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The Parent Trap

Parent PLUS Loans and Intergenerational Borrowing

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About the Author

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About New America

New America is a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States.

Note: This report has been updated on January 10, 2014, to correct enrollment data figures. Please see methodology section for more information.

Overview

In fall 2011, the U.S. Department of Education quietly tightened the credit check criteria for Parent PLUS loans, a federal program that provides loans to parents to send their children to college above and beyond the federal loans available to students.[1]

As a result, many families and higher education institutions were shocked to find that parents approved for the loan one year were suddenly denied the next. Students in the middle of their academic careers found themselves scrambling to cover a much larger portion of their bill upfront. Incoming freshmen who had already paid their deposits were faced with a larger amount due than initially anticipated. Some institutions, such as historically black colleges and universities (HBCUs), witnessed declines in enrollment and a loss of revenue, forcing delayed physical plant maintenance, furloughs, and layoffs.[2]

Since then, leaders of HBCUs have publicly demanded that the Department reverse the eligibility changes. "The drastic decision to change the credit regulations controlling the Parent PLUS loans without effective evaluation of its impact nationally and specifically on HBCUs and without prior communication and input, has resulted in a tornadic effect," remarked Carlton Brown, the president of Clark Atlanta University, "...A one year drop in over 50 percent of approved Parent PLUS applications, [and] more than $50 million in revenue losses."[3] The controversy over the changes even reached the front page of *The Washington Post*'s Sunday edition.[4]

It is true that the Department's execution of the change was poor. It should never have left students on track to graduate suddenly scrambling to find the funds to remain in school. But the Department's underlying motivation was sound. The federal government has made it much too easy for lower- and middle-income families—not just students—to get buried in debt, putting their financial wellbeing at risk.[5]

The Department was right in trying to prevent parents from borrowing loans they might not be able to afford. The size of a PLUS loan is only capped by a college's full "Cost of Attendance" (COA), not just tuition and fees, but the total budget that a student may receive as determined by the institution. Since PLUS loans don't build a parent's human capital, they aren't eligible for flexible repayment through Income-Based Repayment (IBR), a repayment plan that allows the borrower to repay the loan based on his or her income. They are also seldom dischargeable in bankruptcy.

If anything, the Department's changes were too modest. More far-reaching reforms are needed to ensure that the Parent PLUS Loan program is correctly targeted to families who can afford to pay the debt back. Policymakers should consider one of the following three options:

- **Add an "Ability to Pay" metric to the Parent PLUS credit check.** In addition to a backward-looking credit check, adding an "Ability to Pay" metric would be able to better capture whether parents have the resources to pay back the loan. This would help ensure parents aren't over-borrowing to send their children to college.

- **Cap Parent PLUS loans.** Instead of allowing parents to borrow up to the full COA, the loans should be capped to prevent over-borrowing and to remove the incentive for institutions to increase revenue by raising their COA and funding the increase through Parent PLUS.

- **End the Parent PLUS loan program and increase dependent student loan limits.** Many parents who take out federal PLUS loans would not be able to secure a loan in the private market. The government should not be in the business of lending loans to low-income parents as a de facto extension of the student loan program. To compensate for the loss of the program, policymakers should increase dependent student loan limits.

This policy brief explains what Parent PLUS loans are and how they became part of the federal financial aid landscape. It details the recent changes that the Department made and explores loan volume data to assess which sectors and institutions have been hit hardest by the changes. It then describes the problematic nature of PLUS loans for low-income families, and how institutions can use them to game accountability measures and make their prices more opaque to consumers. To conclude, the paper expands on the recommendations offered above and further explains how Parent PLUS loans should be reformed.

Parent PLUS Loans: A Primer

Congress created the Parent PLUS Loan program in 1980, primarily to help middle- and upper-middle- income families access funds to send their children to expensive private colleges.[6] Initially, the loan was capped at $3,000 per academic year (about $8,500 in today's dollars) with an aggregate limit of $15,000 (about $42,500 in today's dollars).[7] In 1992, lawmakers removed PLUS loan limits, allowing parents to borrow up to the full COA of colleges. At the same time, in order to protect parents, they restricted eligibility to parents without an adverse credit history.[8]

Today, Parent PLUS loans are more like private loans than federal student loans. PLUS loans have a relatively high interest rate—a fixed rate of 7.9 percent for the 2012-13 academic year.[9] And because of its relatively high origination fee of 4.2 percent, the loan's annual percentage rate (APR) is over 9 percent. Interest starts accruing once the loan is disbursed, and parents can either start making payments right away or defer them until the student drops below half-time status.

Students don't have to undergo a credit check to access federal student loans because loans made to students are a direct investment in building their human capital. Presumably, once the student graduates, he will be able to obtain a job and have the resources to pay back the investment the federal government made. Since loans to parents do not assume increased wages, they have to meet a minimum credit standard to qualify. The credit check for a PLUS loan is more lenient than the one that a private lender would conduct. Instead of considering a parent's income or ability to repay the loan, it looks only at a parent's adverse credit history. And the absence of any credit history is not considered a sign of an adverse credit history. In fact, up until 2011-12 it was easier for parents to apply for a loan than it was for a student, as parents did not have to fill out the Free Application for Federal Student Aid (FAFSA) to obtain a PLUS loan.[10]

