

STILL DENIED: How Community Colleges Shortchange Students by Not Offering Federal Loans

Each year, millions of college students borrow money to help bridge the gap between college costs and available income, savings, and grants. Experts all agree that, for those who need to borrow to pay for college, federal student loans are the safest and most affordable option. Unfortunately, some colleges choose not to participate in the federal student loan program, *preventing their students from qualifying for this important source of financial aid.*

Without access to affordable student loans, students who cannot afford school after available grants and scholarships are left between a rock and a hard place. They might borrow through other channels, such as private student loans or credit cards, which are more expensive, riskier, and lack the repayment options and protections of federal student loans. Alternatively, they might work longer hours to pay the bills or cut back on the number of classes they take each term – choices that research has consistently found to reduce students’ chances of completing a degree or certificate (Pike, Kuh, and Massa – McKinley 2009; King 2002).

About nine percent of community college students nationally – *more than one million students* in 31 states – are enrolled in colleges that summarily block their students’ access to federal student loans.¹

In 12 states, more than 10 percent of community college students lack access to federal loans, and in eight states more than 20 percent lack access.

Community college students’ access to federal student loans also varies considerably by race and ethnicity. *African-American and Native-American community college students are the most likely to lack access.*

This is the Project on Student Debt’s third issue brief on community college federal loan participation. Our first brief analyzed loan participation in the 2004-05 academic year and the difference in rates of access by

race and ethnicity. Our second brief also documented the problematic use of private student loans among community college students in 2007-08. This brief highlights notable changes in participation – in Chicago, North Carolina, and California in particular.²

- Because three City Colleges of **Chicago** have begun offering federal student loans, all eligible City Colleges of Chicago students now have access to federal loans.
- Three community colleges in **North Carolina** have stopped offering student loans. As a result, the state’s community college students are now the least likely in the nation to have access to federal loans. This will not be true for long, however, as recent state legislation requires all community colleges to offer federal loans beginning in 2011-12.
- Nearly a third of the participation changes occurred in **California**. There are two new loan program participants in the Los Angeles Community College District (LACCD), and their entry means that all eligible LACCD students now have access to loans. Unfortunately, the withdrawal of six colleges in other districts means that California now has the largest number of students without access to affordable student loans of any state: about 214,000 students.

Our analysis confirms that community colleges should and can safely offer federal loans as a key way to support student success.

Community College Students without Access to Federal Student Loans

- More than one million students across 31 states
- More than 20 percent of students in eight states
- Almost one in ten students (9 percent) nationally lack access, but African-American and Native-American students are much more likely to lack access (16 and 18 percent, respectively)

¹ For this analysis and throughout this brief, we use the term “community colleges” to refer to public colleges that offer degree and certificate programs of at least two years in length and at which the vast majority of credentials awarded are at or below the associate degree level. These include colleges that focus on preparing students to transfer to four-year colleges and universities, as well as technical colleges that provide vocational certificates for particular careers at the undergraduate level. References to the federal student loan program pertain to the William D. Ford Direct Stafford Loan Program.

² In the last three years, 25 colleges have either entered or exited the loan program, and 14 of them are located in these three regions. Due to methodological changes or changes in institutional classifications, some colleges were in one analysis but not the other. The count of 25 changes in participation status includes only colleges that were included in both analyses.

Background

The more than 1,100 community colleges throughout the United States serve many purposes, from awarding associate degrees and certificates to facilitating transfer to four-year institutions. These public two-year colleges also provide workforce development and lifelong learning opportunities to people seeking vocational retraining or personal enrichment. As open access institutions, community colleges serve students of all backgrounds, including more low-income and minority students than any other type of college. Community colleges educate over 40 percent of all undergraduate students in the nation, including nearly one-quarter of all undergraduates who attend full time.³

While community colleges tend to charge relatively low tuition and fees, these expenses represent just part of what it costs to get through school. Other educational expenses for community college students, including books and supplies, transportation, and living costs, are comparable to those faced by students at all types of schools.

Federal, state, and institutional financial aid can help cover expenses, but students at community colleges are much less likely than their peers at four-year schools to get the financial aid they need (TICAS 2009a and 2009b). When grants and scholarships are not enough to cover college costs, students may decide to work more hours, reduce their course load, drop out of school altogether, or borrow funds so they can focus on their education.

Choosing to borrow for college is a serious decision for any student. Colleges can and should help students weigh their options for paying for college – including encouraging them to borrow only if they need to, and only as much as they need – but they do their students a great disservice by opting out of the federal student loan program.

Findings & Analysis

What's at stake for students?

Experts unanimously agree that federal student loans should always be the first line of defense for students who do borrow. This is because federal student loans are much safer than other types of borrowing, such as private student loans, credit cards, or payday loans. Federal student loans have fixed interest rates, flexible and affordable repayment plans, generous forgiveness programs, and important consumer protections, such as deferments for unemployment, active military duty, and economic hardship, and cancellation if the borrower dies or is severely disabled. Private student loans made by banks and lenders, in contrast, are not required to provide such borrower benefits and protections. Private loans also typically have variable interest rates that cost most for those who can least afford them.

Barring access to federal loans does not keep students from borrowing – it just keeps them from borrowing federal loans. In fact, we found several non-participating schools that actually promote private student loans on their websites.⁴ These schools clearly recognize that some of their students will need to borrow, yet steer them directly to risky private loans instead of providing access to safer federal loans.

