Institutional Authority to Limit Federal Student Loan Borrowing Under Specific Circumstances AACC Position/Background

Community colleges strongly support amending the Higher Education Act (HEA) to give institutions new authority to limit loan eligibility for defined categories of students. This proposal derives from the well-documented differential risks of student borrowing, depending on a student's program, debt level, academic preparation, and other variables. Unfortunately, current policy does not reflect these distinctions, while the "case-by-case" authority that student financial aid administrators may currently employ to reduce borrowing eligibility is extremely restrictive and rarely used.

The FY 2014 cohort default rate for 2-year public institutions was 18.3%. While this rate has declined somewhat in recent years, it remains unacceptably high. Loan servicers, the federal government, and institutions can help reduce default or non-repayment, but preventing students from over-borrowing in the first place is essential.

Any new authority to reduce borrowing entails considerable institutional responsibility, and colleges should be required to explicitly articulate and justify their policies in writing, with all similarly situated students treated uniformly. Moreover, individual students whose borrowing eligibility has been limited should be able to appeal on a case-by-case basis, as under the current professional judgment provision.

The House HEA reauthorization legislation, the "PROSPER" Act (H.R. 4508), allows institutions to limit borrowing in certain circumstances. AACC supports this language [see below], though it has suggested refinements. The Senate Health, Education, Labor and Pensions (HELP) Committee Chair Lamar Alexander has expressed support for a more limited version of this loan authority in the past. Allowing colleges to reduce over-borrowing may encourage more colleges to participate in the federal loan programs, and could reduce the risk of currently participating colleges from losing loan eligibility.

Below are the categorical circumstances in which institutions should have the authority to limit student borrowing.

Academic Preparation

Research shows that students who do not complete their programs are more likely than graduates to have problems repaying their student loans. Moreover, students with poor academic preparation requiring additional academic support or remediation are more likely to fail to complete their programs. (http://www.ppic.org/wp-content/uploads/r-

0217mcr.pdf) Therefore, institutions should have the authority to reduce loan maximums for students categorized as lacking adequate academic preparation. In practice, this might include students who need developmental education or additional academic support (the latter is typically associated with co-requisite and other programs where remediation is integrated in college coursework).

Program of Study

Community college programs, like all institutions of higher education, prepare students with different skills and coursework needed for various future careers. Students are free to select their programs of study, but in some cases may face challenges repaying their loans if they enter careers with relatively modest salaries. Applying the underlying logic of the gainful employment regulations, which created Title IV eligibility metrics keyed to income/debt ratios, colleges might choose to limit the debt incurred by students enrolled in those programs with lower projected salaries. Sen. Alexander's Financial Aid Simplification and Transparency (FAST) Act (S. 108, 114th Congress) took this approach.

Previous Borrowing

Community colleges have the lowest tuition and fees of any sector of higher education ($3,570 in fall 2017 for a full-time, full-year student), and the federal Pell Grant program covers much of the cost of college for many financially needy students. However, some students transferring into community colleges from other institutions, particularly for-profit institutions, carry with them large amounts of student debt. In these cases, institutions should be able to limit the amount of additional debt that students incur. In other words, institutions should be able to set a cumulative borrowing limit in specified circumstances.

Enrollment Intensity

AACC has long supported prorating loan maximums based on enrollment intensity, as is done with the Pell Grant program. Therefore, only full-time students would be eligible for the maximum loan amount, whereas a half-time student would only be able to borrow half that amount, and so forth. While AACC supports an outright statutory change to affect this, it also could be achieved through the use of institutional loan discretion, as is authorized in the PROSPER Act.

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H.R. 4508 text on institutionally-determined loan limits, as approved by the House Education and the Workforce Committee:

(D) INSTITUTIONAL DETERMINED LIMITS.—

(i) IN GENERAL.—Notwithstanding any other provision of this subsection, an eligible institution (at the discretion of a financial aid administrator at the institution) may prorate or limit the amount of a loan any student enrolled in a program of study at that institution may borrow under this part for an academic year—

(I) if the institution, using the most recently available data from the Bureau of Labor Statistics for the average starting salary in the region in which the institution is located for typical occupations pursued by graduates of such program, can reasonably demonstrate that student debt levels are or would be excessive for such program;

(II) in a case in which the student is enrolled on a less than full-time basis or the student is enrolled for less than the period of enrollment to which the annual loan limit applies under this subsection, based on the student's enrollment status;

(III) based on the credential level (such as a degree, certificate, or other recognized educational credential) that the student would attain upon completion of such program; or

(IV) based on the year of the program for which the student is seeking such loan.

(ii) APPLICATION TO ALL STUDENTS.—Any proration or limiting of loan amounts under clause (i) shall be applied in the same manner to all students enrolled in the institution or program of study.

(iii) INCREASES FOR INDIVIDUAL STUDENTS.—Upon the request of a student whose loan amount for an academic year has been prorated or limited under clause (i), an eligible institution (at the discretion of the financial aid administrator at the institution) may increase such loan amount to an amount not exceeding the annual loan amount applicable to such student under this subparagraph for such academic year if such student demonstrates special circumstances or exceptional need.