the institute for college access & success

CELEBRATING 10 YEARS

STATES OF DENIAL

WHERE COMMUNITY COLLEGE STUDENTS LACK ACCESS TO FEDERAL STUDENT LOANS

JUNE 2016

EXECUTIVE SUMMARY

Every year, millions of college students borrow money to help bridge the gap between college costs and available income, savings, and grants. Experts 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 borrowing federal loans when needed.*

Without access to federal student loans, students who cannot afford the cost of college after available grants and scholarships are left between a rock and a hard place. They might borrow private education loans or rely on credit cards, both of 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.[1]

2015-16 National Findings

- Nearly *one million* community college students in 32 states – 9.0 percent of community college students nationally – are enrolled in schools that block all of their students' access to federal student loans.
- In 11 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 varies considerably by race and ethnicity. *Native-American, African-American, and Latino community college students are the most likely to lack access.*
- Community college students who attend schools in non-urban areas are more than twice as likely to lack access as their peers who attended schools in urban areas.

This is The Institute for College Access & Success' fifth assessment of federal student loan participation at community colleges across the country. We identified 15 colleges that have left the loan program since 2013-14, eight of which are in North Carolina. Seven colleges have joined the loan program, five of which are in Louisiana.[2]

In addition to national averages and state-by-state data for 2015-16, this issue brief takes a deeper look at activity in California, North Carolina, and Louisiana.

2015-16 State Findings

- **California**: While California remains the state with the greatest number of community college students (more than 260,000) enrolled at non-participating schools, several have lowered their cohort default rates and no additional colleges have left the loan program since 2013.
- **North Carolina**: In recent years, the number of community colleges participating in the federal loan program has declined rapidly. Once a state that required all community colleges to offer federal loans, in 2015-16 the majority of its community college students (53%) do not have access to federal student loans.
- **Louisiana**: Community college student loan access in Louisiana has substantially improved from 2013-14 when it was the state with the highest share (44.1%) without access to federal student loans. In 2015-16, that share has been nearly halved to 22.9%.

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BACKGROUND

The nearly 1,100 community colleges throughout the United States serve many purposes, from awarding associate degrees and certificates to facilitating transfer to four-year institutions.[3] Community colleges educate almost 40 percent of all undergraduate students in the nation, including one-quarter of all undergraduates who attend full time.[4] 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 very low-income and underrepresented minority students than any other type of college.[5]

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. In total, the average full cost of attendance at community colleges was $15,000 in 2011-12.[6]

Federal, state, and institutional financial aid can help cover these expenses, but students at community colleges are the least likely to get grant aid compared to their peers at other types of colleges.[7] The vast majority (82%) of full-time community college students needs financial aid to cover college costs, and hardly any of them – only two percent – have their need fully met with grants.[8] 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.

Recent research on the issue of community college loan program participation suggests that having access to federal student loans has positive impacts on student outcomes, particularly for low-income students. A study of one state's large community college system found that students eligible for federal Pell Grants who had loan access were more likely to enroll full time, as well as to attempt and complete more math and science courses.[9] Another study using a national survey suggested that students with access to loans were more likely to transfer to a four-year college and less likely to work in their third year of college.[10]

Choosing to borrow for college is a serious decision for any student. Colleges can and should help students weigh their options for paying for school – 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. While most community college students may not need to take out loans, borrowing may enable students to work less and focus more on their studies, take additional classes, and afford important college-related expenses like transportation and child care. As the U.S. Department of Education noted in a letter to colleges in 2014:[11]

> *Many students could not afford to attend even low-cost colleges if it were not for the support provided by the Direct Loan Program. Access to federal student financial aid, including low-cost Federal student loans, increases the likelihood that students will have the financial resources to successfully complete the postsecondary education needed to build a better future for themselves, their families, and their communities.*

In a recent survey, several students enrolled in non-participating community colleges articulated what the lack of federal loan access meant for them:[12]

> *"Financial aid has been a great help in keeping me in college. However, it's rather disappointing that my college does not participate in the Stafford loan program, which makes it very limiting for many students. For students like me who are very serious about their education, it would be so much more helpful if I didn't have to choose between going to work and studying for a midterm or final."*

> *"I wish federal student loans were available to us. I am in the nursing program and working 30+ hours by necessity. I am struggling to be successful. Had I known loans were unavailable here, I would have started in another nursing program."*

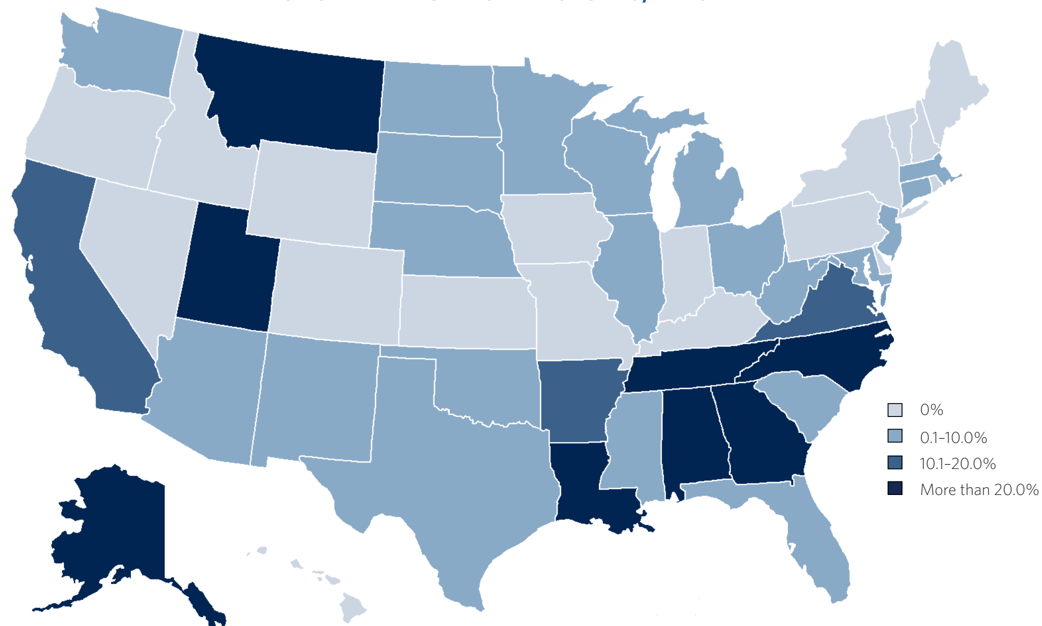
Experts agree that federal student loans should always be the first line of defense for students who need to borrow. This is because federal student loans are safer than other types of borrowing, such as private education loans, credit cards, or payday loans. Federal student loans have fixed interest 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 loans made by banks and other 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. While this policy may be intended to help community college students, it does them a dangerous disservice by intentionally or unintentionally steering them towards riskier and more expensive debt.

2015-16 FINDINGS AND ANALYSIS

Who Lacks Access to Federal Loans?

In 2015-16, there are 32 states in which some community colleges have opted out of the loan program, including eight states in which more than 20 percent of students lack access. Five of these eight states are located in the South. In contrast, the 18 states where all community colleges offer federal student loans are not concentrated in any one region.[13] See map below.

SHARE OF COMMUNITY COLLEGE STUDENTS WITHOUT ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY STATE



Loan Access by Race/Ethnicity

There are substantial differences in federal loan access for students of different racial and ethnic backgrounds.[14] Nationally and across all groups, 9.0 percent of community college students are enrolled in colleges that do not participate in the federal loan program. Of White students in community colleges, 8.3 percent are enrolled in non-participating schools. That share rises to 10.5 percent for Latino students, 12.7 percent for African-American students, and 22.2 percent for Native-American students, the three groups most likely to lack federal loan access. With 4.5 percent attending non-participating colleges, Asian students are the least likely of any racial or ethnic group to lack access to federal student loans.

Within some states the differences in loan access between White and underrepresented minority students are even sharper. For example, in Alabama 33.9 percent of White students attend non-participating community colleges compared to 61.2 percent of their African-American peers, and in Tennessee 41.2 percent of White students lack federal loan access compared to 58.5 percent of African-American students. In Texas, only 2.7 percent of White students lack access compared to 12.9 percent of Latino students. And in Montana, 2.4 percent of White students lack access compared to 86.2 percent of their Native-American peers.[15]

A full table of community college loan access by state and race/ethnicity is on page 14.