While a relatively small share of community college students use loans compared to students at other types of schools, too many are turning to private loans when they should not have to. The majority of community college students who borrowed private loans in 2007-08 had not taken out a federal Stafford loan, and others borrowed less in Stafford than they were able to (TICAS 2009a).⁵

Financial aid offices play an important role in helping students make the best decisions about how to pay for college. When a college does not provide access to federal loans, it bars students from the safest borrowing option. While this policy may be intended to help community college students, it can also do them a dangerous disservice by intentionally or unintentionally steering them towards risky, expensive debt.

³ Calculated by the Institute for College Access & Success (TICAS) using the U.S. Department of Education's National Postsecondary Student Aid Study, 2007-08, (NPSAS: 08) for undergraduate students.

⁴ Examples of community college websites promoting private loans can be viewed here: <http://projectonstudentdebt.org/ccwebsites2011.vp.html>

⁵ Borrowing rates for 2007-08 are the most recent available. These figures exclude students who do not meet citizenship or enrollment status requirements for Stafford loan eligibility.

Loan Terms and Benefits for 2010-11 Community College Students			
	Subsidized Stafford	Unsubsidized Stafford	Private Loans
Eligibility	Students with financial need, enrolled at least half time; no credit check; college must participate in the federal loan program	Any student enrolled at least half time; no credit check; college must participate in the federal loan program	Enrollment requirements vary; requires a credit check and cosigner
Maximum Amount	\$3,500 for freshmen; \$4,500 for sophomores	For dependent students: \$5,500 for freshmen (including up to \$3,500 subsidized); \$6,500 for sophomores (including up to \$4,500 subsidized); For independent students and dependent students whose parents are unable to obtain PLUS loans: \$9,500 for freshmen (including up to \$3,500 subsidized); \$10,500 for sophomores (including up to \$4,500 subsidized)	Typically up to full cost of attendance minus other aid
Interest Rate	Fixed at 4.5%	Fixed at 6.8%	Variable or fixed, no maximum; based on credit and market rates; up to 11% or more in 2010
Fees	1%	1%	At lender's discretion
Charges During School	None	Interest accrues	Interest accrues or payments due
Unemployment/ Economic Hardship Policy	No payments required and no interest charged for up to three years of economic hardship/unemployment	No payments required but interest accrues for up to three years of economic hardship/unemployment	Lender discretion; usually very limited, interest accrues, may charge fees
Income-Based Repayment	Available	Available	Not Available
Public Service Loan Forgiveness	Various provisions for teachers, government and nonprofit workers	Various provisions for teachers, government and nonprofit workers	None
Other Cancellations	Death or total and permanent disability; closed school	Death or total and permanent disability; closed school	None
Note: For more about federal loan terms, see http://studentaid.ed.gov/			

Who lacks access?

There are substantial differences in federal loan access for students of different racial and ethnic backgrounds. Nationally and across all groups, 9.2 percent of community college students are enrolled in colleges not participating in the federal loan program. That share rises to 16.4 for African-American students and 18.5 for Native-American students, the two groups least likely to have federal loan access. Of Latino students in community colleges, 8.5 percent are enrolled in non-participating colleges, as are 8.6 percent of white students. Asian-American students are the most likely of any racial or ethnic group to have access to federal loans, with only 4.2 percent at colleges that have opted out.

Within states, however, the differences can be even sharper. In Tennessee, where virtually all community college students are either white or African American, 26.0 percent of white students lack federal loan access compared to 59.4 percent of African-American students. The within-state differences between white students and Native-American students are also substantial.⁶ For instance, only 4.0 percent of white students in Montana's community colleges lack loan access, compared to 85.4 percent of Native-American students. A full table of community college loan access by state and ethnicity is on page 11.