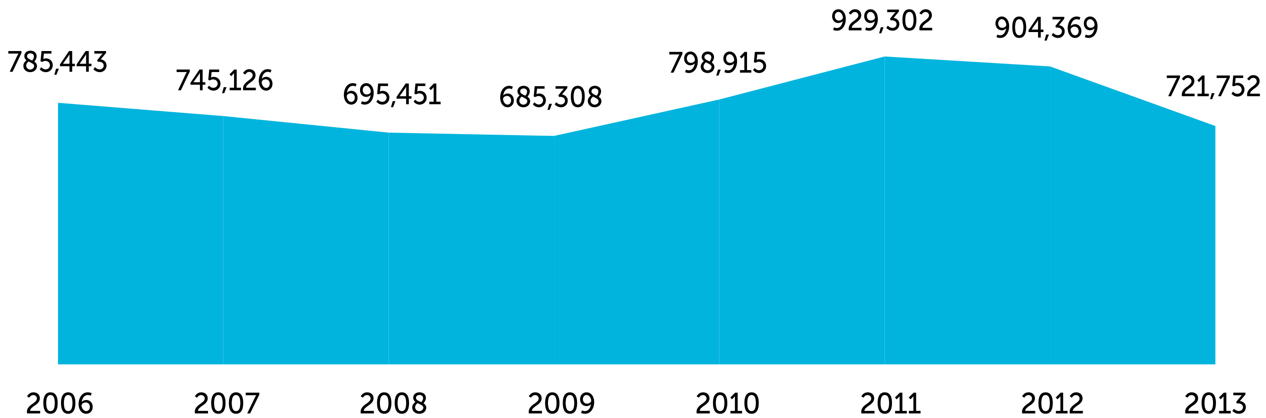
Additionally, PLUS loans have no cap—parents can borrow up to the full COA for an institution. This is a stark contrast with federal Stafford loans, which are capped at between $5,500 and $7,500 a year for dependent students. COA can include many factors, but usually consists of: tuition and fees; room and board; books and supplies; transportation; and loan fees. The average COA per year at a public four-year school in 2011-12 was $23,200, compared with $43,500 at private, nonprofit institutions, and $29,000 at for-profit institutions.[11]

Like other student loans, Parent PLUS loans are seldom dischargeable in bankruptcy. But even more dangerous for borrowers, they also don't normally qualify for some of the most flexible repayment options designed to help struggling borrowers, like IBR.[12] As a result, parents who find themselves in over their heads on PLUS loan debt can be forced to make difficult decisions like delaying retirement or may even face Social Security garnishment.

Even though the PLUS loan program was established to help middle- and upper-middle income families, the program has expanded substantially over time to provide access to credit for lower and moderate-income parents to send their children to expensive colleges. The enormous growth of the program happened after the peak of the Great Recession in 2009, at a time when family net worth diminished while college prices soared.

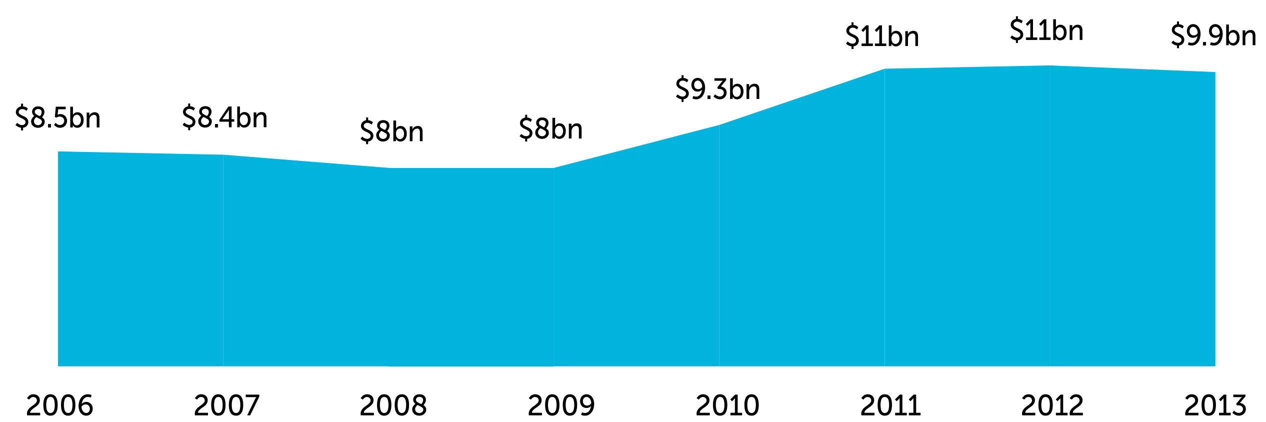
According to *The Chronicle of Higher Education*, the government issued $10.6 billion of Parent PLUS loans in 2011, $6.3 billion more in inflation-adjusted dollars than it did in 2000. During that time, the number of families served almost doubled to approximately one million in 2011.[13] (Charts 1 and 2 show the recipients and disbursements from pre-recession 2006 to 2013.) And since many colleges use Parent PLUS loans to fill the gap between what they charge and the federal, state, and institutional aid their students receive, parents turned toward these easily available loans to ensure their children could attend the college of their dreams.

Chart 1: Recipients of Parent PLUS Loans from Q3 2006 to 2013.



Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Chart 2: Disbursements of Parent PLUS Loans from Q3 2006 to 2013.



Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Reforming the PLUS Credit Check

Before October 2011, prospective parent borrowers couldn't have any current accounts more than 90 days delinquent, or any fore-closures, bankruptcies, tax liens, wage garnishments or defaults in the past five years to pass the PLUS loan credit check.

Starting in October 2011, the Department expanded its definition of what was consid-ered a 90-day delinquency to include accounts whose most recent status was "in collections" or "charged off" in the last five years.[14] This means that if a parent had debt that her lender put into collections in the past five years and she later restored her credit to good standing, she would be approved. But if a parent's debt went delinquent for so many months that it then went into collections within the past five years and she never managed to restore her credit to good standing—indicative of continued financial strain—she would be inel-igible for a Parent PLUS loan. The Department of Education allows the children of parents who were rejected for PLUS loans to borrow at the "Independent" student loan limit.[15] This results in the ability to borrow an additional $4,000 to $5,000 annually (or $9,500 to $12,500 total) in federal Stafford loans depending on the student's year in school on top of what the student has already been allowed to borrow.[16]

Sectors with the Largest Declines in Recipients and Disbursements

From October 2011 to October 2012—before and after the new policy was implemented—rejection rates for PLUS loans increased from 28 percent to 38 percent.[17] Some sectors, like for-profits and HBCUs, were harder hit than others. Morehouse University, for example, was suddenly thrown into a financial crisis in 2012 after the PLUS credit changes. Many freshmen who had paid their deposits suddenly could not afford Morehouse. This enrollment decline forced a faculty and staff furlough.

