates as an accountability tool, policymakers intended to target colleges where many students borrowed heavily and had poor repayment outcomes. But the law inadvertently put many colleges where there is only minimal borrowing at risk too. The default rate does not account for the share of students who borrow federal loans; it only reflects the share of student loan borrowers from the college who eventually fail to make payments.[19] This means default rates are initially calculated in the same way at a school where 90 percent of students borrow—and borrow a lot—and schools where 10 percent of students borrow—and take out very little. This is particularly a problem at community colleges, where fewer than 17 percent of students borrowed federal loans in 2012[20] and on average, they borrowed just $4,700.[21] Fortunately, colleges can appeal sanctions if fewer than 6 or 8 percent of their total student body defaulted on a loan, depending on the threshold surpassed.[22] But even institutions that successfully submit an appeal may still face increased scrutiny from ED and a potential public relations problem.

Although tuition gets the lion's share of attention in discussions about the rising cost of college, it is important to remember that the true cost of attending college includes much more than tuition. It also requires books, transportation, and housing, among other expenses, all of which students must juggle while enrolled. Since tuition is generally low at community colleges, most borrowers are using loans to cover living expenses, which comprise over 80 percent of a student's total cost of attendance.[23] Officials at these colleges argue that living costs are not in the institutions' control, but they are still held accountable if borrowers default on the debt they take out to cover these indirect expenses.

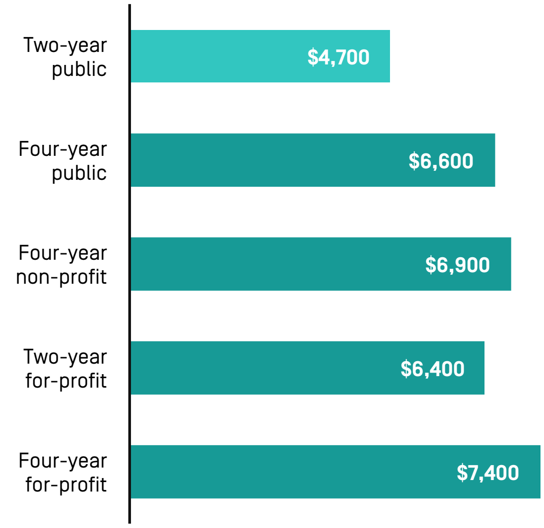
Many community college financial aid administrators do not think that low-income students at their institutions need to borrow, or borrow as much, to cover living costs. Instead, they say federal and state grant aid, as well as money students earn from working, should be sufficient. This conclusion does not always ring true. Even in California, a state renowned for its support of higher education, financially needy students are still partially reliant on federal borrowing. Those who qualify for the Board of Governor's Fee Waiver (an institution-based aid program), along with the Pell Grant typically have 83 percent of the cost of attendance covered at the state's community colleges. For many, federal loans fill this small but critical 17 percent gap.[24]

Figure 1 | Percent of Students Borrowing Federal Loans by Sector



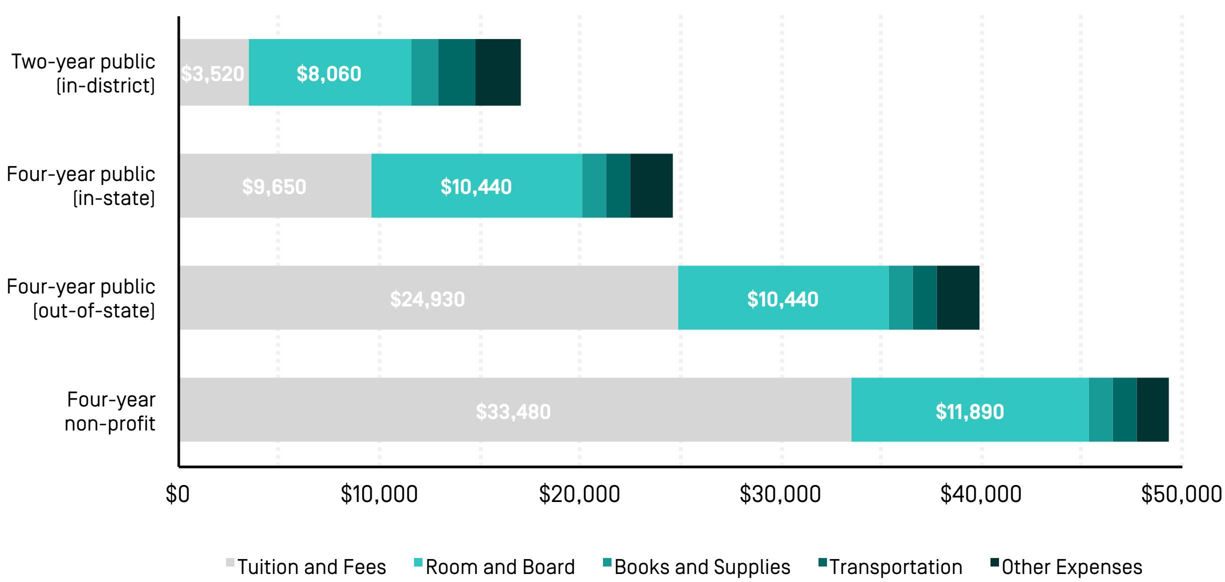
Source: NPSAS 2012, http://nces.ed.gov/pubs2013/2013165.pdf.

Figure 2 | Average Amount in Federal Loans Borrowed by Sector



Source: NPSAS 2012, http://nces.ed.gov/pubs2013/2013165.pdf.

Figure 3 | Average Estimated Undergraduate Budgets by Sector



Source: College Board, Average Estimated Undergraduate Budgets, 2016–17, http://trends.collegeboard.org/college-pricing/figures-tables/average-estimated-undergraduate-budgets-2016-17.

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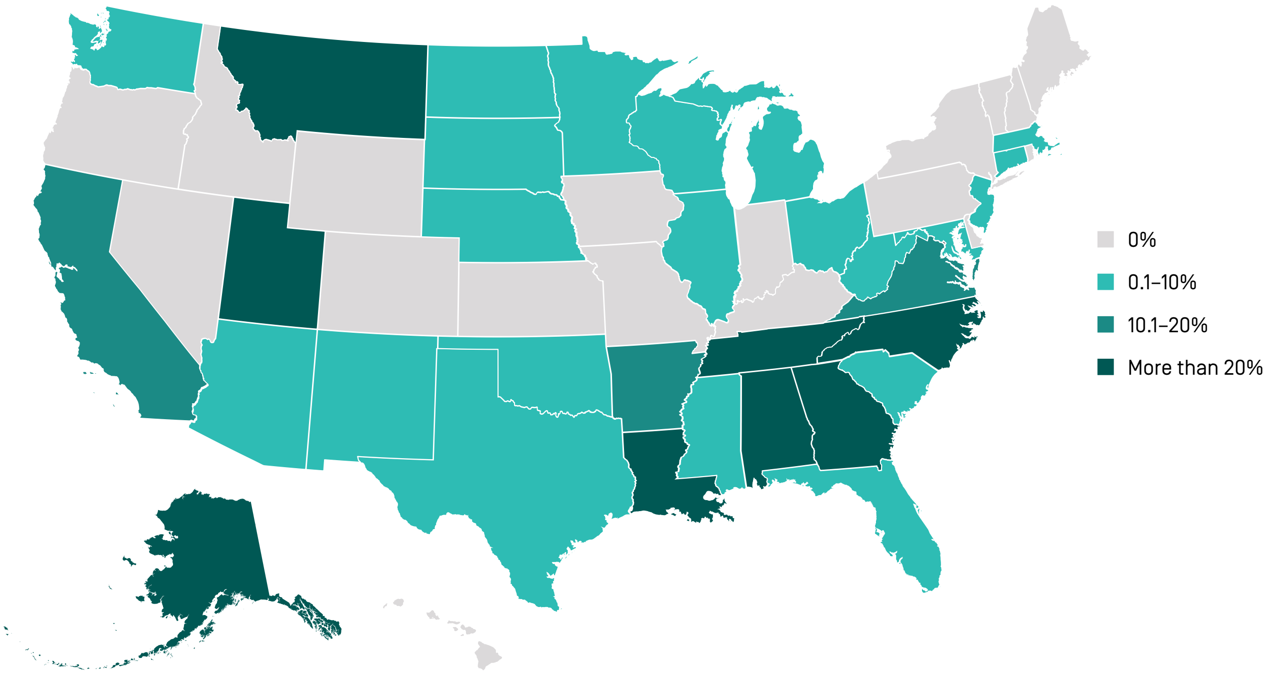
A DRAMATIC RESPONSE: PULLING OUT OF THE LOAN PROGRAM

While some financial aid administrators have responded to the threat of rising default rates by calling for more flexibility to limit borrowing, others have taken more drastic action. In order to avoid losing access to Pell Grants and other forms of free aid, many low-cost colleges have chosen not to offer federal student loans at all.[25] Without access to loans, students cannot default, and without default rates, schools cannot be held accountable for on-time loan repayment, which they believe falls outside their control. As a result, about one in 14 of all colleges and universities that accept other forms of federal aid do not offer loans to their students.[26] The impact has been particularly concentrated within the public two-year sector, where low direct institutional costs, low overall borrowing rates, and relatively high default rates make federal loans seem too risky (see **Figure 1**). More than one in six community colleges and one in four public less-than-two-year institutions have decided not to offer federal loans.[27]

The two-year sector generally serves a higher proportion of low-income students and students of color than traditional four-year institutions.[28] As a result, those who have historically faced the most barriers accessing higher education have also been disproportionately affected by colleges' decision to abandon the federal loan program. The Institute for College Access and Success (TICAS) finds that nearly 9 percent of community college students are enrolled in institutions at which no federal loans are offered, bringing the number of students nationwide lacking access to federal loans to over one million.[29] When these figures are broken down by race and ethnicity, the threat to college access turns even more grim. Schools with a larger percentage of African American and Hispanic students have been particularly inclined to opt out. Over 12 percent of African American community college students—close to 200,000—attend a school where no federal loans are available.[30]

Figure 4 | Share of Community College Students Lacking Access to Federal Student Loans by State, 2015–16



Source: Debbie Cochrane and Laura Szabo-Kubitz, *States of Denial: Where Community College Students Lack Access to Federal Student Loans* (Oakland, CA: Institute for College Access and Success, June 2016), http://ticas.org/sites/default/files/pub_files/states_of_denial.pdf.

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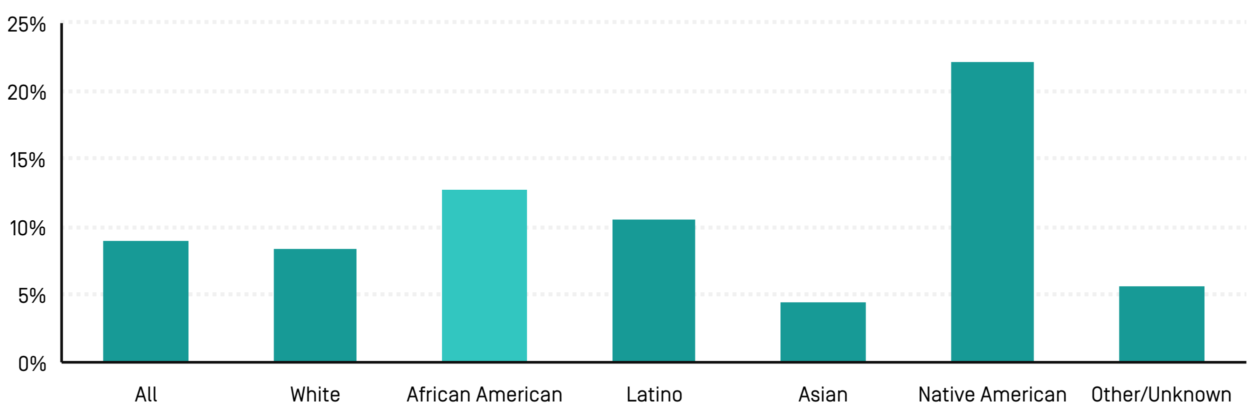
Figure 5 | Community College Students Nationally Lacking Access to Federal Student Loans by Ethnicity, 2015-16



Source: Debbie Cochrane and Laura Szabo-Kubitz, States of Denial: *Where Community College Students Lack Access to Federal Student Loans* (Oakland, CA: Institute for College Access and Success, June 2016), http://ticas.org/sites/default/files/pub_files/states_of_denial.pdf.

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Despite the risk that default rates pose for her school, Debbie Jenkins, the financial aid director at Wor-Wic Community College (Salisbury, MD), recognizes that opting out could spell disaster for her students. Located in rural Maryland, Wor-Wic is 30 miles from the next closest community college.[39] "I really want to stay in the loan program," she told us. "At colleges that are not participating, students have had private loans with high interest rates pushed onto them." Private loans tend to be more expensive for students than federal loans, and come with fewer borrower protections. Those who take out a private loan to attend school are at a higher risk of struggling to repay their debt without federal protections like deferment and income-driven-repayment (plans that cap a borrower's monthly payment at an affordable percentage of her discretionary income). Some community college students may not even be able to obtain a private loan. Unlike the government, private lenders check a borrower's credit score before awarding a loan, which makes it more difficult for low-income families to access private financing. Leaders at public community colleges that have opted out of the federal loan program feel they have no other choice except to stop participating. Unfortunately, their conclusion can hamstring low-income and older adult students.