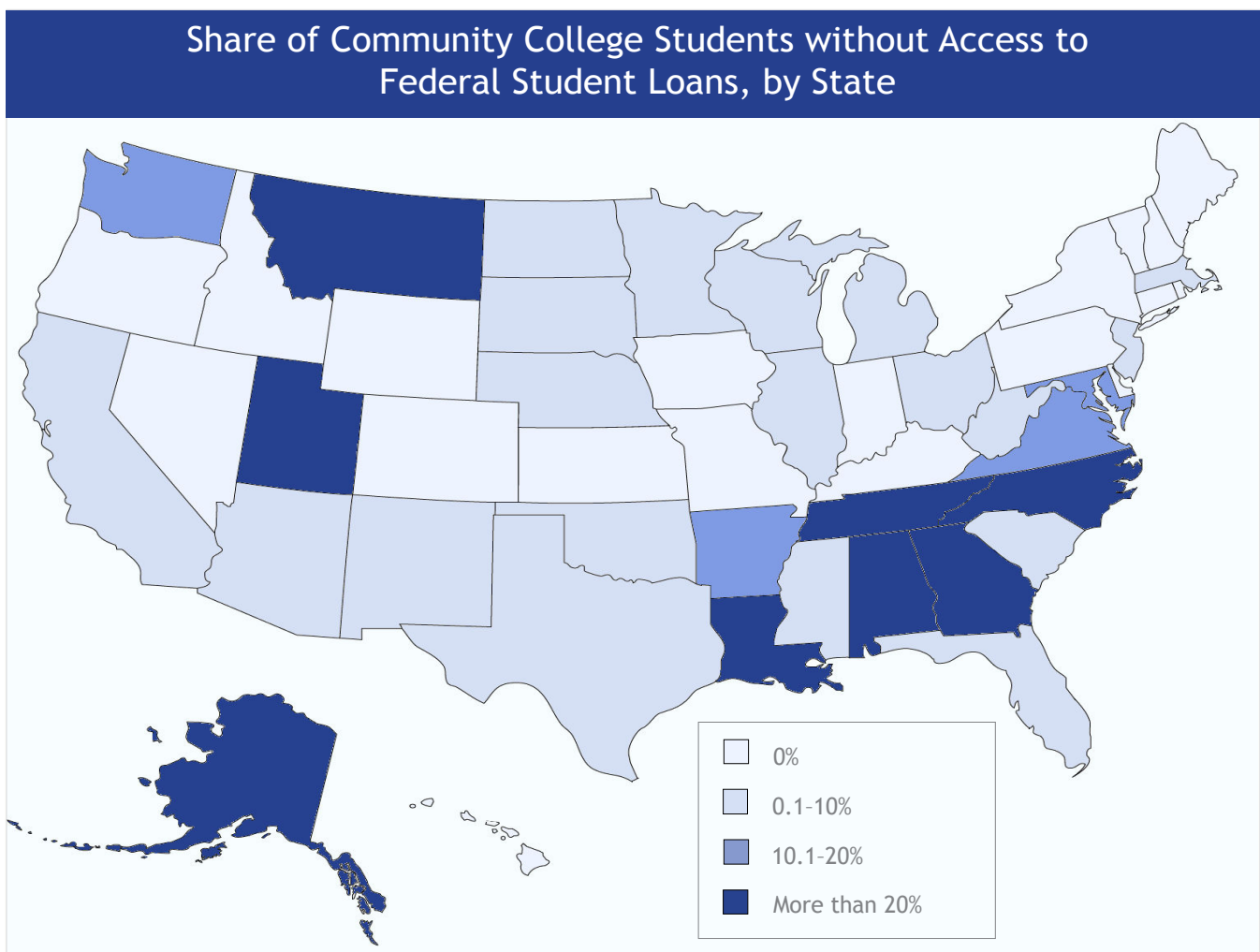
⁶ The high rate of non-participation in Tribal Colleges and Universities (TCUs) contributes to the lack of federal student loan access for Native-American students.

There are 31 states in which some colleges have opted out of the loan program, including eight states in which more than 20 percent of students lack access. The five states with the lowest rates of access are all in the South. In contrast, the 19 states where all community colleges offer federal student loans are not concentrated in any one region.⁷ See map below.

Notable state and local changes

Chicago, Illinois

In 2007-08, nearly half of the students enrolled at the City Colleges of Chicago did not have access to federal student loans, as only four of the seven colleges participated in the program. In 2010-11, all seven City Colleges now participate, providing more than 45,000 additional students in the system with access to a safer, more affordable borrowing option. As reported by the City Colleges of Chicago,⁸ the push for all of the colleges to offer loans was championed by system office leaders focused on two goals: giving students clear and



⁷ The 19 states where all colleges offer federal loans are Colorado, Connecticut, Delaware, Hawaii, Iowa, Idaho, Indiana, Kansas, Kentucky, Maine, Missouri, New Hampshire, Nevada, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Wyoming.

⁸ Personal communication with Ron Schofield, Executive Director of Marketing and Communications at City Colleges of Chicago, April 12, 2011.

consistent financial aid options across all seven campuses, and supporting President Obama's college completion goals by making it easier for students to pay for college. Another important factor was an analysis by the Colleges' finance department showing that students frequently paid for tuition using credit cards.

As Ron Schofield, Executive Director of Marketing and Communications for the City Colleges, explained, "The Direct Loan Program helps students finance the cost of their education without utilizing credit cards and private loans. The flexible repayment plans offered through Direct Loans gives students time to repay loans after earning their degrees."

Some of the colleges did have concerns about offering federal loans to students, but those concerns were outweighed by the unnecessary costs and risks faced by students who cannot access federal loans. To mitigate the risks to both colleges and students, financial aid offices encourage students to tap all available grants and scholarships before borrowing, and they provide targeted and personalized loan counseling to students who need to borrow.

North Carolina

As of 2010-11, the share of North Carolina's community college students *without* access to federal student loans is higher than in any other state: 57 percent. The proportion of the state's enrolled community college students whose schools do not participate in the federal loan program rose from 52 percent in 2007-08, when North Carolina ranked second, after Georgia, for the worst loan access.

While tuition for the state's community college students is relatively low, they face a total cost of attendance of more than \$14,000 per nine-month academic year. About half of all first-time freshmen receive some form of grant aid averaging \$3,200, which is less than a third of the total cost.⁹ This suggests that many North Carolina community college students may need to look beyond available federal and state grants to cover college costs. Yet, in 2010-11, only 20 of the state's 58 community colleges participated in the federal loan program.¹⁰

The issue of community college students' access to federal loans has received more attention in North Carolina than anywhere else in recent years. In response to concerns about affordable loan access and the availability

⁹ Calculated by TICAS, College InSight, <http://www.college-insight.org>. Data taken from the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS) 2008-09.

¹⁰ There are 58 schools in North Carolina's community college system. Our analysis also includes two other small, "public 2-year" colleges in the state, Carolinas College of Health Sciences and Mercy School of Nursing, both of which participate in the federal loan program.

of sufficient financial aid, in 2010 the state legislature required all 58 community colleges to participate in the federal loan program beginning with the 2011-12 academic year. However, a new legislative proposal, House Bill 7, was introduced in 2011 to override the 2010 requirement and allow colleges to continue to opt out of offering federal student loans.

