

# CREDIT STANDARDS IN THE PLUS LOAN PROGRAM: EXAMINING ACCESS AND EQUITY

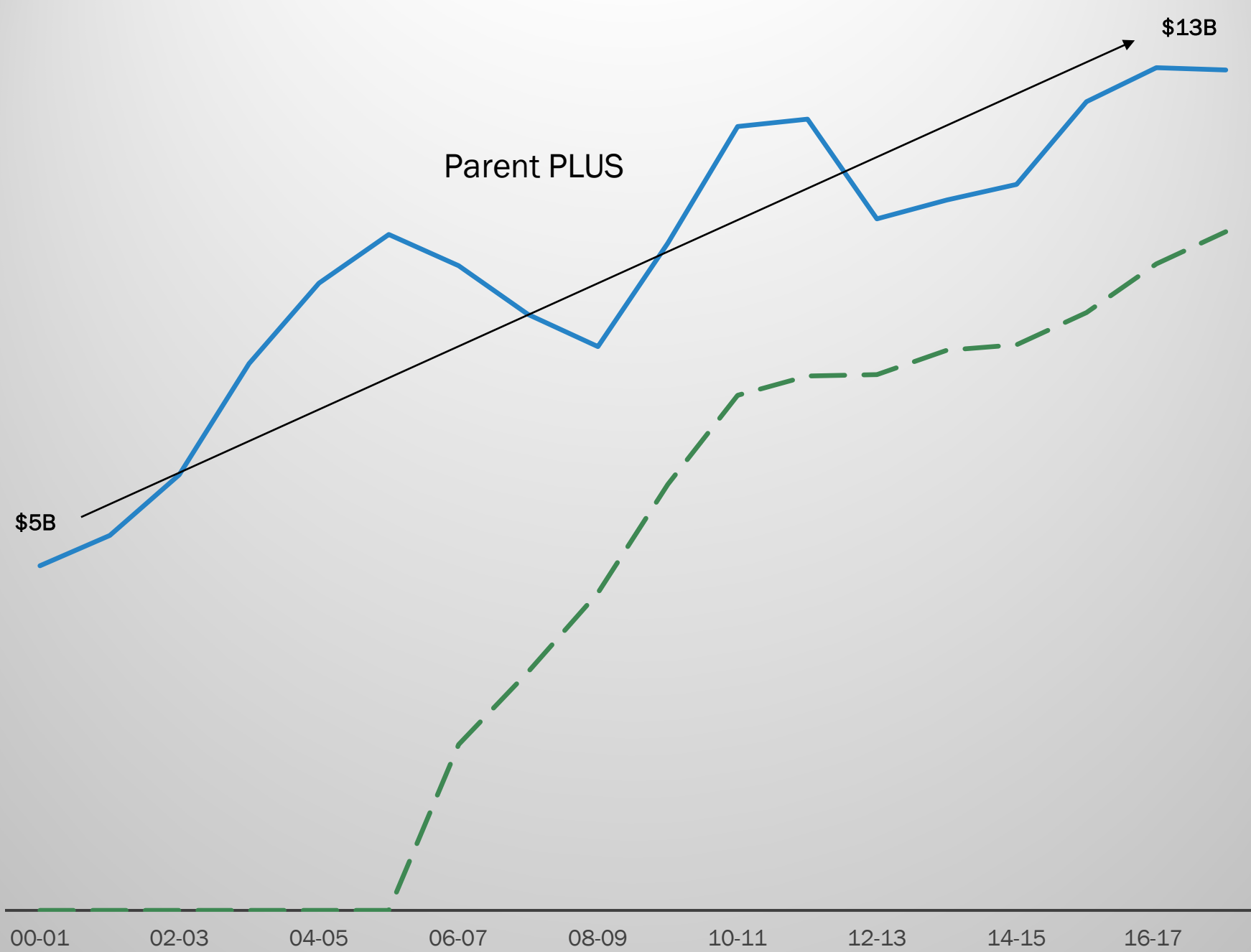
