

# **Borrowing in Excess of Institutional Charges**

Mark Kantrowitz

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## **EXECUTIVE SUMMARY**

The Higher Education Act of 1965 provides colleges with the authority to refuse to certify a loan or to reduce loan amounts on a case-by-case basis. However, the US Department of Education has issued guidance that restricts the authority of colleges to limit borrowing to just institutional charges or to limit borrowing by independent students.

The statutory authority requires that decisions to reduce loan amounts must be made on a case-by-case basis, as emphasized by the US Department of Education guidance. The guidance indicates that colleges cannot have a policy or practice that routinely reduces loan limits. However, the US Department of Education guidance goes beyond the statutory requirements to emphasize that students should be permitted to borrow for living costs, not just tuition and fees.<sup>1</sup> Such guidance makes it difficult for colleges to reduce borrowing for any reason other than when a borrower exceeds the annual or aggregate loan limits or when a borrower is ineligible for federal education loans (e.g., when a student drops below half-time enrollment or fails to make satisfactory academic progress).

College financial aid administrators would like to reduce loan limits to prevent students from graduating with excessive debt. In addition, financial aid administrators at for-profit colleges would like to be able to limit borrowing from the federal education loan programs to make it easier to comply with the 90/10 rule<sup>2</sup> and the proposed gainful employment rules.<sup>3</sup>

Clearly, there is a need to strike a balance between addressing the needs of independent students and preventing students from borrowing excessively. Independent students need money to support their families while they are studying. If independent students couldn't borrow for living expenses they would be forced to work full-time while enrolled in college, significantly reducing their graduation rates.

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<sup>1</sup> Yet the US Department of Education's practice of allowing colleges to opt out of the federal student loan programs while retaining eligibility for other forms of federal student aid seems to be at odds with this guidance, since it effectively allows colleges to adopt a policy in which they refuse to certify all federal education loans. Colleges with high cohort default rates opt out of the federal student loan programs to preserve institutional eligibility for the Pell Grant. Students at these colleges who need to borrow for institutional charges or living expenses are then forced to borrow from more expensive private student loan programs.

<sup>2</sup> The 90/10 rule specifies that no more than 90% of a for-profit college's revenues can come from Title IV federal student aid, but does not provide the colleges with any tools or authority for controlling student use of Title IV federal student aid. Colleges that are close to the 90% threshold often increase their institutional charges beyond the maximum amount of federal student aid in order to force students to obtain funding from non-federal sources. Some colleges also encourage students to borrow from private student loan programs.

<sup>3</sup> For-profit colleges also argue that part of the reason for their students having higher average debt at graduation is due to the students borrowing in excess of institutional charges, which is beyond their control.

There are, however, many open questions about borrowing beyond institutional charges. Does borrowing in excess of institutional charges contribute to excessive debt at graduation? Are independent students who are married or who have dependents other than a spouse more likely to borrow for living costs than dependent students? If colleges were permitted to limit borrowing from the federal student loan programs to institutional charges, would this reduce overborrowing or would it shift the debt to higher-cost private student loans?<sup>4</sup> To what extent do private student loans or Parent PLUS loans contribute to borrowing beyond institutional charges? Would limiting borrowing to institutional charges reduce the student loan default rate? Would there be a cost to the government if colleges could reduce borrowing? How much do “perpetual students” contribute to borrowing beyond institutional charges?<sup>5</sup>

The purpose of this student aid policy analysis paper is to answer some of these questions by analyzing data concerning when students borrow in excess of institutional charges. This analysis yields the following key findings based on data from the 2007-08 National Postsecondary Student Aid Study:

- 18.2% of all students borrow more than \$2,500 in excess of Tuition & Fees.
- 25.1% of all students borrow more than \$2,500 in excess of Tuition & Fees minus Total Grants.
- The percentage of students borrowing at least \$2,500 in excess of institutional charges generally decreases with increases in institutional charges for colleges with institutional charges of \$7,500 or more.
- 16.5% of students at public colleges and 16.5% of students at non-profit colleges borrow at least \$2,500 in excess of institutional charges, compared with 34.8% of students at for-profit colleges. The percentages are 20.4%, 34.8% and 47.4%, respectively, when institutional charges are reduced by total grants.
- Factors contributing to the difference in the percentage of students borrowing beyond institutional charges at for-profit, non-profit and public colleges include whether the student received a Pell Grant and whether the student borrowed from private student loan programs.
  - 26.9% of Pell Grant recipients borrow more than \$2,500 in excess of institutional charges, compared with 14.9% of students who do not receive a Pell Grant. 63.1% of students at for-profit colleges received a Pell Grant, compared with 26.3% of students at non-profit colleges and 23.0% of students at public colleges.
  - 58.8% of private student loan borrowers borrow more than \$2,500 in excess of institutional charges, compared with 11.6% of students who do not borrow from private student loan programs. 42.5% of students at for-profit colleges received a private student

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<sup>4</sup> Some private student loan lenders limit borrowing for higher risk students to just institutional charges.

<sup>5</sup> Perpetual students, sometimes called Pell Runners, are students who enroll in college to obtain student aid to pay for living expenses and not because of an interest in obtaining a college degree. These students often enroll in the lowest-cost colleges and borrow to the limit in order to maximize the refund after institutional charges are deducted. Perpetual students often switch majors or transfer from one college to the next in order to extend their aid eligibility beyond the 150% timeframe limitation. They usually show up for class only until they collect their refund checks or if they need to pass a class to maintain a minimum 2.0 GPA. This abusive practice appears to be of limited prevalence, affecting only a very small percentage of Pell Grant recipients, in part because very few colleges have institutional charges that are low enough to make it feasible. Perpetual students are more likely to enroll at community colleges and in Certificate and Associate’s degree programs.

loan, compared with 24.3% of students at non-profit colleges and 8.7% of students at public colleges.

- 65.8% of students who receive Parent PLUS loans borrow more than \$2,500 in excess of institutional charges, compared with 16.3% of students who do not receive Parent PLUS loans. But the small number of students receiving Parent PLUS loans means that PLUS loan borrowing does not explain the differences in borrowing beyond institutional charges according to type of college. 5.2% of students at for-profit colleges received Parent PLUS loans, compared with 8.5% of students at non-profit colleges and 2.7% of students at public colleges. These represent 21.8%, 13.0% and 5.0% of students eligible to receive Parent PLUS loans, respectively.
- The differences in borrowing beyond institutional charges for Pell Grant recipients and non-recipients are limited to colleges with institutional charges of \$10,000 or less. This suggests that some of the borrowing beyond institutional charges might be due to perpetual students, since perpetual students tend to target lower-cost colleges in order to maximize the amount of the refund check. (Perpetual students, sometimes called Pell Runners, are students who rely on student aid as a form of welfare instead of as a means to a college degree.) Based on the differences in borrowing patterns between Pell Grant recipients and non-recipients, at most 11.3% of Pell Grant recipients are potentially perpetual students. An analysis of students who do not obtain a degree suggests that perpetual students represent about 3.6% of Pell Grant recipients.
- Factors that do not affect whether students borrow in excess of institutional charges include dependency status, risk index, gender, race, family size, single parent status, income, receipt of Federal Work-Study funding, receipt of private scholarships and institutional selectivity.