Ultimately, Governor Beverly Perdue vetoed House Bill 7 in April 2011. She explained her reasoning in a statement (Office of Governor Bev Perdue 2011): "As a state, I believe we should search for more pathways for students to follow towards higher education, and I understand the importance of financial aid in helping more students succeed in their goal of a college degree or career training. [...] I strongly believe House Bill 7 will harm students, deny them valuable opportunities to pursue their educations, and turn North Carolina in the wrong direction."

Ran Coble, Executive Director of the nonprofit, nonpartisan North Carolina Center for Public Policy Research, applauded the Governor's decision (North Carolina Center for Public Policy Research 2011): "The Governor's veto furthers the state's policy goals of improving access to a college education, increasing college completion rates, minimizing student debt, and providing the training that people need to get a job," said Coble. "Her action today will reverse the worsening trend in North Carolina toward less access to affordable borrowing for community college students."

California

Since our last analysis, eight community colleges in California have changed their participation status, with two entering the federal loan program and six exiting it.¹¹ The share of community college students in California without loan access in 2010-11 is relatively low at 8.4 percent. However, the vast size of the state and its community college system mean that California now has more students without loan access than any other state: about 214,000.

Very few community college students in California borrow federal student loans: only two percent of full-time freshmen in the California community colleges borrow compared to 18 percent across the country. But for those California students who do borrow, federal loans are a critical resource. According to data from the system Chancellor's office, federal student loans provided more

¹¹ While most of the newly non-participating California colleges address the change on their websites, neither of the two colleges that recently entered the federal loan program states the availability of student loans on its website. We were unable to speak with those involved in the decision to reenter the loan program at either college.

than \$300 million in financial aid to California community college students in 2009-10.¹²

In addition to helping students get to and through college, most colleges have an additional incentive to offer financial aid. Financial aid – grants, loans, and subsidized work-study – help ensure that enough students can pay their tuition and enroll. Without students' tuition payments, the college cannot stay afloat. Dedicating resources to financial aid administration is then not only a service to students, but also a financial imperative for the school itself.

Notably, this financial incentive does not apply to the California community colleges. Tuition – referred to as fees in California – is low, and many students qualify for fee waivers that are widely available to anyone with financial need. When students do receive federal or state financial aid, it all typically goes directly to the student to cover non-fee costs. As the colleges keep none of the money, dedicating administrative resources to financial aid is often understood as being important to student success, but not directly related to the success of the college as a whole.

Administrators at California community colleges that withdrew from the loan program stated the same primary reason: a general concern about cohort default rate (CDR) sanctions and the coming change that will capture a longer period of defaults. (For more about CDRs and sanctions, see box on page 7.) However, none of the California colleges that stopped offering loans in recent years had default rates at or above sanction levels, and all appear to have low enough participation rates to be exempted from sanctions if default rates rise.¹³ In conversations with several administrators, however, what also emerged was a deep frustration with continually being asked to do more with less. The economic downturn has led more students to apply for federal student aid, and more of those who apply are eligible. But while the

number of students receiving Pell Grants at California community colleges has almost doubled in recent years, the number of financial aid staff at the colleges has either remained flat or declined.¹⁴ With a workforce that is stretched thin, no institutional incentive to offer loans, and loan-related sanctions a potential risk even if not a plausible one, the institutional risks of participating in the federal loan program can appear to outweigh the benefits for students.

In addition to overstating the risk to colleges, this view ignores the benefits of students' having more options to pay for college, including how making federal loans available can support full-time enrollment, which is highly correlated with college completion. System Chancellor Jack Scott, a longtime education champion within the state legislature and the community college system, has used his tenure as Chancellor to promote better understanding of the importance of attending college full time, and the critical role that financial aid plays in facilitating full-time attendance.

Last year, in response to administrative changes in the federal loan program, Chancellor Scott sent this message to community college presidents about loan program participation:¹⁵

“[Federal student] loans represent 15% of the total financial aid resources disbursed by our colleges last year, third only to Pell Grants and BOG Fee Waivers. Consistent and timely availability of these resources is necessary to ensure access and affordability to a large segment of our student population. [...] A decision to not offer these loans to your students could adversely impact the persistence and full-time attendance rates at your college. I strongly recommend that all colleges retain loan access for their students.”

This is a useful and important message for California community college leaders to hear, because in California's decentralized system the ultimate decision about federal loan program participation is currently left to individual colleges and districts.

¹² Calculated by TICAS using the California Community Colleges Chancellor's Office Data Mart, <http://www.cccco.edu/CommunityColleges/DataMart/tabid/848/Default.aspx>

¹³ Under current rules, colleges with participation rates under 15 percent may be able to appeal sanctions, depending on their CDR. The exact data needed to calculate a college's participation rate for the purpose of a CDR sanction appeal is not publicly available, but we estimate that all of the six colleges had participation rates well below that level. According to the authors' estimates using NPSAS: 08, about one-quarter of all community college students nationally would not meet basic eligibility criteria for federal student loans, most frequently because they never enrolled in six or more credits. Using 2008-09 institutionally reported data from IPEDS on enrollment and borrower counts, and assuming three-quarters of total college enrollment would be eligible to borrow, we estimate that the six California colleges had participation rates ranging from 0.02 percent to 7.3 percent.

¹⁴ Personal communication with California Community Colleges Chancellor's Office staff, April 14, 2011. Includes most up-to-date information on Pell receipt and staffing levels available as collected through system-wide surveys.

¹⁵ Personal communication with California Community College Chancellor's Office staff, March 30, 2011.

Why do colleges opt out?

