MEMORANDUM

To: Alison Rabil, Assistant Vice Provost and Director of Financial Aid
CC: Jim Roberts, Executive Vice Provost for Finance and Administration
From: Luke Farrell, Chairman, Student Organization Finance Committee
Re: Undergraduate Loan-Free Financial Aid
Date: February 12, 2018

I. Executive Summary

Undergraduate financial aid currently relies heavily on loans to subsidize the cost of attendance for need-demonstrating students. Students with a combined family income below $40,000 do not receive loans in their package, all other students on financial aid receive between $2,000 and $5,000 in loans per year of attendance. A significant body of research demonstrates that including loans in financial aid packages greatly depresses low-middle quintile SES matriculation rates – a challenge currently manifesting at Duke relative to its peers. Sixteen of Duke's financial and aspirational peers have fully phased out or begun phasing out all loans from financial aid packages. This memo outlines a loan-free financial aid option for Duke. The proposed policy would substitute grants for loan aid for an estimated 679 students in each incoming class. A high end estimate of a 7.71% increase in financial aid spending over the FY19 - FY23 period would be sufficient to phase out the use of loans entirely.

II. Status Quo of Duke Loan Policy

Duke's $40,000 loan-free cap is presently the least generous among our financial peers and the US News and World Report Top Ten by a significant margin. For the 2017 cohort, 144 students fell below that cut off, while 679 did not and presumably received loans.

Data presented to the Business & Finance Committee of the Board of Trustees indicates that 144 students received $0 in loans, 243 averaged $3,500, and 436 received $5,000 per year of attendance (figure 2 and figure 3). The 243 students with combined household incomes between $40,000 and $100,000 receive just under $1M in loans in FY17. Those who receive $5,000 loans make up the largest percentage of the financial aid cohort with over $2.18M in loans awarded. This breakdown suggests a majority of financial aid recipients will accumulate $20,000 in student debt by graduation.

This policy has a severe impact on the accessibility to students from middle and low SES backgrounds, whose households are known to be highly debt resistant according to data from the Institute for Higher Education Policy[1]. Among students who fall below the $40,000 cap and receive no loans, Duke's matriculation rate is impressively high, while after that cut off, with the awarding of loans, matriculation rates fall precipitously. Even when these students do choose to matriculate, debt severely curtails their academic

1. Alisa F. Cunningham et al., *Student Aversion to Borrowing: Who Borrows and Who Doesn't* (2008)
2. Jesse Rothstein et al., *Constrained After College: Student Loans and Early Career Occupational Choices* (2007)

ambitions and places a new onus to pursue professional tracks that can support enormous debt, according to data from the National Bureau of Economic Research[2].

Consequently, the current loan policy is driving our failure to attract and matriculate low and middle-income students at competitive rates. The current loan policy also is directly contributing to a deviation from Duke's liberal arts tradition and towards pre-professionalism. As a result of these negative impacts, external pressures from competing universities, and internal pressure from students, the current loan policy cannot remain unaltered indefinitely.

III. Proposed Policy and Expected Outcomes

All loans in all financial aid packages would be phased out over four years starting with FY19's incoming class and replaced dollar for dollar with grant aid. This would effectively eliminate the $40,000 cap on loan-free financial aid. No loan forgiveness policy for any preceding classes would be incorporated.

Institutional support for undergraduate financial aid would need to increase by a total of 7.71 % over the four-year period, which amounts to a below 2% annual additional increase in financial aid spending for four years. Each incoming class will have a fixed cost of approximately $3.05M (high end) annually if the current loan distribution is matched directly with grants. Income generated from post-graduation interest (4.45% after graduation) on loans will also be lost for each class at an estimated $500,000 annually beginning in FY23. However, the office of financial aid is not reliant on these funds, as it has yet to see any interest revenue from the current loan policy.

Directed fundraising efforts by the new presidential administration, minor increase in endowment spending, and reallocation of unrestricted funds could all be sources of support.

IV. Potential Concerns and Objections

a. Duke undergraduate students do not graduate with that much debt relative to their peers. Undergraduates currently graduate with $21,540 in total debt after college, which is approximately a quarter less than the national average, and marginally less than many of our peers. This is a promising static to cite, however, it neglects the reality of the unequal distribution of the debt burden on Duke financial aid recipients.

b. Some universities phasing in loan-free packages have needed to lower the high end of their financial aid offerings. This has resulted in fewer overall recipients, but more generous aid for those who do receive it. Proper financing and sufficient fundraising should render this squeeze avoidable, nearly all universities moving towards loan-free have managed to avoid it.

c. Duke's financial aid offerings are already unique and provide debt relief in other ways. Lower expected student contributions and two funded summer experiences help prevent additional borrowing for example. This proposal does not recommend the curtailing of these peripheral programs, rather it is concerned with the core offerings of undergraduate financial aid.

d. Educational offerings as an opportunity cost. In general, this is a red herring and specific concerns with programmatic spending should be addressed on a case by case basis. The quality of educational offerings need not be mutually exclusive with a commitment to affordability.