Even though HBCUs and their advocates have been the most vocal about the impact of the policy change, new data show that the for-profit sector was hit even harder.[18] Since the policy change was implemented, for-prof-its have lost approximately $790 million more than HBCUs in PLUS loan disbursements. In part, this could be due to the decrease in en-rollment that has occurred over the past two years at for-profits.[19] But it still remains that the for-profit sector has a much higher percentage of Parent PLUS loan borrowers than HBCUs.[20] Parent PLUS borrowers are overrepresented at for-profit institutions compared to their share of enrollment.

An analysis of recently released data from the Education Department's Office of Federal Student Aid, shows that from 2009 to 2011 both for-profits and HBCUs saw substantial increases in recipients (approximately 50,000 and 15,000 more respectively) and disburse-ments (approximately $450 million and $156 million respectively). This was the peak of unemployment, at a time when family net worth diminished, and college prices rose sharply.

Since the change to the credit check, however, both sectors saw huge declines in recipients and disbursements of Parent PLUS loans (Tables

1 and 2). From 2011 to 2013 after the changes to the credit check were put in place, HBCUs experienced a 45 percent drop in Parent PLUS loan recipients, and a 27 percent reduction in PLUS loan disbursements. At for-profits, both PLUS loan borrowers and disbursements declined 54 percent.

While HBCUs have been vocal about the decline in PLUS loan disbursements since the credit change, over the past five years their disbursements actually *increased* 14 percent. Meanwhile, the for-profit sector experienced a 30 percent decline in recipients and a 33 percent decline in disbursements over that time period. In sum, the for-profit sector has seen the biggest loss overall of PLUS loan recipients and disbursements.

What's important to note is the overrepresentation of Parent PLUS borrowers at for-profits compared with HBCUs (see Chart 3 and Table 3). HBCUs only make up a small share of volume in the program. Approximately 2 percent of all undergraduates are in HBCUs and these institutions represent between 3 and 4 percent of PLUS borrowers. From 2006 to 2011, the share of for-profit undergraduate enrollments fluctuated from 7 to 11 percent, but accounted for 16 to 18 percent of total Parent PLUS loan recipients. In other words, Parent PLUS borrowers at for-profit colleges were almost 1.7 times overrepresented compared to their share of enrollment. That's noteworthy considering that for-profit institutions have been seen as catering to the needs of adult students who don't qualify for Parent PLUS loans. The data show there are quite a few traditionally-aged, dependent students attending for-profit institutions, and the schools are costing their families a lot of borrowed money.

Table 1: Percent Change in Parent PLUS Recipients by Sector, 2006-2013

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2 Year Change 2011-13	5 Year Change 2008-13	Change Since 2006
For-Profit	-7%	-5%	7%	25%	16%	-26%	-38%	-54%	-30%	-39%
HBCU	-9%	-1%	-6%	21%	43%	3%	-46%	-45%	-10%	-19%
Nonprofit	-6%	-8%	-3%	13%	15%	1%	-15%	-14%	9%	-6%
Public	-3%	-7%	-4%	15%	14%	4%	-16%	-12%	12%	1%

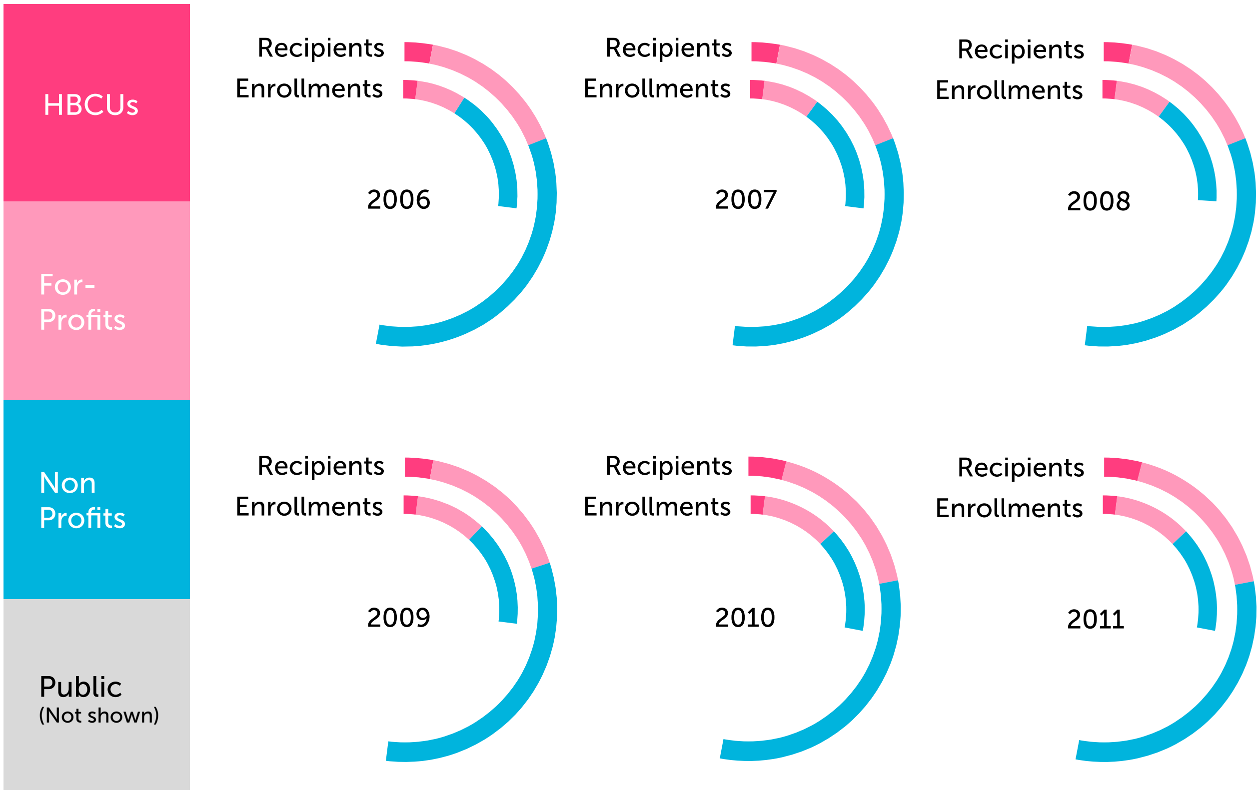
Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Table 2: Percent Change in Parent PLUS Disbursements by Sector, 2006-2013