Community colleges most commonly cite two reasons for not participating in the loan program.¹⁶ The first is a concern about students’ ability to repay their loans once they have left the college, and how the college’s reputation and access to federal grant aid might be affected if students default. The second is a belief that their students have no need to borrow, and that offering loans only opens them up to unnecessary debt. As discussed below, these two reasons for blocking access to student loans, while grounded in conventional wisdom, are not supported by the facts.

Defaults: The fear

A college’s “cohort default rate” (CDR) measures how many of its federal student loan borrowers default on their loans within two years of entering repayment. A borrower is considered to have defaulted after 270 days of nonpayment, though they are not counted in colleges’ default rates until 360 days of nonpayment. Currently, colleges with cohort default rates above 25 percent for three consecutive years lose the ability to disburse federal loans and federal Pell Grants, the largest source of grant aid to students.¹⁷ As both colleges and students rely on Pell Grants to cover costs, such a loss would be devastating. Additionally, any college with a single year’s cohort default rate above 40 percent loses the ability to offer federal loans, but retains Pell Grant eligibility. (See the box on this page for more details about the cohort default rate and related sanctions.)

Beginning in 2014, the U.S. Department of Education will base sanctions on how many borrowers default within *three* years of entering repayment. Default rates generally increase with the time elapsed after first entering repayment, so the new three-year CDRs are likely to be higher than the two-year CDRs currently in use. While the sanctions thresholds for three consecutive years will also be-raised – from 25 percent to 30 percent – the inevitability of higher default rates has led many colleges to fear that they will be at even greater risk of sanctions.

¹⁶ The Health Care and Education Reconciliation Act of 2010 streamlined the federal student loan system and eliminated the Federal Family Education Loan Program (FFELP), which paid private lenders billions of dollars in taxpayer subsidies to offer federal student loans. Since July 2010, all federal student loans have been made through the William D. Ford Direct Loan program. A very small number of colleges that ceased to offer federal loans in the past year have cited concerns about transitioning from FFELP to the Direct Loan program as a factor in their decision.

¹⁷ Federal Pell Grants provide up to \$5,550 in need-based financial aid in 2010-11 to full- and part-time students. Most recipients have family incomes below \$40,000. Students must complete the Free Application for Federal Student Aid (FAFSA) to receive a Pell Grant, and can apply at any time during the school year.

Cohort Default Rates 101

What is default?

A borrower defaults on a federal student loan after not making any payment for 270 days. This can only occur after a student graduates or is no longer enrolled in college at least half-time, and after a six-month grace period between the end of school and the start of repayment.

What is the cohort default rate?

The cohort default rate measures the numbers of borrowers from a given class who default within two years of entering repayment. For the majority of institutions, cohort default rates are calculated using the equation:

$$\frac{\text{\# of borrowers who entered repayment in 2008, and defaulted in 2008 or 2009}}{\text{\# of borrowers who entered repayment in 2008}} = \text{2008 Cohort Default Rate}$$

Why do default rates matter?

Institutions with high default rates may face serious sanctions

Default Rate	Sanction
25% or higher in three consecutive years; 30% or higher beginning in 2014	Loss of Stafford loan eligibility and Pell Grant eligibility for three years
40% or higher in one year	Loss of Stafford loan eligibility for three years

Important changes to default rates and sanction thresholds

Beginning in 2011, the calculation of the cohort default rate will extend to include borrowers who default on their loans in the three years after entering repayment, rather than two. While that change will likely increase cohort default rates, the threshold to trigger sanctions will also increase, from 25 percent or higher in three consecutive years, to 30 percent or higher. Sanctions will be based on the three-year rates beginning in 2014.

Defaults: The reality

Our analysis finds that no community college has been sanctioned in recent years, and hardly any community colleges will be at risk of sanctions under the current or upcoming rules. The vast majority of community colleges have CDRs well below sanction thresholds, and many have borrowing rates low enough to qualify for the participation rate index appeal, should rates rise.

High cohort default rates are avoidable. Colleges of all types have successfully implemented strategies to ensure

that their students borrow wisely, and that borrowers understand their obligations and options once they enter repayment.¹⁸ Many of those who become delinquent on their loans or default may have been able to remain in good standing if they had a better understanding of the protections available to them. Loan counseling and default management are critical initiatives for colleges to take on, for both their own sake and their students’.

Many community colleges have another important but little-known protection against cohort default rate sanctions. Colleges where borrowing rates are low, and where cohort default rates may not be broadly indicative of institutional quality or student outcomes, are generally able to appeal any sanctions that would otherwise apply based on cohort default rates. Hundreds of community colleges have borrowing rates low enough to be able to benefit from such an appeal. However, few are aware of the protection because their default rates have long been low enough that sanctions are not applied, and appeals are not needed.

Cohort Default Rate Appeals

Once institutions are notified of their initial calculated cohort default rate, they can appeal the potential rate sanctions based on certain mitigating circumstances, such as serving predominately low-income students or by having just a few students borrowing each year. Details about these appeal types can be found in the [Cohort Default Rate Guide](#) published by the U.S. Department of Education’s Default Prevention and Management department. The Department does not keep records of the number or types of challenges, adjustments, or appeals requested by institutions.

The *participation rate index appeal* holds particular promise for community colleges (see box on this page). Given low rates of borrowing, most currently participating community colleges would be eligible to file a participation rate index appeal if their default rates rise.

For federal student loan borrowers who entered repayment in federal fiscal year 2008, 10.1 percent from community colleges had defaulted within two years, while 16.2 percent had defaulted within three years – on average, well below sanction levels in either case.¹⁹ We have looked carefully at both two- and three-year cohort default rates at community colleges and found very few that are at or near sanction levels, for one year let alone three consecutive years. With

¹⁸ There are many publications highlighting effective cohort default rate strategies. For example, see Chitty, 2010; Dillon and Smiles, 2010; The Texas Guaranteed Student Loan Corporation, 2000; and The Texas Historically Black Colleges and Universities Default Management Consortium, 2004.