V. Appendix

Figure 1:

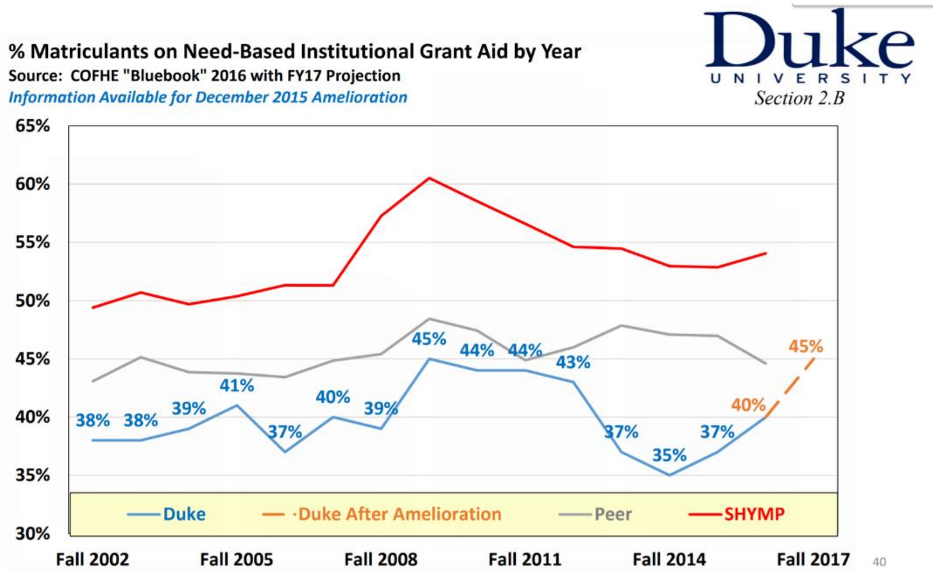

Figure 2:

Leading Indicators: Aid Profile for the Entering Student Fall 2016 & 2017 Cohorts

Key Data Points for Entering Class	2016	2017	Change
Average Family Income of Aided Students	129,000	123,000	-5%
Count with Family Income less than $40K	99	144	45%
Count with Family Income between $40K and $100K	213	243	14%
Students Receiving Need Based Aid	42%	47%	5%
Count Students with Any Need Based Grant Aid	724	823	14%
Average Grant	44,500	48,500	9%
Cohort Total Cost ($M)	32.2	39.9	24%

The entering class for Fall 2017 includes the matriculation of 60 Rubenstein Scholars and 47 Questbridge Scholars.

Figure 3:

Total Income	Loan Award
Under $40,000	$0
$40,001 - $55,000	$2,000
$55,001 - $70,000	$3,000
$70,001 - $85,000	$4,000

Figure 4:

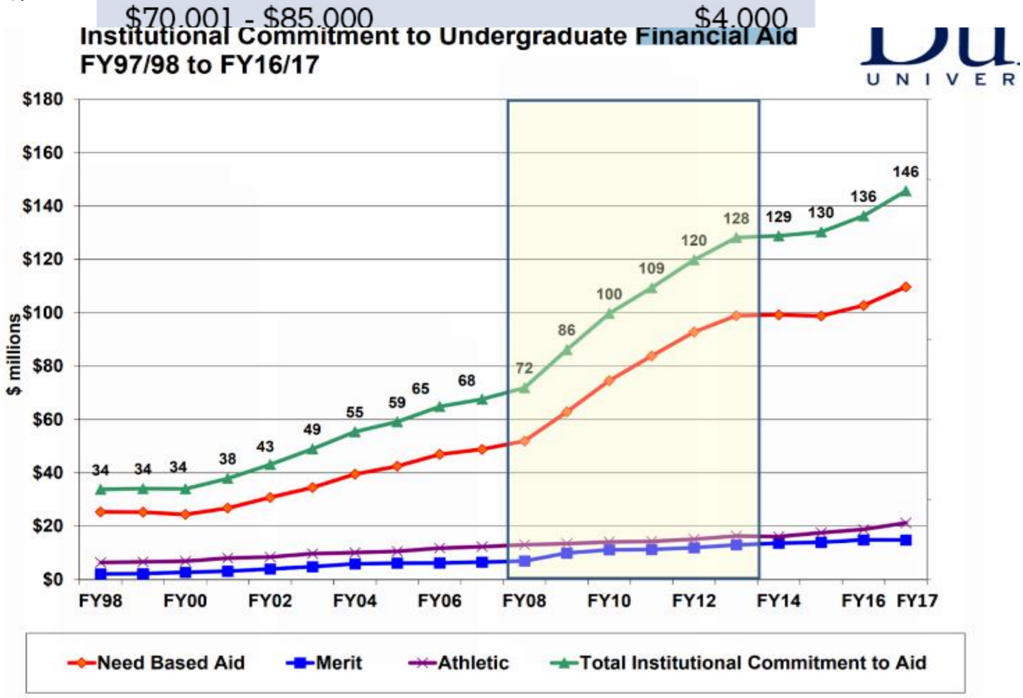

Figure 5:

10 Year Institutional Commitment to Undergraduate Financial Aid

Institutional Support with Percent Growth from the Prior Year