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2 Year Change 2011-13	5 Year Change 2008-13	Change Since 2006
For-Profit	-4%	-7%	5%	16%	19%	-20%	-42%	-54%	-33%	-41%
HBCU	-5%	2%	-7%	18%	42%	13%	-36%	-27%	14%	10%
Nonprofit	-1%	-5%	-2%	14%	16%	8%	-8%	-1%	28%	20%
Public	1%	-4%	-1%	19%	19%	10%	-9%	0%	40%	35%

Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Chart 3: Share of Parent PLUS Loan Recipients Compared to Enrollment



Source: New America Analysis of U.S. Department of Education Integrated Postsecondary Education Data System (IPEDS) data and Federal Student Aid data. For more information, see the methodology section. Note: HBCUs are double counted as they are also included in the enrollment counts for nonprofits and publics.

Table 3: Average Representation of Parent PLUS Borrowers by Sector, 2006-2013

	Average Share of Enrollment	**Average Share of PLUS Borrowers**	**Overrepresentation or Underrepresentation**
HBCU	2%	3%	1.5x overrepresented
For-Profit	10%	17%	1.7x overrepresented
Nonprofit	16%	32%	2x overrepresented
Public	77%	47%	0.6x underrepresented

Source: New America Analysis of U.S. Department of Education Integrated Postsecondary Education Data System (IPEDS) data and Federal Student Aid data. For more information, see the methodology section. Note: HBCUs are double counted as they are also included in the enrollment counts for nonprofits and publics.

Institutions with the Largest Declines in Recipients and Enrollments

For-profits experienced the largest declines in PLUS loan recipients and disbursements since the credit change was implemented, but which individual institutions suffered the sharpest declines? Tables 4 and 5 show the colleges and universities with the largest reductions in recipients and disbursements from pre-recession 2006 to 2013. Over 72 percent of the institutions that lost the largest number of recipients and 87 percent that lost the largest amount of disbursements are from the for-profit sector. The remainder are high-priced nonprofit colleges and public universities.

One of the hardest hit institutions was ITT Technology Institute, which experienced a reduction of more than 5,000 Parent PLUS loan recipients and a loss of over $39 million in disbursements since the change to the credit check. Leading up to the credit change, ITT have an average net price for low-income students of approximately $22,000.[21] Nearly 74 percent of full-time, first-time students enrolled at the school received Pell Grants.[22] Since first year undergraduate federal Stafford loans are capped at $5,500, it seems likely that the families of many students—including low-income, Pell-eligible students—had to borrow through the Parent PLUS loan program to cover the high net price.

What's particularly concerning, however, is ITT's high Cohort Default Rate (CDR) of 29.2 percent. This means that three years after leaving ITT, approximately 29.2 percent of students default on their federal loans. This level of default may be indication that students are not receiving the support and education they need, and ITT could be at risk of facing sanctions from the Education Department if their CDR passes 30 percent. And since Parent PLUS loans are not included in CDR calculations, the default rate for parents could be similar, lower, or higher, but there is no way of knowing. (For more on CDR and PLUS loans see page 10.)

The story of ITT is repeated at other institutions that have seen large declines in PLUS loan recipients and disbursements. At many tuition-dependent colleges where there were high percentages of Pell Grant recipients and high net prices, significant declines in disbursements and recipients followed the tightening of PLUS credit standards. Take the University of Phoenix, where 85 percent of incoming full-time students in 2011-12 were Pell Grant recipients. By 2013, the school had lost over 2,500 PLUS loan recipients and $22 million in disbursements.[23] Or take the Art Institute of Atlanta where 79 percent of incoming students received Pell Grants and faced a net-price of over $25,000. The school experienced a decline of 1,602 PLUS recipients and a loss of over $35 million in disbursements from 2011 to 2013.[24]

Table 4. Colleges and Universities with the Largest Declines in Recipients

For-Profits | Non Profits | Public (Not shaded)

Table 4(a). Two Year Change (2011-13)

Institution	Recipients Decline	Change
ITT Technical Institute (All Campuses)	-5187	-65%
DeVry University (All Campuses)	-2593	-60%
University of Phoenix (All Campuses)	-2530	-66%
Pennsylvania State University (All Campuses)	-2469	-22%
The Art Institute of Atlanta	-1602	-57%
Universal Technical Institute of Arizona Inc	-1468	-42%
United Education Institute-Huntington Park	-1307	-87%
Southern Illinois University Carbondale	-1256	-54%
Wyotech-Laramie	-1213	-66%
The Art Institute of Phoenix	-1186	-49%

Table 4(b). Five Year Change (2008-13)