¹⁹ U.S. Department of Education release of trial three-year rates, April 21, 2011. For this purpose, the term community college refers to institutions classified by the Department as “public 2-3 year.”

relatively small shares of students borrowing, most community colleges would likely be able to appeal sanctions, if their CDRs rise.

Participation Rate Index, by the Numbers

A college’s federal student loan participation *rate* is the share of its eligible students who actually borrow. The participation rate *index* is the participation rate multiplied by the institution’s default rate. The Higher Education Opportunity Act increased the allowable participation rate index for fiscal years beginning October 2011.

Currently, a school where less than 15 percent of eligible students borrow can use the participation rate index appeal. The participation rate index must be 0.0375 or less for three-year sanctions, or 0.06015 or less for one-year sanctions.

Here is an example:

College A has 2,500 students who are eligible to borrow federal loans, and 250 borrowers. The college’s most recent default rate is 35 percent.

$$250/2,500 \times .35 = 0.035$$

College A could appeal based on its participation rate index.

Any college with less than 15 percent of eligible students borrowing has a participation rate low enough to successfully appeal any potential sanction. Given low rates of borrowing at community colleges, the vast majority of colleges would qualify for the participation rate index appeal, if needed.

For fiscal years beginning October 2011, the maximum allowable participation rate index for appeals will increase to 0.0625 for three-year sanctions. At this level, colleges with less than about 21 percent of eligible students borrowing will qualify for leeway in potential sanctions.

Still, colleges cite fears of sanctions as their primary reason for opting out. One newly non-participating college in California is an example of a college that cited this but is at no risk of sanctions. With approximately one percent of students borrowing federal loans, a two-year CDR of 11.6%, and a three-year CDR of 19.1%, this college falls far below both current and future thresholds for federal sanctions. If its default rates rise substantially and reaches the point where sanctions might apply, it would be able to appeal those sanctions based on its low participation rate index (explanation above). Still, the college’s website states, “The decision by the College to no longer participate in the Federal Student Loan Program was made in an effort to protect the availability of future federal financial aid.”

A separate risk of high default rates is the effect that they can have on a college’s reputation. Each year, the Department publishes a list of all participating colleges’ CDRs, and increasing or high rates can attract unwanted scrutiny. Cohort default rates are an important measure of accountability for colleges, and particularly for colleges where many or most students borrow loans. At community colleges, where relatively few students borrow, a cohort default rate may not be representative of typical student outcomes.

To present CDRs in a more accurate light, the Department has begun to take steps to include contextual information along with the published rates. The 2011 release of trial three-year CDRs for fiscal year 2008 includes each college’s enrollment and the number of students who borrowed, allowing readers to get a better sense of the share of the school’s students that the CDR represents (U.S. Department of Education 2011b). This builds on the Department’s first step in a 2009 press release announcing two-year CDRs for fiscal year 2007, which stated, “In interpreting the rates, it is important to remember that some schools, especially some community colleges, may have rates that seem high but that represent a very low number of students. Sanctions may not apply in these circumstances” (U.S. Department of Education 2009).

Myth	Reality
One bad year and our students will lose their Pell Grants.	Colleges can only lose access to Pell Grants after three consecutive years of high default rates.
Our default rate is close to 10% - we’re in trouble!	A college with a 10% default rate is not at risk of sanction.
If we offer loans to some students, we’ll have to give them to everyone.	Financial aid offices have the authority to deny federal loan eligibility on a case-by-case basis.
Our students are all high-risk, so we won’t be able to prevent a high default rate.	Default management strategies work, and the Department of Education will work with colleges to address default concerns.
Our default rate is skewed by our low number of borrowers and jeopardizes student access to Pell grants.	The Department of Education protects institutions with low borrowing rates from unfair sanctions.

Unnecessary borrowing: The fear

Being considered an affordable college option is typically a point of pride for community colleges, and many students choose to attend community colleges for that reason. For those who still need to borrow, however, federal student loans can be an important resource that enables them to take more classes at a time while keeping work hours at a reasonable level.

Many administrators have voiced fears about unnecessary student borrowing and how it can negatively affect students. For instance, first-time independent students attending college half-time can borrow up to \$9,500 per year, and at that rate students could rack up tens of thousands in debt before earning even a vocational certificate.²⁰ As another example, administrators voice concerns about the need for students to save their loan eligibility until after they transfer to a four-year college, since federal loans have aggregate limits that cannot be exceeded.²¹

Unnecessary borrowing: The reality

National data suggest that this is not a widespread problem within the community college sector. Most community college students do not borrow: only 13 percent of community college students borrowed student loans in 2007-08, and fewer than three percent borrowed the maximum, despite having relatively high levels of unmet financial need (TICAS 2009a).

Similarly, while annual loan limits can sound high compared to the low tuition at community colleges – particularly for independent students who are eligible for up to \$9,500 in loans as first-year students – few students borrow that much (see table on 2010-11 loan terms and limits). Even among those who do borrow, only a small share borrows the maximum loan. Indeed, many community college students are there to avoid borrowing.

²⁰ See table on page 3 for 2010-11 loan terms and limits. For the purpose of applying for federal aid, students are considered independent if they are at least 24 years old or if they are married, have children for whom they provide support, already earned a bachelor’s degree, currently or previously served in the military, were foster youth, or were homeless or at risk of becoming homeless.