## RECOMMENDATIONS

1. Congress should provide colleges with the authority to establish lower institution-specific loan limits based on the student's field of study or degree program even if not on a case-by-case basis.
2. Congress should establish lower aggregate loan limits for shorter degree programs. There is no rational reason why a 1-year Certificate program or a 2-year Associate's degree program should have the same aggregate loan limits as a 4-year Bachelor's degree program.
3. President Obama's proposal to reengineer the Perkins Loan program will reduce the cost of debt by replacing private student loans with lower-cost federal student loans. It also has the potential to reduce the temptation for students to borrow excessively by giving colleges more control over student borrowing.
4. Some students currently bypass the 150% timeframe limitation by changing majors or transferring to another college. The 18-semester limit on receipt of the Pell Grant permits such students to receive Pell Grants well beyond the 150% timeframe limitation for a single degree. This limit should be reduced to match 150% of the timeframe for the type of degree and similar limits should be established for student loans and other forms of federal student aid. Measuring satisfactory academic progress more frequently would also help curtail abuse.
5. Colleges should target students for aggressive counseling to reduce debt, based on the student's annual borrowing and based on the student's borrowing from private student loan programs. While borrowing more than \$10,000 for each year in school might be a reasonable threshold for aggressive counseling since it represents the threshold at which the debt will be clearly excessive at graduation, ideally colleges should target students for counseling well below this threshold. This might also help reduce the number of students who borrow beyond institutional charges.

## REQUIREMENTS CONCERNING COLLEGE AUTHORITY TO REDUCE LOAN LIMITS

Section 479A(c) of the Higher Education Act of 1965 [20 USC 1087tt(c)] provides colleges with the authority to reduce loan limits on a case-by-case basis in a non-discriminatory fashion. This provision was added by the Higher Education Amendments of 1998.

### **479A(c) Refusal or adjustment of loan certifications**

On a case-by-case basis, an eligible institution may refuse to certify a statement that permits a student to receive a loan under part B or C of this subchapter, or may certify a loan amount or make a loan that is less than the student's determination of need (as determined under this part), if the reason for the action is documented and provided in written form to the student. No eligible institution shall discriminate against any borrower or applicant in obtaining a loan on the basis of race, national origin, religion, sex, marital status, age, or disability status.

However, the US Department of Education has issued subregulatory guidance that precludes colleges from routinely limiting borrowing to just institutional charges or routinely limiting borrowing by independent students.<sup>6</sup> The guidance in the highlighted sentence was added to the Federal Student Aid Handbook starting with the 2003-2004 edition of the handbook.

### **Refusing to originate a loan**

On a case-by-case basis, you may refuse to originate the loan for a borrower. Similarly, you may originate a loan for an amount less than the borrower's maximum eligibility. However, you must ensure that these decisions are made on a case-by-case basis, and do not constitute a pattern or practice that denies access to borrowers because of race, sex, color, income, religion, national origin, age, or handicapped status. **Also note that your school cannot engage in a practice of originating Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students.** When you make a decision not to originate a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing.

## METHODOLOGY

The analysis in this report was performed using the data analysis system for the 2007-08 National Postsecondary Student Aid Study (NPSAS). The NPSAS is a large survey conducted every four years by the National Center for Education Statistics at the US Department of Education. The 2007-08 NPSAS surveyed 114,000 undergraduate students.

The data analysis system does not permit direct comparison of pairs of study variables, so one cannot directly calculate the percentage of undergraduate students for whom Total Loans (including Parent PLUS loans)<sup>7</sup> exceed Tuition & Fees paid (e.g., TOTLOAN2 > TUITION2) or for whom Total Loans exceed Tuition & Fees by a particular margin (e.g., TOTLOAN2 > TUITION2 + \$10,000). However, one

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<sup>6</sup> Stafford/PLUS Loan Periods and Amounts, *Federal Student Aid Handbook*, 2010-11, Volume 3, Chapter 6, Page 3-100.

<sup>7</sup> The TOTLOAN2 variable includes federal, state, institutional and private student loans, plus the Parent PLUS loan. A similar analysis was conducted with the TFEDLN2 variable, which includes just federal education loans.

can calculate a lower bound on these percentages by slicing the TOTLOAN2 and TUITION2 variables into same-size increments, calculating the cross-product of the two sets of slices with a column cut on one variable and a row cut on the other variable, and combining the results for the subset of the cross-products that satisfy the inequalities.

For example, the following table shows the cross product of Total Loans in \$10,000 increments with Tuition & Fees in \$10,000 increments. The cells highlighted in yellow are the ones for which Total Loans exceeds Tuition & Fees.

2007-08 NPSAS		Total Loans						
Tuition & Fees	< \$10K	\$10K to \$20K	\$20K to \$30K	\$30K to \$40K	\$40K to \$50K	≥ \$50K	Sum	Sample Size
< \$10K	93.1%	6.3%	0.5%	0.0%	0.0%	0.0%	6.8%	17,702,500
\$10K to \$20K	69.2%	24.2%	6.2%	0.4%	0.0%	0.0%	6.6%	1,712,700
\$20K to \$30K	60.2%	22.5%	13.6%	3.4%	0.4%	0.0%	3.8%	992,100
≥ \$30K	69.1%	15.5%	10.5%	3.6%	1.3%	0.0%	1.3%	520,700
<b>Overall</b>							6.5%	20,927,900

The highlighted values in each row are summed to yield the figures in the Sum column of the table. The sums for each of the rows can be combined into an overall figure by calculating a weighted sum that uses the corresponding sample size figures as the weights:

$$\frac{6.8\% \times 17,702,500 + 6.6\% \times 1,712,700 + 3.8\% \times 992,100 + 1.3\% \times 520,700}{17,702,500 + 1,712,700 + 992,100 + 520,700} = \frac{1,361,277}{20,927,900} = 6.5\%$$

There are three potential sources of error in this approach:

- **Summation error.** Summing the standard errors<sup>8</sup> for the highlighted cells yields an overall error for each row that may overstate the actual error (in practice by about a third), in addition to the potential for rounding errors. The weighted sum yields an overall error of +/- 0.2% for this particular table. So even if the error is overstated, it is still within a reasonable tolerance.
- **Slice width error.** While the inequalities clearly hold true for the highlighted cells, the inequalities might also hold true for some of the underlying samples summarized by the cells highlighted in green along the diagonal. For example, among the 24.2% for which both the Total Loans and Tuition & Fees figures are within the range of \$10,000 to \$20,000, there may be some individual students for whom Total Loans > Tuition & Fees. Clearly, then, the overall percentages calculated using this method are lower bounds on the percentage of students for whom Total Loans > Tuition & Fees. However, an inequality with a margin equal to the slice size is not subject to this source of error. The percentages precisely identify the percentage of students from whom Total Loans > Tuition & Fees + \$10,000.
- **Last row error.** The last row in the table may contribute some error because of the catchall nature of the row's limits on Tuition & Fees. The last row was determined through trial and error to be the last slice for which the results yielded statistical significance, and the difference in sums

<sup>8</sup> The data analysis system for the NPSAS estimates the standard error in each cell using the BRR variance estimation method.