Institution	Recipients Decline	Change
DeVry University (All Campuses)	-1644	-49%
Universal Technical Institute of Arizona Inc	-1637	-45%
Universal Technical Institute-Motorcycle Mechanics	-1356	-53%
Wyotech-Laramie	-1134	-65%
University of Phoenix (All Campuses)	-1030	-44%
Westwood College-Denver North	-853	-73%
University of North Carolina Wilmington	-826	-46%
St. Olaf College	-814	-79%
University of California-Riverside	-771	-40%
International Academy of Design & Technology Online	-714	-66%

Table 4(c). Change since 2006

Institution	Recipients Decline	Change
Universal Technical Institute of Arizona	-3232	-62%
Wyotech-Laramie	-2289	-79%
DeVry University (All Campuses)	-2092	-55%
Universal Technical Institute of Texas Inc	-1265	-55%
American Intercontinental University (All Campuses)	-1262	-85%
Ohio State University (All Campuses)	-1195	-25%
Westwood College-Denver North	-1169	-79%
Universal Technical Institute-Motorcycle Mechanics	-1105	-48%
Purdue University	-1017	-24%
University of California-Riverside	-999	-46%

Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Table 5. The Colleges and Universities with the Largest Decline in Disbursements

For-Profits | Non Profits | Public (Not shaded)

Table 5(a). Two Year Change (2011-13)

Institution	Dollar Decline	Change
Full Sail University	-$48 987 285	-51%
ITT Technical Institute (All Campuses)	-$39 154 382	-63%
The Art Institute of Atlanta	-$35 841 313	-67%
University of Phoenix (All Campuses)	-$22 816 574	-70%
DeVry University (All Campuses)	-$21 010 854	-57%
The Illinois Institute of Art-Chicago	-$20 982 331	-56%
Ohio State University (All Campuses)	-$16 288 508	-26%
Universal Technical Institute of Arizona Inc	-$16 126 181	-46%
Pennsylvania State University (All Campuses)	-$16 000 000	-10%
The Art Institute of Charlotte	-$15 093 572	-92%

Table 5(b). Five Year Change (2008-13)

Institution	Dollar Decline	Change
Wyotech-Laramie	-$23 714 389	-71%
Universal Technical Institute of Arizona Inc	-$22 252 659	-54%
Universal Technical Institute-Motorcycle Mechanics	-$16 187 787	-61%
DeVry University (All Campuses)	-$16 077 926	-50%
International Academy of Design & Technology Online	-$14 404 198	-81%
Westwood College - Denver North	-$9 813 090	-74%
Saint Olaf College	-$9 081 519	-74%
Brooks Institute	-$8 787 306	-71%
American Intercontinental University (All Campuses)	-$7 692 233	-80%
George Washington University	-$7 436 709	-32%

Table 5(c). Change since 2006

Institution	Dollar Decline	Change
Universal Technical Institute of Arizona Inc	-$41 656 850	-69%
Wyotech-Laramie	-$35 084 590	-78%
DeVry University (All Campuses)	-$24 658 741	-61%
American Intercontinental University (All Campuses)	-$17 140 578	-90%
Brooks Institute	-$17 061 661	-82%
International Academy of Design and Technology	-$16 806 544	-83%
Universal Technical Institute of Texas Inc	-$16 368 415	-63%
California Culinary Academy	-$14 766 620	-98%
Westwood College-Denver North	-$13 398 575	-80%
Universal Technical Institute-Motorcycle Mechanics	-$11 847 828	-53%

Source: New America analysis of Federal Student Aid data. For more information, see methodology section.

Low-Income Families and PLUS Loans

According to recent data from the Department of Education, approximately 8 percent of Pell Grant recipients' parents borrowed PLUS loans in 2012, with a median cumulative PLUS debt of $9,500.[25] While for-profits may have experienced the largest total dollar and recipient decline, their low-income families did not borrow as much in PLUS. About 8 percent of Pell parents at for-profits borrowed PLUS loans, with a median cumulative debt of $7,883.

The story at HBCUs, however, is much bleaker for low-income students. There, 20 percent of Pell recipients borrowed PLUS loans, with a cumulative loan debt of $13,900. When drilling down further, at private, nonprofit HBCUs nearly 37 percent of low-income parents borrowed, with a median cumulative PLUS debt of $19,733.

Since over 75 percent of dependent Pell Grant recipients come from families making less than $40,000, this means some low-income parents borrow PLUS loans that eat up a significant portion of their incomes.[26] In some cases, PLUS debt may equal more than a parent's income. This does not even take into account the fact that this borrowed amount is in excess of what the student has already borrowed through the federal government to fund his or her education.

Disturbing PLUS Loan Practices

The intense surge and decline of Parent PLUS loans may be indicative of institutions' overreliance on PLUS loan debt to hide their prices from students and skirt accountability measures.

Including PLUS Loans in Financial Aid Award Letters

Current financial aid award letters make it difficult for all but the savviest of students to figure out their financial aid. These financial aid award letters are provided to students to help understand how much they will pay for their education. Many schools package scholarships, grants, work-study, and loans together yielding one seemingly gigantic "award," even though students will have to pay the loans back. Some letters are riddled with jargon and acronyms, making it almost impossible for students to understand whether the aid is a loan or a grant. When a college packages PLUS loans in financial aid award letters, it makes the college seem more affordable than it really is. Many families believe they have no other choice to fill the gap than take out a PLUS loan.