Financial Aid Deserts: Location Matters When Colleges Opt Out of Federal Loans

The opt-out problem has been especially concentrated in several states (see **Figure 4**). Since low-income students predominantly select a college based on its proximity to home, this poses a significant barrier.[31] For instance, 11 states have more than 10 percent of community college students enrolled at institutions where they lack access to federal loans. In eight, more than 20 percent cannot borrow. And in North Carolina, over half of all community college students attend a school where no federal loans are available.[32] Notably, since higher education subsidies in the state almost entirely cover tuition, California also ranks particularly high with regard to how many of its colleges have opted out. More than 260,000 community college students there, nearly 13 percent, lacked access to federal loans in the 2015–16 school year.[33] Copper Mountain College (Joshua Tree, CA), one of the institutions participating in ED's experiment, considered leaving the loan program but decided against it. According to Brian Heinemann, Copper Mountain's financial aid director, only two of the 10 colleges in his region are still offering federal loans.[34] "Some people call us stupid. But we are in the loan program largely because of our nursing students, who can't work and go to school," he told us. Despite low tuition, some administrators recognize that certain students, at least, need access to loans while they take time off from work to pursue a demanding or expensive degree.

Community colleges that opt out of the federal loan program leave financially needy students, who cannot afford to go to school without this support, in a bind if there are no other options around them. Since many community college students are independent adults living on their own and working at least part-time, they typically need to attend nearby.[35] Almost 30 percent of community college students, over two million, have dependent children, which further restricts their ability to travel long distances to enroll somewhere that offers federal loans.[36] To make matters worse, rural colleges have been more likely than their urban peer institutions to leave the loan program.[37] Students in rural communities where the local community college opts out must commute a long way, often without public transportation, to attend another school if they cannot afford to enroll without borrowing.[38]

ARE COMMUNITY COLLEGE STUDENTS "OVERBORROWING?"

Most financial aid administrators at community colleges say that they do not want to stop offering federal student loans entirely as some of their peer institutions have done. Instead, they believe that by minimizing the amount that students borrow, institutions can ensure appropriate access to debt, and better protect both students from default and themselves from federal sanctions. Not everyone, however, agrees that overborrowing underlies the default problem, and even fewer can agree on what "overborrowing" means.

For the most part, despite alarming headlines to the contrary, it is not those who attended high-priced elite colleges and graduate schools who are financially distressed. The typical borrower in default takes out far less in student loans than one may think. Most attended open access for-profit institutions, and to a lesser extent, community colleges.[40,41] For those community college students who took out federal student loans in 2012, 19 percent defaulted within the first three years.[42] And while only 20 percent of all federal student loan borrowers attended a community college in 2012, they accounted for 29 percent of all student loan defaults.[43] The fact that community college students are more likely to struggle in repayment but generally take on smaller amounts of debt suggests that overborrowing is not the primary reason that they are struggling.

Low completion rates and degrees that do not pay off in the job market after graduation may lead students to fall behind in repayment.[44] Over a quarter of students who failed to earn a degree defaulted on their debt in 2015.[45] There are many reasons that a student might leave college before completing, but financial challenges are some of the most common.[46] Many students in community college work full-time and attend school part-time to support themselves and their families. But the persistence rate for those attending college part-time is close to 20 percentage points lower than for those enrolled in a full course load.[47]

The students at the highest risk of default are therefore not borrowing the massive amounts that some imagine, but they are also not graduating with a degree of value, if they graduate at all. Those who graduate with an associate's degree can expect an average annual earnings bump of as much as $6,000 compared to non-completers.[48,49] Earnings for certificate programs, on the other hand, tend to vary significantly by length and field of study. On average, annual income for certificate holders increased by a modest $1,640.[50] Another major factor affecting outcomes for sub-baccalaureate degrees is the type of provider offering the degree. Average earnings for graduates of public undergraduate certificate programs compared to their for-profit

Underborrowing is sometimes a bigger problem at community colleges than overborrowing. If students do not have enough money to pay their rent or utility bills while in school, they will likely have trouble graduating.

counterparts are nearly $9,000 higher.[51] This is in part because graduates of certificate programs at public colleges are more likely than graduates at for-profit institutions to have received training in high-paying fields, like nursing. For-profit colleges also offer lower-quality credentials. Nearly a third of for-profit certificate graduates came from programs where the typical graduate earns less than a full-time minimum wage worker. At public institutions, this is true for only 14 percent of graduates.[52]

Despite the evidence showing that the greatest risk of default comes not from the amount borrowed, but from whether students graduate with a credential or complete a worthwhile program, financial aid administrators still worry that students lack the financial knowledge to make smart borrowing decisions. In their view, students are taking on more than necessary, intentionally or otherwise. "Many students are going to college to borrow, not borrowing to go college," Morrissey said on stage during a presentation she delivered at the National Association of Student Financial Aid Administrators' annual meeting in July.[53] Others agree. "We are pouring a lot of money into students' pockets. It isn't getting to the heart of education. They are going to other niceties: the cable bill, the bar tab, other extravagant things," Bob Voytek, director of financial aid at Coconino Community College (Flagstaff, AZ), told us.[54] Monitoring students' living choices can understandably be a frustrating endeavor.

While Voytek's and Morrissey's sentiments were echoed by nearly all of the administrators with whom we spoke, others disagree that students are systemically subsidizing an extravagant lifestyle with loans. Some of those expenses Voytek listed as being wasteful, such as paying for a basic cable bundle, for instance, may lower the cost of high-speed Internet, a necessity in 21st century learning. Furthermore, many students in the community college sector are struggling to cover even basic costs. If students do not have enough money to pay their rent or utility bills while in school, they will likely have trouble graduating. As a result, underborrowing is sometimes a bigger problem at community colleges than overborrowing. Many community college students hesitate to take out federal loans even when they are sorely needed.[55] With greater authority to intervene in borrowing decisions, some college leaders claim that they may in certain cases actually wish to encourage students to take on *more* debt. Administrators might be inclined to say, "This is a part-time program, [so] you may not need to borrow that much. Or, this is an occupational therapy degree, where the course fees are significant, so you may want to take out a little more," Deneece Hufalin, president of Salt Lake City Community College, said in a briefing on Capitol Hill last year.[56]

More than Tuition: The Total Cost of Attendance

Community college administrators' concerns about appropriate student borrowing are closely tied to the conflict they face when setting cost of attendance (COA) estimates. Loans are meant to help finance education for students and families without sufficient savings or current earnings to cover the full cost of attendance. Therefore, the only universal restriction on a student's borrowing is the institution's COA minus any grant aid the student receives, set by his Expected Family Contribution (EFC) and the federal loan limit. One potentially tempting solution to the problem of students borrowing more than they need would be for aid administrators to lower their cost of living budgets when they calculate the school's final COA. After all, many administrators also reject the idea that there are any additional costs to students who continue living at home with their families so they are already disinclined to include a housing allowance.[57] According to researchers at the Wisconsin Hope Lab, up to a third of all colleges understate living costs for off-campus students by more than $3,000.[58]

Unfortunately, the solution is not always as simple as reducing budget estimates to cap loan borrowing. Since other federal aid is tied to COA, reducing these estimates may adversely impact low-income students' eligibility for need-based federal aid and might mean that these students do not have enough funding to cover vital expenses. Other similar factors could be at play as well. Work-Study and the Federal Supplemental Educational Opportunity Grant (FSEOG)—two campus-based aid programs administered directly by colleges—are allocated to institutions according to a formula that takes into account students' unmet need.[59] Colleges hoping to get a larger allocation may be encouraged to keep published costs high so as to receive the maximum amount possible. The maximum annual federal need-based aid portion of a student's award, including the Pell Grant, FSEOG, and subsidized loan award, comes to $13,315.[60] To be sure, relatively few students qualify for this maximum, and community colleges receive a small share of federal campus-based aid funding.[61] But these factors may nonetheless drive some of the decision making when setting COA since it is important to ensure that those students who need federal resources are able to take full advantage of them. Since some administrators feel that they cannot lower the COA because of the impact it may have on low-income students, they collaterally enable others with less need to take on more debt. About half of all community college borrowers simply take out the full annual amount for which they are eligible, which makes administrators feel validated in this concern.[62]

CONGRESS LOOKS TO LET SCHOOLS LIMIT LOANS

The fact that community colleges are leaving the Direct Loan Program to escape default sanctions and protect their ability to offer other forms of free federal aid poses a serious problem for students at those institutions. But most colleges could not function if their students were unable to access federal loans, and therefore, are unlikely to opt out anytime soon. College leaders who are not in a position to opt out still want to ensure students are borrowing the appropriate amount. Their cause has been embraced by some powerful members of Congress, who agree that schools should be given the flexibility to reduce loan amounts for certain groups of students.

In February 2016, Sen. Lamar Alexander (R-Tenn.), chairman of the Senate Health, Education, Labor and Pensions (HELP) Committee, said that he plans to introduce legislation that would allow all schools to adjust federal loan limits on their campuses.[63] This would constitute a major change in federal higher education policy. Until now, policymakers have favored keeping loan limits uniform for all undergraduates to prevent college administrators from discriminating against particular students or groups of students. As a result, there are standard amounts that undergraduates are able to borrow each year and in the aggregate, regardless of the degree level they are seeking or the type of institution in which they are enrolled. Those limits are between $5,500–$7,500 per year for a dependent student and $9,500–$12,500 per year for an independent student, contingent upon how far he or she has progressed in school. But giving colleges more power to control loan limits would mean that some students at a college could be eligible to borrow more than others at the same institution. While it is unclear exactly how much flexibility Congress has in mind, lawmakers could give colleges the authority to limit debt for students based on a wide variety of factors, such as their chosen course of study, whether they attend full or part-time, study online, are enrolled in less-than-two-year certificate programs, live with their parents, or a number of other factors.

One of the most straightforward and most worrisome ways that schools could reduce default would be to simply limit loans for low-income students. After all, those with lower EFCs and those with Pell Grants have been shown to default at higher rates than their higher-income and non-Pell peers.[64,65] Unless the lending gap were filled in by grant funds, however, this practice would introduce serious equity concerns, and the notion that such criteria would be the most direct method of controlling default should give policymakers pause.

As lawmakers consider their alternatives, they should look to the experiment ED has been conducting over the past four years on this very question. Thanks to information gleaned from institutions that have carried out their vision to limit loans using a wide range of criteria, we do not have to guess how institutions may act if given the chance. Although the decisions that these two dozen colleges have made may not reflect everything that others may decide to do with expanded authority, they can shed important light on what some administrators consider to be the biggest student risk factors to be mitigated.

WHAT DO COLLEGES DO WHEN GIVEN THE ABILITY TO LIMIT LOANS?

Under ED's loan limits experiment, 24 colleges have been given the authority to limit federal unsubsidized loans by at least $2,000 (the amount by which Congress raised annual unsubsidized loan limits in 2009).[66] For context, many community college administrators were unhappy about the 2009 across-the-board increase, which was primarily intended to help keep up with rising prices at four-year colleges. In their view, pre-2009 loan limits were sufficient for the community college sector, where prices had stayed relatively flat.

Aside from explicitly banning borrowing based on race, ethnicity, gender, or any other personal factors, colleges have been given wide latitude to limit borrowing by however much they wish above $2,000 and for whichever group they see fit. As the experiment has progressed, a few patterns have emerged in terms of the strategies that colleges have been using to limit loans. According to ED, colleges are considering the following seven factors when reducing borrowing limits:[67]

Table 1 | Student Groups Targeted for Reduced Borrowing

Loan Limit Categories	Colleges
First-time students	8
Dependent students	2
Students with academic concerns	4
Specific degree program	3
Students with already large debt	3
Students with low financial need	3
No distinctions at all (with some exceptions)	6

Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

In the next section, we evaluate the strengths and weaknesses of each of these specific strategies. After acknowledging the reason that each of these methods may appeal to administrators, our analysis uncovers some pitfalls for policymakers to consider. Given the lack of reliable outcome data for students taking part in this experiment, however, it is difficult to assess with complete certainty whether limiting student loans for specific student subgroups would achieve its intended purpose or whether it might erect unnecessary financial barriers for vulnerable students. Given the clear dangers and questionable benefit, we believe that there are other steps Congress, ED, and colleges should take first to ensure students are not saddled with unnecessary debt without threatening their access to higher education. Our recommendations aim to both help students borrow what they need and better manage their loans once they have been disbursed.

