NASFAA ISSUE BRIEF
LOAN LIMITS

FEBRUARY 2018

KEY TAKEAWAYS

1. CURRENT LOAN LIMITS ESTABLISHED IN THE HIGHER EDUCATION ACT (HEA), AS AMENDED, NO LONGER MEET THE NEEDS OF TODAY'S STUDENTS.
2. SOME STRUCTURAL CHANGES TO THE DESIGN OF ANNUAL AND AGGREGATE LOAN LIMITS, COMBINED WITH PROVIDING FINANCIAL AID OFFICES WITH TOOLS TO ADDRESS OVERBORROWING, WOULD IMPROVE THE EXISTING DIRECT LOAN PROGRAM.

WHY LOAN LIMITS MATTER:

Federal student loans are critical to students who need to fund a gap between their tuition and the federal, state, and institutional aid they have received, or to cover other education-related costs like books, transportation, housing, and food. Increasingly, students rely on the availability of federal student loans to access higher education.

In 1994-95 the annual Direct Loan limit of $5,500 for dependent students in or beyond their third year of undergraduate study covered 66% of the average cost of tuition, fees, room and board, but in 2014-15 the annual limit of $7,500 covered just 35% of those average costs.[1] The Perkins Loan Program once cushioned the impact of the Direct Loan's decreased purchasing power, but the program's expiration leaves students with an increasing gap to fill to finance their education.

Increasing private loan annual volume – from $9 billion in 2011-12 to $12 billion in 2016-17[2]– makes the case that federal student loans are insufficient to meet climbing college costs. Many undergraduates lack the depth of credit history or a willing and eligible cosigner required by private lenders. Further, private loans lack the borrower protections that federal loans offer.

66%

Percentage of the average tuition, fees, room and board covered by the annual loan limit for undergraduates in 1994-95.

CURRENT LOAN LIMIT LANDSCAPE:

Varying annual loan limits are confusing for students and complicated to administer. Students don't incur lower college costs in their earlier college years, yet their loans cover a smaller portion of college costs at the start of their academic careers than at the end. While aggregate limits are in place to prevent students from staying in school indefinitely while accruing federal student loans, those limits are the same regardless of grade level. Since annual limits are not tied to enrollment level, a half-time student could be eligible to borrow the full annual limit despite taking twice as long to earn a degree, making it possible for them to run out of aggregate borrowing eligibility before earning a degree.

35%

Percentage of the average tuition, fees, room and board covered by the annual loan limit for undergraduates in 2014-15.

EXISTING DIRECT LOAN LIMITS	Annual Limit			
	First Year	Second Year	Third Year and Beyond	Aggregate Limit
Dependent Undergrad	$5,500	$6,500	$7,500	$31,000
Independent Undergrad	$9,500	$10,500	$12,500	$57,500
Graduate/Professional	$20,500[3,4]			$138,500[4]
Parent of Dependent Undergrad (per student)	Up to Cost of Attendance			n/a

[1] NASFAA calculation using U.S. Department of Education National Center for Education Statistics average tuition, fees, room, and board across all institutions of $8,306 in 1994-95 and $21,728 in 2014-15. https://nces.ed.gov/fastfacts/display.asp?id=76

[2] "2017 Trends in Student Aid," College Board.

[3] Additional unsubsidized loan amounts available for certain health professions students.

[4] Graduate and professional students may borrow additional funds through the Graduate PLUS Loan.

Varying annual loan limits are confusing for students and complicated to administer.

THE PROSPER ACT:

In the PROSPER Act, the House's comprehensive HEA reauthorization bill, annual and aggregate loan limits would be imposed on all categories of borrowers, with the current structure largely maintained. Annual and aggregate loan limits would rise for most categories of borrowers, although parents and graduate students would be subject to new loan limits. In addition, the PROSPER Act allows institutions to prorate or reduce annual loan limits institution-wide or by academic program based on certain conditions.

LOAN LIMITS IN THE PROSPER ACT	Annual Limit			
	First Year	Second Year	Third Year and Beyond	Aggregate Limit
Dependent Undergrad	$7,500	$8,500	$9,500	$39,000
Independent Undergrad	$11,500	$12,500	$14,500	$60,250
Graduate/Professional	$28,500			$150,000
Parent of Dependent Undergrad (per student)	$12,500			$56,250

WHAT CONGRESS CAN DO:

Increase annual and aggregate loan limits. Direct Subsidized and Unsubsidized Loan limits have not kept pace with the cost of college. The loss of the Perkins Loan further limits students' federal loan options, forcing them to work more or to borrow private loans that lack the consumer protections of federal loans.

Simplify annual loan limits. Eliminate annual loan limit differences by establishing a single undergraduate subsidized and unsubsidized loan limit.

Link aggregate borrowing to year in school. Lower limits would apply to undergraduate students who have not yet successfully completed the second year of an undergraduate program. Do not allow students to continue borrowing without progressing toward degree completion.

the PROSPER Act allows institutions to prorate or reduce annual loan limits institution-wide or by academic program based on certain conditions.

Give schools authority to limit loans. Grant financial aid administrators the authority to limit loans for specific populations, academic programs, credential levels, or other categories established by the school (such as enrollment status, living arrangement, and dependency status).

Allow higher annual limits at low CDR schools. Permit students at institutions whose Cohort Default Rate falls below a certain threshold to borrow a "bonus" annual loan beyond the base annual limit and increase aggregate limits accordingly.

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1801 PENNSYLVANIA AVENUE, NW, SUITE 850
WASHINGTON, DC 20006-3606
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG