

Parent PLUS Loan Denial Rates in the FFEL and Direct Loan Programs

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EXECUTIVE SUMMARY

Parent PLUS loan denial rates in the federally-guaranteed student loan program (FFEL) were twice the Parent PLUS loan denial rates in the direct loan program (DL) in 2007-08.

The key findings of this report are as follows:

- In 2007-08, Parent PLUS loan denial rates were 42% in the FFEL program and 21% in the DL program.
- In 2003-04, Parent PLUS loan denial rates were 42% in the FFEL program and 26% in the DL program.

BACKGROUND

Prospective PLUS loan borrowers may not have an adverse credit history. The regulations for the FFEL and DL programs at 34 CFR 682.201(c)(2)(ii) and 34 CFR 685.200(c)(1)(vii)(B) define a borrower as having an adverse credit history if

- the borrower's credit history shows a default, bankruptcy discharge, foreclosure, repossession, tax lien, or wage garnishment in the last five years, or
- the borrower's credit history shows a current delinquency of 90 or more days on any debt.

When a dependent student's parents are denied a PLUS loan, the student becomes eligible for the increased unsubsidized Stafford loan limits available to independent students. This is referred to as "exceptional Stafford loan maximum amounts".

Anecdotal evidence suggests that several FFEL program lenders are incorrectly implementing the definition of an adverse credit history by using a five-year lookback for the 90-day delinquency restriction instead of limiting it to just current 90-day delinquencies.¹ This would necessarily lead to increased PLUS denial rates. Since such a five-year lookback on delinquencies would represent a more stringent credit underwriting standard than education lenders use for private student loans, this error would likely lead to a shifting of some borrowers from the PLUS loan to private student loans.

¹ This is technically not a violation of the regulations, since 34 CFR 682.201(c)(2)(iii) permits FFEL program lenders to adopt more stringent credit underwriting criteria.

METHODOLOGY

The analysis was performed using the data analysis systems for the 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS). The NPSAS is a large survey conducted every four years by the National Center for Education Statistics at the US Department of Education. The 2003-04 NPSAS surveyed 80,000 undergraduate students and the 2007-08 NPSAS surveyed 114,000 undergraduate students.

There is no national tracking of PLUS loan denials. However, the NPSAS includes a STAFCT2 variable that can be used to analyze whether an undergraduate borrower used the exceptional Stafford loan maximum amounts.² This variable includes borrowers who were eligible for the increased unsubsidized Stafford loan limits because of parent PLUS loan denials as well as a small number of students pursuing accelerated programs with a 10-12 month academic year and whose annual limits were prorated higher.³ So this variable can be used to obtain a ballpark estimate of the percentage of students whose parents were denied a Parent PLUS loan. The PLUSAMT variable can be used to obtain the percentage of students whose parents received a Parent PLUS loan. The DIRECTLN variable can be used to disaggregate FFEL program borrowers from Direct Loan borrowers.⁴ These results can be combined to calculate an estimate of the Parent PLUS loan denial rate.

The following NPSAS queries were performed using the data analysis system:

- Calculated Percentage>0 on PLUSAMT with a ROW_CAT on DIRECTLN and an AND-filter on DIRECTLN in DL and FFELP (excluding the categories for both and neither).
- Calculated COLUMN_CAT on STAFCT2 with ROW_CAT on DIRECTLN and an AND-filter on DIRECTLN in DL and FFELP (excluding the categories for both and neither).

PARENT PLUS LOAN DENIAL RATES

This analysis yields the following results for the 2007-08 NPSAS:

(2007-08 NPSAS) Program	Percentage Receiving Parent PLUS Loans	Percentage Receiving Stafford Exceptional Maximum
Total	10.7%	6.3%
Direct Loan Program	16.7%	4.5%
FFEL Program	9.2%	6.7%

² It is not possible to analyze PLUS loan denial rates for the Grad PLUS loan program because the concept of an exceptional Stafford loan maximum applies only to undergraduate students.

³ It is not possible to definitely exclude the borrowers whose Stafford loans were increased because of prorating for a longer academic year, one can analyze the distribution of the STAFFAMT variable for dependent undergraduate students to establish a ceiling of no more than a quarter of the scope of the variable. In all likelihood the percentage of borrowers with exceptional Stafford maximum amounts due to prorating is probably a lot less.

⁴ The DIRECTLN variable includes categories for borrowers who received both DL and FFEL program loans and borrowers who received neither. These categories were excluded from the analysis.

One can calculate the Parent PLUS loan denial rates by dividing the Stafford Exceptional Maximum figures by the sum of the two figures. This yields the following estimates of the PLUS loan denial rates for each program:

(2007-08 NPSAS) Program	Parent PLUS Loan Denial Rate
Total	37%
Direct Loan Program	21%
FFEL Program	42%

This suggests that the PLUS loan denial rate in the FFEL program in 2007-08 was twice that of the PLUS loan denial rate in the Direct Loan program.

A similar analysis was performed using the 2003-04 NPSAS. It yielded the following percentages for students receiving Parent PLUS loans and exceptional Stafford loan maximums.

(2003-04 NPSAS) Program	Percentage Receiving Parent PLUS Loans	Percentage Receiving Stafford Exceptional Maximum
Total	10.6%	6.4%
Direct Loan Program	12.3%	4.3%
FFEL Program	10.0%	7.2%

This, in turn, yields the following Parent PLUS loan denial rates.

(2003-04 NPSAS) Program	Parent PLUS Loan Denial Rate
Total	38%
Direct Loan Program	26%
FFEL Program	42%

This demonstrates that the PLUS loan denial rate in the FFEL program was 1.6 times the PLUS loan denial rate in the Direct Loan program in 2003-04.

The PLUS loan denial rate in the FFEL program was the same in 2003-04 and 2007-08, while the PLUS loan denial rate in the Direct Loan program decreased from 26% in 2003-04 to 21% in 2007-08.

PLUS loan denial rates in both programs have probably increased in 2008-09 due to the ongoing economic turmoil. According to a student loan survey of FastWeb users conducted in October and November 2008,⁵ 11.8% of respondents reported applying for a Parent PLUS loan and 55.6% of them said that they had been denied a Parent PLUS loan.

⁵ See www.finaid.org/loans/studentloansurvey.phtml