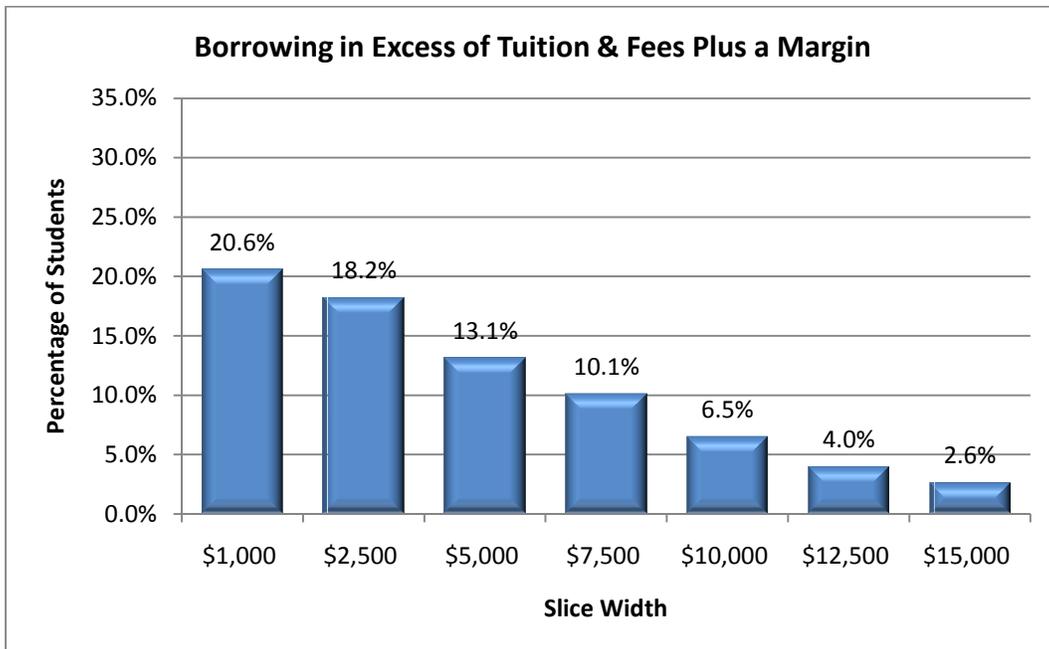
as compared with limiting the slice width for the last row was found to be less than 0.1% in all cases. Given that the last row also has the smallest sample size, the use of a catchall limit on the last row does not change the overall percentage or affect its accuracy.

Thus, so long as it is acceptable to add a margin to the inequalities equal to the slice width, the potential sources of error do not significantly affect the accuracy of the results.

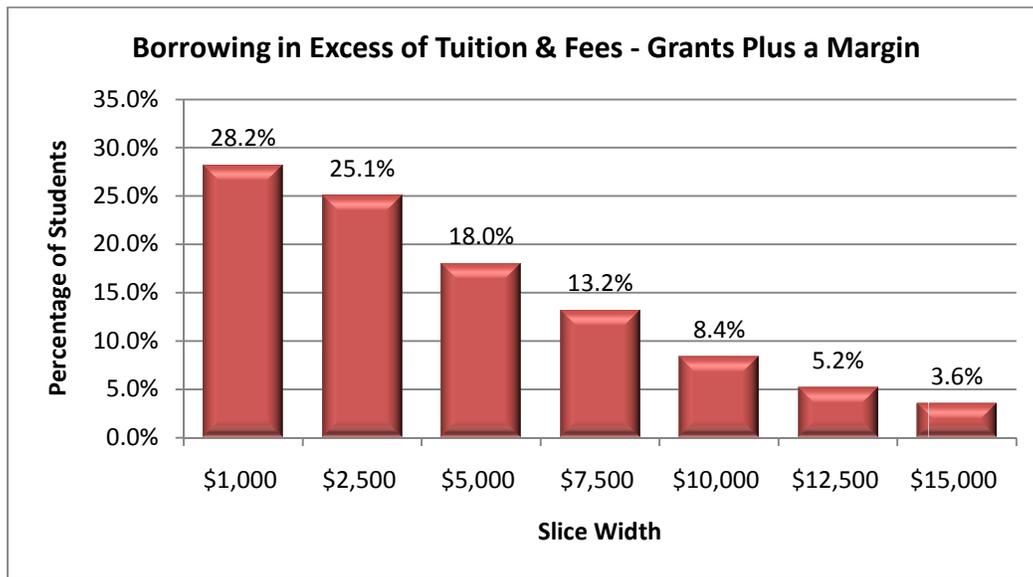
The data analysis system uses span tags to create subtables. However, the data analysis system does not permit more than one span tag in a query, so one cannot directly create subtables for a cross-product of two variables. For example, one might want to calculate subtables of the cross-product of the Tuition & Fees and Total Loans slices based on the cross-product of institution level and degree program. To address this limitation, one can specify a span tag for one of the two variables (e.g., institution level) and successively set a filter for each of the values in the second variable (e.g., degree program). This approach works with cat, cut and lump tags. To reduce the number of iterations it is best to filter based on the variable with the smallest set of values.

### CHOOSING A SLICE WIDTH

The following chart shows how the percentage of students borrowing in excess of Tuition & Fees plus a margin equal to the slice width varies with slice width. For example, 18.2% of students borrow at least \$2,500 more than Tuition & Fees and 13.1% at least \$5,000 more than Tuition & Fees. The percentage of students decreases as the slice width increases. A slice width of \$2,500 seems reasonable, since the percentage is not much different from the percentage at a slice width of \$1,000 and \$2,500 is sufficient to cover the cost of textbooks and other essential educational expenses while not necessarily representing a potentially abusive level of debt. Also, the relative magnitude of disaggregating the statistics according to various characteristics does not appear to change significantly with slice width. Finally, a slice width of \$2,500 avoids the data sparseness and volatility problems that are prevalent with a slice width of \$1,000 at higher levels of Tuition & Fees when the analysis is disaggregated according to other characteristics.



The next chart shows a similar result, but compares Total Loans with Tuition & Fees minus Total Grants, plus a margin equal to the slice size. This is a more conservative measure of borrowing in excess of institutional charges, since it discounts institutional charges by all grants. However, this analysis is based on the NETCST9 variable in the NPSAS, which is a flawed variable. The NETCST9 variable is supposed to measure Tuition & Fees minus Total Grants. However, this variable is set to zero for students for whom the total grants exceed tuition and fees.<sup>9</sup> This prevents an accurate analysis of the net cost for such students, which may represent as much as 20.3% of the data set. Normally one might address this issue by calculating TUITION2 and TOTGRT separately and subtracting, but such a workaround is not appropriate for the present analysis which requires a combined variable. Accordingly, this paper presents results for Tuition & Fees and for Tuition & Fees minus Total Grants, since neither is a perfect measure.



## FACTORS AFFECTING BORROWING IN EXCESS OF INSTITUTIONAL CHARGES

In the following discussion, the term “excess borrowing” is used to refer to students who borrow in excess of institutional charges.