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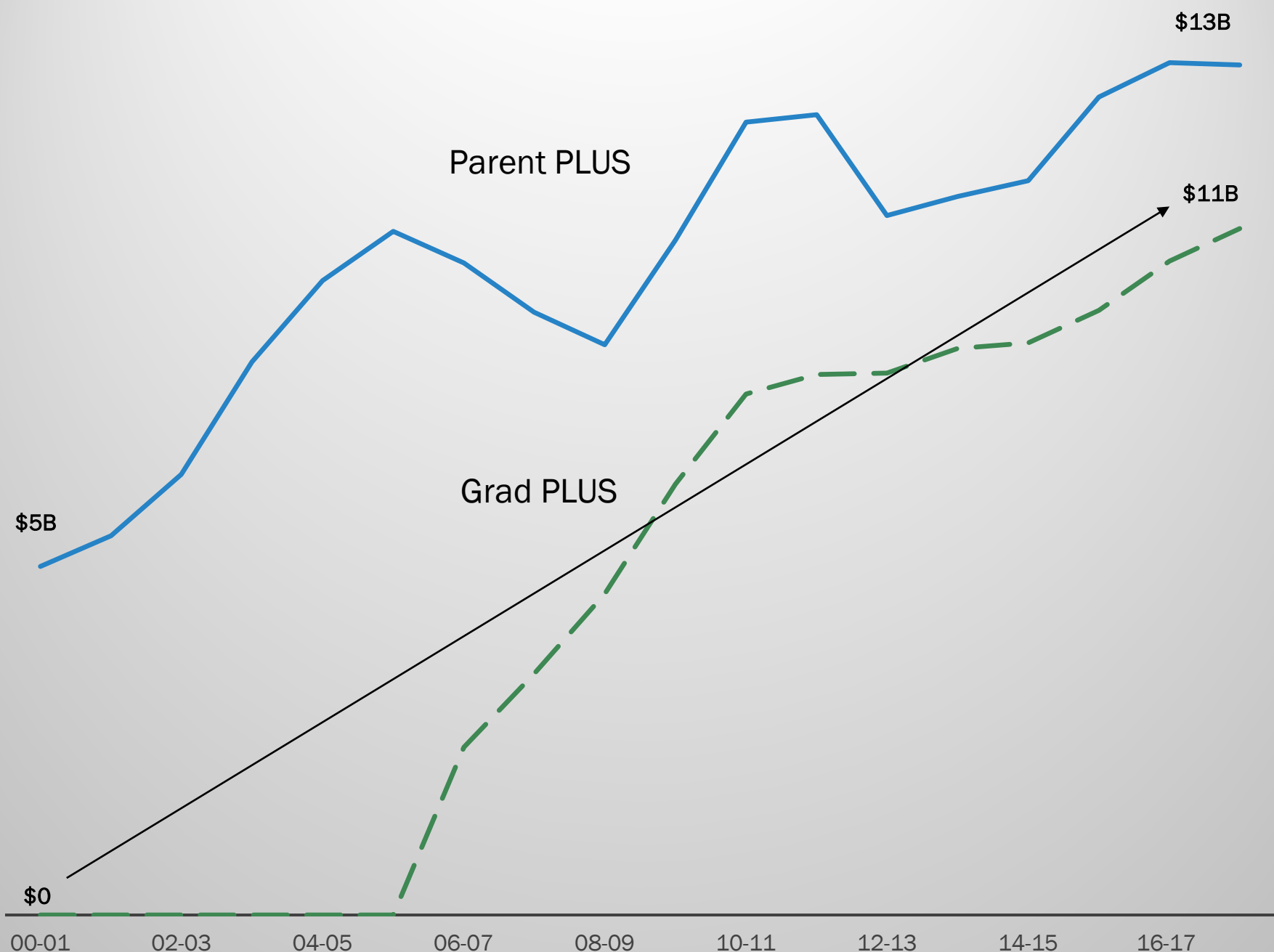
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September 8, 2020