²¹ Dependent students’ aggregate limit is typically \$31,000, no more than \$23,000 of which may be in subsidized loans. Independent students and dependent students whose parents are unable to obtain PLUS loans, have an aggregate limit of \$57,000, no more than \$23,000 of which may be in subsidized loans.

Distribution of Community College Students by Borrowing Level in 2007-08			
	Did not borrow Stafford loans	Borrowed less than the maximum allowed	Borrowed the maximum allowed
Exclusively full-time			
<i>Dependent students</i>	84.7%	8.9%	6.4%
<i>Independent students</i>	79.1%	18.3%	2.6%
Exclusively half-time			
<i>Dependent students</i>	89.9%	7.7%	2.3%
<i>Independent students</i>	84.5%	13.7%	1.7%
<small>Notes: Less-than-half-time students are excluded as loan eligibility requires at least half-time enrollment. Includes citizens and eligible non-residents. Very small shares of dependent students (0.6% of full-time students and 0.2% of half-time students) borrowed more than the typical maximum award. For ease of interpretation, these students have been grouped into the maximum category.</small>			
<small>Source: Authors' calculations based on U.S. Department of Education, NPSAS: 08.</small>			

If unnecessary borrowing is a problem at a particular college, or for particular students, there are steps that colleges can take. Financial aid offices have great flexibility in tailoring information and outreach to best suit their students' needs, including education on both the benefits and risks of borrowing. The Department also provides many publications to help financial aid administrators design and implement their own debt management plans, which need not be limited to the federally required entrance and exit counseling. Other techniques that colleges have successfully employed include financial literacy and debt management counseling, and targeted counseling for the most at-risk students to help them avoid future default. Moreover, financial aid administrators always have the ability to exercise professional judgment when appropriate. If a counselor feels that a student is too much at risk of future default to take out a loan, the counselor can deny the funds so long as she documents legitimate reasons for doing so.

Even some participating colleges restrict access to federal loans

Within a college, the choice to participate in the loan program is the first step toward making loans available to students, but it is not the only step. Through the course of our research we encountered a handful of situations in which colleges that do offer loans aimed to restrict students' access. Some of these restrictions run counter to the loan program's intent and appear to contradict federal law, regulations, or sub-regulatory guidance.

While this brief is focused on colleges that opt out of the program entirely, these efforts to limit loan access are worth noting as well.

- Stating that loans were available to students in “continuing education” programs but not “academic” programs
- Stating a policy to deny loans to students who had borrowed more than \$6,000 in student loans in previous years
- Participating in the loan program, as evidenced by the Department’s loan disbursement records, yet not listing loans as an available aid program on the college’s website – or even stating that the college does not offer loans
- Offering subsidized Stafford loans only
- Requiring students to wait one month into the academic term before requesting a loan
- Purporting to participate in the Direct Loan program, but also saying the college had run out of loan funds for the year

The Department recently clarified existing rules for the administration of federal student loans (U.S. Department of Education 2011a). More guidance may still be necessary to help colleges recognize and address such problematic practices.

Share of Students without Access to Federal Student Loans, by Race/Ethnicity

State	Total Share without Access	White	African American	Latino	Asian	Native American	Share of State's College Students at Community Colleges
Alabama	48.5%	41.3%	67.8%	--	--	--	37.2%
Alaska	27.6%	10.5%	--	--	--	61.7%	5.4%
Arizona	6.7%	6.7%	1.9%	3.6%	--	--	36.4%
Arkansas	11.8%	10.9%	15.2%	--	--	--	43.4%
California	8.4%	8.9%	8.0%	11.2%	3.7%	--	69.4%
Florida	6.7%	5.9%	10.2%	6.3%	--	--	50.8%
Georgia	55.1%	56.4%	57.4%	--	--	--	42.8%
Illinois	3.5%	4.1%	11.0%	2.1%	--	--	59.4%
Louisiana	46.7%	50.4%	45.7%	--	--	--	33.8%
Maryland	10.4%	9.0%	16.3%	--	7.0%	--	48.7%
Massachusetts	2.8%	0.3%	12.2%	3.1%	--	--	29.2%
Michigan	0.4%	0.3%	0.1%	--	--	--	47.0%
Minnesota	0.2%	0.0%	0.0%	--	--	--	42.8%
Mississippi	9.9%	5.3%	15.0%	--	--	--	54.7%
Montana	21.6%	4.0%	--	--	--	85.4%	27.9%
Nebraska	0.2%	0.0%	0.0%	0.0%	--	--	50.8%
New Jersey	6.8%	1.6%	22.3%	8.8%	3.4%	--	49.4%
New Mexico	2.7%	2.1%	--	1.3%	--	11.9%	65.7%
North Carolina	57.0%	56.2%	60.6%	--	--	--	53.0%
North Dakota	5.0%	0.3%	--	--	--	62.5%	23.9%
Ohio	0.8%	1.0%	0.2%	--	--	--	39.4%
Oklahoma	6.7%	7.0%	3.9%	--	--	10.3%	44.6%
South Carolina	4.0%	3.4%	5.1%	--	--	--	48.9%
South Dakota	4.8%	1.2%	--	--	--	48.4%	11.6%
Tennessee	31.9%	26.0%	59.4%	--	--	--	36.9%
Texas	4.4%	2.4%	1.5%	9.8%	0.9%	--	57.7%
Utah	22.8%	22.1%	--	31.8%	--	--	25.7%
Virginia	19.4%	24.3%	15.7%	5.4%	3.3%	--	46.2%
Washington	12.4%	10.5%	--	11.5%	18.6%	--	66.7%
West Virginia	4.2%	3.6%	6.1%	0.2%	--	--	18.8%
Wisconsin	0.5%	0.1%	0.0%	--	--	--	43.8%
United States	9.2%	8.6%	16.4%	8.5%	4.2%	18.5%	46.9%

Notes: Excludes shares where ethnic group comprises less than 5% of state community college enrollment.
Excludes states where all community colleges participate in the loan programs.