Morehouse is one among many institutions that package PLUS loans within their financial aid award letters, making it seem like this money is easily available. For example, a copy of a financial aid award package obtained by New America shows that Morehouse College included over $30,000 in PLUS loans for one student for one academic year (see Figure 1). At that rate, in four years the student's parents will be on the hook for more than $120,000 after the student borrowed approximately $27,000 in Federal Stafford Loans for his education. This overreliance on PLUS loans put Morehouse's budget on shaky grounds—once the credit check changes went into place, enrollments declined causing the university to furlough faculty and staff.[27]

Cohort Default Rate Manipulation

At a public hearing the Education Department recently held in Atlanta, evidence emerged that some colleges might be steering students away from lower-cost federal student loans and toward Parent PLUS loans to avoid penalties associated with high student loan defaults. Testifying at the hearing, Everette Freeman, the president of the HBCU Albany State University, stated, "Our institutions as a group have been trying to move away from Stafford loans, to the degree that we have been able to." The schools have been doing this, he said, because, "the federal Stafford loan program, if it is not repaid, has a direct and negative impact on the institution's ability to draw down federal funding."

Freeman complained that the Department's decision to tighten the PLUS loan eligibility requirements were driving students back to the Stafford loan program, which could be detrimental for his institution:

> We know that the federal government monitors our default rate. We certainly monitor our default rate, and this is one of those canaries in the mines, that if we do not return to provisions that allow for a credit formula that makes sense, we will, indeed, find an increase in the Stafford loan and the corresponding negative impacts that defaults will create.

These statements suggest that institutions can skirt accountability meant to protect students, families, and taxpayers by steering parents toward PLUS loans, which are not included in an institution's Cohort Default Rate.

What Freeman neglects to mention, however, is that while shifting the debt burden onto parents through PLUS loans is easy for the institution, it may not be easy for struggling parents. For one thing, shifting debt from Stafford to Parent PLUS loans is costly for families. If a student borrowed the full amount of Unsubsidized Stafford loans available to him over four years for a bachelor's degree, he would borrow $27,000. Under the standard 10-year repayment plan, that equates to approximately $323 per month, or $38,725 total. But under PLUS loans, that same debt would cost approximately $387 per month, or $46,468 total. So parents would have to pay nearly 20 percent more for the same debt—an extra $64 more per month and more than $8,000 more over the lifetime of the loan. Not only that, but struggling parents would not be able to take advantage of the Income-Based Repayment plans that students are eligible for under the Stafford loan program.

Figure 1. Inclusion of PLUS Loans in Financial Aid Award Letter from Morehouse College

MOREHOUSE COLLEGE
A Proud Tradition of Producing Great Men
830 Westview Dr. SW, Atlanta, Georgia 30314
Phone: (404) 215-2638 – Fax: (404) 215-2711

Office of Financial Aid

April 23, 2009

AWARD NOTIFICATION 2009-2010

We have completed our review of your financial aid application for the 2009-2010 academic year. Your eligibility is based on the information you submitted to the Office of Financial Aid and the information you provided on the FAFSA. The amount and type of aid awarded to you is based on your eligibility and the availability for funds during the time your file was processed. Some awards require that students satisfy specific instructions before funds can be received. PLEASE REVIEW THIS ENTIRE LETTER.

AWARD INFORMATION:

SOURCE	Fall 2009	Spring 2010	TOTAL
Federal Work Study	1,000.00	1,000.00	$2,000.00
Federal Stafford Loan	1,750.00	1,750.00	$3,500.00
Federal Unsubsidized Stafford Loan	1,000.00	1,000.00	$2,000.00
Federal Plus Loan	15,999.00	15,998.00	$31,997.00
	$19,749.00	**$19,748.00**	**$39,497.00**

This award is based on your acceptance to Morehouse College, full-time (12 hours or more) enrollment and continuing satisfactory academic progress. Students who are recipients of Morehouse College Academic Scholarships must meet the requirements for hours per semester as outlined in the scholarship brochure. If you enroll for less than full-time, your award may be adjusted.

PLUS Loan: This is a federal loan for parents only and requires repayment. The applicant must pass a credit check. Please review the enclosed PLUS Loan Data Form and Instructions.
Unsubsidized Loan: This is a federal loan for students and requires repayment. This loan requires completion of a Student Loan Request Form and Electronic Promissory Note.
Subsidized Loan: This is a federal loan for students and requires repayment. This loan requires completion of a Student Loan Request Form and Electronic Promissory Note.

It is very important that you read all materials enclosed in your Award Notification Packet. If you have any questions or concerns, you may contact our office at **WE WISH YOU MUCH SUCCESS DURING THIS ACADEMIC YEAR!**

Recommendations

During a recent Education Department hearing, Catherine Hurd of Johnson C. Smith University, an HBCU in North Carolina, publicly criticized the Department's changes to the PLUS loan credit criteria.

She witnessed many students who could no longer enroll in the university without the PLUS loan because they didn't have enough money upfront to cover their costs. One story she shared was about a homeless parent borrower who was denied a PLUS loan. "She agreed to send her weekly paycheck to Johnson C. Smith until the balance was paid, and that she would continue to remain homeless until she could get her feet back on the ground," Hurd explained. "As a result of the changes in the criteria for the parent PLUS loan, she had no other alternative but to turn to these means."[28]

It has been difficult for college administrators on the front lines of the PLUS loan crisis, witnessing parents unable to borrow and faced with whether their students will have to leave the institution and enroll elsewhere. But it is also harmful to give a struggling parents access to a high-interest, inflexible loan on behalf of their children. What are the chances that a homeless mother will be able to repay thousands of dollars in college debt? How will that debt affect her ability to find a place to live? Not giving a loan to a homeless parent doesn't mean her daughter can't go to college. She just may not be able to go to Johnson C. Smith.

Federal student loans are a critical part of a social equity and human capital agenda. They exist to invest in human capital of the student and provide access to higher education. It also exists to solve a market problem. Without a federal program, most students would not have access to loans, since lenders have little to no information about the students on which to base the decision to lend. Typically, students have limited credit histories and may have no income or assets. The federal government provides students with the capital they need to invest in a college education that will pay both individual and societal dividends.