Loan Access by Urbanicity

There are also sizeable differences in federal loan access by locale, specifically urban compared to non-urban areas.[16] For purposes of this analysis, we classify all categories of city and suburb as urban areas and all categories of town and rural as non-urban areas. Across the country, community college students in non-urban areas are more than twice as likely as their urban peers to attend schools that do not offer federal loans, where rates of non-participation are 16.9 percent and 6.9 percent, respectively. About one fifth (21.1%) of all community college students attend schools in non-urban areas. There are also acute differences in loan participation by locale within states. For example, in Louisiana, where the statewide non-participation rate is 22.9 percent, students at schools in non-urban areas are more than five times as likely to lack access as their peers in urban areas (52.3% vs. 9.8%). And while Arizona has a relatively low statewide non-participation rate of 5.4 percent, more than a quarter (25.3%) of students at non-urban community colleges lack access compared to none of their peers at urban schools.

A full table of community college loan access by state and urbanicity is on page 16.

TABLE 1: COMMUNITY COLLEGE STUDENTS NATIONALLY WHO LACK ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY RACE/ETHNICITY	SHARE	NUMBER*
All	9.0%	983,000**
White	8.3%	450,000
African American	12.7%	199,000
Latino	10.5%	229,000
Asian	4.5%	28,000
Native American	22.2%	24,000
Other/Unknown***	5.6%	54,000

*Figures are rounded to the nearest 1,000.

** Figures do not add up to total for 'All' due to rounding.

***For purposes of analyzing access to loans by race/ethnicity in this brief we included the following racial/ethnic categories: African American, Asian (includes Hawaiian and other Pacific Islander), Latino, Native American (includes American Indian and Alaska Native), Other/Unknown (includes multiracial and non-resident students, and students for whom race/ethnicity is unknown), and White. See Methodology on page 19.

TABLE 2: FEDERAL STAFFORD AND PRIVATE LOAN TERMS AND BENEFITS FOR 2015-16 COMMUNITY COLLEGE STUDENTS			
	SUBSIDIZED STAFFORD	**UNSUBSIDIZED STAFFORD**	**PRIVATE LOANS**
Eligibility	Available to undergraduate students with financial need; enrolled at least half time; no credit check; college must participate in the federal loan program	Available to undergraduate students regardless of need; enrolled at least half time; no credit check; college must participate in the federal loan program	Enrollment requirements vary; credit check required, and usually a cosigner
Maximum Annual Amount	$3,500 as freshman; $4,500 as 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 freshman (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 4.29% for the 2015-16 school year		Variable or fixed, no maximum; based on credit and market rates; up to 13.74% in 2016
Fees	1.073% if first disbursed on or after October 1, 2014 and before October 1, 2015; 1.068% if first disbursed on or after October 1, 2015 and before October 1, 2016		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-Driven Repayment	Available		Not available
Public Service Loan Forgiveness	Various provisions for teachers, government, and nonprofit workers		None
Other Cancellations	Death or total and permanent disability; closed school		Death and disability at lender's discretion; none if school closes
For more information about federal student aid, please visit the U.S. Department of Education's http://studentaid.ed.gov.			

NOTABLE STATE CHANGES

CALIFORNIA

With its sizeable population and extensive community college system, California continues to be the state with the most community college students without access to federal student loans (more than 260,000, or 12.7% of the state's community college students). However, no California community colleges (CCCs) stopped offering loans in the last two years, a notable change from prior years. Between 2010-11 and 2013-14, seven CCCs stopped offering loans.[17]

Two important factors have helped to stabilize loan access in California since 2013-14. First, at least two CCCs with high cohort default rates (CDRs) appealed and were not sanctioned based on how few of their students borrow. (For more about CDRs and related sanctions see box on page 9; for more on challenges and appeals tied to low borrowing rates see box on page 10.) Second, the California Community Colleges Chancellor's Office (Chancellor's Office) created a statewide Default Prevention Initiative to help its colleges run successful federal loan programs.

Only three percent of community college students in California borrow federal loans, a much lower share than in the rest of the country.[18] Federal law protects colleges with very low borrowing rates from being penalized for CDRs that represent a very small fraction of their students, and the CCCs all have borrowing rates low enough to benefit should their CDRs exceed threshold levels.[19] While this protection has long been in federal law, many colleges have been unaware that it exists, and many that are aware have not felt confident that it would work as intended if needed. This has begun to change in California, as multiple community colleges have successfully used the Participation Rate Index (PRI) appeal in recent years. No longer an abstract concept, several CCCs have now demonstrated the utility of the PRI in helping colleges avoid sanctions and keep offering loans.

Another important change in California was the creation of the Chancellor's Office's statewide Default Prevention Initiative in 2013-14, designed to provide colleges with support and active encouragement to make federal student loans available.[20] As part of the initiative, participating CCCs receive periodic updates on their CDRs as the academic year progresses, as well as trending analyses that project future CDR increases so that they can implement interventions when necessary. The Chancellor's Office has helped colleges develop default prevention plans and taskforces, including encouraging leadership at individual colleges to understand that default prevention is a campus-wide responsibility and that funding default prevention efforts should be a priority. The Chancellor's Office also pushed third-party, default-management servicers to accept more flexible and lower cost contract terms when working with CCCs, using the scale of the college system to the colleges' benefit. For colleges that choose to use a third-party servicer for default prevention, a consultant hired by the Chancellor's Office helps schools identify specific groups of borrowers to target.

Robin Darcangelo, former Associate Dean of Financial Aid at Solano Community College (SCC), believes the Chancellor's Office's Default Prevention Initiative played a crucial role at SCC (for more detail, see *What Colleges Can Do* on page 11).[21] The data analyses she received helped her identify at-risk borrowers, such as those who were not completing their program, and engage with leadership throughout the college to provide students with needed supports, including tutoring. She established a default prevention taskforce that included "every pocket of the college and community," from the president to the faculty to the student body, and encouraged use of financial literacy and budgeting tools to help students stay on track financially.

The results of her efforts have been dramatic. SCC's draft Fiscal Year (FY) 2013 CDR has dropped to 15.4 percent, down from 28.2 percent in FY 2012. Ms. Darcangelo attributes this significant decrease not just to the resources provided by the Chancellor's Office's Initiative, but also to a proactive and student-centered approach to implementing the guidance they received: "We have a responsibility to help students be successful and provide them with the tools they need."

Rhonda Mohr, Dean of Student Financial Aid Programs at the Chancellor's Office, considers it a success that no additional CCCs have pulled out of the federal loan program since 2013-14, but also hopes that the Default Prevention Initiative will eventually encourage non-participating schools to start offering loans. Says Ms. Mohr, "schools can't philosophically use CDRs anymore as an excuse for not participating in the federal loan program; the Chancellor's Office's Initiative has proven its interventions work."

NORTH CAROLINA

North Carolina once again has the largest share of community college students without access to federal loans: 53 percent. It is the only state where the majority of community college students lack access in 2015-16. Eight

community colleges in the state have exited the program since 2013-14.

North Carolina's history on the issue of loan program participation is particularly unique. In 2007-08, the majority of community college students in North Carolina attended schools that did not offer federal loans. In response to the lack of loan access, in 2010 the state legislature required all community colleges to offer federal loans; by 2012, the requirement had been overturned and colleges were once again able to opt out of the program. In just six years, the state went from mandating that all community colleges participate in the federal loan program to just 18 making the choice to do so.

North Carolina's default rates are also noteworthy within the national context. Nationally, the number of community colleges with CDRs of at least 30 percent has declined in recent years (from 44 colleges in FY 2010 to 31 colleges in FY 2012) as the economy has improved and colleges have adjusted their practices to help borrowers avoid default. In contrast, the number of North Carolina community colleges with CDRs of 30% or higher has increased sharply during that same period (from two colleges in FY 2010 to 13 in FY 2012).

It is unclear why North Carolina schools have not reduced their default rates – and mitigated their risk of sanctions – as so many other community colleges have done elsewhere. It is also unclear to what extent there have been concerted efforts to encourage and support colleges' efforts to reduce default rates and provide access to loans, such as the statewide initiative in California discussed on page 6.