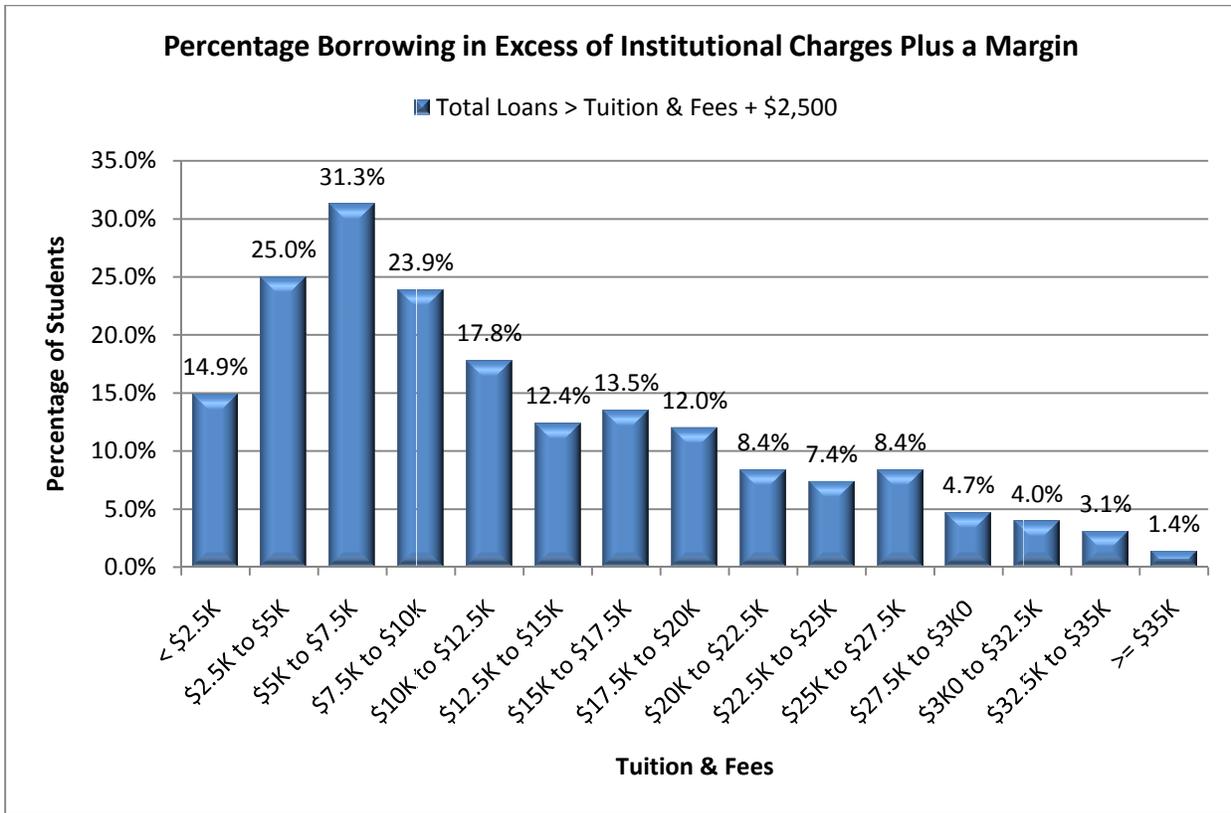
### Excess Borrowing Decreases with Increases in Tuition & Fees

The following two charts show that borrowing in excess of institutional charges increases for Tuition & Fees of up to \$7,500 and then generally decreases with increases in Tuition & Fees.<sup>10</sup>

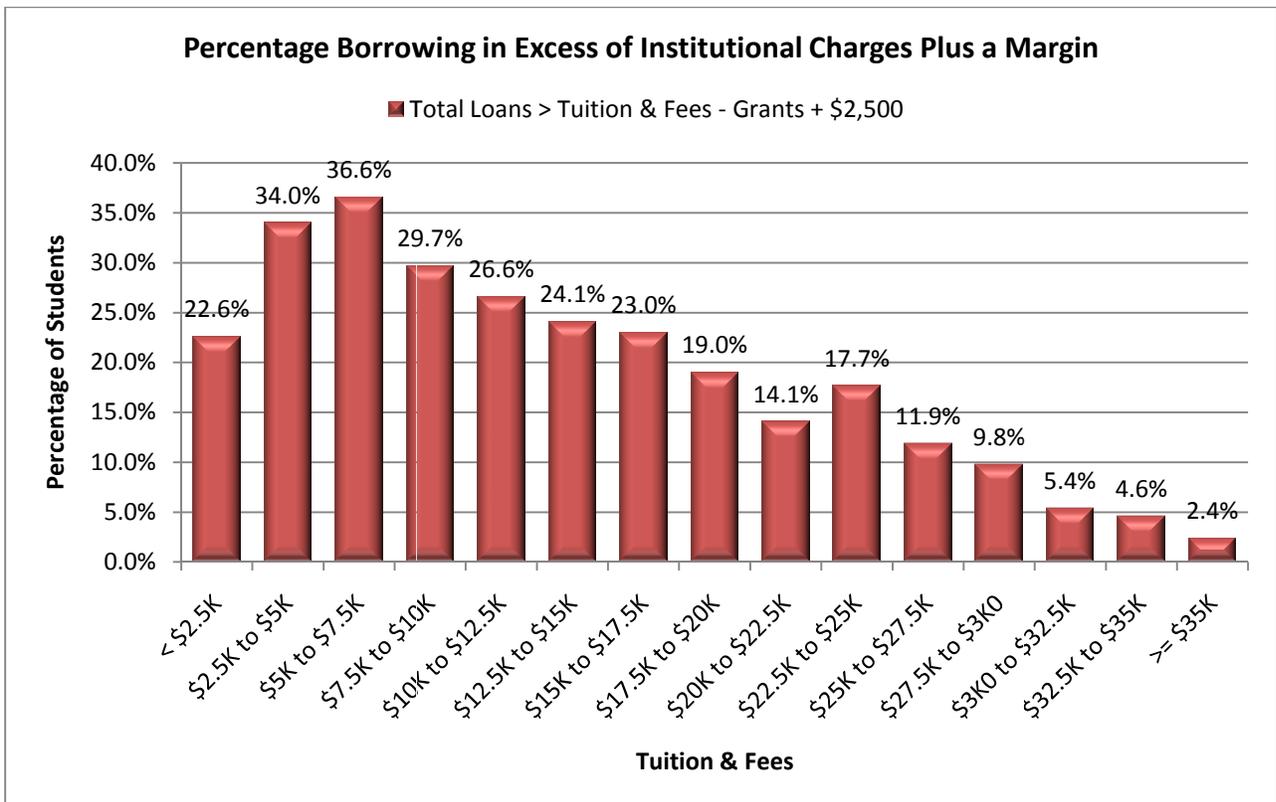
The first chart shows borrowing of more than \$2,500 in excess of Tuition & Fees.

<sup>9</sup> The NETCST9 variable also sets the value to \$10 for values of \$1 to \$9.

<sup>10</sup> The initial increases may be due in part to the superposition of statistics for Certificate, Associate’s degree and Bachelor’s degree programs. Only Certificate and Associate’s degree programs have an initial increase for low-cost colleges in the percentage of students borrowing in excess of institutional charges.



The second chart shows borrowing of more than \$2,500 in excess of Tuition & Fees minus Total Grants.



### Excess Borrowing is Significantly Higher at For-Profit Colleges

The following table shows the percentage of students borrowing at least \$2,500 in excess of institutional charges by type of college. The overall percentage for students with excess borrowing at for-profit colleges is about twice the percentage for public and non-profit colleges, 34.8% vs. 16.5%. This is the case even when the data is disaggregated by level of institution. The percentage of students borrowing in excess of institutional charges is lower at 2-year and less-than-2-year institutions than at 4-year institutions, but still significantly higher at for-profit colleges. The difference narrows somewhat when Tuition & Fees are discounted by grants, but students at for-profit colleges are still much more likely to borrow in excess of institutional charges than students at public and non-profit colleges.

Type of College	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Public</b>	<b>16.5%</b>	<b>20.4%</b>
4-Year	26.9%	35.5%
2-Year	8.8%	9.6%
< 2-Year	7.8%	11.5%
<b>Non-Profit</b>	<b>16.5%</b>	<b>34.8%</b>
4-Year	16.5%	35.2%
2-Year	21.3%	28.2%
< 2-Year	11.9%	16.0%
<b>For-Profit</b>	<b>34.8%</b>	<b>47.4%</b>
4-Year	43.5%	56.2%
2-Year	31.6%	46.0%
< 2-Year	19.5%	29.1%

The following table shows similar results by degree program. As noted in a previous paper, the distribution of degrees does not correlate well with institution level at for-profit colleges.<sup>11</sup> Accordingly, it is important to evaluate differences according to degree program and institutional control, not just institution level and control. The persistently higher degree of students with excess borrowing at for-profit colleges suggests that the differences in the percentage of students borrowing in excess of institutional charges are not due to differences in the distribution of degrees according to college type.