Many of the institutions that elected to join ED's experiment share a few general characteristics (see **Table 5** in Appendix). Three-quarters of the participants are community colleges or public institutions that grant primarily associate's degrees.[68] The remaining institutions are a mix of public four-year and for-profit universities, both brick and mortar and exclusively online schools. As is common at community and for-profit colleges, half of all students at the participating institutions received a Pell Grant in 2015, meaning many are low-income. Although these institutions serve a sizable low-income population, only a quarter of all students took out any federal loans prior to the experiment. Furthermore, the students at these institutions who borrowed took on relatively little, typically just over $5,000 per year. Nonetheless, consistent with the research on repayment outcomes for low-debt borrowers, a significant percentage of these borrowers had defaulted on their federal debt within three years of entering repayment. At 10 of these institutions, all of which were community colleges, more than 20 percent of students who entered repayment on their loans in 2010 had defaulted by 2013. Despite the similarities many of these colleges share with regard to student demographics, they have responded to the perceived threat of overborrowing in a number of different ways.

Table 2 | The Majority of Participants Are Community Colleges

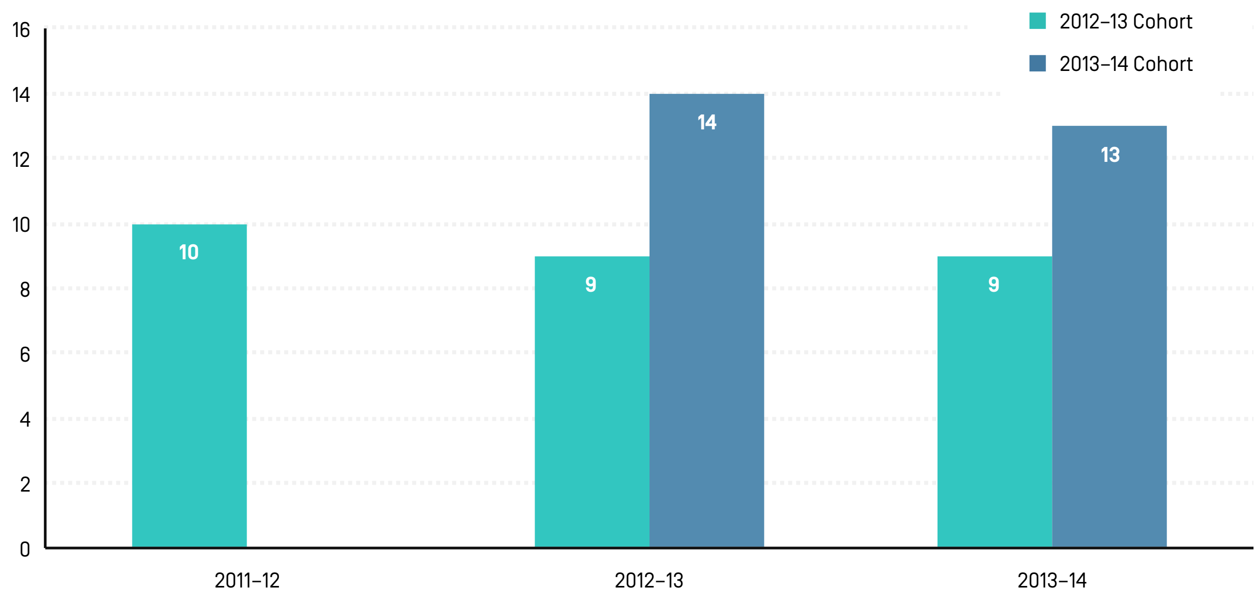
Institution Type	Sites
Public community colleges*	18
Public four-year	3
Private four-year	1
For-profit colleges	2

Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

*Includes four-year institutions that primarily grant associate's degrees

Instead of eliminating unsubsidized loans entirely for the students targeted in their experiments, some colleges have limited loans by a few thousand dollars. Others have allowed their target student subgroups, like first-year students or those with high existing debt balances, to use loans when covering only direct institutional costs, which include tuition, fees, books, and other required supplies. These subtle differences can have a major impact. Since low-balance borrowers are more likely to default, colleges cannot eliminate the risk of default for students who start a program but fail to complete it unless they ban borrowing completely.[69] Limiting loans by a few thousand dollars could make matters worse by not giving students the aid they need to get through, creating a self-fulfilling prophesy. But if a college eliminates borrowing completely, which would help with default management, it would certainly prevent many students from enrolling at all, which is at odds with preserving access to higher education.

Figure 6 | Institutions Participating by Cohort and Award Year



Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

Limiting Loans Based on Enrollment Status (for First-Time Students)

Institutions participating in ED's experiment have most commonly limited borrowing for first-time students. If the goal is simply to reduce defaults then restricting loans for students who are just starting out may make sense since most defaulters have no degree, and many are not even close to finishing.[70] A recent study at Iowa Community Colleges conducted by the Association of Community College Trustees confirmed a growing body of national research by finding that over 90 percent of the state's community college borrowers in default never graduated, and over 60 percent earned fewer than 15 credits.[71] Some administrators assert that they want first-time students to figure out whether the program they have selected is the right fit before taking on debt, Brian Heinemann, Copper Mountain College's financial aid director, told us.

The borrowing limit that schools have put in place and the definition of a "first-time" student varies widely among these institutions. For instance, Copper Mountain bars students with fewer than 30 academic credit hours earned at any institution from receiving federal unsubsidized student loans. "The majority of the time, the students who were borrowing unsubsidized loans were not staying more than a semester," explained Heinemann. Alternatively, Atlanta Metropolitan has not allowed any first-year students, regardless of how many credits they have earned, to take out unsubsidized loans.

While still primarily taking a student's academic level into account, four schools incorporated a student's dependency status as a secondary qualification to curb borrowing. Wor-Wic Community College, for instance, barred all unsubsidized loan borrowing for dependent students. A dependent is a federal tax definition for someone who lives with a taxpayer or is a full-time student under the age of 24 and provides less than half of his or her own support.

Unlike Wor-Wic, Shasta College (Redding, CA) specifically limited borrowing for students who live at home with their parents, not all dependents.[72] First-time, independent students were still allowed to borrow for living expenses at both schools, but at Wor-Wic, independent students were permitted to take out only an unsubsidized loan of up to $1,000 beyond direct educational expenses, including books and supplies.

Limiting loans for all first-time students or for those returning to school without having earned sufficient credits elsewhere may block many nontraditional students from taking time off from work to go to school. Without being able to cut back work hours or to take the first step on the path to a degree, first-time students may not be able to afford to enroll in in-demand degree programs that will help them retool for a changing job market. If denied the ability to borrow, nontraditional students would especially have trouble enrolling full-time or at least taking on a heavier course load, something that has been shown to improve degree completion.[73]

Placing the borrowing limits on those who are both dependent and first-time students may address some of these concerns but not all. Furthermore, dependent community college borrowers take out an average $1,600 less in annual federal debt than their independent counterparts, and they are also less likely to default, which makes this somewhat of a misplaced priority.[74,75] For some borrowers classified as dependents, they may not actually receive parental or familial support to pay for college.[76] As such, access to funding can be critical for student success regardless of dependency status. In a 2009 national survey, six out of ten college dropouts reported that they did not receive financial support from their families or parents.[77] Many families with dependent students in college appear higher-income on government forms but are not always in a position to contribute as much as is expected of them. "We have a lot of middle-class students who are not eligible for Pell Grants and are technically in a 'no-need' situation," Pilar Ezeta, financial aid supervisor at Mesa College (San Diego, CA), told us.[78] Their EFC, the federal estimate of what a student or his family can contribute toward the costs of higher education, is often completely unrealistic for a number of reasons. In particular, the outdated way that the government calculates the EFC may not accurately reflect the amount all students can contribute toward the cost of college because of unavoidable expenses that have not been taken into account.[79] Even though it has been indexed to the rate of inflation, the calculation has largely remained the same since the 1960s.[80] For students just above the cutoff for Pell Grant eligibility or those attending institutions that do not have the resources to provide institutional aid, federal loans are sometimes the only way to cover the gap between what the federal government thinks a student can pay and college costs.

Limiting Loans Based on Academic Concerns

Since slow course progression has a strong correlation with not completing college and a student's failure to repay his loans, college officials across the U.S. must eliminate borrowing for students not making satisfactory academic progress under current law. But several institutions in ED's experiment have further curtailed borrowing for those struggling on coursework, because they think students with subpar academics will have a difficult time persisting to graduation. Even with existing flexibility to limit borrowing for unsatisfactory academics, administrators believe some low-achieving students still pose a serious threat if they are not on track to complete a degree -- a fate that befalls many community college students. In 2015, just 39 percent of students graduated from a community college within six years of enrolling.[81] The many students who leave college without a degree often find it challenging to land a job that will put them in a position to pay off their debt. As a result, students who do not complete are almost three times as likely to go on to default.[82] And some colleges hope to catch students unlikely to make it to graduation before they rack up even more debt.[83] Four institutions in the experiment have been limiting loans for students who do not meet specific grade point average requirements, but it is unclear whether these colleges understand that this is also permissible outside the confines of the experiment.

It is also important to note that the existing authority that colleges have to limit borrowing for students with low grades comes with some level of federal oversight.[84] Satisfactory Academic Progress (SAP), a measure of a student's course progression, can generally be defined at a college's discretion. However, some institutions have changed their SAP limits under ED's experiment to include students who may have otherwise been made eligible again to borrow through an appeals process.[85] Although colleges are the arbiters of their own SAP appeals, they are required to publish and abide the criteria that will be used when deciding whether to restore a student's federal aid eligibility. At three colleges in the experiment, students who successfully appealed their SAP ruling and had their borrowing reinstated on a probationary basis have now had their loan eligibility revoked indefinitely.

Poor academic performance is certainly a major predictor of default, but one reason students may be struggling is because they do not have adequate resources to focus on their studies. [86] Absent sufficient grant aid, many students might not have borrowed enough. Even though four out of five community college students receive financial aid, only 2 percent of them have their need met with grants alone.[87] And community college borrowers take out only $4,150 on average to cover non-tuition expenses, an amount that is often insufficient to cover living costs.[88] As Matt Reed, vice president for learning at Brookdale Community College (Middletown, NJ), quipped at an event on college costs, "If you're living in a Buick, you can't focus on the higher questions."[89] Students have confirmed these concerns. In a 2009 survey of 600 students who had dropped out of college, over half cited difficulty juggling school and work as the reason that they left school.[90] Only about 10 percent of respondents said they left because the classes were too difficult or boring.[91] Many who drop-out of college would likely have had better academic outcomes if they had received more grant aid or even had taken on more debt. According to one study at a community college, every thousand dollars borrowed was even correlated with a .12 higher grade point average.[92]

Aid administrators want students to carefully consider their decision to borrow and to take on the amount of debt that is appropriate for them. It may not be necessary for every student to take on tens of thousands of dollars in debt, but if it enables her to take time off from work to focus on school, a large student loan could be crucial. Working long hours while enrolled to cover costs instead of borrowing often delays degree completion, and for some, it may even completely interrupt a student's ability to stay enrolled.[93] Determining appropriate borrowing amounts for individuals does not require a full transfer of decision making from the student to the aid officer. With better tools, students can make these decisions on their own.

Limiting Loans Based on Cumulative Debt

For some financial aid administrators, an obvious way to reduce student debt would be to prevent those who already have high outstanding loan balances from borrowing more. If a student has previously borrowed a significant amount and not earned a degree, he might have dropped in and out of school and could be more likely to do so again. Authorizing that student to borrow more can be a risky proposition. A related concern is that students who enroll and are close to their lifetime borrowing limits may not have enough remaining federal grant or loan eligibility to make it through the end of their programs. Students slated to exhaust their lifetime loan limits may have few options for covering college costs regardless of their academic ability or the quality of the institution. By authorizing students with dwindling lifetime eligibility to take on any federal loans, the institution could be implicated when they drop out for purely financial reasons and then default. Several colleges in the experiment are therefore limiting loans for students with debt balances above a certain threshold. Western

Governors University, for example, has limited loans to direct institutional costs for undergraduates with an outstanding principal balance above $30,000.[94] Similarly, Shasta College has reduced loan limits by at least $2,000 for students who have more than $15,000 in cumulative debt.[95]

While the instinct to limit loans for students with high debt balances seems reasonable on the surface, data do not necessarily reinforce this strategy for default rate reduction. In 2015, the average debt load for a borrower in default, after interest had accrued, was roughly $15,000, which partially explains Shasta's reasoning.[96] But in any case, most borrowers struggling in repayment have not taken out the large sums imagined. For those in default, the median principal borrowed -- before interest begins to add up -- is a modest $10,000.[97] But many delinquent borrowers are taking on even less: over a third of those who took out loans under $5,000 have gone on to default.[98] The optimal debt load for student borrowers is contingent upon a number of factors, but any causal link between large debts and default remains tenuous at best.[99,100]

For aid administrators concerned that community college students will run up against their lifetime borrowing limits and will not be able to finish their current degree or continue on to attain another degree later, the answer is a little less clear. "The way the loans are set, a person can only go five years before they reach their limits," said Heinemann. "They are going to need that at the university if they transfer." Because many students drift in and out of school, they may run out of loan eligibility before completing a degree at any level. In addition, credits do not transfer cleanly from one institution to another so they may have to start over if they move or change majors, creating a considerable financial strain.