Pulling out of the federal loan program may not be as simple of a solution for colleges as it may seem. Because CDRs are calculated based on colleges' former students, colleges will still be held accountable for default rates for years after schools stop offering loans, as prior students enter repayment. There may also be other unintended consequences: at North Carolina's Beaufort County Community College, enrollment dropped 21 percent the year after the college cut off federal loans. College officials attribute the enrollment decline to the change in loan program participation. The enrollment drop in turn reduced the amount of state funding the college received.[22]

Some North Carolina colleges remain committed to federal student loan access. Davidson County Community College (DCCC) President Mary Rittling believes that "financial aid is a central piece that relates to student success," and that federal loans can be an important resource for students. To facilitate wise borrowing, DCCC students who wish to take out a federal loan must attend a one-on-one counseling session with an advisor who helps them determine if doing so is the right choice for them. To help manage defaults, DCCC works with a third-party servicer who stays in contact with borrowers, and the college is also undertaking efforts to maximize low-income students' eligibility for other forms of financial assistance, such as low-cost health care and nutrition assistance, which may mitigate the need to borrow.

Guilford Technical Community College (GTCC) is another college committed to providing access to federal loans. Lisa Koretoff, Financial Aid Director at GTCC, has engaged her campus in multiple efforts that have lowered the school's CDR while keeping loans available for the students who need them. With 61% of undergraduates at GTCC receiving Pell Grants, the college's successful default management efforts also demonstrate that schools that enroll low-income students need not have an unmanageably high default rate.

With support from the president and board of trustees, and investment in targeted default prevention efforts, GTCC has seen its CDR decrease more than four percentage points in one year. Ms. Koretoff attributes this progress in great part to support from her college's executive leadership. She explains, "Our leadership understands that suddenly to take away federal loans would not help students be successful, and that instead we need to focus on how we can preserve this important financial resource while helping students borrow wisely."

LOUISIANA

Loan access has improved for Louisiana community college students in recent years. In 2015-16, 22.9 percent of students attend non-participating schools compared to 44.1 percent in 2013-14, then the highest rate in the country. While the share of students without federal loan access in Louisiana is still higher than most other states, it has dropped by nearly half in just two years. These improvements occurred because five of the institutions included in the 2015-16 universe of schools have joined the program since 2013-14. One additional institution in the 2013-14 universe of schools has also joined the program through a merger with another school.

South Louisiana Community College (SLCC) was one of the colleges that proactively joined the federal loan program. The change occurred after Dr. David Volpe became

SLCC's Vice Chancellor for Student Services. Joining the college from out of state, and noting the very limited availability of need-based state grant aid for SLCC students, Dr. Volpe recognized that federal loan access was a student success issue, and that offering federal loans may help limit students' need to work and allow them to attend full time.

In addition to more schools providing access to loans, there have been several other new initiatives to promote full-time enrollment, including a statewide campaign that charges full-time students the same amount of tuition regardless of how many credits they take. Dr. Volpe notes that full-time attendance at SLCC has grown quite substantially in recent years, from 48 percent in Fall 2013 to 62 percent in Fall 2015.

Informed borrowing is key to SLCC's loan program. Financial aid administrators work individually with students to ensure they have a full understanding of what borrowing entails and only borrow what they need. Dr. Volpe hopes that once more colleges see that SLCC has run its loan program successfully, "there will be a domino effect, and colleges will understand it's a benefit to the students and a part of the mission of providing access."

Improving student success was also an important factor in Louisiana Delta Community College's (LDCC) decision to begin offering loans, as was the limited availability of state need-based grants. Alvina Thomas, LDCC Dean of Student Success Services, also reports that students had been asking about loan availability. After beginning to offer loans in 2014-15, students have shared with Ms. Thomas their gratitude for this additional resource, and fewer have taken out private loans.

Ms. Thomas believes that having her college's executive leadership on board has been key. She adds, "We don't want to force a loan on students, but we do want students to be successful, and part of that success is to have the financial backing to pay for tuition and fees and books."

WHY DO COLLEGES OPT OUT?

When leaving the loan program, community college representatives typically cite their perceived inability to keep students from borrowing unnecessarily or to influence whether those borrowers repay their loans. While concerns about appropriate borrowing and student loan defaults are understandable given the severe consequences of default for both students and institutions, it is simply not the case that there is nothing colleges can do to help students borrow wisely and repay their loans on time.

TABLE 3: STAFFORD LOAN USAGE BY COMMUNITY COLLEGE STUDENTS IN 2011-12

	Share of *students* who borrowed Stafford loans	Share of *students* who took out their annual maximum Stafford loan	Share of *borrowers* who took out their annual maximum Stafford loan
All students	**17%**	**7%**	**43%**
Dependent students	14%	5%	37%
Independent students	19%	9%	46%
Full-time students	**23%**	**9%**	**40%**
Dependent students	19%	7%	36%
Independent students	27%	12%	43%
Part-time students	**19%**	**8%**	**45%**
Dependent students	14%	5%	38%
Independent students	22%	11%	47%

Source: Calculations by TICAS on data from the U.S. Department of Education's NPSAS:12. Full-time students are defined as those who attended public two-year colleges exclusively full-time in 2011-12. Part-time students are defined as those who atteded half-time or more at least part of the year. Less-than-half-time students, who are not eligible for Stafford loans, are included in the figures for all students, but not in the figures for full-time or part-time students. While 7% of community college students borrowed their individual annual Stafford maximum, 70% borrowed less than their maximum, and for 23% their maximum could not be determined. While 43% of Stafford borrowers at community colleges borrowed their individual annual Stafford maximum, 56% borrowed less than their maximum, and for 1% their maximum could not be determined.

Are Students Borrowing Too Much?

Despite unprecedented attention to increasing student loan debt, national data are clear that few community college students borrow loans, and a minority of community college completers has student loan debt. In 2011-12, only 17 percent of all community college students borrowed federal student loans, and 37 percent of those graduating with an associate's degree had borrowed over the course of their undergraduate career.[23]

Similarly, while annual loan limits can sound high compared to the relatively low tuition at community colleges, few students borrow that much (see 2015-16 loan terms and limits on page 5). Even among those who do borrow, only a minority borrows the maximum despite non-tuition community college costs being similar to those at other institutions. (See Table 3 on previous page.)

Are Defaults Avoidable?

To measure how many of their federal student loan borrowers default within a certain period of time after entering repayment, colleges annually receive a "cohort default rate" (CDR) from the U.S. Department of Education. Particularly when a significant share of students at a college borrows, CDRs are a useful and important accountability measure that helps indicate whether students are leaving college with debt they cannot repay. Borrowers are considered to have defaulted after 270 days of nonpayment, though they are not counted in colleges' default rates until 360 days of nonpayment. When too many of their borrowers default, colleges can be penalized.

Colleges with CDRs of 30 percent or above for three consecutive years can lose the ability to disburse federal loans and federal Pell Grants, the largest source of grant aid available to students.[24] As both colleges and students rely on Pell Grants to help cover costs, such a loss would be devastating. Additionally, any college with a single year's CDR above 40 percent loses the ability to offer federal loans, but retains Pell Grant eligibility. (For more about CDRs, which measure how many borrowers default within a given time period, and related sanctions see box to the right.)

The fear of sanctions due to high CDRs is understandable, but high CDRs are avoidable. A college's demographics are not its destiny, as Guilford Technical Community College (discussed in more detail on page 7) demonstrates. Through the implementation of comprehensive default management strategies, the college reduced its default rate by more than four percentage points in just one year while serving a majority low-income population.

Indeed, colleges of all types have successfully implemented a variety of strategies to ensure that their students borrow wisely, and that borrowers understand their obligations and loan repayment options.[25] Income-driven repayment plans that cap monthly payments at a reasonable share of borrowers' income can also help in reducing defaults and have been available to all federal student loan borrowers since 2009.[26] (See more about what colleges can do on page 11.)

COHORT DEFAULT RATES 101

What is default?
A borrower defaults on a federal student loan after not making any payment for 270 days, though she is not counted in a college's default rate until 360 days of nonpayment. 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 a cohort default rate?
A cohort default rate measures the share of borrowers who enter repayment in a given year and who default within three years of entering repayment. For the majority of institutions, 2012 cohort default rates are calculated using the equation:

# of borrowers who entered repayment in 2012, and defaulted in 2012, 2013, or 2014 ÷ **# of borrowers who entered repayment in 2012** = **2012 Cohort Default Rate**

Why do default rates matter?
Institutions with high default rates may face serious sanctions.

