

# **Student Loan Availability**

## **Survey of New England Colleges & Universities**

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## INTRODUCTION

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In August 2008, in partnership with the New England Council, the New England Board of Higher Education (NEBHE) surveyed the region's colleges and universities to assess the extent to which students and their parents have been able to secure higher education loans.

More specifically, the survey sought to assess the impact of the "Ensuring Continued Access to Student Loans Act of 2008" and to determine any other financing issues higher education institutions, students and families are facing. It will be shared with members of the New England Congressional delegation and their staff members.

As background, federal student loans are delivered to students through two programs, the William D. Ford Federal Direct Loan Program (Direct Loan) and the Federal Family Education Loan Program (FFELP). In both programs, loan funds are provided to the borrower through the institution, which chooses in which loan program to participate.

1. Direct Loans - Students and parents borrow directly from the U.S. Department of Education at participating colleges. Direct Loans include subsidized and unsubsidized Direct Stafford Loans (also known as Direct Subsidized Loans and Direct Unsubsidized Loans), Direct PLUS Loans and Direct Consolidation Loans.
  - Subsidized Stafford loans are available to undergraduate and graduate students who demonstrate financial need based on income and other information. The federal government pays the interest on these loans until six months after the student is no longer enrolled in school at least half-time.
  - Unsubsidized Stafford loans are available to all students regardless of financial need. The student is responsible for the interest, which may be paid while the student is in school or accrued and then added to the principal balance when the student enters repayment six months after leaving school.
  - PLUS loans are loans for parents to help pay the cost of their child's education. Graduate students may also obtain PLUS loans to help pay for their own education. Repayment of PLUS loans begins following the final disbursement for the year. Graduate students may be able to defer repayment of their PLUS loans until after they are no longer enrolled in school.
  - Consolidation loans allow both students and parents to combine multiple federal student loans into one loan with one monthly payment. However, a federal consolidation loan cannot include private loans.
2. FFELP Loans - Private lenders provide funds that are guaranteed by the federal government. FFELP Loans include subsidized and unsubsidized FFELP Stafford Loans, FFELP PLUS Loans and FFELP Consolidation Loans.

## SURVEY & RESPONSE

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The survey was sent via email to financial aid officers at 214 institutions, both public and independent, across the six New England states. Seventy-six institutions responded, a response rate of 36%. A detailed breakdown of respondents included:

Private	51
Public	25
<b>Total</b>	<b>76</b>

Respondents were asked to grade the impact of the “Ensuring Continued Access to Student Loans Act of 2008” as “Favorable,” “No Impact” or “Unfavorable.” Respondents were invited to include detailed comments explaining the assigned grade and also to answer several open-ended questions seeking additional perspectives on key issues and concerns. Fifteen of the responding institutions participate in direct lending.

The majority of respondents provided additional comments that helped give greater substance and perspective on each of the questions. These responses are summarized in the latter portion of this document.

## SUMMARY OF FINDINGS

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The primary questions posed to New England’s colleges and universities were:

*“What impact, if any, has the passage of the “Ensuring Continued Access to Student Loans Act of 2008” had on your institution in terms of:*

1. Availability of student loan funds
2. Processing of student loan applications
3. Students' admissions decisions
4. Administrative functions or requirements

Responses to these questions are summarized in the following table:

**What impact, if any, has the passage of the “Ensuring Continued Access to Student Loans Act of 2008” had on your institution in terms of:**

		<b>Favorable</b>	<b>No Impact</b>	<b>Unfavorable</b>	<b>Other</b>	<b>Total</b>
1. Availability of student loan funds	%	39%	44%	11%	7%	100%
	#	29	33	8	5	75
2. Processing of student loan applications	%	16%	60%	21%	3%	100%
	#	12	45	16	2	75
3. Students' admissions decisions	%	7%	80%	7%	7%	100%
	#	5	59	5	5	74
4. Administrative functions or requirements	%	11%	46%	43%	0%	100%
	#	8	32	30	0	70

## **Student Loan Availability**

A key purpose of the survey was to determine whether students and families, despite changes and uncertainty in the student loan and other credit markets, were able to obtain sufficient funds to support their enrollment in New England postsecondary institutions. Nearly 40 percent of respondents stated that the legislation had a “Favorable” impact on this issue.

Though 44 percent of respondents stated that the legislation had “No Impact” on the availability of funds, these responses evidently suggest an inability to directly attribute changes to the enacted legislation. Despite this, respondents consistently stated that:

- There have been no major concerns about the availability or adequacy of FFELP loans for students and parents for fall 2008.
- Instances in which students have not been able to attend college due to inadequate loan availability are exceptional.
- There have been large increases in the volume of unsubsidized Stafford loans.
- Students are consistently taking advantage of, and benefiting from, the \$2,000 increase in the borrowing limits for unsubsidized loans.
- There has been a distinct shift toward, and increase in, applications for parental PLUS loans, compensating for the contraction in the availability of private/alternative loans.
- New features of the PLUS loan, including deferment options, have made them good alternatives to private/alternative loans.
- There have been distinct benefits and advantages to schools that participate in Direct Lending; several respondents indicated that schools had switched to, or further pursued, the program as a consequence of the complicated lending environment.
- Respondents consistently noted, however, that significant concerns remain about the limited availability and increasingly more expensive private/alternative loan options.