Parent PLUS loans do not fall within this same policy rationale. First and foremost, there is no similar market problem with respect to lending to parents that the program needs to address. Unlike for students, lenders can judge parents' creditworthiness in the same way they would for any other type of loan – and a market for unsecured consumer loans does in fact exist and is quite robust.

Moreover, parent loans aren't a direct investment in the student—they allow parents whose children are already eligible for federal student loans to borrow even more. In this case, parents are investing in the future of their child, not their own human capital. And although many parents may expect their child to pay back the loan on their behalf once he graduates, they are the ones ultimately on the hook for the loan.

Perhaps the most important difference is that parent earnings—the ability to repay loans—are unchanged by the fact that they received a loan to finance their child's education. Obviously the same is not true for a loan to the student. Since parents don't receive direct financial benefits from the loan in terms of increased income, taking on Parent PLUS loans they cannot afford saddles them with debt they can't pay off, that is seldom dischargeable in bankruptcy, and doesn't qualify for the protections and flexibility of other federal student loans. While it makes sense for the federal government to provide students access to loans without consideration of their ability to pay, this should not be the case for parents. For this reason, policymakers should consider one of the following three options for reforming the Parent PLUS program:

• **Add an "Ability to Pay" metric to the Parent PLUS credit check.** The Education Department's slight—but opaque—changes to the PLUS loan credit check have frustrated thousands of borrowers who were approved one semester for a PLUS loan, then denied the next. While it's understandable that the Department wants to prevent lending to families for whom repayment will be a struggle, it must be more transparent when making changes to eligibility requirements. For this reason, instead of making small tweaks to a backward-looking credit check, policymakers should add a forward-looking "Ability to Pay" measure to the credit check. Adding "Ability to Pay" to the credit check would help protect parents from over-borrowing at whatever cost to send their children to school.

An "Ability to Pay" metric could consist of looking at parents' indebtedness (with or without PLUS loans) relative to their earnings. Policymakers could refer to part of the mortgage underwriting standards under the Dodd-Frank Wall Street Reform and Consumer Protection Act (H.R. 4173) which considers the borrower's credit history, current income, expected income, current obligations, debt to income ratio, employment status, and other financial resources. In designing this metric, policymakers should also consider exemptions for families who have suffered a sudden and catastrophic financial hardship such as a medical emergency that may have affected a parent's debt-to-earnings ratio.

• **Cap Parent PLUS loans.** As colleges—especially four-year institutions—have become more and more expensive, they are increasingly using Parent PLUS loans to cover the gap between the maximum amount of institutional, state, and federal aid their students receive and the amount they charge. Depending on the cost of an institution, this can result in parents taking on tens of thousands of dollars of PLUS loan debt. And since institutions largely set their own costs by determining the budget for a student's official Cost of Attendance, relatively easy access to unlimited PLUS loan disbursements allows them to avoid maintaining or cutting their costs.

It is important to note that when the parent of a dependent student is denied a PLUS loan, the student is able to borrow at the higher independent student loan limits. Parent PLUS loans should be capped at the independent student limit or should be capped according to a parent's Expected Family Contribution (EFC), the number used to determine a student's eligibility for federal student aid. EFC is calculated when a family fills out the FAFSA to apply for financial aid. So if a family fills out the FAFSA and has an EFC of zero—indicating that the student is truly needy and eligible for a maximum Pell Grant—the parents would not be able to borrow extra money. If the federal government has determined that a family has zero ability to pay, why would they then give parents debt they know will be a struggle to pay back? Capping PLUS loans not only prevents parents from over-borrowing, it also removes any incentive for institutions to increase their revenue by raising their COA and funding the increase through Parent PLUS.

• **End the Parent PLUS loan program and increase dependent student loan limits.** PLUS loans are a public policy paradox. They are most risky for families who need them most, and they are least risky for the families who need them least. Those who are the most-qualified candidates to get these loans from a creditworthiness standpoint—parents who have the income and resources to pay the loans back—don't need them other than for short-term liquidity. Those who do not have the resources to meet the loan obligations, who are least qualified to receive a PLUS loan, wouldn't be extended a loan in the private market in the first place. The government should not be in the business of extending credit to affluent parents who could be served by the private market. Nor should they be in the business of lending loans to low-income parents as a de facto extension of the student loan program. For those borrowers who are unqualified in the private market, PLUS loans provide a front-end benefit with unknown risk on the back-end for borrowers.

To compensate for the loss of the Parent PLUS loan program, Congress should increase the dependent student loan limits. In a recent policy paper from New America, the Education Policy Program recommended setting one loan limit for all undergraduate students, irrespective of their dependency status. This would help simplify the student loan program and set the aggregate loan limit for undergraduates at $40,000.[29] That equates to an extra $9,000 over a dependent undergraduate's college career. Dependent students would receive increased access to funds that—unlike Parent PLUS loans—would qualify for flexible repayment terms like Income-Based Repayment. (See box: Why the terms of PLUS loans should remain the same.)

If Congress retains the PLUS Loan program, policymakers should also do the following:

1. **Prohibit institutions from including Parent PLUS loans in financial aid award letters.** Parent PLUS loans should never be packaged anywhere within a student's financial aid award letter. Institutions should be encouraged to adopt the Education Department's Financial Aid Shopping Sheet as their aid letter. This common disclosure allows students to understand their financial aid packages and gives them the ability to compare their packages among institutions. PLUS loans are only mentioned as a financing option on the Shopping Sheet, and students are encouraged to contact their financial aid offices for more information.