DEFAULT RATE	SANCTION
30% or higher in three consecutive years	Potential loss of Stafford loan eligibility and Pell Grant eligibility for three years
Higher than 40% in one year	Potential loss of Stafford loan eligibility for three years

In addition, many community colleges have another important but little-known protection against CDR sanctions. Colleges where borrowing rates are low, and where CDRs may not be broadly indicative of institutional quality or student outcomes, are able to appeal any sanctions that would otherwise apply based on CDRs. Hundreds of community colleges have borrowing rates low enough to be able to file such an appeal, known as the Participation Rate Index. (See Appendix: Participation Rate Index Worksheet on page 22 for a template that schools can use to help determine if they are eligible for such an appeal.) However, few are aware of the protection because their default rates have long been below sanction levels and only a handful of colleges have needed to appeal.

COHORT DEFAULT RATE APPEALS

Once institutions are notified of their initial calculated cohort default rate, they can appeal any 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 the types of appeals available can be found in the Cohort Default Rate Guide published by the U.S. Department of Education's Default Prevention and Management department. The U.S. Department of Education does not publish 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 page 11). Given low rates of borrowing, many currently participating community colleges would be eligible to file a Participation Rate Index appeal if their default rates rise.

Also, while all colleges can and should work to minimize the share and number of borrowers who default given the stakes for students, very few community colleges have reason to fear imminent sanctions, and many colleges that stopped offering loans are not close to sanction thresholds. For federal student loan borrowers who entered repayment in 2012, 19.1 percent from community colleges had defaulted within three years – down from 20.6 percent in FY 2011. Among individual community colleges, a very small share had CDRs at or above the 30 percent sanction threshold, and this number has been steadily declining over recent years.[27] Some of those with the highest CDRs would be able to appeal sanctions based on their low borrowing rates. (For more about CDRs and related sanctions, see box on page 9; for more about the Participation Rate Index, see box on page 11.)

In other words, community colleges are right to be concerned about whether students are borrowing and defaulting unnecessarily, but they are wrong to believe that their only option is to stop offering loans. In some cases, ceasing to offer loans might not even help; colleges can still face sanctions based on too high CDRs even after they drop out of the loan program, if too many of their former students who previously borrowed eventually default. In contrast, developing thoughtful and appropriate loan practices as so many colleges, including community colleges, have already done will help current and former borrowers alike make wise borrowing decisions and avoid default – as well as protect students' access to aid.

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 that are not successfully appealed.
If we offer loans to some students, we'll have to give them to everyone.	Financial aid offices have the authority to limit or 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 U.S. 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.	Institutions with low borrowing rates are protected by law from unfair sanctions.

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.

A school where less than 21 percent of eligible students borrow can use the Participation Rate Index appeal. The Participation Rate Index must be 0.0625 or less for three-year sanctions, or 0.0832 or less for one-year sanctions.

Here is an example:

College A has 2,500 students who are eligible to borrow federal loans, and 400 borrowers. The college's most recent default rate is 35 percent.

400/2,500 x .35 = 0.056

College A could appeal based on its Participation Rate Index and avoid sanctions.

WHAT COLLEGES CAN DO

Colleges are required by law to ensure that federal student loan borrowers complete loan entrance and exit counseling, but otherwise little else is required of colleges in terms of counseling and outreach to borrowers. However, colleges can do much more. Financial aid offices have great flexibility in tailoring information, outreach, and counseling to best suit their students' needs, including education on both the benefits and risks of borrowing.

The U.S. Department of Education 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. While many schools see loan counseling and default management as the sole responsibility of the financial aid office, entire institutions rely on federal aid and should take part in serving students well. To maximize their effectiveness, default management plans need to involve the entire campus. For instance, faculty know which students are missing class or falling behind, and can alert the financial aid office. When academic and financial aid counselors work together closely they can more easily advise students and design appropriate interventions when needed.

Participating colleges have also successfully employed policies and practices to help their students borrow wisely, including a focus on student success, counseling and targeted outreach:

- Solano Community College in California has developed and implemented counseling and outreach strategies that target the specific needs of its borrowers, such as tutoring services for students who are struggling academically.[28]

- Moraine Park Technical College (MPTC) in Wisconsin employs an academic alert system which flags struggling students early, and a mandatory program orientation for new students which includes financial and budgeting topics. Additionally, MPTC assesses programmatic outcomes and closes programs whose related employment opportunities are limited, so students are less likely to struggle after entering repayment.[29]

- At Edmonds Community College in Washington, administrators work to enhance retention and student success through various strategies including a thorough review of high-enrollment, low-completion "gatekeeper" courses; institutional focus on momentum points; and the development of two student success courses, which embed financial literacy in the curricula. Understanding the link between completion and loan repayment, the college has also bolstered its efforts to reach students who left the college with many credits to encourage them to return and complete.[30]

Participating colleges have successfully employed policies and practices to help their students once they have borrowed:

- Louisiana Delta Community College employs a full-time student loan coordinator who distributes informational brochures, holds one-on-one counseling sessions, and educates students about borrowing sensibly including only what the student actually needs. The college also focuses outreach on borrowers who attend less than half time and who have left school, to educate them about their options including deferment, forbearance, and income-driven repayment plans.[31]

- Guilford Technical Community College in North Carolina conducts regular analyses to identify which students are struggling with their loans and who has not completed exit counseling. With limited administrative

capacity, these data queries help financial aid advisors target their outreach and efforts to students who are most at risk.[32]

- According to the U.S. Department of Education, [33] Historically Black Colleges and Universities (HBCUs) "have deployed innovative approaches towards default management and reduction. Such strategies include implementation of a default management plan that engages stakeholders, identifies approaches to reducing default rates, and tracks measurable goals. These schools have increased borrower awareness of obligations through incorporating borrower topics at orientation sessions and providing enhanced entrance and exit counseling. Other best practices include borrower tracking, increased contact with delinquent borrowers, taking advantage of the cohort default rate challenge/adjustment/appeal processes, and partnering with other stakeholders to optimize default prevention, resolution, and reduction."

PRIVATE LOANS

Private loans are one of the riskiest ways to finance a college education. Like credit cards, they typically have variable interest rates, and whether variable or fixed the rates are highest for those who can least afford them — as high as 13.74 percent in June 2016.[34] Additionally, private loans do not have the important deferment, income-driven repayment, or loan forgiveness options that come with federal student loans, and are much harder than other forms of consumer debt to discharge in bankruptcy. Experts agree that students and families should exhaust all of their federal aid options before even considering private loans.

Overall, a very small share of community college students (2%) borrows private loans. While we do not know what share of community college private loan borrowers attended non-participating schools, nearly three in four (73%) borrowed less than they could have in federal Stafford loans before turning to private loans, compared to less than half of private loan borrowers at other schools.[35]

Community colleges – both those that offer federal loans and those that do not – have varying attitudes towards private loans. Many do not mention private loans on their website at all. Of those that do mention private loans, some clearly discourage private loan borrowing. The City Colleges of Chicago, which offer federal loans, even have a policy of not certifying private loans in lieu of federal loans.[36] (See screenshot below.)

Private Education Loan Certification Policy and Disclosures

The City Colleges of Chicago does not maintain a preferred lender list for private student loans, nor does it maintain any other lists of lenders. We encourage students to pursue federal and state financial aid and actively discourage the borrowing of private student loans.

CCC will not certify a private education loan unless the student is not receiving enough financial aid to cover the direct cost of attendance (tuition and fees and books). At the Director of Financial Aid's discretion, students in CCC's signature programs (for example, Nursing, French Pastry 16 or 24 week program, or Physician's Assistant) may be certified for a private student loan beyond the direct cost of attendance. A CCC student who is not in a signature program can only receive a private loan up to his/her direct cost of attendance minus other financial aid. CCC will not certify a private loan in lieu of a Federal Direct Loan. Additionally, a student cannot receive a private student loan if he/she is not in good standing per CCC's academic standing policy.

Similarly, Independence Community College in Kansas, which offers federal loans, states that it does not "endorse, promote, or certify private student loans." [37] The Ivy Tech Community College system in Indiana includes a link to an explanation of "why federal student loans are usually a better option than private (alternative) loans," and only certifies private loans for students who have received all other available aid, including federal loans.[38]

Other colleges' approaches range from stating more generally that private loans can be used as an additional resource to prominently listing private loans as if they were a form of financial aid and even directing students to specific lenders. For example, as with the non-participating college example shown on this page, it is unclear whether these "preferred lender lists" comply with federal law: colleges are required to provide, among other things, at least two lender options and the criteria under which the listed lenders were selected.