At first glance, the evidence does not suggest that many students have been precluded from graduating from community college or attending a university solely because they have hit their loan limits. While 43 percent of community college borrowers reach their maximum annual eligibility, only 14 percent reach their lifetime federal borrowing limit.[101,102]

Administrators may be justified that at least a few students who hope to continue their education further could have a difficult time paying for college if they deplete their loan eligibility too early. But not all community college students aspire to continue on for a four-year degree. And it is unclear whether transferring complete control over borrowing to administrators to prevent students from reaching their limits is an appropriate response.

In light of this mixed and complicated relationship between cumulative debt and student success, one institution in the experiment chose a different, more direct approach to deciphering which borrowers pose a greater threat of default. In addition to the aforementioned restrictions on students who have taken on more than $15,000 in loans, Shasta College has barred students with records of past default from borrowing. Given that a third of borrowers who rehabilitate their student loans default again within two years, authorizing additional debt for those who have already run into trouble once could be risky.[103] But this practice may exclude many students from a desperately-needed second chance. Furthermore, when borrowers who have gone through the effort of rehabilitating a loan then redefault, it could signal a procedural breakdown with loan servicing, not simply borrower negligence. With options like income-contingent repayment not offered automatically for vulnerable borrowers who have rehabilitated or consolidated prior debt, improved oversight of servicing procedures might be a more reasonable first step for addressing the problem of repeat default.

Limiting Loans Based on Degree Program

While a college degree can be a strong predictor of future earnings, not every institution or program provides the skills necessary to secure jobs in a high-paying profession. For many colleges, especially those that offer mainly career-oriented programs, default rates are not the only threat to their continued viability. Under the gainful employment regulations introduced under the Obama administration, career training programs from which students graduate with large debts and low-paying jobs will be cut off from receiving any Title IV funding.[104] Four colleges in ED's experiment are limiting loans for students in programs that tend to lead to less-lucrative job prospects. They hope to ensure that students are not anchored to debt that they cannot repay despite completing their programs and finding a job in their field.

Rasmussen College (a for-profit college with campuses across the country headquartered in Bloomington, MN) bars students who are enrolled in the online early childhood certification program from borrowing unsubsidized loans. Morrissey at Mount Wachusett explained a similar dilemma: "We have an early childhood education major at our institution, and they were graduating but were getting paid the lowest amount for an associate's degree earner." Projected annual earnings for a first-year early childhood major average about $19,000.[105] But the tuition for a two-year degree in early childhood education at Rasmussen can cost as much as $23,600. Rasmussen officials had considered imposing the same restrictions on students majoring in criminal justice if the experiment had continued. The average starting salary for a criminal justice major is approximately $21,000,[106] but at Rasmussen, students in this program pay total tuition and fees of up to $28,210 for the two-year program.[107]

In an alternate approach, students in vocational programs at Shasta College had their borrowing limits lowered by at least $2,000. With a wide variety of vocational programs, this strategy has failed to account for the highly disparate pay that students can expect after completing different programs. A recent study into post-certificate earning levels by researchers at the University of California-Davis revealed that certificates in the healthcare field have resulted in substantial increases in earnings after graduation, even though certificates in other fields may earn much less.[108] Further evidence in ED's recently released gainful employment data shows similar disparities. No registered nursing programs failed the debt-to-income test, for instance, but nearly 40 percent of criminal justice programs neglected to prepare borrowers for a well-paying career in the field.[109] A limit on borrowing for all vocational programs may prevent students from pursuing valuable training that will set them down a promising career path.

While colleges might want to charge less for programs that lead to low-paying careers, it begs a much larger question about the value of some of these degrees. Even if colleges did not charge any tuition, students may still need to borrow to live, and the returns on these credentials are often poverty- or near-poverty-level wages. Furthermore, minority students tend to be overrepresented in degree programs with low economic returns. African Americans disproportionately major in programs such as early childhood education[110] and criminal justice.[111] While limiting borrowing for programs like these may protect students from default, it may especially reduce access to and choice in higher education for certain student demographics.

Limiting Loans for (Almost) All Borrowers

Some schools have decided not to distinguish among their students and wish to reduce the borrowing limits for all (or nearly all). By doing so, they hope to essentially restore aggregate loan limits to their pre-2009 levels. There should be lower aggregate loan limits for community college students than for those at four-year universities given the much lower net price their students pay, administrators at these institutions argue.

Within this broad category, some schools have exempted a small number of degree programs that offer high returns in the job market, are more demanding, or that require students to take on additional costs, such as dental hygiene and photography, both of which require students to purchase special equipment. Many schools in the experiment have exempted students in nursing programs. College leaders feel more comfortable allowing nursing students to fully borrow for a few reasons. First, nursing programs generally have rigorous admission standards, which lead to higher completion rates. The majority of other programs at community colleges are open enrollment and waive admissions criteria as part of their mission. Second, competitive nursing programs come with higher program costs so students often need to access additional funding to cover expenses. Third, they demand more strenuous time commitments, which means students cannot work and enroll at the same time. Finally, lending to nursing students can seem less risky because of the higher wage returns in the field.

WHAT WE STILL DO NOT KNOW

Examining what colleges in ED's experiment did to lower loan limits is helpful for understanding what schools across the country might do if Congress were to give them this authority. But due to limitations in the data that were collected by ED, the impact these policies have had on the participating institutions and their students remains inconclusive. ED has cited this lack of evidence as reason to cancel the experiment in June instead of working to improve its data collection efforts going forward.

Prior to the experiment, the average student across all participating colleges who had been targeted for intervention took on no more than $3,250 in unsubsidized loans. Afterward, average borrowing decreased to less than $2,062. Despite this sizable drop in already low borrowing rates, there was relatively little change to overall student borrowing at these colleges during the years of the experiment. Fewer than 30 percent of students borrowed in the 2014–15 school year after each college implemented its experimental loan limit policies, and they borrowed on average $4,779. Compared to 2010–11, this constitutes an unexpected but negligible three percentage point increase to the number of borrowers. More predictably (but also non-notable), the average annual debt load for all students at these institutions declined by an estimated $685 after controlling for inflation. This slight decline in overall borrowing likely has to do with the relatively small experimental groups that were targeted at some colleges. At nine of the participating institutions, fewer than 100 students were directly impacted, for instance.

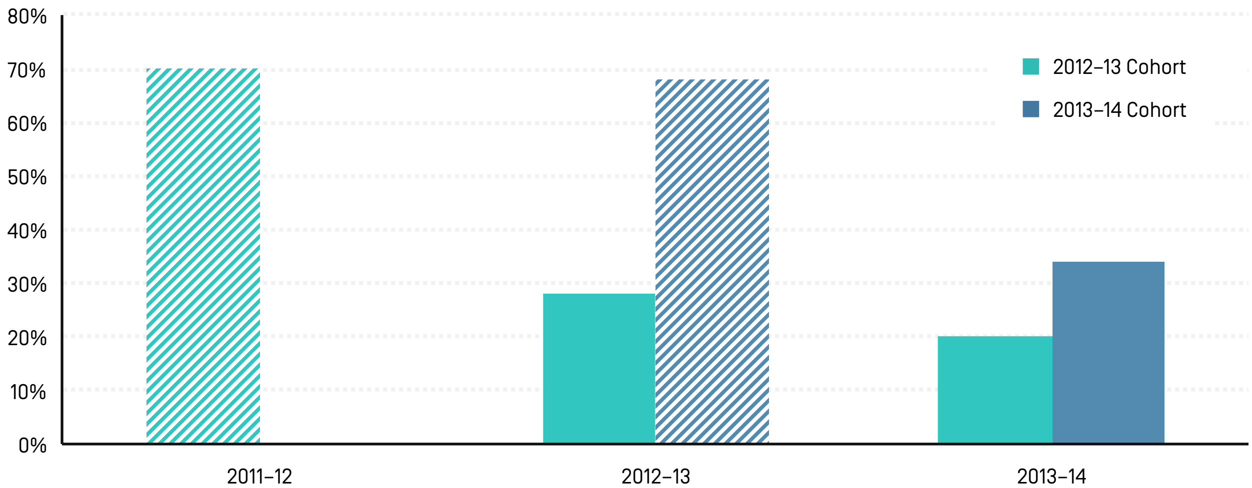
The institutions themselves witnessed little measurable benefit. As did most colleges in the country across this time frame, the majority of those in the experiment saw a slight drop in their cohort default rates from 2013–16.[112] Over the last three years, the national default rate at community colleges declined by about two percentage points and by 2.4 points across all sectors.[113] This gradual drop was largely precipitated by higher enrollment in income-driven repayment plans and other federal protections.[114] Comparably, the 24 institutions participating in the loan limit experiment experienced an average 4.8 percentage point drop. While students who took out loans in 2013 at this group of colleges defaulted at a lower rate than those students who borrowed in 2010, this reduction was only slightly higher than the national average. There is likely no connection between this slight drop in default rates and the experiment conducted at the participating colleges since few of the students targeted with lower loan limits entered repayment more than three years ago.

In addition to the impact on student borrowing behavior and default rates, there are many other unanswered questions about how these policies may impact student success. Some of the biggest concerns expressed at the outset of this experiment included the impact that introducing loan limits would likely have on low-income students' decision to turn to credit card or private loan debt, or to withdraw from school.[115] The percentage of students that obtained private financing and/or federal parent PLUS remained almost exactly the same after two years in the experiment. Officials at some of the colleges participating in the experiment confirmed anecdotally that, consistent with nationally representative research, a few students did turn to private loans when faced with unmet need, though these administrators still did not seem to think that a rise in private financing was particularly widespread at their institutions as a result of limiting federal loans.[116] Without proper control groups, the reliability of these results is questionable.

While the number of students turning to other forms of debt can be difficult to measure, enrollment, persistence, and completion rates, which are reliably collected each year, at least offer a cursory glance at the impact these policies had on fundamental student outcomes. While only a crude barometer of how heavily these loan limits weighed on student success, enrollment trends at these colleges varied widely. Average persistence, completion, and graduation rates for the targeted student groups remained fairly steady. Only a few colleges experienced significant drops in enrollment, and 11 institutions saw a rise in the number of students attending. Without reliable survey data from prospective students, it is nearly impossible to determine the reason for these changes and to what degree these policies had an effect. Only one institution, Western Governors University, collected data on why students chose not to enroll. According to Bob Collins, vice president of financial aid, 100 of WGU's 5,000 students explicitly did not attend because of the restrictions on loans.[117] With no standardization for appropriate study regarding other measures of success, these findings unfortunately do not provide any conclusive insight.

Figure 7 | Average Percent of Participating Students with Unsubsidized Loans Across All Schools

Bars filled with diagonal lines represent the award year before the experiment began.

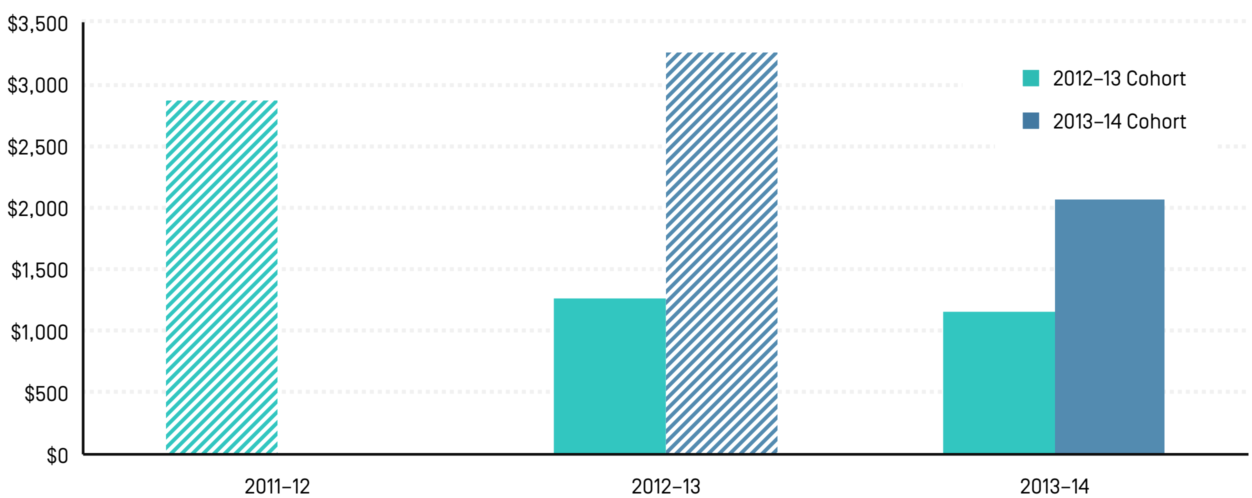


Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

NEW AMERICA

Figure 8 | Average Amount of Unsubsidized Loans Disbursed to Participating Students Across All Schools

Bars filled with diagonal lines represent the award year before the experiment began.



Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

NEW AMERICA

RECOMMENDATIONS AND SUGGESTED ALTERNATIVES TO LIMITING LOANS

Providing institutions with the flexibility to deny groups of students the maximum loan amount for which they are eligible is one solution Congress is mulling over. But given the unreliable data about the impact of variable loan limits, there may be better immediate options for institutions, ED, and Congress to consider in order to help students borrow what they need and to better manage their debt after taking out a loan.

What Colleges Can Do

Spread out loans over the course of a term, rather than disburse them all at once. Students are like everyone else when it comes to managing money: it is harder to stay on budget when there are shocks to your income (like a huge loan at the beginning of the semester and nothing towards the end). Federal law requires schools to offer *no fewer* than two financial aid disbursements per payment period,[118] which, at many colleges, means a single semester or quarter. But this should not stop colleges from breaking up the payments into smaller amounts over the course of a semester if they believe it will help students better manage their expenses and their debt.[119]

To help smooth these income shocks, one group of colleges is experimenting with distributing Pell Grants, other grants, and federal loans in regular allotments over the course of a payment period. After the colleges withdraw tuition and the student receives any funding necessary to cover other direct costs like books and supplies, remaining aid to help with living costs is disbursed in bi-weekly installments. The experiment, aptly called "Aid Like a Paycheck," has not yet produced conclusive evidence to know whether this practice improves outcomes such as persistence, course credit progression, and degree completion. However, researchers running the experiment have confirmed that no negative effects on student success were observed.[120,121] For colleges hoping to adopt this practice, a reasonable amount of flexibility may help students who need a lump sum at some point in the semester to cover demonstrated emergency costs. But in general, disbursing aid more frequently may allay administrators' fears about giving loans to students who are "going to college to borrow, not borrowing to go college."

Under the Aid Like a Paycheck (ALAP) model, some colleges hope that temporarily withholding a portion of loan disbursements will collaterally result in less overall borrowing for students who drop out in the middle of a term. This is particularly important because institutions are on the hook for returning any financial aid that a student has not "earned" to the federal government in a costly and time-consuming process called "Return to Title IV" (R2T4). Since financial aid offices are obligated to notify students who complete 60 percent of the term of their eligibility to receive additional funds in a post-withdrawal disbursement, these borrowers may still be eligible for the full loan award that they would normally have received in a lump sum at the beginning of the term. But given that the onus falls on students to claim the post-withdrawal loan award (unlike with grant aid, which is automatically deposited to a student's account if he drops out after the 60 percent mark), ALAP may relieve some of the strain on college budgets associated with R2T4 payments.[122]

If students do better with more regular and dependable streams of income and administrators may face less burden in the R2T4 process as an added benefit, why are more colleges not doing this? For some, it all comes down to time and money. With already tight budgets, colleges believe that they do not have enough staff or systems in place to manage the transition. Essentially administering payroll for thousands of students would impose additional expenses related to hiring personnel and purchasing software. While ALAP saves some time and financial savings in R2T4 payments, these are unlikely sufficient to defray a meaningful portion of the total cost and burden associated with introducing new systems. In addition to resource limitations, there is another, more problematic, concern. Many colleges would like to spread loans out throughout the semester but think this practice is prohibited by the Department of Education. According to ED's official financial aid handbook, it looks as though this method of loan disbursement is allowed:

> FSA regulations generally permit schools to pay FSA funds at such times and in such installments within each payment period as will best meet students' needs. This gives schools the ability to apportion the payment if doing so will be in the best interest of the student. For example, if a payment period is particularly long, a school might choose to pay in multiple installments to the extent program requirements permit to ensure that a student will have funds to pay rent later in the payment period.[123]

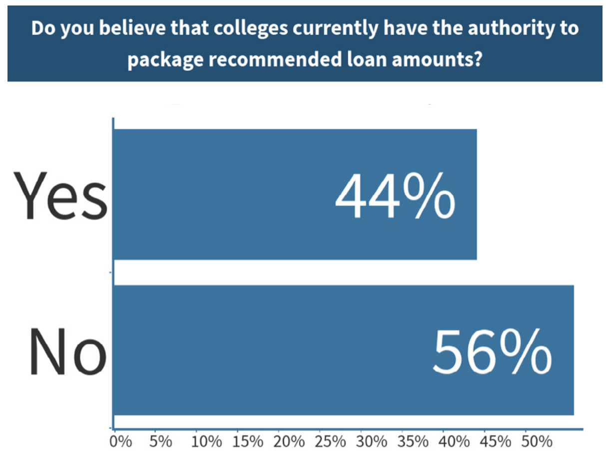
For schools capable of generating more frequent payments, an ALAP approach could help students better manage their debt without having to turn to credit cards or private loans at the end of the semester when bank account balances begin to run low. It would also quell much of administrators' concern, warranted or not, about needing to reduce student loan eligibility.

Present students first with a recommended or write-in loan amount, rather than the full amount they can borrow. While addressing the way a student manages her financial aid *after* receiving it may help many borrowers, some administrators still want to reduce unnecessary borrowing at the outset. Behavioral nudges could provide one way for administrators to influence student borrowing without directly limiting it. In one particularly straightforward example, financial aid offices could present students with a "recommended" loan amount, instead of offering the maximum that students are allowed to borrow. According to one study, students who were presented with a recommended loan package of $0 instead of $3,500 or $4,500 had a 39 percent lower borrowing rate.[124] Students in the study were made aware that they were eligible for a larger loan award via e-mail. Offering a recommended loan amount somewhere in between the maximum and not packaging loans at all may better balance concerns about under- and over-borrowing. Roughly half of all community college students are presented with a $0 loan award instead of having their maximum or recommended loan eligibility automatically packaged with free federal and state grant aid in their award letters.[125] With many administrators under the impression that loans must be packaged all-or-nothing, students could be unaware of much-needed federal support available at their college.

Offering "recommended amounts" in lieu of a binary approach to loan packaging could help students get the resources they need without inhibiting college access. Some schools, like WGU, which is a fully online university that caters to working adults, are already doing this. WGU's leaders do not believe that students need to borrow much, if anything, for living costs, since they generally fit coursework into their existing lives and do not, for the most part, quit or scale back their jobs in order to go to college. In July of 2013, the school changed its financial aid award letter to include a recommended amount to borrow equal to tuition and other costs directly associated with attending WGU. The impact on borrowing was dramatic. The average student went from taking $7,870 in loans to $4,640 in the first two years of the program. Nearly two-thirds of students accepted the financial aid office's recommendations, and another 10 percent decided not to take out loans at all.[126] WGU's award letter made clear that students were eligible for bigger loans despite the lower recommended amount. This intervention significantly reduced borrowing without triggering any noticeable declines in enrollment, progression, or completion. While promising for WGU, it's clear that a more controlled, representative evaluation would be necessary to assure there is no negative impact on the students who take out lower amounts at a college's suggestion (see **Figure 8**).

We spoke with dozens of financial aid administrators who wanted to provide students with recommended loan amounts but did not think ED allowed them to do so. We then conducted an informal poll at NASFAA's annual conference and found widespread confusion. When we asked a roomful of aid administrators, "do you believe you have the authority to package recommended loan amounts?," a little more than half said no and a little less than half said yes. This confusion exists despite the fact that ED's own model award letter includes a line for a "recommended" loan amount with an asterisk indicating that the student may be eligible for a greater amount (see **Figure 9**). So why do institutions think they cannot do the same? Several administrators told us that they have received guidance from ED officials that since loans are an entitlement (see **Student Debt as a Tricky Entitlement: The Case of Fresno City College** on page 27), any action that makes it more difficult for students to access federal money violates the law.

Figure 9 | Aid Administrators Unsure About Recommending Loan Amount



New America survey of 68 financial aid administrators at NASFAA's Annual Conference, July 2016.

ED should continue to clarify that schools are allowed to present students with recommended loan amounts. According to information provided at the Federal Student Aid conference, this practice is allowed as long as administrators explicitly clarify that students are eligible to borrow more if needed, and they make it simple for students to take out additional loans.[131]

Encourage informed borrowing with behavioral nudges. Changing the way loans are packaged may be one way to impact student borrowing decisions but other engagement strategies could help as well. The Community College of Baltimore County (Catonsville, MD) used text messages to reduce student borrowing amounts.[132] In a randomized controlled trial, the school carried out a month-long texting campaign highlighting the monthly payments that individual students could expect to

Student Debt as a Tricky Entitlement: The Case of Fresno City College

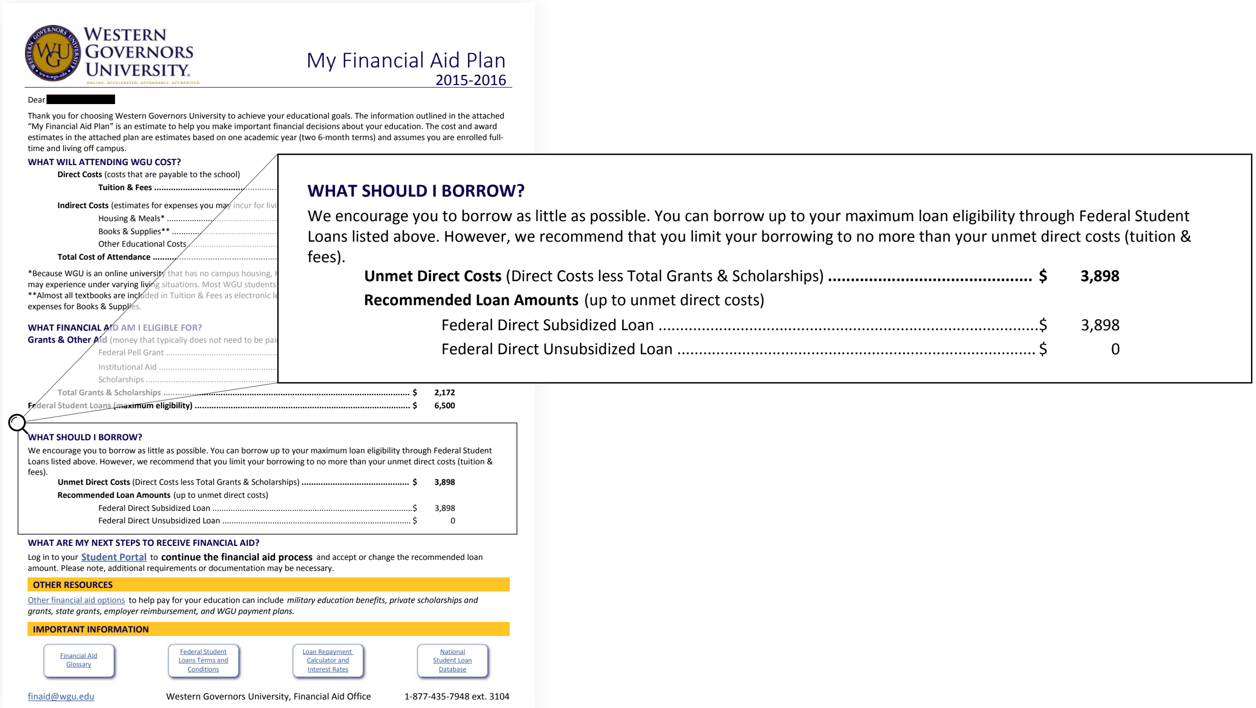
Schools around the country have reported getting mixed messages from the Department of Education (ED) about how—and whether—they can better help students make more informed borrowing decisions. ED officials have been wary of giving financial aid administrators too much discretion because student loans are considered an entitlement. Anything that gets in the way of students accessing these loans could be seen as infringing upon this right. But unlike Pell Grants, essentially another higher education entitlement, loan dollars come with real risks. If a student gets a Pell grant and does not finish her degree, she does not have to pay back the full Pell Grant.[127] If she takes out a loan and does not finish her degree, she has to pay back the principal plus interest, and her chances of defaulting on the debt increase dramatically. So while loans provide students who otherwise would not be able to afford college a path to a degree, they also pose a significant financial threat. This individual risk makes student loans a much trickier and less straightforward type of entitlement, as Fresno City College (Fresno, CA) learned just a few years ago.

In 2012, officials at the community college discovered the hard way that there are strict limitations on institutional flexibility with regard to offering federal student loans. In an effort to address its rising default rate, Fresno City required students to submit an additional form detailing the specific items that they needed a loan to cover.[128] If an item a student listed did not appear on the list of items included in the school's Cost of Attendance, administrators denied the loan request. The school hoped to ensure that students were taking on debt for the right reasons. This was one of several strategies Fresno undertook to try to lower its default rate, but the strategies came a little too late. More than 30 percent of the school's students had defaulted on loans they had taken out several years earlier; as a result, the institution received notice from ED that it would be coming under review.