Type of Degree	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Bachelor's Degree</b>	<b>25.1%</b>	<b>36.9%</b>
Public	27.2%	35.8%
Non-Profit	16.5%	35.7%
For-Profit	48.4%	58.5%
<b>Associate's Degree</b>	<b>12.6%</b>	<b>15.0%</b>
Public	10.0%	10.9%
Non-Profit	22.1%	33.6%
For-Profit	35.0%	50.5%
<b>Certificate</b>	<b>15.2%</b>	<b>20.8%</b>
Public	6.5%	7.1%
Non-Profit	13.8%	19.1%
For-Profit	24.8%	36.0%

<sup>11</sup> Mark Kantrowitz, *Default Rates by Institution Level vs. Degree Program*, July 15, 2010. [www.finaid.org/educators/20100715institutionlevel.pdf](http://www.finaid.org/educators/20100715institutionlevel.pdf)

The following table demonstrates similar results when Total Federal Loans are compared with institutional charges. The percentages of students borrowing in excess of institutional charges are lower because the amount of debt is lower, but students at for-profit colleges are still about twice as likely to borrow in excess of institutional charges as students at public and non-profit colleges.

Type of College	Total Federal Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Public</b>	<b>11.8%</b>	<b>16.3%</b>
<b>Non-Profit</b>	<b>10.4%</b>	<b>23.2%</b>
<b>For-Profit</b>	<b>18.8%</b>	<b>30.9%</b>
<b>Overall</b>	<b>12.3%</b>	<b>18.5%</b>

It is not entirely clear why the percentage of students borrowing in excess of institutional charges is higher at for-profit colleges. The percentages are based on all students, not just those who borrow, so the percentages at traditional colleges would necessarily be lower since fewer students borrow at those colleges. In 2007-08, 91.8% of students at for-profit colleges borrowed to pay for their education, compared with 28.1% of students at public colleges and 59.0% of students at non-profit colleges. The mean debt to tuition ratio is 77.9% at for-profit colleges, 63.9% at public colleges and 36.8% at non-profit colleges (54.1% at all colleges). The following table shows the results of reporting the percentage of *borrowers* who borrow in excess of institutional charges as opposed to the percentage of *students*.

Type of College	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Public</b>	<b>58.7%</b>	<b>72.6%</b>
<b>Non-Profit</b>	<b>28.0%</b>	<b>59.0%</b>
<b>For-Profit</b>	<b>37.9%</b>	<b>51.6%</b>

But still, it is important to understand why a higher percentage of students borrow beyond institutional charges at for-profit colleges. The rest of this paper considers a variety of possible causes of the excess borrowing, finding that students who receive a Pell Grant, private student loan or Parent PLUS loan are more likely to borrow beyond institutional charges.

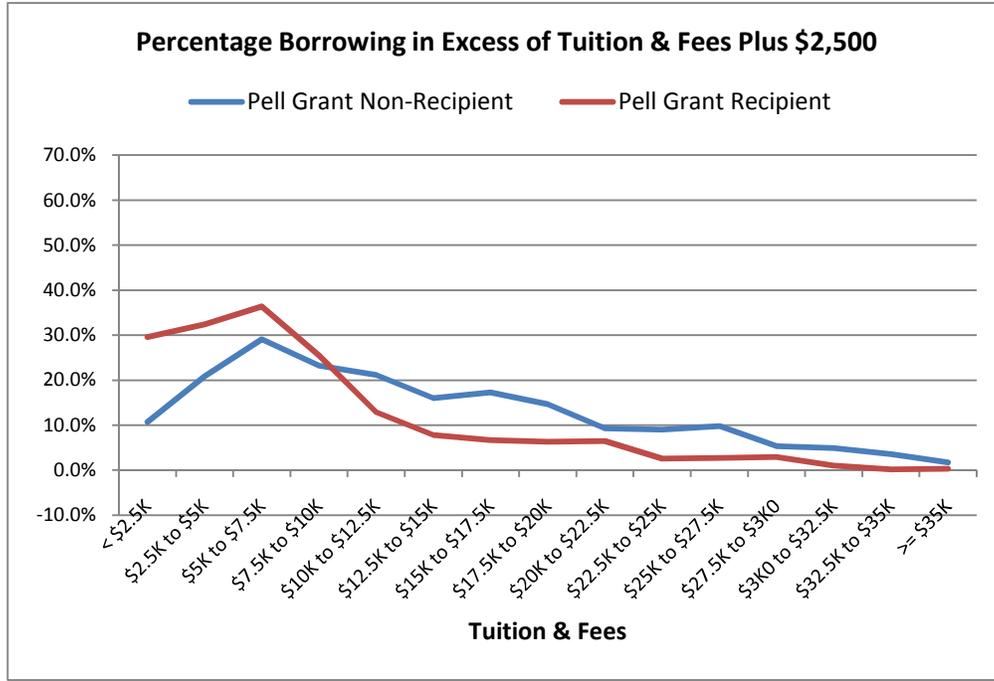
### Pell Grant

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by Pell Grant recipient status. This demonstrates that Pell Grant recipients are much more likely to borrow in excess of institutional charges. Since a much greater percentage of students at for-profit colleges receive the Pell Grant, this difference contributes to the difference in the percentages of students borrowing beyond institutional charges. But since the percentages for Pell Grant recipients are less than the percentages for students at for-profit colleges, this indicates that while Pell Grant recipient status may contribute to borrowing in excess of institutional charges, it does not completely explain the differences between for-profit and traditional colleges.

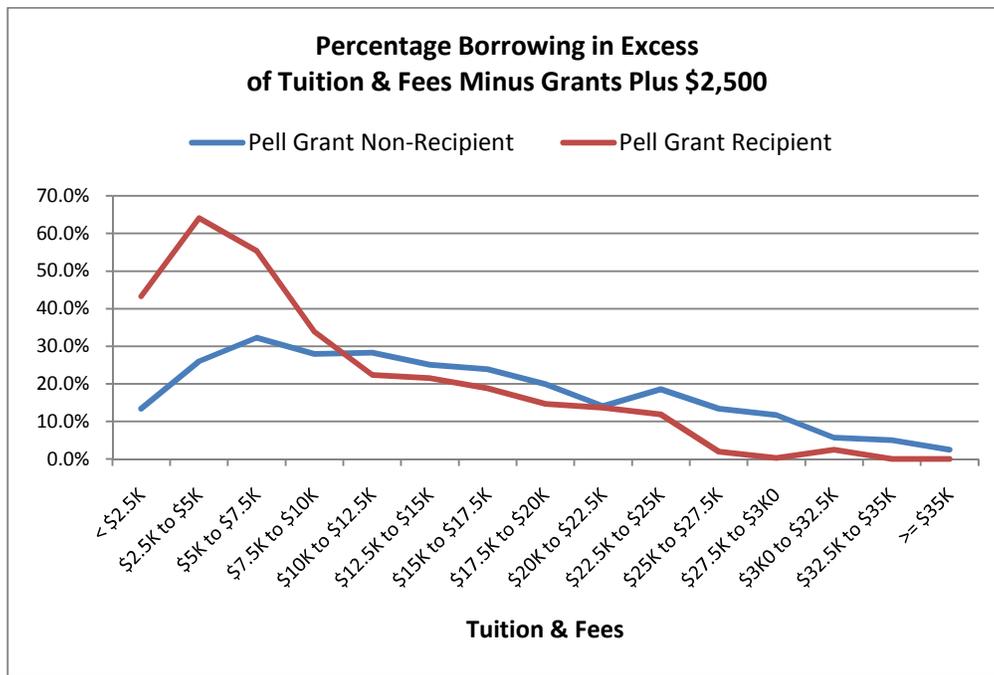
College Type	% Receiving Pell Grants
<b>Public</b>	23.0%
<b>Non-Profit</b>	26.3%
<b>For-Profit</b>	63.1%

Pell Grant Recipient Status	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>No Pell Grant</b>	14.9%	18.1%
<b>Some Pell Grant</b>	26.9%	43.6%

The following graph shows how the percentage of students borrowing in excess of institutional charges changes differently for Pell Grant recipients and non-recipients as the tuition and fees increases. Notice how the percentages start off higher for Pell Grant recipients, but drop off rapidly until reaching the rate for Pell Grant non-recipients at \$10,000 to \$12,500 in Tuition & Fees.