Despite the widespread recognition that private loans can be a dangerous and expensive way to finance a college education, we came across at least a dozen non-participating colleges that prominently list specific banks and lenders offering private loans.[39] These schools clearly acknowledge 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. Offering private loans in lieu of federal loans holds appeal to colleges because they bear no responsibility if borrowers default on private loans, unlike with federal loans. And in addition to the risks of borrowing private loans, not offering federal loans means that colleges have little incentive to help students borrow wisely and navigate the different types of loans available to them.

Student Loans

Beginning in the fall 2014 semester, will no longer be offering the Direct Loan Program through the Department of Education. Student Loans will be offered through the preferred lender, Sallie Mae. Students may also borrow from private banks and other lending institutions if they prefer. The interest rates, repayment options, and terms may vary depending on which lender the student chooses to use. Students may also need to provide a credit worthy co-signer in order to qualify for a student loan or to receive a lower interest rate through one of these preferred lenders.

1. **Steps before applying for a Student Loan**
   a. Fill out FAFSA
      i. http://www.fafsa.ed.gov/
   b. Complete additional paperwork with the FA Office (optional)
2. **Steps to apply for an Outside Loan**
   a. Choose a lender
      i. Sallie Mae
         a) https://www.salliemae.com/student-loans/
      i. Students may also seek out private banks or lending institutions of their choice, in this scenario however the loan funds would be sent directly to the student and not through Examples of other private lenders could include Bank, Bank, Bank, Bank etc.
   b. If you are a first-time borrower with you will need to attend a First-Time Loan seminar after being approved for a student loan
      i. Please contact the Financial Aid set up an appointment.
   c. Follow up with Financial Aid Office to make sure Loan was certified
      i.

TABLE 4: SHARE OF COMMUNITY COLLEGE STUDENTS WITHOUT ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY RACE/ETHNICITY								
STATE	**TOTAL SHARE WITHOUT ACCESS**	**WHITE**	**AFRICAN AMERICAN**	**LATINO**	**ASIAN**	**NATIVE AMERICAN**	**OTHER/ UNKNOWN**	**SHARE OF STATE'S STUDENTS AT COMMUNITY COLLEGES**
Alabama	41.6%	33.9%	61.2%	--	--	--	--	35.9%
Alaska	38.2%	23.5%	--	--	--	60.6%	8.2%	4.2%
Arizona	5.4%	5.6%	1.9%	2.6%	--	--	3.2%	55.4%
Arkansas	15.7%	13.7%	22.9%	17.2%	--	--	--	40.8%
California	12.7%	11.2%	15.1%	16.1%	6.3%	--	9.8%	65.1%
Colorado	0.0%	--	--	--	--	--	--	35.8%
Connecticut	3.0%	4.4%	0.4%	1.9%	--	--	2.0%	36.9%
Delaware	0.0%	--	--	--	--	--	--	31.8%
Florida	5.9%	6.2%	7.9%	5.2%	--	--	1.8%	45.3%
Georgia	34.7%	39.8%	30.8%	34.9%	--	--	--	36.1%
Hawaii	0.0%	--	--	--	--	--	--	50.0%
Idaho	0.0%	--	--	--	--	--	--	24.7%
Illinois	9.9%	12.9%	10.7%	2.2%	--	--	8.0%	59.4%
Indiana	0.0%	--	--	--	--	--	--	37.4%
Iowa	0.0%	--	--	--	--	--	--	32.1%
Kansas	0.0%	--	--	--	--	--	--	50.7%
Kentucky	0.0%	--	--	--	--	--	--	42.4%
Louisiana	22.9%	27.1%	19.0%	--	--	--	22.3%	38.2%
Maine	0.0%	--	--	--	--	--	--	29.9%
Maryland	5.9%	3.7%	11.2%	2.3%	2.7%	--	4.5%	47.8%
Massachusetts	2.4%	0.4%	8.2%	2.5%	--	--	5.5%	30.0%
Michigan	0.3%	0.2%	0.0%	--	--	--	0.0%	44.6%
Minnesota	0.2%	0.0%	0.0%	0.0%	0.0%	--	0.0%	42.7%
Mississippi	9.4%	5.5%	15.1%	--	--	--	--	51.9%
Missouri	0.0%	--	--	--	--	--	--	30.7%
Montana	20.6%	2.4%	--	--	--	86.2%	1.5%	23.0%
Nebraska	0.3%	0.0%	0.0%	0.0%	--	--	0.0%	48.0%
Nevada	0.0%	--	--	--	--	--	--	50.6%
New Hampshire	0.0%	--	--	--	--	--	--	21.2%
New Jersey	6.7%	1.4%	20.8%	7.8%	4.1%	--	7.6%	46.8%
New Mexico	3.8%	1.0%	--	0.8%	--	23.2%	3.6%	62.7%
New York	0.0%	--	--	--	--	--	--	32.4%
North Carolina	53.0%	56.2%	48.4%	54.1%	--	--	43.4%	52.5%
North Dakota	5.1%	0.2%	--	--	--	70.1%	0.0%	25.5%
Ohio	0.2%	0.3%	0.0%	--	--	--	0.0%	42.0%
Oklahoma	5.2%	5.0%	2.6%	5.4%	--	9.4%	5.4%	40.4%
Oregon	0.0%	--	--	--	--	--	--	54.2%
Pennsylvania	0.0%	--	--	--	--	--	--	24.8%
Rhode Island	0.0%	--	--	--	--	--	--	26.4%

TABLE 4: SHARE OF COMMUNITY COLLEGE STUDENTS WITHOUT ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY RACE/ETHNICITY								
STATE	**TOTAL SHARE WITHOUT ACCESS**	**WHITE**	**AFRICAN AMERICAN**	**LATINO**	**ASIAN**	**NATIVE AMERICAN**	**OTHER/ UNKNOWN**	**SHARE OF STATE'S STUDENTS AT COMMUNITY COLLEGES**
South Carolina	1.9%	1.5%	3.1%	--	--	--	0.7%	46.3%
South Dakota	3.5%	0.4%	--	--	--	41.2%	1.0%	12.8%
Tennessee	44.1%	41.2%	58.5%	--	--	--	--	37.2%
Texas	6.0%	2.7%	1.2%	12.9%	--	--	1.8%	58.6%
Utah	20.8%	22.1%	--	17.2%	--	--	22.8%	19.4%
Vermont	0.0%	--	--	--	--	--	--	22.5%
Virginia	10.8%	13.8%	9.9%	3.1%	1.3%	--	5.5%	42.2%
Washington	2.3%	2.6%	1.6%	1.5%	0.5%	--	1.1%	62.3%
West Virginia	1.1%	1.2%	0.9%	--	--	--	--	12.6%
Wisconsin	0.4%	0.1%	0.0%	0.1%	--	--	0.0%	43.8%
Wyoming	0.0%	--	--	--	--	--	--	70.8%
United States	**9.0%**	**8.3%**	**12.7%**	**10.5%**	**4.5%**	**22.2%**	**5.6%**	**45.9%**

Notes: Figures rounded to the nearest one-tenth of a percent. Excludes share of students (denoted by dashes) in a racial/ethnic group when that racial/ethnic group comprises less than 5% of state community college enrollment, and in states where all community colleges participate.

Figures for 'Total Share without Access' include all race/ethnicity categories listed as well as Other/ Unknown. See Methodology on page 19.

These figures reflect the definition of community colleges used in this report, which includes both public two-year colleges and public four-year colleges that award primarily associate's degrees and certificates.

Native Americans in Minnesota and Nebraska made up just one percent of community college students in each state, so they are excluded from the chart above. However, 381 Native-American community college students in Minnesota and 247 in Nebraska (and a very small number of other community college students) lacked access to federal loans, enough to bring the overall non-participation rates to 0.2% and 0.3%, respectively.

