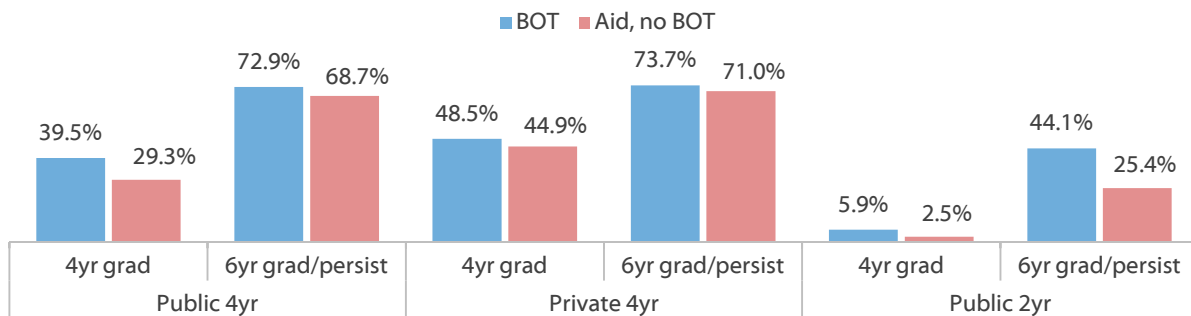# B-On-Time Loan Showed Promise But Was Underutilized

The Texas B-On-Time (BOT) Loan Program is an undergraduate student loan program that sought to increase access to higher education and encourage students to graduate on time, which costs less, and focus on academics, which should promote learning and better employment outcomes.. Established in 2003, this loan was completely forgiven for borrowers who completed their degrees on time with a 3.0 GPA or higher. Loans to students at public institutions were funded by a tuition set-aside; legislative appropriations funded loans to students at private institutions. The Texas Legislature ceased the disbursement of new loans in 2013; renewal loans will be made through 2020.

Students who received BOT loans consistently graduated at higher rates than students who received aid but no BOT loan. About forty percent of public university students with BOT loans graduated in four years, compared to 29 percent for non-BOT aid recipients. According to the THECB, "these data suggest that the prospect of loan forgiveness may have been a strong enough incentive to influence behavior leading to more timely graduation".

Graduation and Persistence Rates of BOT Recipients and Non-Recipients who Received Other Aid, by Sector (program lifetime)

Despite its promise, the BOT program was underutilized. Thirty-six percent of funds were not allocated in FY 2011, and only five out of 136 institutions disbursed their entire allocation. Four-year private institutions used 90 percent of their funds, while public universities used 64 percent. Community colleges used only 3 percent of their allocation.

In 2013, the Sunset Advisory Commission identified several issues hindering the BOT program. These included both poor structural fit and inadequate funding at community colleges, strict eligibility requirements, complexity, and lack of awareness. Federal "preferred lender list" rules likely contributed to this lack of awareness. Created to prevent conflicts of interest with private student lending, the rules prevent college staff from volunteering information about non-federal loans unless the institution develops a "preferred lender list". This process entails risks to the institution and diverts scarce administrative resources. Public institutions, whose lower costs are less likely to require non-federal borrowing, are less likely to have preferred lender lists; this may partially explain their low utilization rates relative to private institutions. Acknowledging this issue, the Commission concluded that, "despite its flaws, the state benefits from a program [BOT] that supports access to college through no-interest loans and encourages graduation". The Commission made several recommendations to improve the program but the state opted to phase it out.

New legislation has been introduced to alter this decision. State Senator Judith Zaffirini (D-Laredo), who wrote the original BOT legislation, has introduced SB 32, which would recreate the program with improvements, such as directing the THECB and school districts to help inform students of its benefits. Rep. Joaquin Castro (D-San Antonio) introduced bills in the previous U.S. Congress to exempt state-sponsored, interest-free loans from preferred lender requirements and even create a national B-on-Time program; this legislation will likely be reintroduced.