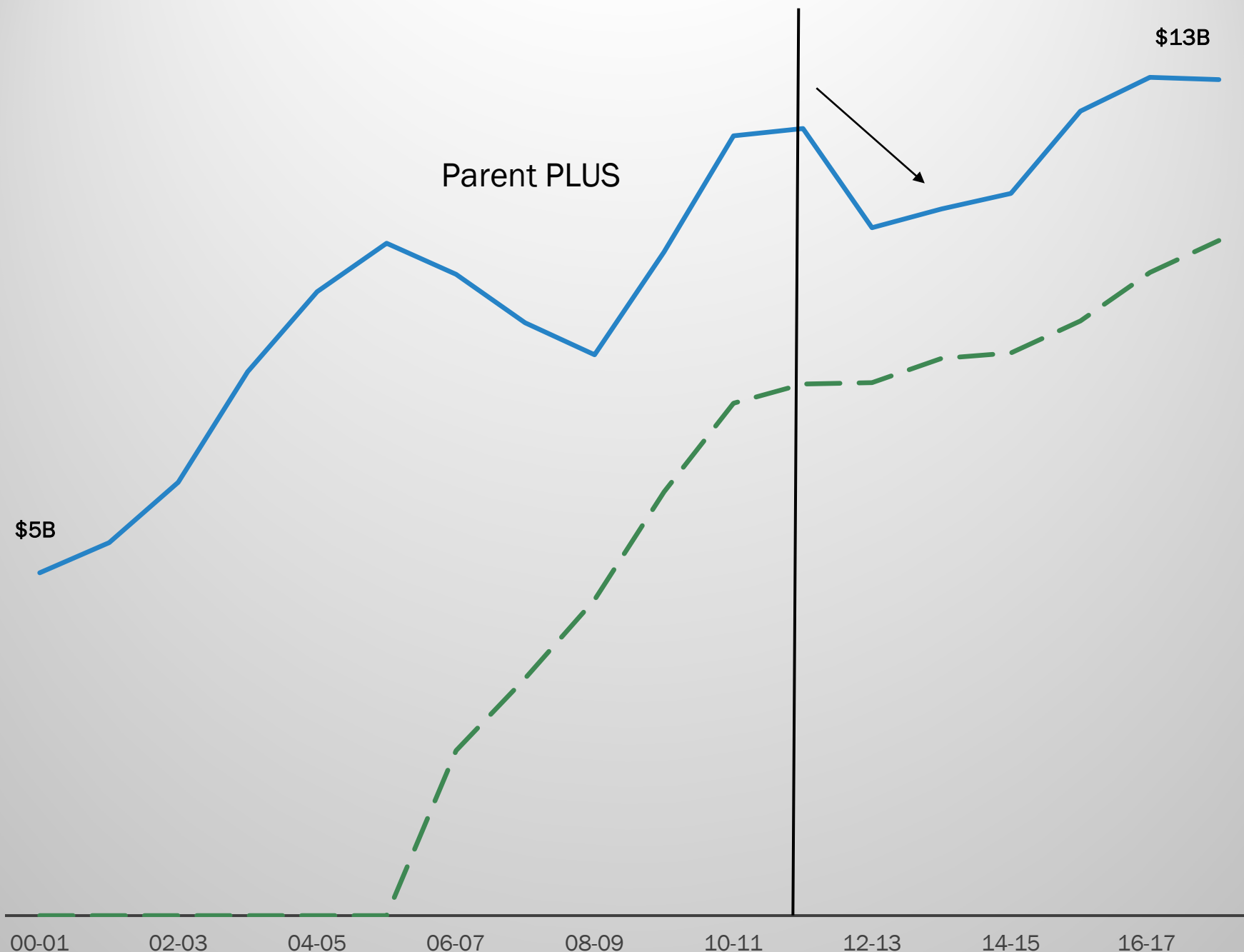
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- Growth in PLUS loan program \$
  - Now ~25% of federal student loan disbursements annually

