February 2014

GAO Highlights

Highlights of GAO-14-7, a report to congressional committees

FEDERAL STUDENT LOANS

Impact of Loan Limit Increases on College Prices Is Difficult to Discern

Why GAO Did This Study

A college education can increase the choices and opportunities available to individuals, but high college tuition rates have prompted concerns that a college education may be an unattainable goal for some. To help students finance their education, Congress passed a law that raised the ceiling on the amount students can borrow under the federal Stafford Loan Program (referred to in the law as "loan limits"). The Ensuring Continued Access to Student Loans Act of 2008 mandated a series of GAO reports over a 5 year period assessing the impact of these increases in the loan limits on tuition and other expenses and on private student loan borrowing.

For this final report, GAO examined: (1) the extent to which, if any, the Stafford loan limit increases affected tuition, fees and room and board prices at institutions of higher education; and (2) the trends in private student loan borrowing since the loan limits took effect. GAO developed a statistical model to explore whether the loan limit increases in academic years 2007-08 and 2008-09 had an impact on college prices in subsequent years. GAO analyzed data from the Department of Education (Education) and the Consumer Financial Protection Bureau (CFPB), and interviewed officials from eight higher education institutions that represented a mix of college sectors in different regions of the country, three of the largest private student lenders, federal officials, and subject matter specialists.

What GAO Recommends

GAO makes no recommendations in this report. Education and CFPB had no comments.

View GAO-14-7. For more information, contact Jacqueline M. Nowicki at (617) 788-0580 or nowickij@gao.gov.

What GAO Found

For more than a decade, college prices have been rising consistently and have continued to rise at a gradual pace after the Stafford loan limit increases were enacted in 2008 and 2009. However, it is difficult to determine if a direct relationship exists between increases in college prices and the Stafford loan limit increases because of the confluence of many other factors that occurred around the time the loan limit increases took effect. Specifically, when the loan limit increases took effect, the nation was in a recession, which created one of the most tumultuous and complex economic environments in recent history. GAO's analysis found that the economic effects of the recession, which affected families' employment, income, and net worth make it difficult to isolate the impact the recession had on students' decisions to borrow money to finance college expenses versus the impact of the loan limit increases. Further, federal, state, and institutional aid available to students also increased significantly around the same time the loan limit increases went into effect. It is difficult to determine the extent to which the increased availability of this financial aid influenced the decisions of students on whether and how much money they should borrow versus the availability of increased loan limits. Conversely, GAO's analysis shows that even though college prices continued to increase at a gradual pace over the last decade as well as after the loan limits increased, enrollment, which can be sensitive to price increases, also generally continued to grow across both public and private institutions and in all regions of the country.

Around the time that the loan limit increases took effect, the number of students taking out private education loans decreased across all types of institutions; lenders were making fewer loans and students borrowed less. Specifically, before the loan limit increases, the number of students borrowing private loans for academic year 2007-08 was about 2.8 million; after the limits went into effect the number dropped by over 50 percent to about 1.3 million for academic year 2011-12. Similarly, the average amount of money that students borrowed from private student loans decreased by about 17 percent after the loan limits went into effect. For example, for academic year 2007-08 students' private student loans averaged about $7,048 and for academic year 2011-12 this had dropped to about $5,870. According to the federal and institutional officials as well as financial lending experts that GAO spoke with, many factors may explain the changed private loan landscape. For example, these officials and experts noted that:

- lenders tightened lending criteria—such as requiring higher credit scores and co-signers—making it more difficult to obtain these loans;
- Congress enacted new protections to raise students' awareness about private loans, including disclosures of loan rates and terms; and
- colleges took steps to help students find alternatives to private borrowing and reduce reliance on private loans, such as increasing institutional aid and providing financial literacy counseling to help inform students about their federal assistance options.