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

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Accountability in higher education: Using evidence to inform regulatory policy
Brookings Institution
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• Growth in PLUS loan program $13B
  • Now ~25% of federal student loan disbursements annually

Data source: Trends in Student Aid 2019
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Growth in PLUS loan program $ now ~25% of federal student loan disbursements annually

2011: stricter ACH standards
- Denial rates ↑
- Evidence of disproportionate impact on the enrollment of Black students and students who attend HBCUs

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Growth in PLUS loan program $ 
- 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

Data source: Trends in Student Aid 2019
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

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.
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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# Adverse Credit History Standards

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Pre-2010</th>
<th>2010-11</th>
<th>2011-14</th>
<th>2014-present</th>
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<tr>
<td></td>
<td>FFEL</td>
<td>Direct Loans</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Delinquency: Currently 90+ Days Past Due</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Collections</td>
<td>Yes, within 5 years, any amount</td>
<td>No</td>
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<td>Yes, within 5 years, any amount</td>
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<td>Charge Offs</td>
<td>Yes, within 5 years, any amount</td>
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<td>Bankruptcy Ch 7, 11, 12 in past 5 years</td>
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<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Repossession in past 5 years</td>
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<td>Yes</td>
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<td>Foreclosure in past 5 years</td>
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<td>Yes</td>
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<td>Tax Lien in past 5 years</td>
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<td>Deed In Lieu of Foreclosure in past 5 years</td>
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<td>Wage Garnishment in past 5 years</td>
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<td>Claim Paid Defaulted Loan in past 5 years</td>
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<td>Lease/Contract Terminated by Default in past 5 years</td>
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<td>Yes</td>
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