Recommendations

All otherwise eligible students should have access to federal loans, should they need to borrow. By offering federal loans – along with the guidance necessary to help students borrow responsibly – colleges provide students with their best chance of staying enrolled and graduating.

Default sanctions are not an imminent threat for community colleges, and denying access to federal loans does not protect students from debt or the risks that come with it. It merely keeps them from using the type of debt that is likely to be the most manageable, and from getting the guidance and required loan counseling that come with federal student loans.

In its last release of three-year cohort default rates, the Department paired institutions' rates with the number of undergraduate borrowers at the college and their total undergraduate enrollment. This is a critical and positive step for the Department to take, as it helps college administrators, journalists, and the public put the rates in their proper context. However, both colleges and the Department could and should do more to improve community college students' access to federal student loans.

We make the following recommendations:

- Non-participating colleges should reconsider their loan policies and how they affect students. Responsible default management plans and entrance and exit counseling, combined with flexible repayment options and loan forgiveness programs, make federal loans relatively safe for both schools and students.
- Financial aid associations can help raise awareness by using training opportunities, such as annual conferences, to promote a more thorough understanding of the likelihood of default rate sanctions and the ways to mitigate them. Information and trainings should cover not just the participation rate index and other appeals but also effective and low-cost strategies for reducing student defaults.
- Community college districts and system offices should explore whether there are other ways that they can encourage and facilitate loan program participation. For instance, there may be aspects of loan program administration, such as default management, that a system office could do more efficiently than individual colleges with few borrowers.
- The Department should make appeals for the two default-related sanctions consistent. Doing so will make it simpler and more equitable for colleges to use the participation rate index appeal as a safeguard against undue sanctions. Specifically, the Department should use the rulemaking process to update the participation rate index for sanctions based on a single year's CDR, so that any institution where fewer than 21 percent of eligible students borrow can appeal potential sanctions. (For more on this issue, see page 8.)
- To help address colleges' concerns about CDR sanctions, the Department could allow colleges to certify that their borrowing rates are sufficiently low to allow for a participation rate index appeal. Because community colleges' CDRs are virtually all below the levels where sanctions would apply and appeals would be required, few administrators we have spoken with understand this safeguard. When draft CDRs are sent to colleges along with instructions about how to contest or appeal, colleges could choose to submit the information that the Department would need to calculate the school's official participation rate. If a college submits the required data and is found to have a low participation rate, the Department could flag the school's CDR with an asterisk signifying that the rate is based on a small proportion of students. This would likely increase colleges' comfort with and understanding of their CDR and also serve as an opportunity to educate college leaders and administrators about the protections colleges have against unwarranted sanctions.
- The Department should provide guidance and outreach to financial aid officers at community colleges, clarifying the rules for cohort default rate appeals and encouraging them to offer federal loans as a way to help their students avoid relying on credit cards and risky private loans. In areas where loan access rates are particularly low, the Department could take a proactive approach in learning about and responding to colleges' concerns.
- The Department should publish information about federal student loan participation by institution on a regular basis, at least every three years.

Methodology

The U.S. Department of Education does not currently maintain a list of institutions that participate in the federal Pell Grant program but not the federal loan program. To identify the non-participating colleges, we looked at data on federal loans made to students, by college, for the first quarter of the 2010-11 academic year. We used the Integrated Postsecondary Education Data System (IPEDS) institutional classifications for 2008-09 to determine which institutions were community colleges. For the purposes of this analysis, we included both those classified as “public two-year” and also, in acknowledgement of the increasing prevalence of community colleges offering limited bachelor degree programs, those classified as “public four-year” colleges at which the vast majority of awards granted by the institution are at or below the associate degree level (as denoted by Carnegie classifications 1-14). We excluded the federally-chartered Community College of the Air Force from the analysis because, unlike state and locally funded community colleges, its primary purpose is not to serve the local community.

Colleges that had distributed any Stafford loans in the first quarter of 2010-11, as reported by the Department, were classified as participating. Those with no Stafford loan distribution were preliminarily classified as “non-participating,” and the participation status of each of these colleges was confirmed by checking the college’s website or calling the financial aid office.

To assess the level of students’ access to federal loans, we used colleges’ 12-month enrollment for 2008-09, the most recently available data as reported by the colleges to IPEDS.

We excluded participation rates for racial and ethnic groups that constituted less than five percent of the state’s community college enrollment. A list of all non-participating colleges can be found at http://projectonstudentdebt.org/files/pub//CC_participation_status_2010-11.pdf.

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THE PROJECT ON STUDENT DEBT

The Project on Student Debt is an initiative of the Institute for College Access & Success, which works to make higher education more available and affordable for people of all backgrounds. By conducting and supporting nonpartisan research, analysis, and advocacy, the Institute aims to improve the processes and public policies that pave the way to successful educational outcomes for students and for society.

This brief was researched and written by Debbie Cochrane and Laura Szabo-Kubitz. Lauren Asher and Diane Cheng also made significant contributions. The issue brief was designed by Shannon Gallegos.

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