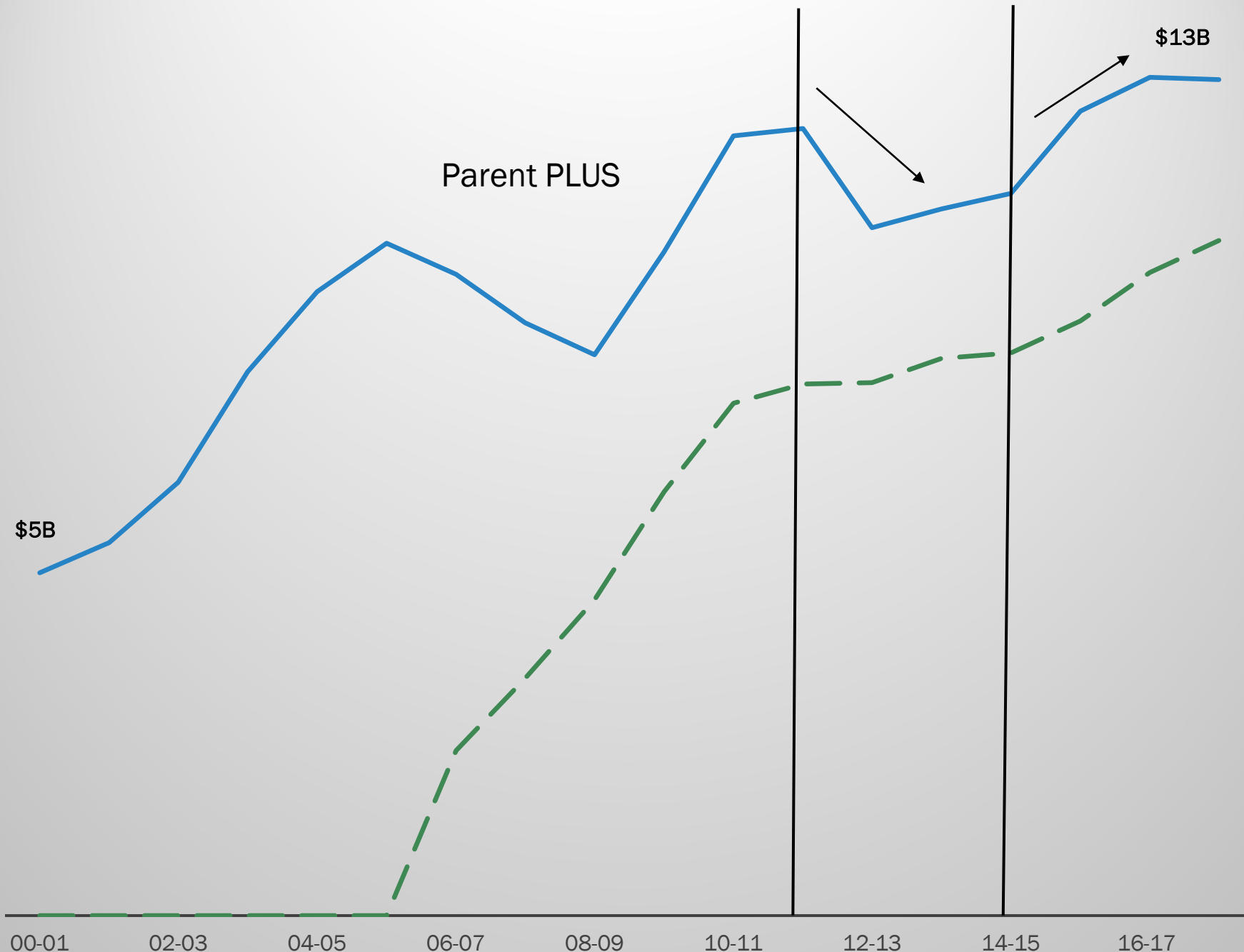


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  - Denial rates ↑
  - Evidence of disproportionate impact on the enrollment of Black students and students who attend HBCUs