TABLE 5: SHARE OF COMMUNITY COLLEGE STUDENTS WITHOUT ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY URBANICTY				
STATE	**STATEWIDE**	**AT URBAN SCHOOLS**	**AT NON-URBAN SCHOOLS**	**SHARE OF ALL COMMUNITY COLLEGE STUDENTS AT NON-URBAN SCHOOLS**
Alabama	41.6%	61.7%	28.1%	60.0%
Alaska	38.2%	*	38.2%	100.0%
Arizona	5.4%	0.0%	25.3%	21.4%
Arkansas	15.7%	7.2%	22.3%	56.5%
California	12.7%	10.7%	40.0%	6.6%
Colorado	0.0%	--	--	14.0%
Connecticut	3.0%	3.1%	0.0%	2.5%
Delaware	0.0%	--	--	29.1%
Florida	5.9%	5.1%	18.9%	5.4%
Georgia	34.7%	37.9%	25.2%	24.8%
Hawaii	0.0%	--	--	13.5%
Idaho	0.0%	--	--	73.5%
Illinois	9.9%	5.7%	22.3%	25.0%
Indiana	0.0%	--	--	11.3%
Iowa	0.0%	--	--	29.7%
Kansas	0.0%	--	--	70.0%
Kentucky	0.0%	--	--	50.7%
Louisiana	22.9%	9.8%	52.3%	30.8%
Maine	0.0%	--	--	46.8%
Maryland	5.9%	5.2%	8.8%	20.1%
Massachusetts	2.4%	2.6%	0.0%	8.4%
Michigan	0.3%	0.0%	1.6%	20.5%
Minnesota	0.2%	0.0%	0.7%	32.7%
Mississippi	9.4%	*	9.4%	100.0%
Missouri	0.0%	--	--	36.1%
Montana	20.6%	0.0%	25.6%	80.4%
Nebraska	0.3%	0.0%	1.1%	30.1%
Nevada	0.0%	--	*	0.0%
New Hampshire	0.0%	--	--	49.5%
New Jersey	6.7%	10.4%	0.0%	35.1%
New Mexico	3.8%	1.1%	7.2%	45.0%
New York	0.0%	--	--	16.9%
North Carolina	53.0%	37.5%	80.2%	36.5%
North Dakota	5.1%	0.0%	7.7%	65.3%
Ohio	0.2%	0.0%	1.0%	22.6%
Oklahoma	5.2%	0.6%	13.1%	37.1%
Oregon	0.0%	--	--	27.7%
Pennsylvania	0.0%	--	--	15.1%
Rhode Island	0.0%	--	*	0.0%

TABLE 5: SHARE OF COMMUNITY COLLEGE STUDENTS WITHOUT ACCESS TO FEDERAL STUDENT LOANS IN 2015-16, BY URBANICTY				
STATE	**STATEWIDE**	**AT URBAN SCHOOLS**	**AT NON-URBAN SCHOOLS**	**SHARE OF ALL COMMUNITY COLLEGE STUDENTS AT NON-URBAN SCHOOLS**
South Carolina	1.9%	0.0%	9.2%	21.0%
South Dakota	3.5%	*	3.5%	100.0%
Tennessee	44.1%	38.5%	56.2%	31.5%
Texas	6.0%	5.8%	7.1%	18.2%
Utah	20.8%	22.7%	0.0%	8.3%
Vermont	0.0%	--	*	0.0%
Virginia	10.8%	1.7%	34.7%	27.5%
Washington	2.3%	0.0%	41.0%	5.6%
West Virginia	1.1%	2.7%	0.0%	59.5%
Wisconsin	0.4%	0.0%	2.9%	12.0%
Wyoming	0.0%	--	--	62.2%
United States	**9.0%**	**6.9%**	**16.9%**	**21.1%**

Notes: Figures rounded to the nearest one-tenth of a percent. For purposes of this analysis, we classify all categories of city and suburb as urban areas and all categories of town and rural as non-urban areas. A single asterisk indicates no schools are located in the specific locale. Excludes share of students (denoted by dashes) in states where all community colleges participate.

These figures reflect the definition of community colleges used in this report, which includes both public two-year colleges and public four-year colleges that award primarily associate's degrees and certificates.

RECOMMENDATIONS

All students should have access to federal loans. 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 without burdensome debt. Denying access to federal loans does not protect students from debt or the risks that come with it. It merely prevents students from using the type of debt that is likely to be the most manageable, and from receiving the guidance and required loan counseling that accompany federal student loans and can serve to lower defaults.

Colleges have the ability to keep defaults low and the vast majority of them have kept rates below threshold levels. Default sanctions are not an imminent threat for the vast majority of community colleges.

The U.S. Department of Education (the Department) has taken much-needed steps in recent years to assure low-borrowing colleges that their federal aid eligibility is secure and to relieve pressures that have led colleges to stop offering federal loans. The Department is doing more to proactively inform colleges about their options for appealing cohort default rate (CDR) sanctions, and starting in February 2017, has committed to allow colleges to file appeals based on low borrowing rates in any year as opposed to only the year in which sanctions would take effect. However, both colleges and the Department can and should do more to improve community college students' access to federal student loans and to lower default rates.

Federal Recommendations

The Department of Education should:

- **Publish colleges' borrowing rates alongside colleges' CDRs** to help put CDRs in their proper context. A CDR says more about a college where 90 percent of students borrow than it does about a college where five percent of students borrow, but, without borrowing rates as context, interested parties cannot tell the difference. Importantly, borrowing rates are included in the new federal College Scorecard consumer tool, but they can and should be placed alongside CDRs wherever they are found.
- **Note whether colleges offer federal loans on federal consumer tools.** Some students at non-participating colleges may have chosen to enroll elsewhere had they known that federal loans were unavailable. Including loan participation status on consumer tools, such as the College Scorecard, would help students understand the availability of loans.
- **Allow colleges to certify that their borrowing rates are sufficiently low to allow for a Participation Rate Index appeal** to help allay colleges' concerns about CDR sanctions. When draft CDRs are sent to colleges along with instructions about how to contest or appeal, colleges could choose to submit the information needed 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.
- **Provide continued guidance and outreach to financial aid officers and community college administrators.** This should include encouraging colleges to offer federal loans as a way to help their students avoid relying on other riskier forms of consumer debt, providing information about how colleges can counsel potential borrowers and other strategies to reduce defaults, urging colleges to counsel students before certifying private loans, and clarifying rules for CDR appeals.
- **Analyze the potential effects of prorating federal student loans by attendance status.** Unlike Pell Grants, federal loans are not prorated based on a student's attendance status. Prorating loans would involve reducing student eligibility for federal loans at a time when college is getting harder to afford, but it is possible that it could help encourage students to enroll in more courses per term, thereby giving students a better chance at completing their degrees and reducing their risk of default. It would also address the concerns of some community colleges that students may take out full loans but make only part-time progress. Given both the risks and the potential benefits, such a change warrants careful analysis and consideration, as student groups have urged.[40]
- **Enforce federal law on preferred lender lists,** which prevent schools from steering students to any one private lender, require colleges to disclose the basis for recommending lenders, and make sure students know they can choose lenders not on the list. Enforcement would ensure colleges are complying with the law.

Community college students who choose to borrow private loans deserve the consumer protections these rules provide, but they cannot benefit if the rules are not enforced.

Community College Recommendations

- **All community colleges should offer federal student loans.** Responsible default management plans and entrance and exit counseling, combined with flexible repayment options and loan forgiveness programs, make federal loans the safest option for schools and students compared to private student loans or other alternatives. Students need access to loans and schools have tools to minimize defaults.
- **Community colleges that choose not to offer loans must clearly alert students.** Many non-participating colleges do not mention that they don't offer federal loans on their websites, which may lead students to incorrectly assume that loans are available. California state law requires that non-participating colleges disclose lack of loan access.
- **Community colleges should counsel students before certifying private loans,** including notifying students if they could borrow more in federal loans.

Other Recommendations

- **Financial aid and college associations, as well as the Department, should provide information and training** to raise awareness and 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 preventing and reducing student defaults.
- **Community college districts and statewide system offices should explore other ways that they can encourage and facilitate loan program participation.** The success of California's Default Prevention Initiative (p. 6) in bringing default rates down and encouraging loan program participation shows how effective broader approaches can be.

METHODOLOGY

The U.S. Department of Education (the Department) does not currently maintain a list of institutions that offer Title IV college financial aid but do not participate in the federal Stafford loan program. To identify the 234 non-participating colleges in 2015-16, we looked at data on federal Stafford loans made to students, by college, for the first quarter of the 2015-16 academic year available from the Federal Student Aid Data Center.[41] We used the Integrated Postsecondary Education Data System (IPEDS) institutional classifications for 2013-14 to identify the 1,097 institutions we have defined as community colleges.[42] 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's 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. We excluded schools that were classified in IPEDS as not active, not primarily postsecondary, not Title IV participating, and not open to the public.