## **Loan Processing and Administrative Requirements**

Respondents’ general perceptions were that the legislation has had “No Impact” (60 percent) or an “Unfavorable” impact (21 percent) on the processing of student loan applications. This is most likely attributable to the perception that:

- New Master Promissory Notes have been required for students, increasing time and administrative costs.
- Changes in FFELP lenders have resulted in more procedures and processing requirements.
- Larger numbers of PLUS Loan and private/alternative loan denials have occurred.
- Stricter co-signer requirements exist for private/alternative loans.
- Borrowing “restrictions” have increased (i.e., higher interest rates and more stringent credit standards) and “benefits” have decreased (i.e., fee and repayment benefits, etc.)
- Poor credit has delayed and complicated the process for some borrowers.

Respondents consistently expressed that the legislation had resulted in greater administrative requirements on their offices, and 43 percent viewed it as “Unfavorable.” Their detailed responses noted the increased reporting requirements but primarily emphasized the significant time that was required for outreach and communication with students (current and prospective) and parents to keep them informed of changes, requirements and alternatives.

### **Students’ Admission Decisions**

Respondents overwhelmingly perceived that the legislation had “No Impact” on students’ admissions decisions (80 percent). Detailed responses clearly suggest that respondents felt this was “unknown” and they were unable to assess it.

In sum, respondents largely indicated that negative or “Unfavorable” consequences of the legislation were limited to delays and complications with the processing of loans (21 percent). Further concerns remain as to the availability of private/alternative loans, which are critical to many of New England’s colleges and universities and their students due to above-average costs, particularly at the region’s many independent institutions.

While the outcomes for this year, in terms of the availability of student loans, have been positive, concerns and uncertainty remain among respondents as to the availability of funds in early 2009 and in the next academic year, fall 2009.

## **SURVEY RESPONSE DETAIL**

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The following section includes summaries of the open-ended survey responses, which provided greater substance and perspective on each of the questions.

*What impact, if any, has the passage of the “Ensuring Continued Access to Student Loans Act of 2008” had on your institution in terms of:*

### *1. Availability of student loan funds*

- FFLEP loans and funds have been available.
- Benefits of Direct Lending have been apparent: funds and convenience.
- There are fewer lenders overall, particularly private/alternative loan providers.
- There are more borrowing “restrictions” than in the past (i.e., higher interest rates and more stringent credit standards) and fewer “benefits” (i.e., fee and repayment benefits).
- But there has been no clear sense of students being unable to obtain sufficient loan funds.

### *2. Processing of student loan applications*

- Changes to lender/guarantor relationships have required new Master Promissory Notes for students, increasing time and administrative costs.
- There had been processing and procedure changes due to changes in FFELP lenders (reorganizations by lenders have changed codes, processes, etc.).

### 3. *Students' admissions decisions*

- The impact of the legislation on such decisions is not fully known and difficult to determine in this regard.
- There have been very limited instances of students being unable to obtain loans.

### 4. *Administrative functions or requirements*

- There were substantial increases in work, time, energy and resources required to help students and parents navigate the changes and uncertainty.
- Increased administrative burden and reporting requirements were consistently reported.
- Substantial increases in outreach, communications and counseling were needed.

*What new financial aid or student borrowing issues, if any, have arisen since the passage of the "Ensuring Continued Access to Student Loans Act of 2008"?*

- Fewer lenders and loan product alternatives
- Ongoing concern about the availability of private/alternative loans
- Stricter co-signer requirements for private/alternative loans
- Larger number of PLUS Loan denials
- Clear benefits of PLUS Loan's new deferment option
- Loss of borrower benefits (higher fees, etc.)
- Considerable benefits to students as a result of unsubsidized loan cap increase of \$2,000

*To what extent have students admitted to your institution (or their parents) been able to obtain adequate student loan funds since the Act's passage?*

- No major concerns about adequacy of FFELP loans or about impediments to obtaining them
- Large increase in volume of unsubsidized Stafford loans
- Poor credit has delayed process for some borrowers
- Particular ease for Direct Lending participants

*How, if at all, has student or parental borrowing behavior changed since the Act's passage?*

- Increased borrowing of higher amount of unsubsidized Stafford loans
- Shift/Increase in applications for PLUS loans, in place of private/alternative loans

*To what extent, at present, has the Act addressed the issues or challenges that previously arose in accessing student loans?*

- Limited perceived impact or unknown overall impact
- Clear benefits from increased unsubsidized borrowing limits and from PLUS loan availability and conditions (including deferment options)
- Ongoing issue of private/alternative loan availability

*What other financial aid or student borrowing issues, needs or concerns, if any, currently exist for your institution, students or parents?*

- Denials based on creditworthiness
- Higher borrowing rates, costs and fewer options
- Less favorable borrowing terms for some families
- Private/alternative loan availability

*Other Prevalent Issues and Perspectives*

- Uncertainty and concern about the availability of funds in early 2009 and in the next academic year, fall 2009.