During the review, ED selected 30 student files at random to check that financial aid awards were being handled appropriately. After noticing that only two of the 30 students had requested the full loan for which they were eligible, ED began asking questions and discovered that the school was requiring students to fill out the additional form. ED objected, saying that the form created a barrier to entitlement for federal loans, and told Fresno to stop requiring students to fill it out.[129] So far, this seems to be an appropriate response, given the law.

ED then made a further demand that seemed to be at odds with the goal of ensuring that students do not borrow more than they need, ordering Fresno to require each student who borrowed less than the maximum amount to write a letter to the school, acknowledging that he was voluntarily turning down the maximum loan.[130] This demand signaled to students that they *should* borrow the maximum amount but were waiving their right to do so. To leave students with the impression that they should borrow the maximum amount, even if they do not need it, sends the wrong message.

Figure 10 | Packaging Recommended Loan Amounts


WESTERN GOVERNORS UNIVERSITY

ONLINE. ACCELERATED. AFFORDABLE. ACCREDITED.

My Financial Aid Plan
2015-2016

Dear [redacted]

Thank you for choosing Western Governors University to achieve your educational goals. The information outlined in the attached "My Financial Aid Plan" is an estimate to help you make important financial decisions about your education. The cost and award estimates in the attached plan are estimates based on one academic year (two 6-month terms) and assumes you are enrolled full-time and living off campus.

WHAT WILL ATTENDING WGU COST?

Direct Costs (costs that are payable to the school)

Tuition & Fees ....

Indirect Costs (estimates for expenses you may incur for livi

Housing & Meals* ....

Books & Supplies** ....

Other Educational Costs ....

Total Cost of Attendance ....

*Because WGU is an online university that has no campus housing, I
may experience under varying living situations. Most WGU students
**Almost all textbooks are included in Tuition & Fees as electronic le
expenses for Books & Supplies.

WHAT FINANCIAL AID AM I ELIGIBLE FOR?

Grants & Other Aid (money that typically does not need to be pai

Federal Pell Grant ....

Institutional Aid ....

Scholarships ....

Total Grants & Scholarships .... $ **2,172**

Federal Student Loans (**maximum eligibility**) .... $ **6,500**

WHAT SHOULD I BORROW?

We encourage you to borrow as little as possible. You can borrow up to your maximum loan eligibility through Federal Student Loans listed above. However, we recommend that you limit your borrowing to no more than your unmet direct costs (tuition & fees).

Unmet Direct Costs (Direct Costs less Total Grants & Scholarships) .... $ **3,898**

Recommended Loan Amounts (up to unmet direct costs)

Federal Direct Subsidized Loan .... $ 3,898

Federal Direct Unsubsidized Loan .... $ 0

WHAT ARE MY NEXT STEPS TO RECEIVE FINANCIAL AID?

Log in to your Student Portal to **continue the financial aid process** and accept or change the recommended loan amount. Please note, additional requirements or documentation may be necessary.

OTHER RESOURCES

Other financial aid options to help pay for your education can include *military education benefits, private scholarships and grants, state grants, employer reimbursement, and WGU payment plans.*

IMPORTANT INFORMATION

Financial Aid Glossary | Federal Student Loans Terms and Conditions | Loan Repayment Calculator and Interest Rates | National Student Loan Database

finaid@wgu.edu Western Governors University, Financial Aid Office 1-877-435-7948 ext. 3104

WHAT SHOULD I BORROW?

We encourage you to borrow as little as possible. You can borrow up to your maximum loan eligibility through Federal Student Loans listed above. However, we recommend that you limit your borrowing to no more than your unmet direct costs (tuition & fees).

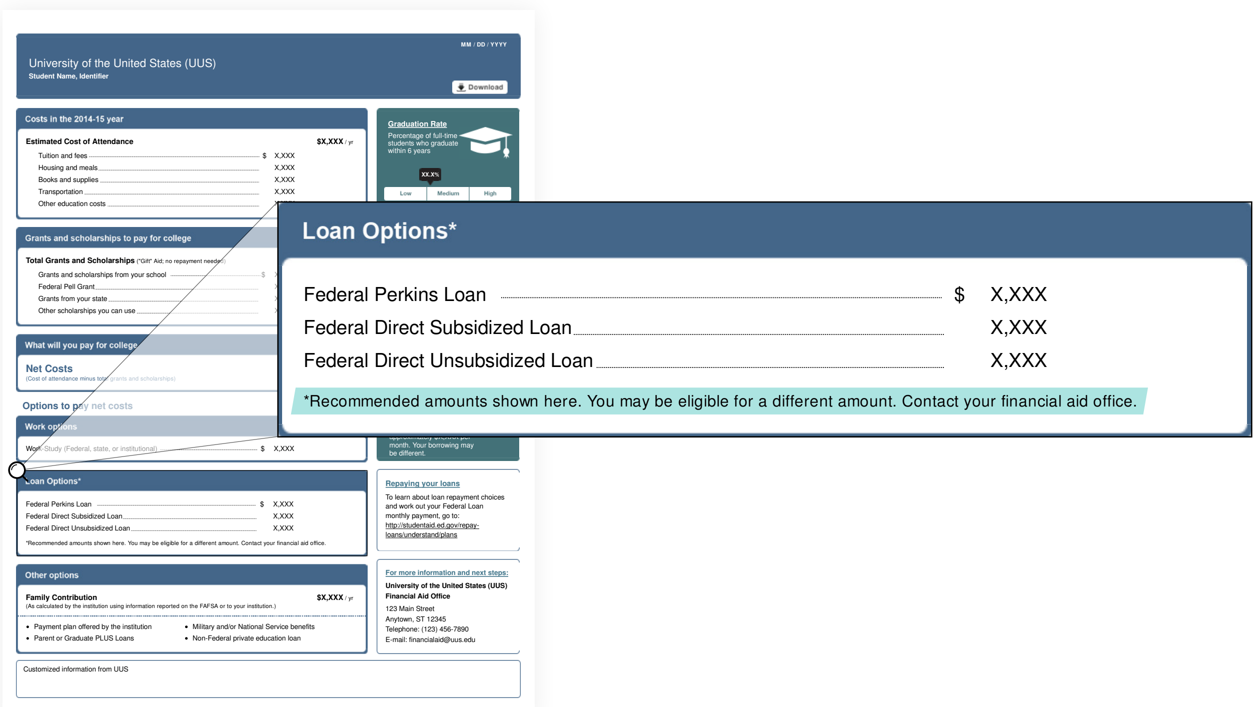
Unmet Direct Costs (Direct Costs less Total Grants & Scholarships) .... $ **3,898**

Recommended Loan Amounts (up to unmet direct costs)

Federal Direct Subsidized Loan .... $ 3,898

Federal Direct Unsubsidized Loan .... $ 0

Figure 11 | Financial Aid Shopping Sheet


MM / DD / YYYY

University of the United States (UUS)

Student Name, Identifier

Download

Costs in the 2014-15 year

Estimated Cost of Attendance **$X,XXX** / yr

Tuition and fees .... $ X,XXX

Housing and meals .... X,XXX

Books and supplies .... X,XXX

Transportation .... X,XXX

Other education costs ....

Graduation Rate

Percentage of full-time students who graduate within 6 years

XX.X%

Low | Medium | High

Grants and scholarships to pay for college

Total Grants and Scholarships ("Gift" Aid; no repayment needed)

Grants and scholarships from your school .... $

Federal Pell Grant ....

Grants from your state ....

Other scholarships you can use ....

What will you pay for college

Net Costs

(Cost of attendance minus total grants and scholarships)

Options to pay net costs

Work options

Work-Study (Federal, state, or institutional) .... $ X,XXX

month. Your borrowing may be different.

Loan Options*

Federal Perkins Loan .... $ X,XXX

Federal Direct Subsidized Loan .... X,XXX

Federal Direct Unsubsidized Loan .... X,XXX

*Recommended amounts shown here. You may be eligible for a different amount. Contact your financial aid office.

Repaying your loans

To learn about loan repayment choices and work out your Federal Loan monthly payment, go to: http://studentaid.ed.gov/repay-loans/understand/plans

Other options

Family Contribution **$X,XXX** / yr

(As calculated by the institution using information reported on the FAFSA or to your institution.)

- Payment plan offered by the institution
- Parent or Graduate PLUS Loans
- Military and/or National Service benefits
- Non-Federal private education loan

For more information and next steps:

University of the United States (UUS)
Financial Aid Office
123 Main Street
Anytown, ST 12345
Telephone: (123) 456-7890
E-mail: financialaid@uus.edu

Customized information from UUS

Loan Options*

Federal Perkins Loan .... $ X,XXX

Federal Direct Subsidized Loan .... X,XXX

Federal Direct Unsubsidized Loan .... X,XXX

*Recommended amounts shown here. You may be eligible for a different amount. Contact your financial aid office.

face in repayment. After receiving these messages, students reduced their total borrowing by 9 percent, and unsubsidized loan borrowing by 12 percent. However, while the text-messaging campaign resulted in a particularly significant reduction in borrowing for those with low GPAs, it also lowered borrowing amounts for minority populations, which could present troubling racial equity concerns.[133] For institutions without the capacity to carry out a text messaging campaign, it may be worth trying to include the student's total debt and estimated monthly payments on his award or disbursement letter. Research into the impact of these interventions has been mixed, and results may vary based on the medium used to communicate. While providing this information may not directly impact a student's borrowing decision as strongly as other interventions like loan packaging itself, some research suggests it does have a significant impact on students' engagement with financial aid offices and the degree to which they seek out more information.[134] For instance, paper mail or even e-mail may reach fewer students than a text message.

Given how complicated it can be to decipher potential outcomes based on past borrowing behavior, some colleges have used a softer approach to get students with high debt loads to reconsider taking on even more. While Coconino Community College, a participant in ED's loan limit experiment, chose not to limit loans based on how much prior debt students arrived with, the aid office asked students to print out their federal student loan portal page, where their balance is listed, and attach it to their financial aid application.[135] If a student is unsure how to check her balance, aid officers pulled the portal page online in the presence of the student. This engagement comes with the added benefit of providing a final opportunity for one-on-one counseling before a student submits a formal loan request.[136] This just-in-time counseling has proven noticeably more effective at influencing borrower behavior than other popular models that occur long before or even after a student has made borrowing decisions.[137] By guiding students during this crucial moment, the college hopes to make students more aware of how much they owe, and how much their loan balance has grown as a result of accruing interest. Many current borrowers drastically underestimate the amount of debt they are carrying. Informing students about their existing balances before they borrow more seems like a relatively simple, worthwhile practice.[138]

What the Department of Education Can Do

Reopen and improve the experimental site on loan limits. Learning how colleges might limit loans if this policy were made available to all was a helpful first step. But ED's experiment has left far too many unanswered questions about how colleges' decisions may affect students. ED's memo notifying participants about the termination of the loan limits experiment admits that the "experiment has not provided sufficient information to support continuation."[139] Instead of cancelling the experiment, ED should begin anew with more standardization. The experiment would ideally be implemented as a randomized controlled trial involving two demographically similar groups of students for each type of intervention, half of whom have their loans limited and half who borrow normally; and should create strict circumstances under which institutions may reduce loan limits. ED should also collect survey data from students about how diminished borrowing amounts affect their decisions to enroll and whether to go full- or part-time. The financial and academic impact on students should also be recorded with questions about any changes to student's credit card or private loan debt; budget strains, including instances of food insecurity or difficulty paying rent; and notable changes to student's' grade point averages, retention, and completion rates. With additional information about the impact on students, lawmakers would not have to guess whether more institutional authority to limit borrowing may cause harm.

Give colleges more options to appeal default rate sanctions. Under current law, colleges at which at least two-thirds of the student body are low-income may appeal sanctions imposed on them because of a high cohort default rate.[140] A college can also appeal if only a very small percentage of students at the institution borrow.[141] But ED should consider allowing colleges to appeal federal sanctions if students are overwhelmingly borrowing to cover living costs, not direct expenses. The amount students borrow for living expenses is outside of colleges' control. As such, some institutions with low tuition and fees can still fall into trouble if a substantial number of students take on loans to cover living costs that are outside of the institution's control. In the 2014–15 school year, 14 community colleges had a default rate that exceeded 30 percent, but they had below average tuition and fees for the community college sector.[142] For those concerned that institutions may be underestimating living expenses in their COA estimates in order to curb student borrowing, this additional appeal option could eliminate the incentive to misrepresent costs. Furthermore, there is federal precedent for not including living costs in accountability measures. In the "gainful employment" metrics, for instance, career-oriented programs are only held accountable for the lesser of either the average amount borrowed or the direct costs of the program. While living expenses are a critical element of college success, they need not necessarily always be included for accountability purposes.