Data source: Trends in Student Aid 2019

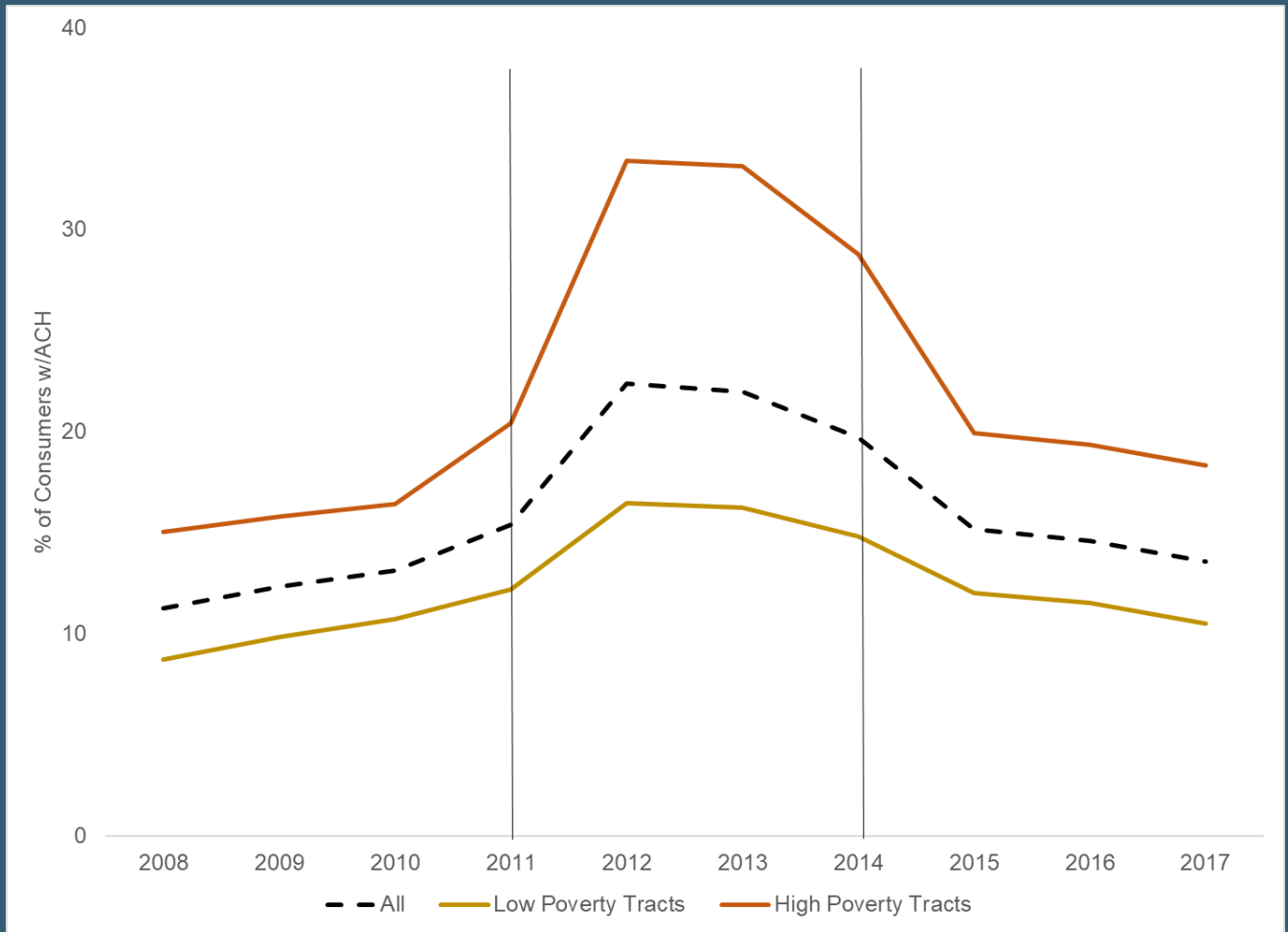


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  - Now ~25% of federal student loan disbursements annually
- 2011: stricter ACH standards
  - Denial rates ↑
  - Evidence of disproportionate effect on the enrollment of Black students and students who attend HBCUs
- 2014: eased ACH standards
- Trends reflect changes in ACH standards, economic conditions, & enrollment trends
- Tension between access & equity