The next graph is similar, for Tuition & Fees minus Total Grants. It also shows that the percentage borrowing in excess of institutional charges starts off much higher for Pell Grant recipients and then drops off rapidly until it reaches the rate for Pell Grant non-recipients at \$10,000 to \$12,500 in Tuition & Fees.



The differences in borrowing in excess of Tuition & Fees for Pell Grant recipients and non-recipients are limited to colleges with institutional charges of \$10,000 or less. This suggests that some of the borrowing beyond institutional charges might be due to perpetual students, since perpetual students tend to target lower-cost colleges in order to maximize the amount of the refund check. (Perpetual students, sometimes called Pell Runners, are students who rely on student aid as a form of welfare instead of as a means to a college degree.) Based on the differences in borrowing patterns between Pell Grant recipients and non-recipients, at most 11.3% of Pell Grant recipients are potentially perpetual students.<sup>12</sup>

However, the spread between the two graphs is unlikely to be entirely due to abusive practices. The typical Pell Grant non-recipient is considerably wealthier than the typical Pell Grant recipient, and as such is less likely to need to borrow for educational costs. Pell Grant recipients have an average adjusted gross income of \$20,302, compared with \$69,235 for non-recipients. Independent students may also seek low-cost colleges to maximize the amount of financial aid for living expenses for their families without being perpetual students. The difference depends on whether or not the student intends to obtain a college degree. Nevertheless, the spread between the two graphs does set a ceiling on the percentage of Pell Grant recipients who are perpetual students.

A better way of determining the percentage of Pell Grant recipients who are perpetual students is to compare educational attainment with the number of years of Pell Grants received. Among students enrolled at less-than-4-year institutions, 25.6% have received four, five or six years of Pell Grants without graduating. Spending four or more years in a 2-year degree program without receiving a degree is inconsistent with the 150% maximum timeframe requirement. Among students enrolled at 4-year institutions, 15.1% have received six years of Pell Grants without attaining a degree. While the 25.6% and 15.1% percentages may seem high, together they account for only 3.6% of Pell Grant recipients.<sup>13</sup>

### Private Student Loans

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student borrowed private student loans or not. The differences are of sufficient magnitude so as to potentially account for the differences in the percentages of students borrowing in excess of institutional charges.

<b>Borrowed Private Loans</b>	<b>Total Loans &gt;</b>	
	<b>Tuition &amp; Fees + \$2,500</b>	<b>Tuition &amp; Fees – Grants + \$2,500</b>
<b>Did Not Borrow Private Loans</b>	<b>11.6%</b>	<b>17.0%</b>
Public	10.9%	14.7%
Non-Profit	10.4%	22.8%
For-Profit	21.9%	35.2%
<b>Private Loan Borrower</b>	<b>58.8%</b>	<b>74.1%</b>
Public	75.5%	81.6%
Non-Profit	35.5%	72.0%
For-Profit	52.2%	64.0%

<sup>12</sup> The percentage is 10.2% for colleges with institutional charges of up to \$5,000, 7.6% for colleges with institutional charges of up to \$2,500.

<sup>13</sup> This data is based on an analysis of the 2009 Beginning Postsecondary Students longitudinal study (BPS:2009), which tracks outcomes for 16,700 students who first enrolled in college in 2003-04.

Parent PLUS loans demonstrate similar differences, as illustrated by the following table which shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student received a Parent PLUS loan.

Parent PLUS Loans	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Did Not Receive PLUS Loans</b>	<b>16.3%</b>	<b>22.9%</b>
Public	14.5%	18.5%
Non-Profit	14.6%	30.9%
For-Profit	34.2%	47.2%
<b>Received PLUS Loan</b>	<b>65.8%</b>	<b>82.6%</b>
Public	88.7%	93.6%
Non-Profit	36.7%	80.0%
For-Profit	47.1%	55.6%

However, since there are similar differences in the percentages borrowing beyond institutional charges for all types of colleges, whether the differences in borrowing beyond institutional charges according to type of loan account for the differences in borrowing beyond institutional charges according to type of college depends on the distribution of each type of loan according to type of college. The next table shows the percentages of students borrowing private student loans or Parent PLUS loans according to type of college. Clearly, students at for-profit colleges are much more likely to borrow private student loans than students at non-profit or public colleges. This accounts for all of the difference in excess borrowing between for-profit and non-profit colleges, but only about a third of the difference in excess borrowing between for-profit colleges and public colleges. The differences in the percentage of students receiving Parent PLUS loans are not as significant in part because very few students receive Parent PLUS loans.

College Type	Percentage Borrowing Private Student Loans	Percentage Borrowing Parent PLUS Loans
Public	8.7%	2.7%
Non-Profit	24.3%	8.5%
For-Profit	42.5%	5.2%
Overall	14.2%	3.8%

Note that only dependent students are eligible to receive Parent PLUS loans. Since fewer students at for-profit colleges are dependent, the percentage of students receiving Parent PLUS loans represents a much greater share of the students who are eligible to receive Parent PLUS loans, as demonstrated by the following table. Still, very few students receive Parent PLUS loans, so the Parent PLUS loan does not have a significant impact on the percentage of students borrowing in excess of institutional charges.

College Type	Percentage Borrowing Parent PLUS Loans	Percentage Eligible for Parent PLUS Loan (Dependent Students)	Normalized Percentage Borrowing Parent PLUS Loans
Public	2.7%	54.2%	5.0%
Non-Profit	8.5%	65.6%	13.0%
For-Profit	5.2%	23.9%	21.8%
Overall	3.8%	53.0%	7.1%

Note also that the percentage of students borrowing in excess of institutional charges is significantly higher at for-profit colleges even among students who don't borrow private student loans or receive Parent PLUS loans. So even though borrowing private student loans has a significant impact on excess borrowing, it is not the entire reason why more students at for-profit colleges tend to borrow in excess of institutional charges.

While it may seem obvious that students who borrow private student loans or receive Parent PLUS loans are more likely to borrow in excess of institutional charges, it is unclear which is the cause and which is the effect, assuming that there is a causal relationship. One might argue that students who need to borrow for living expenses end up borrowing from private student loans or the Parent PLUS loan program because they exhaust the federal Stafford loan limits and available grant funding. For example, independent students have annual unsubsidized Stafford loan limits that are only \$4,000 or \$5,000 higher than the limits for dependent students. Since they are ineligible for the Parent PLUS loan, they must borrow from private student loan programs if they need to borrow beyond the federal loan limits. On the other hand, the much higher loan limits on private student loans and Parent PLUS loans might cause families to borrow more than they need, especially if they treat the loan limits as targets. Because for-profit and non-profit colleges have higher costs, their students are more likely to borrow from private student loan programs to meet those costs, and then they are faced with the temptation to borrow more than they need for institutional charges. Students at for-profit colleges are also encouraged to borrow from private student loan programs in order to help the colleges satisfy the requirements of the 90/10 rule, which requires at least 10% of the college's revenue to come from non-federal sources. But once the students are exposed to private student loans, the college may lose control over the amounts borrowed by the students beyond institutional charges, especially if the loans are not school-certified.