2. **Release data on the Direct PLUS loan program including disaggregating data on Grad PLUS/Parent PLUS, lifetime default rates, and cumulative default rates.** The Education Department should release more detailed information on PLUS loans, broken out by loan type (Parent versus Grad PLUS)

with overall information about institution-level performance. Right now policymakers are operating blind when it comes to understanding the extent to which PLUS loans are creating a problem. Without better information, it is difficult to craft thoughtful solutions. The Education Department should release the following data by institutions, sector, and overall:

a. PLUS loan lifetime (20- or 30-year) default rates, separated by Grad and Parent PLUS

b. PLUS loan cumulative default rate data by cohort starting with the year 2007, separated by Grad and Parent PLUS

3. Consider including Parent PLUS loans in Cohort Default Rate calculations. At minimum, the Education Department should publish 3-year PLUS Loan default rates by institution. In addition, the Education Department should explore whether institutions should be held accountable for the repayment of Parent PLUS loans, by including these loans in the institutions' Cohort Default Rate calculations. It may not be feasible for the Education Department to hold institutions accountable for whether a parent repays. But if colleges are charging so much that students are exhausting their federal student loans and their parents are subsequently taking on tens of thousands of dollars in debt they cannot afford, institutions need to be held accountable for defaults in some way.

Why the Terms of a PLUS Loan Should Remain the Same

Instead of reforming the PLUS loan program overall, advocates and some policymakers may argue that the solution is to make the loans more flexible and more generous for parent borrowers rather than restrict eligibility for the loans. They might argue that parents should be able to repay via Income-Based Repayment (IBR) or transfer the debt to the student.

This would be a move in the wrong direction. It does not make sense to provide parents access to IBR with loan forgiveness because the parent already knows what his income is and will be, at least compared to the much more uncertain future earnings of a student. That allows for significant adverse selection problems where parents who know their incomes are low enough that they would have their debt forgiven would be inclined to borrow the most, while higher income parents – those who would fully repay – borrow the least. Similarly, lending to parents is not premised on a future increase in wages like it is for students. If parents do not have enough money to pay back the loan – which can be ascertained when the loan is issued – they shouldn't have received the loan in the first place. Nor should the loan be transferred to the student because then the program just becomes a backdoor way for students to borrow unlimited debt.

Parent PLUS loans qualify for forbearance, deferment, and consolidation options that should help parents who face sudden economic hardship, or who need to extend their payments, and all of those terms are much more generous than what private lenders provide. Changes to the terms of the PLUS loans would not solve the program's underlying problems.

Conclusion

Since the PLUS loan changes in 2011, many colleges and universities have been faced with a harsh financial reality: it will be difficult for economically disadvantaged parents to obtain a PLUS loan.

While colleges and universities have criticized the Education Department for making abrupt changes to the PLUS credit check, the Department was right in trying to better determine the financial health of a parent before issuing loans. The PLUS loan program needs further reform to ensure students still have access to college, but parents aren't borrowing well beyond their means. Many other federal programs exist, from the Pell Grant to Stafford loans, to help students pay for college. Students should not be expected to finance higher education by burdening their parents with too much debt.

Methodology

Data from charts 1 and 2 and tables 1 and 2 are from U.S. Department of Education's Federal Student Aid Data Center Title IV Program Loan Volume Reports (Direct and Federal Family Education Loan (FFEL) Program). For this analysis I used "Award Year Summary" data from Q3 Academic Year (AY) 2006-07 to Q3 AY 2012-13. This data was downloaded August 28, 2013. All foreign institutions were dropped from the analysis. I mainly used recipient and disbursement data for the Parent PLUS loan program. I created a variable to account for total disbursements and total recipients for the FFEL and Direct Loan program before the transition to all Direct lending.

Loan recipient data from chart 3 and table 3 are derived from the data set described above. The enrollment data are from the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS). Enrollment for the purposes of this analysis is defined as fall, undergraduate headcount at Title IV institutions. Please note that numbers do not sum to 100 percent as HBCUs are double counted since they are included in the nonprofit and public counts.

Data in tables 4 and 5 come from the same Federal Student Aid data mentioned above. Some institutions, as indicated, are a combination of multiple campuses. In FSA data, these multi-campus institutions are represented by one unique identifier (OPEID) and that is why the sum of loan volume data for all campuses is reported. In addition, the average percent Pell and average net price for low-income students for ITT Technology and University of Phoenix is derived from IPEDS data of the un-weighted average of all campuses for 2011-12. Net Price for low-income students is defined as the "Average Net Price of full-time beginning undergraduate students who were awarded Title IV aid by income $0-$30,000." Percent Pell is defined as the "Full-time beginning undergraduate students, percent receiving Pell grants."

References

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12. Although they do qualify for extended repayment terms of between 12 and 30 years, as well as deferment and forbearance terms.

13. **Marian Wang, Beckie Supiano, and Andrea Fuller**, "The Parent Loan Trap," The Chronicle of Higher Education, October 4, 2012, accessed October 24, 2013, http://chronicle.com/article/The-Parent-Plus-Trap/134844.

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15. Except in rare circumstances, most students under the age of 24 are considered "Dependent" for financial aid purposes. In other words, the Department of Education assumes parents will cover some of the cost of the student's education, even though the student may be over 18 and not receiving any support from parents. Federal loans made to dependent students have smaller caps than those

loans made to "Independent" students. For more information, see: "Filling Out the FAFSA: Dependency Status," **Federal Student Aid, an Office of the U.S. Department of Education**, accessed December 9, 2013, http://studentaid.ed.gov/fafsa/filling-out/dependency.

16. This increased limit is what the student would have been able to borrow were they an independent student.

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19. In addition to the credit changes to PLUS loans, there may be many other reasons for the large enrollment decline at for-profits including the recovering economy, increased regulation of the sector, and bad publicity.

20. In this analysis, the data on enrollment from 2012 and 2013, during which time for-profit enrollment dropped significantly, are not yet available. Over the next two years, further analysis of enrollment data must be done to understand how both the for-profit and HBCU sectors' share of enrollments and recipients changed.

21. Average net price for students from family incomes of $0-$30,000. For more information on the calculation of this value, see methodology section.

22. Average percent Pell for first-time undergraduate students. For more information on the calculation of this value, see methodology section.

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