# FEDERAL PLUS LOANS ARE UNIQUE

- Our focus today is on parent PLUS loans for parents of undergraduate students
  - PLUS loans also available to graduate and professional students
- Need to pass a credit check to qualify
  - “Adverse credit history” standards have changed over time, notably in 2011 and 2014
- No universal annual or cumulative borrowing maximum
- Less attractive terms than other federal loans
  - Higher interest rates
  - Origination fees
  - Not eligible for IBR (parents)
- Parent PLUS loans are particularly unique
  - College is an investment → one of the expected benefits is better labor market outcomes
  - Parent is debtor; Returns largely accrue to the student

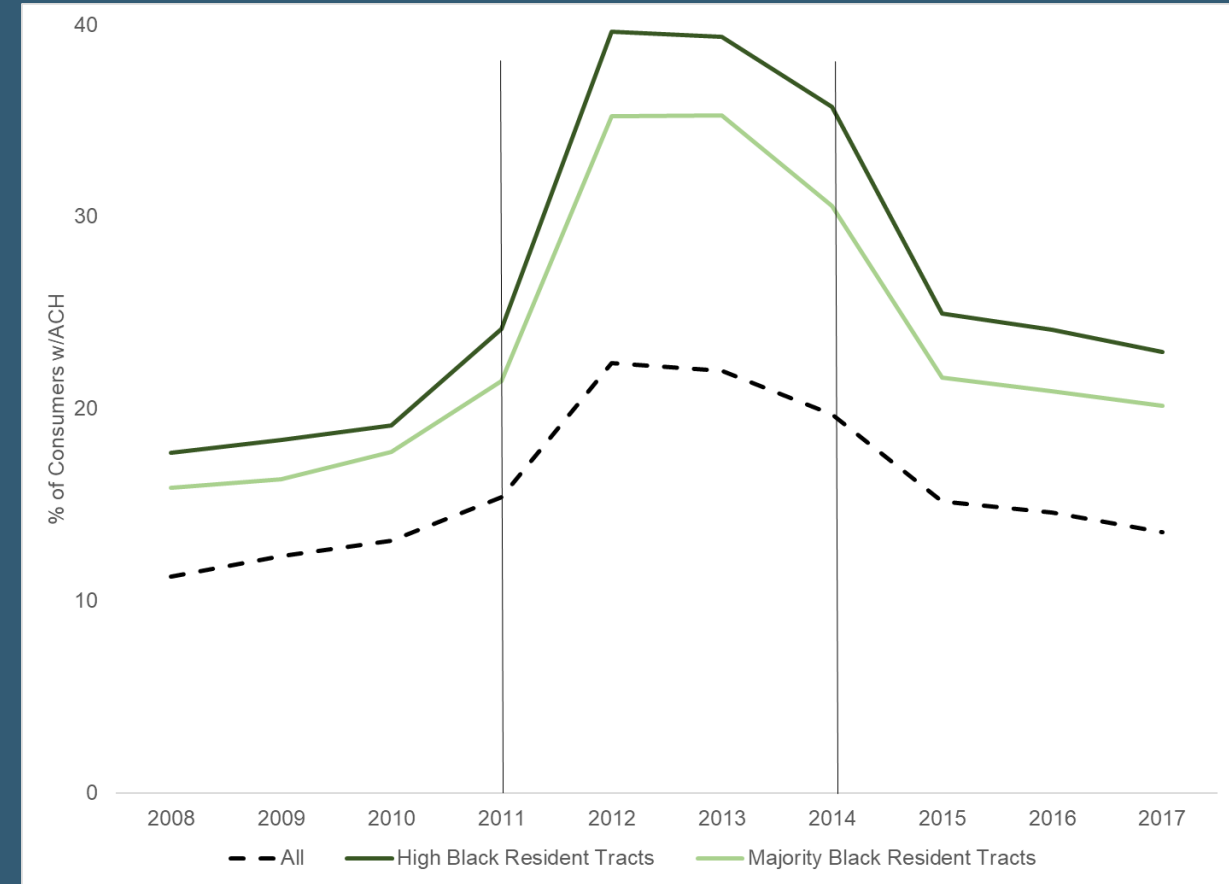
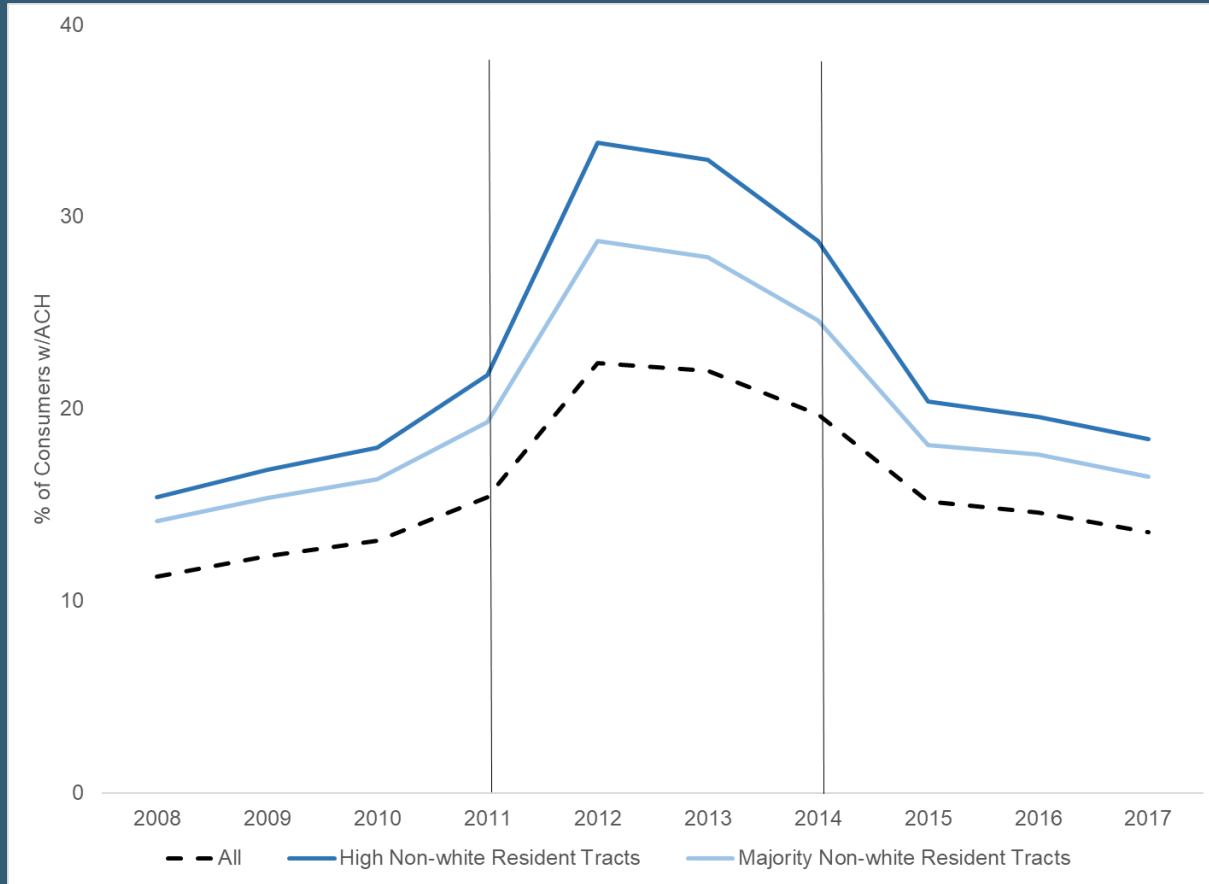
# SHARE OF AGE 45+ CONSUMERS WHO HAVE AN ACH: BY TRACT POVERTY RATES