To help colleges that want to offer Aid Like a Paycheck, offer clear guidance about the meaning of "substantially equal" loan disbursements. Aid administrators are partially confused about their ability to disburse federal aid bi-weekly like a paycheck because of conflicting regulations from ED. One regulation states that federal aid must be disbursed at least twice but can be spread throughout the semester if that helps students better manage their money.[143] But another section goes on to state that each Direct Loan disbursement must also be "substantially equal."[144] It is unclear what this phrase means, and ED has never clarified it. Does it mean that the aggregate amount that a college disburses over the course of each payment period needs to be the same, or does it mean every single disbursement within the payment period must be similar? If each disbursement must be approximately the same, this regulation may constrain colleges from pursuing an Aid-Like-a-Paycheck model since students require a much larger loan disbursement at the beginning of the term to cover books and supplies. In order to give college administrators who are interested in disbursing federal loans over the course of a semester instead of in one or two lump sums peace of mind, ED should confirm that this is permitted.

What Congress Can Do

Give part-time students part-time loans. Under current law, full-time students get larger Pell Grants than part-time students. This makes sense because the more classes students take, the more they have to pay the school, and the less time they have to work to pay for college. However, due to some historical quirks related to a time when there were hundreds of lenders who made student loans under the former Federal Family Education Loan (FFEL) program, these same rules do not apply to the current Direct Loan Program.[145] As a result, low-income students who attend part-time only get a partial Pell Grant, but are still eligible to receive a full debt load. Given that all new loans are issued by the federal government, this should be a relatively easy change.

Originally envisioned as a means to provide affordable, debt-free college to low-income students, the Pell Grant has become the gateway to debt for most low-income students. In 1979, the maximum Pell Grant covered all of a student's cost of attendance at a community college.[146] Today, it covers just half of the total average cost.[147] Furthermore, in 1979, only 27 percent of low-income students borrowed, and they took out just $2,694 in 2016 dollars.[148] In 2012, 60 percent of Pell-eligible students borrowed, and twice as many borrowed above-average loan amounts than their non-Pell peers.[149] The Pell Grant's purchasing power has diminished over the decades as college prices have skyrocketed. As a result, low-income students have little choice but to take out loans. A policy that permits students to get only a portion of a Pell Grant while still allowing them to take out a full loan exacerbates this unfortunate trend of Pell becoming a gateway to debt.

Some are worried about the impact that prorating loans may have on part-time students attending more expensive, four-year institutions. But less than a quarter of students attend four-year schools part-time, compared with 60 percent of community college students.[150] Given the different reasons for attending a four-year university, and the positive correlation between full-time attendance and degree completion, a policy that encourages students at four-year universities to attend full-time could help, not discourage, completion.

It seems completely at odds with the policy goal of limiting debt for low-income students to give them only a partial Pell grant but a full loan. Congress has drafted, but not passed, bipartisan legislation that, among other things, would provide prorated loans to part-time students.[151] This seems like a more targeted step to take before tackling more fraught policies like providing institutional authority to reduce loan limits for groups of students.

Standardize financial aid award letters or their elements. After students have filled out the FAFSA, colleges send them letters detailing the financial aid packages they are offering. Unfortunately, these letters tend to vary from college to college and have inconsistent and sometimes misleading labeling and financial aid jargon. It can often be difficult for students to understand the differences between "free" money such as grants and scholarships, "self-help" money such as Work-Study, and money that has to be paid back in the form of loans. As a result, many students may be confused about how much they are ultimately going to have to pay out of pocket.

Imagine a student has just received an "award" letter that includes $5,815 in "Pell," $5,000 in "Perkins," $4,000 in "SEOG," and $5,500 in "Stafford." The "Total Award" column adds up to a bolded $20,315. Even though the total award seems generous, it includes over $10,000 of loans. It is no surprise that 14 percent of student loan borrowers do not realize they have taken on debt.[152] Most students do not know what Perkins Loans are, and it certainly does not help that some colleges refer to them as Perkins, and others as Perkins-L, removing any reference to loans whatsoever. Likewise, most prospective students do not know the difference between a "Federal Stafford" and a "Stafford Unsubsidized Loan."

The lack of uniformity makes it difficult for students to understand how much money they owe up front and how much debt they are being asked to take on, and it makes it harder for them to accurately compare financial aid awards from different schools. ED tried to address this problem in 2012, when it created the "Financial Aid Shopping Sheet," a uniform award letter that institutions could adopt that makes it easier for students to understand what they will receive in terms of grants and loans. Unfortunately, ED cannot require colleges to use it. Thousands of colleges have adopted the shopping sheet, but there are thousands more that have not. As a result, millions of students have been left without straightforward, comparable information about what they will be expected to pay out of pocket, what is covered with grants, and how much they will owe.

While ED cannot require schools to use the same award letter, or even the same terminology, Congress can. In 2012, a bipartisan bill was introduced that would have required schools to use at least some basic, standardized information about financial aid packages.[153] If Congress is concerned enough about student debt that it is considering giving schools the ability to limit loans for students, it should also ensure that schools are clear with students in their award letters about how much they would be expected to repay.

Give schools the flexibility to better target loan counseling. After a student completes the Free Application for Federal Student Aid (FAFSA), the process for taking out a federal student loan is fairly simple. A first-time borrower receives an award letter from his college of choice; goes through mandatory entrance counseling, which in its current form has minimal impact on a student's borrowing choices; checks a box; and signs on the dotted line. After a student has gone through the counseling once, he can never be required to do it again. The process is so easy, in fact, that financial aid administrators worry that students do not fully grasp exactly what they have done or exactly how much they have borrowed. "One of the biggest problems is that students don't understand the implications of taking on this debt," Becky McCall, director of financial aid at Shasta College, told us.[154] According to a 2014 Brookings Institution study, 14 percent did not realize they had student debt.[155] More than a quarter of borrowers knew they had taken out debt but did not know they had federal loans, and 50 percent underestimated the amount they had borrowed.[156] The study made clear that many students do not understand what borrowing entails. "They are living in the moment and don't understand that the interest will accrue," McCall said. In an effort to improve students' financial literacy, the U.S. House of Representatives passed a bill in 2014 that would require all borrowers, as opposed to first-time borrowers, to undergo annual counseling before receiving their disbursement.[157]

Research confirms that students are often making split decisions.[158] Since the effects of loan counseling dissipate quickly over time, there may be better ways to ensure students are making appropriate decisions in the moment.[159] Annual required counseling or just-in-time counseling before a student officially takes out a loan may improve decision making without directly infringing on his entitlement to borrow.[160] College administrators' concerns about some students' financial knowledge may be justified, but their over-generalized response to the problem may miss the mark. Instead of categorically restricting aid, Congress, ED, and institutions should all work to improve the quality of information provided before students take out loans.

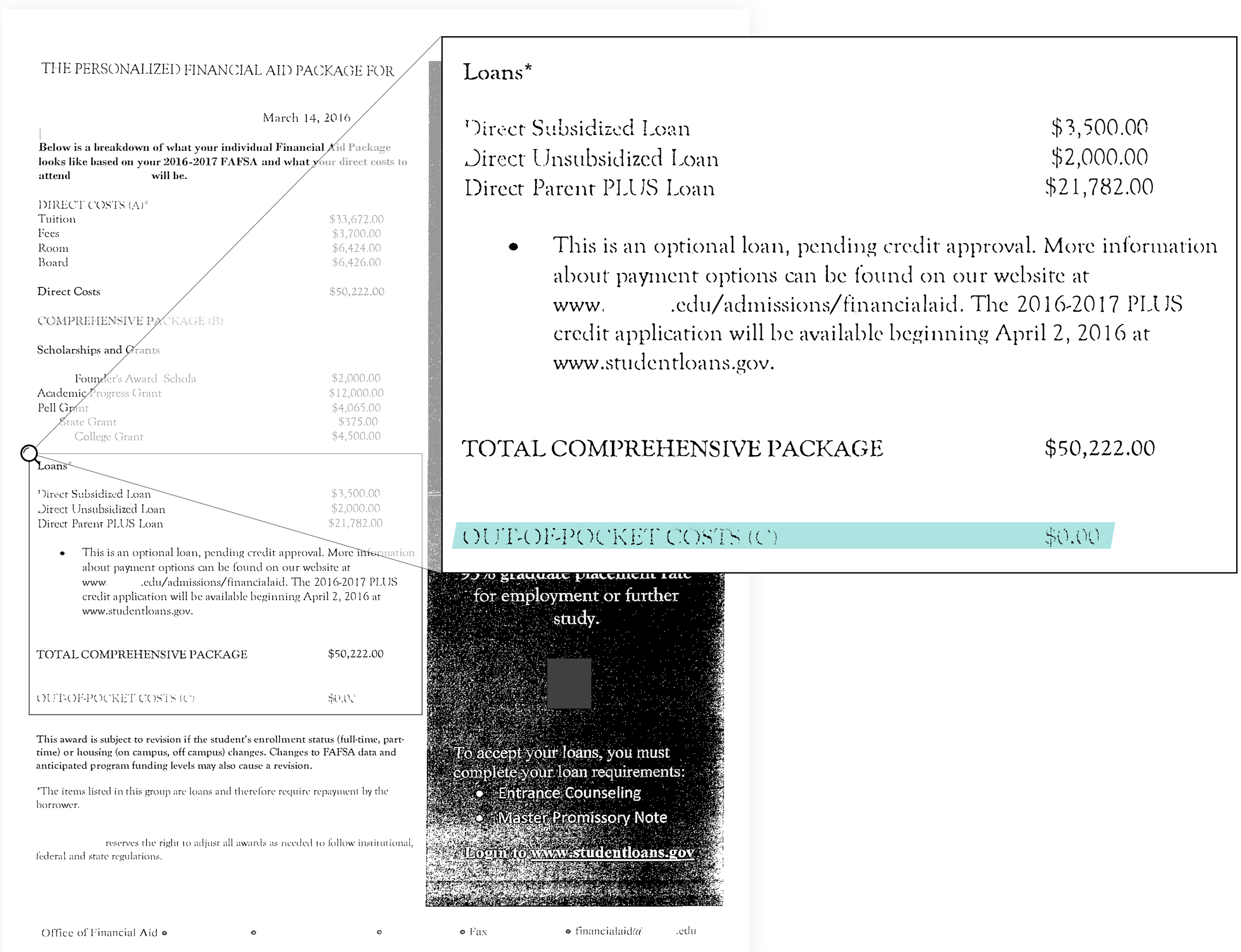
ED has banned institutions from requiring additional counseling for students apart from the single, initial mandatory counseling that all first-time borrowers must receive and is very clear that mandatory efforts above and beyond this constitute a threat to students' entitlement to borrow (see **Student Debt as a Tricky Entitlement: The Case of Fresno City College** on page 27). In April 2015, ED underscored this message in a letter that worried many financial aid officers. The letter stresses (and physically underlines) two key points: first, that student loan borrowers cannot be required to participate in counseling above and beyond the one-time entrance counseling required by law, and second, "the decision of whether to borrow and how much to borrow" rests with the student, not the institution. That being said, ED "recommends that institutions encourage" borrowers to use additional tools, like the ones ED itself has created. Many aid administrators saw the letter as taking away their ability to provide targeted counseling to the students most at risk of defaulting.

The only allowable mandatory counseling, entrance and exit counseling, at least in their current form, appear to have little impact on borrowing decisions and repayment rates. A 2012 study confirmed administrators' concerns and found that as many as 40 percent of high-debt borrowers do not remember receiving any student loan counseling.[161] "We would ask students about the difference between subsidized and unsubsidized federal loans, and they would tell us that unsubsidized loans didn't have to be paid back," Chapman told us. Given their confusion, students could benefit from additional, improved, or better-timed loan counseling.

Federal law restricts how much institutions can require of students, including counseling, as a condition of receiving a loan. This law is designed to prevent schools from making it so onerous to borrow that students, particularly those who are debt-averse, forego the money they need to succeed in college. But it also makes it difficult for institutions to help students who are at the highest risk of defaulting and most in need of help, understand how to take on and manage debt. Many schools would like to provide—and many used to provide—additional support for students who were, for example, facing academic difficulties, taking a small number of classes, or enrolled in low-cost associate's programs with cumulative debt above $25,000.[162] But the threat of coming under ED's scrutiny has made administrators skittish about engaging in certain practices that may help students make more informed borrowing choices. ED should revisit its 2015 letter and give colleges more leeway to help the riskiest students avoid default.

The Department of Education recently announced its intention to study whether additional loan counseling helps students succeed in school and better manage their debt. Using its Experimental Sites Initiative (the same authority used to create the loan limits experiment), ED plans to allow 51 schools to require additional counseling as a contingency for receiving federal aid.[163] The new experiment still requires that loan counseling be confined to one session and restricts the degree to which content can be altered or targeted for different student populations. But unlike with the loan limits experiment, ED will require control and experiment groups so that it can gauge what—if any—impact the additional targeted counseling has on student outcomes.[164] While this is a positive step, we hope that Congress can also provide greater flexibility. Without being able to condition the receipt of federal student loans on more intensive or targeted counseling, institutions will likely continue to push Congress for much broader authority to limit loans directly.