Colleges that had distributed any Stafford loans in the first quarter of 2015-16, 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 its financial aid office.

To assess the level of students' access to federal loans, we used colleges' 12-month enrollment for 2013-14, the most recent available data as reported by the colleges to IPEDS.

All other data cited in this report are the most recent available for the given source.

For purposes of analyzing access to loans by race/ethnicity in this brief we included the following racial/ethnic categories: African American, Asian (includes Hawaiian and other Pacific Islander), Latino, Native American (includes American Indian and Alaska Native), Other/Unknown, and White. Multiracial and non-resident students, and students for whom race/ethnicity is unknown, were classified as Other/Unknown. We did not list state-by-state loan participation rates for racial/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://ticas.org//sites/default/files/pdf/cc_participation_status_2015-16.pdf.

ENDNOTES

[1] For more on how working long hours can impede academic success, see: Perna, Laura W. 2010. ***Understanding the Working College Student***. American Association of University Professors. https://www.aaup.org/article/understanding-working-college-student; Torres, Vasti, Jacob P. K. Gross, and Afet Dadashova. 2010. ***Traditional-Age Students Becoming At-Risk: Does Working Threaten College Students' Academic Success?*** http://pas.indiana.edu/mwsc/pdf/Vasti%20Torres%20et%20al.pdf; Pike, Gary R., George D. Kuh, and Ryan C. Massa-McKinley. 2008. ***First-Year Students' Employment, Engagement, and Academic Achievement: Untangling the Relationship Between Work and Grades***. NASPA Journal 45(4), pp. 560-582; King, Jacqueline E. 2002. ***Crucial Choices: How Students' Financial Decisions Affect Their Academic Success***. American Council on Education. http://web3.apiu.edu/researchfile/Research%20Materials/Price%20Elasticity/Crucial%20choices-how%20students'%20financial%20decisions%20affect%20theri%20academic%20success.pdf.

[2] Counts of colleges include those in both the 2013-14 and 2015-16 TICAS loan participation analyses. Five of the institutions included in the 2015-16 universe of schools have joined the program since 2013-14. One additional institution in the 2013-14 universe of schools has also joined the program through a merger with another school.

[3] Unless otherwise noted, for this analysis 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 associate's degrees and 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. For more detail about the colleges included in this analysis, please refer to the Methodology on page 19.

[4] Calculations by the Institute for College Access & Success (TICAS) on data from the U.S. Department of Education's National Postsecondary Student Aid Study, 2011-12 (NPSAS:12) for undergraduate students, the most recent available. Unless otherwise noted, figures from NPSAS are for citizens and permanent residents at public two-year colleges only. This differs from our general definition of community colleges in this analysis, which includes public four-year schools where the vast majority of credentials awarded are associate's degrees.

[5] Calculations by TICAS on data from the U.S. Department of Education's NPSAS:12. Very low income is defined as students with an expected family contribution (EFC) of zero. Underrepresented minority is defined as African American, Latino, and Native American.

[6] Calculations by TICAS on data from the U.S. Department of Education's NPSAS:12. Figure represents full-time students enrolled for at least nine months in 2011-12. Figure rounded to the nearest $1,000.

[7] Calculations by TICAS on data from the U.S. Department of Education's NPSAS:12.

[8] Ibid.

[9] Wiederspan, Mark. 2016. ***Denying Loan Access: The Student-Level Consequences When Community Colleges Opt Out of the Stafford Loan Program***. Economics of Education Review 51 (2016), pp. 79-96. http://econpapers.repec.org/article/eeeecoedu/v_3a51_3ay_3a2016_3ai_3ac_3ap_3a79-96.htm.

[10] Dunlop, Erin. 2013. ***What Do Stafford Loans Actually Buy You? The Effect of Stafford Loan Access on Community College Students***. National Center for Analysis of Longitudinal Data in Education Research. Working Paper 94. http://www.caldercenter.org/sites/default/files/erinWP.pdf.

[11] The U.S. Department of Education. 2014. ***Impact of Cohort Default Rates on Institutional Title IV Program Eligibility***, ED Dear Colleague Letter GEN-14-03. http://www.ifap.ed.gov/dpcletters/GEN1403.html. Accessed June 15, 2016.

[12] TICAS. 2016. ***On the Verge: Costs and Tradeoffs Facing Community College Students***. http://ticas.org/sites/default/files/pub_files/on_the_verge.pdf.

[13] Geographical regions defined using the U.S. Census Bureau, Economic Census, Regions and Divisions. http://www.census.gov/econ/census/help/geography/regions_and_divisions.html. Accessed June 28, 2016.

[14] For purposes of analyzing access to loans by race/ethnicity in this brief we included the following racial/ethnic categories: African American, Asian (includes Hawaiian and other Pacific Islander), Latino, Native American (includes American Indian and Alaska Native), Other/Unknown (includes multiracial and non-resident students, and students for whom race/ethnicity is unknown), and White. See Methodology on page 19.

[15] 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.

[16] A college's locale is based on its physical proximity to an urbanized area, assigned through a methodology developed by the U.S. Census Bureau's Population Division in 2005. For more detail please see: http://nces.ed.gov/surveys/ruraled/definitions.asp, and the "degree of urbanization" at http://nces.ed.gov/ipeds/glossary/?charindex=D. Accessed June 22, 2016.

[17] TICAS. 2014. ***At What Cost? How Community Colleges that Do Not Offer Federal Loans Put Students at Risk***. http://ticas.org/sites/default/files/pub_files/At_What_Cost.pdf.

[18] Calculations by TICAS on 2013-14 data from the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS), the most recent available. Includes students attending public two-year colleges only.

[19] Under current rules, colleges with participation rates under 21 percent may appeal sanctions. The exact data needed to calculate a college's participation rate for the purpose of a CDR sanction appeal are not publicly available, but using the latest available data from the Chancellor's Office's Data Mart, available at http://datamart.cccco.edu/datamart.aspx, we estimate that all have borrowing rates well below 21 percent. For more on the PRI challenge and appeal see page 22.

[20] Descriptions of the California Community Colleges Chancellor's Office's Default Prevention Initiative in this brief are based on personal communications with Rhonda Mohr, Dean of Student Financial Aid Programs at the Chancellor's Office; and Ruby Nieto, Financial Aid and Allocations Specialist at the Chancellor's Office, in May and June 2016.

[21] Robin Darcangelo is now Assistant Dean of Enrollment Services/ Student Financial Aid at College of Marin.

[22] Jordan, Dave. September 8, 2015. "Big enrollment drop at Beaufort County Community College." WITN. http://www.witn.com/home/headlines/Big-enrollment-drop-at-Beaufort-County-Community-College-325812521.html. Accessed June 17, 2016.

[23] Calculations by TICAS on data from the U.S. Department of Education's NPSAS:12.

[24] Federal Pell Grants, available to full- and part-time students, provide up to $5,775 in need-based financial aid in 2015-16. The vast majority of recipients have family incomes of $40,000 or below. 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.

[25] Publications highlighting effective strategies include: Charles, Kayla D., Shannon Sheaff, Jann Woods, and Lisa Downey. 2016. ***Decreasing Your Student Loan Cohort Default Rate: Leading a College-Wide Change Initiative at Mohave Community College***. Community College Journal of Research and Practice. http://www.tandfonline.com/doi/abs/10.1080/10668926.2015.1125814; Texas Higher Education Coordinating Board, Office of Student Financial Aid Programs. 2015. ***Texas Student Loan Default Prevention and Financial Aid Literacy Pilot Program: First Annual Report***. http://www.thecb.state.tx.us/files/dmfile/AgendaItemVII-DPilot-ProgramReport.pdf; Fletcher, Carla, Jeff Webster, Kasey Klepfer, and Chris Fernandez. 2015. ***Above and Beyond: What Eight Colleges Are Doing to Improve Student Loan Counseling***. Texas Guaranteed Student Loan Corporation. http://www.tgslc.org/pdf/Above-and-Beyond.pdf; TICAS. 2014. ***Protecting Colleges and Students: Community College Strategies to Prevent Default***. http://ticas.org/sites/default/files/pub_files/Protecting_Colleges_and_Students.pdf; Chitty, Haley. 2010. "A Blueprint to Lower Default Rates: Default-aversion and degree-completion strategies." University Business: http://www.universitybusiness.com/article/blueprint-lower-default-rates. Accessed June 22, 2016; Dillon, Erin and Robin V. Smiles. 2010. ***Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed***. Education Sector. http://educationpolicy.air.org/sites/default/files/publications/Default_Rates_HBCU.pdf; Texas Guaranteed Student

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[26] TICAS. June 30, 2009. Press release. "New Federal Income-Based Repayment Plan Goes Into Effect July 1." http://ticas.org/sites/default/files/pub_files/July_1_IBR_Alert.pdf. Accessed June 22, 2016.