Note: Sample includes all consumers age of 45 or older in each year. Low poverty tracts are defined as those with poverty rates <5%, while high poverty tracts are defined as those with poverty rates ≥20%. “Majority non-white” Census tracts are those where 50%-75% of residents identify neither as white race nor Hispanic ethnicity; “high non-white” tracts are those where ≥ 75% of residents identify as neither white race nor Hispanic ethnicity. “Majority Black” Census tracts are those where 50%-75% of residents identify as Black race; “high Black” resident tracts are those where ≥ 75% of residents identify as Black race. Source: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.

*Trends reflect both changes in standards and changes in economic conditions over time.*

# SHARE OF AGE 45+ CONSUMERS WHO HAVE AN ACH: BY TRACT RACIAL/ETHNIC COMPOSITION



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# BALANCING ACROSS COMPETING GOALS

## 1. Access to credit

- Access to student loans can be beneficial for some students

## 2. Default prevention

- Protect public investment
- PLUS loan take up higher in for-profit sector that has higher default rates

## 3. Borrowing more than can reasonably repay

- Parents do not directly accrue benefits from the investment

# HYPOTHETICAL SCENARIOS

- We consider potential ACH standard failure across hypothetical ACH standards & loan caps
  - We do not predict default: complicated relationships among college going, PLUS loan borrowing, and debt repayment
- With stricter PLUS credit standards:
  - Fewer consumers living in areas with high poverty, high shares of non-white residents, and high shares of Black residents were likely to have access
  - Credit scores improve (imperfect measures of credit quality)
- With loan caps:
  - PLUS loan amounts appear relatively more evenly distributed across communities
  - Risks restricting access to funds that some families may need in order to attend/succeed in college

# POLICY IMPLICATIONS

- PLUS program
  - ACH standards / Caps to borrowing affect both access to credit and measures of credit quality
  - Program- and product-specific underwriting
  - Exhaust other student loan programs with more attractive terms before turning to PLUS loans
- Federal student lending programs
  - Re-route credit access from parents to students, who are the beneficiary of the education
  - Ease discharge in bankruptcy
- Accountability
  - Guard against bad outcomes at schools where students don't typically have good outcomes
- Expand access to funds
  - Invest in grant program expansions

# THANK YOU

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# APPENDIX

# ADVERSE CREDIT HISTORY STANDARDS

| Criterion  | Pre-2010                        |              | 2010-11 | 2011-14                         | 2014-present  |
|--|---------------------------------|--------------|---------|---------------------------------|---|
|  | FFEL                            | Direct Loans | All     | All                             | All   |
| Delinquency: Currently 90+ Days Past Due             | Yes                             | Yes          | Yes     | Yes                             | Current Delinquency or Collections/Charge Offs within 2 years; combined balance > \$2,084 |
| Collections  | Yes, within 5 years, any amount | No           | No      | Yes, within 5 years, any amount |   |
| Charge Offs  | Yes, within 5 years, any amount | No           | No      | Yes, within 5 years, any amount |   |
| Bankruptcy Ch 7, 11, 12 in past 5 years              | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Repossession in past 5 years                         | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Foreclosure in past 5 years                          | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Tax Lien in past 5 years                             | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Voluntary Surrender in past 5 years                  | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Deed in Lieu of Foreclosure in past 5 years          | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Wage Garnishment in past 5 years                     | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Claim Paid Defaulted Loan in past 5 years            | Yes                             | Yes          | Yes     | Yes                             | Yes   |
| Lease/Contract Terminated by Default in past 5 years | Yes                             | Yes          | Yes     | Yes                             | Yes   |