Note that the 2007-08 NPSAS was conducted before passage of the Ensuring Continued Access to Student Loans Act of 2008, which increased unsubsidized Stafford loan limits, and before implementation of the new Truth in Lending Act requirements for private student loans. Both changes had an impact on private student loan borrowing and accordingly may have reduced the percentage of students borrowing in excess of institutional charges.

### Cumulative Debt

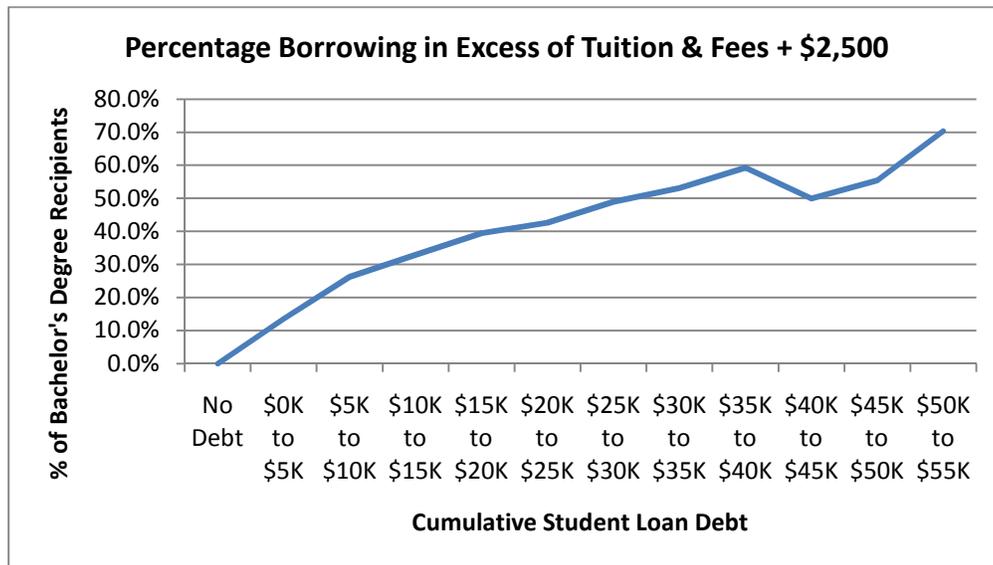
The following tables show how the percentage of students borrowing in excess of institutional charges varies according to cumulative debt (not including cumulative Parent PLUS loan debt). The first table shows the relationship between cumulative debt for all students and the percentage of students borrowing beyond institutional charges.

Cumulative Debt (All Students)	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
< \$12,500	26.8%	39.0%
\$12,500 to \$25,000	46.8%	62.1%
\$25,000 to \$37,500	52.9%	68.8%
\$37,500 to \$50,000	54.0%	69.8%
≥ \$50,000	48.4%	66.2%

The second table shows the relationship between excessive debt (arbitrarily set at about the 90<sup>th</sup> percentile) for college graduates and the percentage of students borrowing beyond institutional charges.

Cumulative Debt (College Graduates)	Total Loans > Tuition & Fees + \$2,500	Total Loans > Tuition & Fees – Grants + \$2,500
<b>Bachelor’s Degree Recipients</b>		
< \$45,000	37.9%	54.7%
≥ \$45,000	48.0%	74.1%
<b>Associate’s Degree Recipients</b>		
< \$25,000	29.9%	36.7%
≥ \$25,000	52.2%	60.1%

Although it may be obvious that students with excessive cumulative debt are more likely to have borrowed beyond institutional charges, the detailed relationship between the amount of cumulative debt and the percentage of borrowers with debt beyond institutional charges is interesting. The following chart shows that the percentage of Bachelor’s degree recipients borrowing beyond institutional charges increases monotonically with increasing cumulative debt through about \$40,000 in cumulative debt, then the percentage decreases by about 10% at \$45,000 in debt before increasing again. It is unclear why there is a dip in the graph at this point, but it may be due to counseling that identifies \$45,000 in cumulative debt as excessive.



**FACTORS THAT DO NOT AFFECT EXCESS BORROWING**

The following analysis demonstrates that differences in dependency status, risk index, gender, race, family size, single parent status, income, receipt of Federal Work-Study funding, receipt of private scholarships and institutional selectivity do not contribute significantly to differences in the percentages of students borrowing beyond institutional charges.

## Dependency Status

The following table shows how the percentage of students borrowing in excess of institutional charges varies according to dependency status.

Dependency Status	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Dependent</b>	<b>17.0%</b>	<b>25.7%</b>
<b>Independent</b>	<b>19.5%</b>	<b>24.6%</b>
No Dependents, Unmarried	21.6%	26.5%
No Dependents, Married	16.3%	19.4%
With Dependents, Unmarried	20.2%	27.1%
With Dependents, Married	17.6%	21.9%

As this table demonstrates, the differences between dependent and independent students are not of sufficient magnitude to account for the differences between for-profit and traditional colleges even with the significantly greater percentage of undergraduate students who are independent at for-profit colleges.

In fact, the percentages of dependent students borrowing in excess of institutional charges at for-profit colleges are 33.6% (Tuition & Fees) and 41.9% (Tuition & Fees minus Total Grants) and the percentages for independent students are 35.2% and 49.2%, respectively. Thus there is not much of a difference in borrowing in excess of institutional charges by dependency status at for-profit colleges. The magnitude of the differences is also much lower than the differences between for-profit and traditional colleges. This suggests that dependency status is not the cause of the differences in the percentages of students borrowing beyond institutional charges at for-profit and traditional colleges.

## Risk Index

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by risk index. Risk index was previously shown to have a significant impact on differences in default rates between for-profit and traditional colleges.<sup>14</sup> But this table demonstrates that the percentage of students borrowing in excess of institutional charges does not vary significantly according to risk, and the lowest-risk students are more likely to borrow in excess of institutional charges.<sup>15</sup>

Risk Index	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>No Risk</b>	18.5%	30.7%
<b>Risk = 1</b>	18.8%	24.5%
<b>Risk = 2</b>	18.8%	22.9%
<b>Risk = 3</b>	18.7%	23.4%
<b>Risk = 4</b>	17.4%	22.1%
<b>Risk = 5+</b>	16.5%	20.7%

<sup>14</sup> Mark Kantrowitz, *Calculating the Contribution of Demographic Differences to Default Rates*, April 5, 2010. [www.finaid.org/educators/20100507demographicdifferences.pdf](http://www.finaid.org/educators/20100507demographicdifferences.pdf)

<sup>15</sup> That may be due to the correlation of risk index with college cost, since low-risk students are more likely to enroll at higher-cost non-profit colleges. The average Tuition & Fees paid by no risk students is \$10,675, compared with \$5,154 for risk index 1, \$3,731 for risk index 2, \$3,453 for risk index 3, \$3,217 for risk index 4, and \$2,641 for risk index 5+.

## Gender

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by gender. While somewhat more female students borrow beyond institutional charges, it is not enough of a difference to account for the differences between for-profit and traditional colleges.