Figure 12 | A Misleading "Award" Letter



THE PERSONALIZED FINANCIAL AID PACKAGE FOR

March 14, 2016

Below is a breakdown of what your individual Financial Aid Package looks like based on your 2016-2017 FAFSA and what your direct costs to attend will be.

DIRECT COSTS (A)*	
Tuition	$33,672.00
Fees	$3,700.00
Room	$6,424.00
Board	$6,426.00
Direct Costs	$50,222.00
COMPREHENSIVE PACKAGE (B)	
Scholarships and Grants	
Founder's Award Schola	$2,000.00
Academic Progress Grant	$12,000.00
Pell Grant	$4,065.00
State Grant	$375.00
College Grant	$4,500.00
Loans*	
Direct Subsidized Loan	$3,500.00
Direct Unsubsidized Loan	$2,000.00
Direct Parent PLUS Loan	$21,782.00

- This is an optional loan, pending credit approval. More information about payment options can be found on our website at www. .edu/admissions/financialaid. The 2016-2017 PLUS credit application will be available beginning April 2, 2016 at www.studentloans.gov.

TOTAL COMPREHENSIVE PACKAGE	$50,222.00
OUT-OF-POCKET COSTS (C)	$0.00

This award is subject to revision if the student's enrollment status (full-time, part-time) or housing (on campus, off campus) changes. Changes to FAFSA data and anticipated program funding levels may also cause a revision.

*The items listed in this group are loans and therefore require repayment by the borrower.

reserves the right to adjust all awards as needed to follow institutional, federal and state regulations.

Office of Financial Aid • • • • Fax • financialaid@ .edu

Loans*
Direct Subsidized Loan $3,500.00
Direct Unsubsidized Loan $2,000.00
Direct Parent PLUS Loan $21,782.00
This is an optional loan, pending credit approval. More information about payment options can be found on our website at www. .edu/admissions/financialaid. The 2016-2017 PLUS credit application will be available beginning April 2, 2016 at www.studentloans.gov.
TOTAL COMPREHENSIVE PACKAGE $50,222.00
OUT-OF-POCKET COSTS (C) $0.00

CONCLUSION

Much of the media coverage around the college affordability crisis has highlighted the rising price of tuition. But this is only part of the story. For low-income students attending low-cost or even “free” (in terms of tuition and fees) colleges, it is the basic living costs of food and rent that often make it difficult to persist and succeed in school. Lowering college prices will not solve this dilemma. While student loans can now fill in the gap for these students, loans come with real risks to the students who rely on them and the institutions that are held accountable for them when borrowers fail to repay.

If policymakers want to help students and institutions avoid the risks of default, they must first consider whether curtailing borrowing amounts will achieve the desired result. Limiting loans for certain student subgroups may do little to solve the issue at hand but could have a negative impact on student success. Before contemplating such a dramatic change to decades of federal student loan policy based on incomplete information, leaders at all levels should consider the many worthwhile alternatives.

We recognize that these eight suggestions do not address the major underlying problems in higher education, whether it be the sky-high tuition and fees at pricey institutions or the cost of living for low-income students at less expensive colleges. Solving systemic affordability problems is beyond the scope of our analysis and will require careful consideration about the promise of free college, increasing state investment in higher education, or bolstering the federal Pell Grant. Considering that many students are struggling to pay for basic necessities, there is insufficient evidence to suggest that students will not be negatively impacted by any limits to federal loan aid. Before allowing institutions to make decisions about how much certain groups of students should borrow, college leaders, ED officials and lawmakers should continue to test this policy and explore other options with widespread consensus to help students make appropriate borrowing decisions on their own, decisions that enable students to get what they need. No more, and no less.

APPENDIX

Table 3 | Number of Students Targeted for Reduced Borrowing by Institution

Participating Institutions	Number of Students		
	2011–12	2012–13	2013–14
Atlanta Metropolitan College	No report	1,732	N/A
Broward College	62,356	No report	65,599
Coconino County Community College	4,738	5,008	4,506
Cooper Mountain College	163	161	168
Harford Community College	518	506	477
Rasmussen College	No report	155	252
San Diego City College	79	22	22
San Diego Mesa College	60	45	8
San Diego Miramar College	9	6	8
Western Governors University	1,541	1,571	2,845

Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

NEW AMERICA

Table 4 | Number of Students Targeted for Reduced Borrowing by Institution

Participating Institutions	Number of Students	
	2012–13	2013–14
California State University – Monterey Bay	40	62
Capella University	47	67
Central New Mexico Community College	9,152	7,785
Colorado State University Global Campus	565	11
Elgin Community College	514	130
Glendale Community College	415	358
Ivy Tech Community College	31,792	19,255
Mount Wachusett Community College	3,533	3,186
Palomar College	452	344
Shasta College	93	95
Southwestern Community College District	50	34
St. Louis Community College	741	806
Texas State Tech College Harlingen	No report	35
Wor-Wic Community College	300	384

Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

NEW AMERICA

Table 5 | Characteristics of Participating Institutions

Participating Institutions	2015–16			2014–15				2013–14
	In-State Tuition and Fees	COA	COA w/ Family	% Receiving Loans	% Pell	Average Loan Awards	Enrollment	Cohort Default Rates
Atlanta Metropolitan College	$3,250	$10,290	$7,130	39%	74%	$3,468	3,129	20.7%
Broward College	$2,753	$22,126	$8,626	18%	69%	$3,139	43,078	11.8%
California State University (Monterey Bay)	$6,119	$24,703	$10,307	46%	48%	$5,120	6,648	3.6%
Capella University	$13,176	$19,062	$14,994	83%	53%	$8,751	34,365	6.5%
Central New Mexico Community College	$1,448	$13,728	$4,660	13%	36%	$4,629	25,760	22.7%
Coconino County Community College	$2,970	$17,396	$7,878	17%	27%	$6,040	3,540	17.1%
Colorado State University Global Campus	$8,400	N/A	N/A	54%	32%	$7,639	9,838	3.8%
Copper Mountain College	$1,108	$18,991	$7,138	9%	60%	$6,151	1,694	27.8%
Elgin Community College	$10,439	$21,089	$15,089	8%	26%	$3,791	10,336	12.5%
Glendale Community College (California)	$1,175	$17,807	$6,099	3%	39%	$5,577	15,588	8.8%
Harford Community College	$5,429	$17,275	$8,275	8%	28%	$3,811	6,520	9.6%
Ivy Tech Community College	$4,115	$15,671	$8,631	34%	68%	$4,300	81,668	22.5%
Mount Wachusett Community College	$5,188	$17,288	$9,888	32%	50%	$3,335	4,074	12.7%
Palomar Community College	$1,338	$19,116	$5,626	2%	37%	$2,990	23,482	15.9%

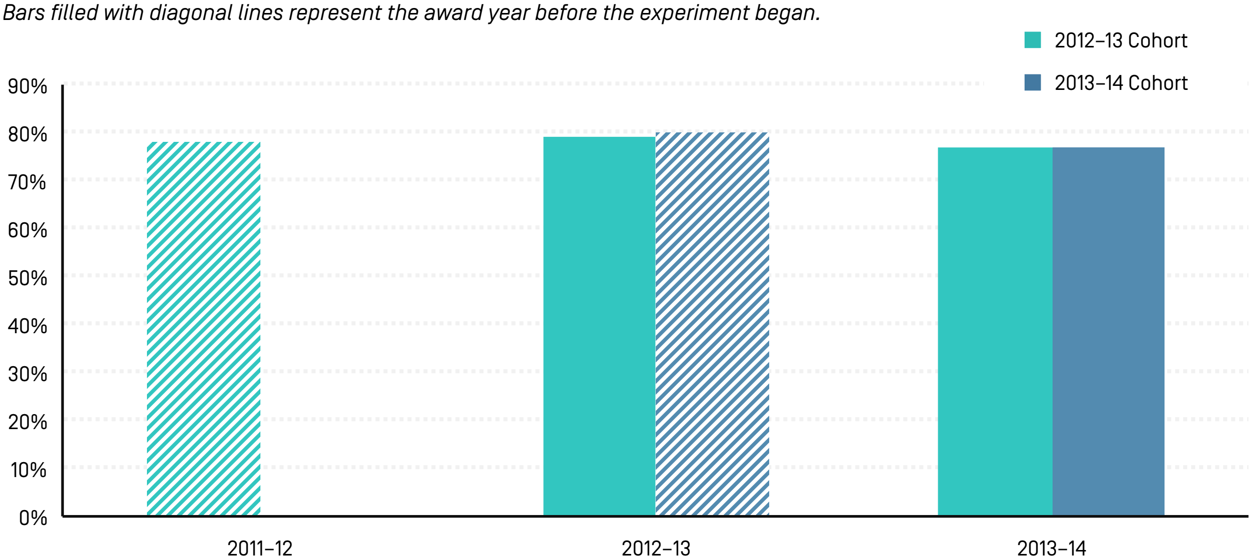
Table 5 | Characteristics of Participating Institutions (cont.)

Participating Institutions	2015–16			2014–15				2013–14
	In-State Tuition and Fees	COA	COA w/ Family	% Receiving Loans	% Pell	Average Loan Awards	Enrollment	Cohort Default Rates
Rasmussen College	$9,360	$23,202	$15,336	56%	49%	$7,413	28,186	8.2%
San Diego City College	$1,142	$19,043	$7,190	5%	75%	$3,267	16,520	19%
San Diego Mesa College	$1,142	$19,043	$7,190	4%	46%	$3,374	24,208	15.7%
San Diego Miramar	$1,142	$19,043	$7,190	2%	20%	$3,493	13,008	15%
Shasta College	$1,183	$19,347	$7,233	4%	38%	$5,966	8,620	22%
Southwestern Community College District	$1,336	$18,724	$7,348	2%	31%	$3,939	25,907	17.5%
St. Louis Community College	$4,470	$14,470	$12,570	10%	46%	$3,868	18,902	15.3%
Texas State Technical College (Harlingen)	$4,386	$18,001	$8,044	32%	51%	$5,829	11,316	12.2%
Western Governors University	$6,070	$13,270	$6,970	60%	37%	$5,145	54,735	4.8%
Wor-Wic Community College	$5,952	$20,402	$12,652	14%	51%	$3,661	3,128	12%
Average	**$4,295**	**$17,462**	**$8,959**	**29%**	**49%**	**$4,779**	**19,760**	

Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

Figure 13 | Average Percent of Credits Completed by Participating Students Across All Schools

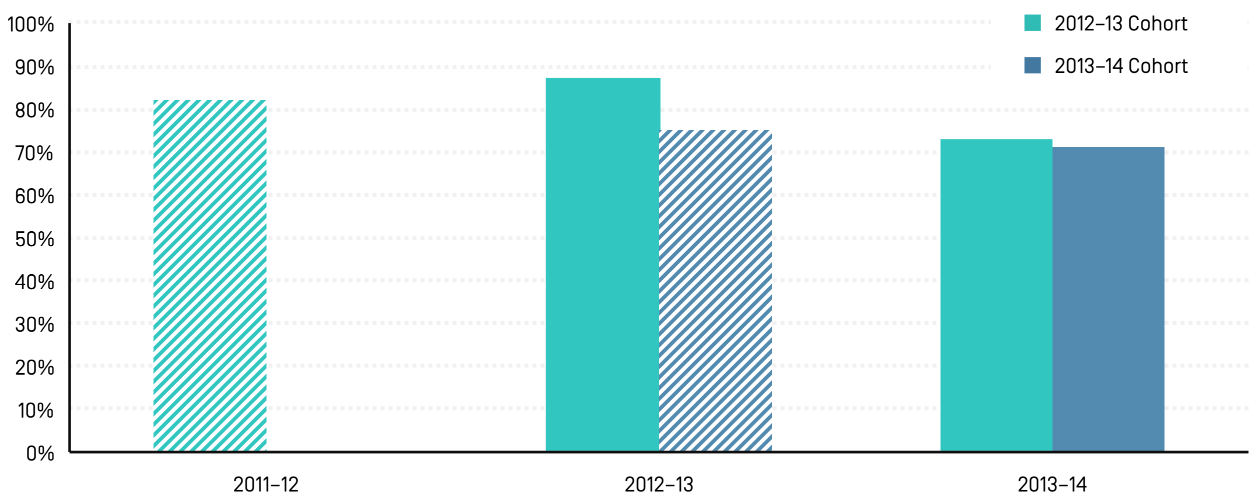
Bars filled with diagonal lines represent the award year before the experiment began.



Source: U.S. Department of Education, Office of Federal Student Aid, Policy Liaison and Implementation, "Analysis of the Experimental Sites Initiative: Limiting Unsubsidized Loan Amounts Experiment," September 2016.

Figure 14 | Average Percent of Participating Students Who Graduated or Persisted Across All Schools

Bars filled with diagonal lines represent the award year before the experiment began.



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