[27] U.S. Department of Education. 2015. *Comparison of FY 2012 Official National Cohort Default Rates to Prior Two Official Cohort Default Rates*. http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf. Accessed June 22, 2016. Figures from this source refer to public 2- 3-year colleges. To look up individual schools see: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.

[28] Personal communication with Robin Darcangelo, former Associate Dean of Financial Aid at Solano Community College, in May 2016.

[29] Association of Community College Trustees and The Institute for College Access & Success. 2014. *Protecting Colleges and Students: Community College Strategies to Prevent Default*. http://ticas.org/sites/default/files/pub_files/Protecting_Colleges_and_Students.pdf.

[30] Ibid.

[31] Personal communication with Alvina Thomas, Dean of Student Success Services at Louisiana Delta Community College, in May 2016.

[32] Association of Community College Trustees and The Institute for College Access & Success. 2014. *Protecting Colleges and Students: Community College Strategies to Prevent Default*. http://ticas.org/sites/default/files/pub_files/Protecting_Colleges_and_Students.pdf.

[33] U.S. Department of Education. 2015. *Fact Sheet: FY 2012 3-Year Cohort Default Rates September 2015*. https://www2.ed.gov/offices/OSFAP/defaultmanagement/dmd002.html. Accessed June 22, 2016.

[34] TICAS analysis of lender websites, accessed June 20, 2016. These rates represent loans for undergraduate study offered by the three largest originators of private loans (Discover, Sallie Mae, Wells Fargo), a web site offering private loans from credit unions and community banks (LendKey) and three other banks (Citizens, PNC, SunTrust). This is not a comprehensive survey of lenders making private loans, but is intended to illustrate the range of advertised rates.

[35] Calculated by TICAS using the U.S. Department of Education's NPSAS:12. While 73% of private loan borrowers took out less than they were eligible for in Stafford loans, 23% reached their individual annual and/or cumulative Stafford limit or were ineligible for Stafford loans because they attended less than half time, and eligibility cannot be determined for the remaining 3% of borrowers. Individual borrowers' Stafford eligibility for 2011-12 varied by class level, dependency status, and college costs after financial aid. Figures do not add up to 100% due to rounding.

[36] City Colleges of Chicago, Private Education Loan Certification Policy and Disclosures: http://www.ccc.edu/colleges/washington/services/Pages/Private-Education-Loan-Certification-Policy-and-Disclosures.aspx. Accessed June 6, 2016.

[37] Independence Community College: http://www.indycc.edu/federal-loans/. Accessed June 22, 2016. To learn about TICAS' work to require private education lenders to obtain school certification prior to disbursing private education loans, see our June 2013 letter to Richard Cordray, Director of the Consumer Financial Protection Bureau: http://ticas.org/sites/default/files/legacy/files/pub/6_17_13_Cordray_Letter.pdf. Accessed June 22, 2016. As a part of the school certification process, students should be informed about their remaining federal loan eligibility before turning to alternative forms of borrowing, which is now a requirement at all colleges in California.

[38] Ivy Tech Community College: https://www.ivytech.edu/financial-aid/loans.html#privatealt. Accessed June 6, 2016

[39] Our search for private loan information on community college websites was not exhaustive. For examples of community college websites that clearly promote private loans, see http://ticas.org//sites/default/files/pdf/colleges_that_promote_private_loans_june_2016.pdf.

[40] May 19, 2015 letter to U.S. Senator Lamar Alexander, U.S. Senator Patty Murray, U.S. Congressman John Kline, and U.S. Congressman Bobby Scott from six student advocacy organizations. For more information, see http://ticas.org/sites/default/files/pub_files/loan_proration_letter_0.pdf. Accessed June 22, 2016.

[41] U.S. Department of Education, Federal Student Aid Data Center, Title IV Program Volume Reports, https://studentaid.ed.gov/about/data-center/student/title-iv.

[42] U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, IPEDS Data Center, http://nces.ed.gov/ipeds/datacenter.

APPENDIX: PARTICIPATION RATE INDEX (PRI) WORKSHEET

This worksheet was created by TICAS to help colleges understand their risk of CDR sanctions, and is available at: http://ticas.org/content/pub/ticas-participation-rate-index-pri-worksheet-1

COLLEGE PARTICIPATION RATE INDEX WORKSHEET FOR FY 2013 3-YEAR CDRS	
This worksheet is intended to help colleges understand whether or not their 3-year cohort default rate (CDR) puts them at risk of sanctions. Generally, colleges with 3-year CDRs of 30% or greater for three consecutive years, or greater than 40% for one year, may face federal sanctions. *However*, colleges where fewer than 21% of students borrow federal loans may be able to challenge or appeal sanctions through the Participation Rate Index Challenge or Appeal (a *challenge* is based on a draft CDR and an *appeal* is based on an official CDR). As stated in federal regulation (34 CFR 668.214(d)(1)), "You do not lose eligibility under §668.206 and we do not place you on provisional certification, if we determine that you meet the requirements for a participation rate index appeal." **Important note about student loan defaults:** Defaulting on federal student loans has serious consequences for the borrower. Whether or not your college is at risk of sanctions, it is important for colleges to help their borrowers avoid default. *To complete the worksheet, please enter the requested numbers in the gray cells. Your results will appear in the orange cells.*	
PART I: Your College's Cohort Default Rate (CDR)	
What is your college's FY 2013 3-year CDR?	32.6%
Is this CDR below sanction thresholds?	Your college's CDR is above sanction thresholds. However, your college may be able to challenge or appeal using its Participation Rate Index. Please proceed to Part II.
PART II: Calculate Your College's Participation Rate and Participation Rate Index (PRI)	
How many students at your college borrowed federal loans during any 12-month period between April 2, 2011 – September 30, 2012? Note: Leaving this box blank will be treated as if the college had zero borrowers.	2,028
How many regular students were enrolled at your college on at least a half-time basis during any part (at least one day) of the same 12-month period between April 2, 2011 and September 30, 2012?	12,864
Your college's participation rate:	15.8%
Your college's Participation Rate Index (PRI): **Note**: Colleges with PRIs at or below 0.0625 can challenge or appeal sanctions based on three consecutive CDRs at or above 30%. Colleges with PRIs at or below 0.0832 can challenge or appeal sanctions based on a single CDR above 40%.	0.0514
PART III: Results, Based on the Data You Have Provided Above	
Your college's estimated eligibility for PRI challenges or appeals:	Your college can use the PRI Challenge or Appeal to avoid sanctions based on three consecutive CDRs at or above 30%.
Your participation rate in context. Based on your college's participation rate this year, your college would be eligible to use the PRI Challenge or Appeal to **avoid sanctions based on three consecutive CDRs** if its CDR were up to the following rate:	39.6%
Your participation rate in context. Based on your college's participation rate this year, your college would be eligible to use the PRI Challenge or Appeal to **avoid sanctions based on a single CDR** if its CDR were up to the following rate:	52.8%

ACKNOWLEDGMENTS

This issue brief was researched and written by Debbie Cochrane and Laura Szabo-Kubitz. Matthew La Rocque played a key role in the data analysis, and many TICAS staff contributed to the final document.

The views expressed in this report are those of The Institute for College Access & Success (TICAS) and do not necessarily reflect the views of its funders or any individuals or organizations referenced in this report. TICAS is an independent, nonprofit organization that works to make higher education more available and affordable for people of all backgrounds. TICAS is home to the Project on Student Debt, which seeks to increase public understanding of rising student debt and the implications for our families, economy, and society. For more about TICAS, see ticas.org.

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the institute for college access & success

405 14th Street, Suite 1100
Oakland, CA 94612
510.318.7900

110 Maryland Avenue, N.E., Suite 112
Washington, DC 20002
202.223.6060

info@ticas.org
www.ticas.org