Gender	Total Loans >	Total Loans >
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Male</b>	16.4%	22.4%
<b>Female</b>	19.5%	27.1%

## Race

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by race. The percentages for Caucasian and minority students are nearly identical. Asian students are below average and Black or African-American students are above average, but these differences are not sufficient to account for much of the differences between for-profit and traditional colleges. As the second table demonstrates, for-profit colleges have three-quarters the proportion of Caucasian students as traditional colleges and twice the proportion of Black or African-American students, but the combined impact of this shift in enrollment patterns accounts for only about 1.1% in the excess borrowing at for-profit colleges. It is also partially offset by the differences in the proportion of Hispanic or Latino students.

Race	Total Loans >	Total Loans >
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>White</b>	<b>18.3%</b>	<b>24.9%</b>
<b>All Minorities</b>	<b>18.3%</b>	<b>25.3%</b>
Black or African American	24.2%	33.4%
Hispanic or Latino	15.3%	22.0%
Asian	10.4%	15.8%
American Indian or Alaska Native	15.9%	19.4%
Native Hawaiian or Pacific Islander	18.1%	20.6%
Other	19.1%	25.5%
More than One Race	18.0%	26.2%

Distribution of Students by Race	For-Profit Colleges	Non-Profit Colleges	Public Colleges
<b>White</b>	<b>46.5%</b>	<b>66.8%</b>	<b>62.7%</b>
<b>All Minorities</b>	<b>53.5%</b>	<b>33.2%</b>	<b>37.3%</b>
Black or African American	24.7%	11.7%	13.1%
Hispanic or Latino	21.0%	12.1%	13.7%
Asian	3.3%	5.6%	6.3%
American Indian or Alaska Native	1.0%	0.5%	0.9%
Native Hawaiian or Pacific Islander	0.7%	0.7%	0.7%
Other	0.3%	0.3%	0.3%
More than One Race	2.6%	2.2%	2.4%

### Family Size

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by family size. The differences are not significant enough to account for the differences between for-profit and traditional colleges.

Family Size	Total Loans >	Total Loans >
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>1</b>	21.6%	26.5%
<b>2</b>	16.7%	23.4%
<b>3</b>	18.4%	25.8%
<b>4</b>	17.8%	25.1%
<b>5+</b>	17.2%	24.9%

### Single Parent

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student is a single parent or not. While the percentages are higher for single parents, the difference is not significant enough to account for the differences between for-profit and traditional colleges.

Student is Single Parent	Total Loans >	Total Loans >
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Not a Single Parent</b>	17.8%	24.8%
<b>Single Parent</b>	20.2%	27.1%

### Income

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by income. While the percentages decrease with increasing income, the variation does not represent enough of a difference to account for much of the differences between for-profit and traditional colleges, even though for-profit colleges have a much lower income mix of students.

AGI	Total Loans >	Total Loans >
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>&lt; \$25,000</b>	19.6%	28.8%
<b>\$25,000 to \$50,000</b>	18.6%	26.1%
<b>\$50,000 to \$75,000</b>	18.3%	23.9%
<b>\$75,000 to \$100,000</b>	17.5%	22.7%
<b>\$100,000 to \$125,000</b>	16.0%	19.9%
<b>\$125,000 to \$150,000</b>	14.5%	18.6%
<b>\$150,000 to \$175,000</b>	14.1%	16.8%
<b>\$175,000 to \$200,000</b>	11.3%	14.9%
<b>≥ \$200,000</b>	11.4%	14.3%

Distribution of Students by Adjusted Gross Income	Public Colleges	Non-Profit Colleges	For-Profit Colleges
< \$25,000	33.4%	24.9%	58.0%
\$25,000 to \$50,000	22.8%	19.1%	24.3%
\$50,000 to \$75,000	17.0%	15.7%	9.3%
\$75,000 to \$100,000	11.9%	14.0%	5.1%
\$100,000 to \$125,000	7.3%	10.8%	1.8%
\$125,000 to \$150,000	3.3%	6.0%	0.5%
\$150,000 to \$175,000	1.8%	3.7%	0.4%
\$175,000 to \$200,000	0.9%	2.3%	0.2%
≥ \$200,000	1.4%	3.5%	0.3%
< \$50,000	56.2%	43.9%	82.3%
< \$100,000	85.2%	73.6%	96.8%

### Receipt of Federal Work-Study

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student received Federal Work-Study funding or not. The percentages are similar for borrowing in excess of Tuition & Fees but significantly different for borrowing in excess of Tuition & Fees minus Total Grants. As such the receipt of Federal Work-Study funding does not address all of the differences between for-profit and traditional colleges. The most likely explanation is that receipt of Federal Work-Study funding selects for grant recipients. While only 9.6% of Pell Grant recipients received Federal Work-Study funding, 46.3% of Federal Work-Study funding recipients received Pell Grants.

Student Employment	Total Loans > Tuition & Fees + \$2,500	Total Loans > Tuition & Fees – Grants + \$2,500
<b>Federal Work-Study Non-Recipient</b>	18.1%	23.9%
<b>Federal Work-Study Recipient</b>	19.8%	45.8%

### Receipt of Private Scholarships

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student received a private scholarship. The percentages are similar for borrowing in excess of Tuition & Fees but significantly different for borrowing in excess of Tuition & Fees minus Total Grants. As such the receipt of private scholarships does not address all of the differences between for-profit and traditional colleges. It is interesting that receipt of a private scholarship does not seem to affect the percentage of students borrowing in excess of Tuition & Fees. Perhaps the students are borrowing to the limit regardless of the availability of other funding, or perhaps the private scholarships enable the students to enroll at more expensive colleges. (If colleges are displacing the private scholarships through reductions in their own grant aid, the displacement would explain the similarity of the percentages for borrowing in excess of Tuition & Fees, but not necessarily the greater percentage borrowing in excess of Tuition & Fees minus Total Grants.)

Scholarship Recipient	Total Loans > Tuition & Fees + \$2,500	Total Loans > Tuition & Fees – Grants + \$2,500
<b>Did Not Receive Scholarships</b>	18.3%	24.4%
<b>Received Scholarships</b>	17.9%	37.2%

### Receipt of Federal Benefits

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by whether the student's family received any federal benefits such as food stamps, free or reduced price school lunch, SSI, TANF or WIC. The percentages are similar, indicating that receipt of federal benefits does not affect borrowing in excess of institutional charges.

Received Federal Benefit	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>No</b>	18.1%	24.7%
<b>Yes</b>	18.4%	27.1%

### Selectivity

The following table shows the percentage of students borrowing in excess of institutional charges disaggregated by institutional selectivity. More selective colleges are more likely to have wealthier students. The next table shows average adjusted gross income according to selectivity and type of college.

Selectivity	Total Loans >	
	Tuition & Fees + \$2,500	Tuition & Fees – Grants + \$2,500
<b>Very Selective</b>	17.5%	29.4%
<b>Moderately Selective</b>	26.0%	38.4%
<b>Minimally Selective</b>	28.1%	39.5%
<b>Open Admission</b>	21.1%	28.3%
<b>Not a 4-Year College</b>	13.6%	16.4%

Selectivity	Average AGI
<b>Very Selective</b>	\$86,351
<b>Moderately Selective</b>	\$68,477
<b>Minimally Selective</b>	\$57,971
<b>Open Admission</b>	\$48,468
<b>Not a 4-Year College</b>	\$44,906
<b>Non-Profit Colleges</b>	<b>\$74,237</b>
4-Year	\$75,370
2-Year	\$41,844
< 2-Year	\$29,081
<b>Public Colleges</b>	<b>\$55,902</b>
4-Year	\$66,681
2-Year	\$48,122
< 2-Year	\$35,459
<b>For-Profit Colleges</b>	<b>\$30,831</b>
4-Year	\$33,805
2-Year	\$27,215
< 2-Year	\$28,449