

# A Brief Look at . . . the Texas B-On-Time Loan Program

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By Melissa Shook

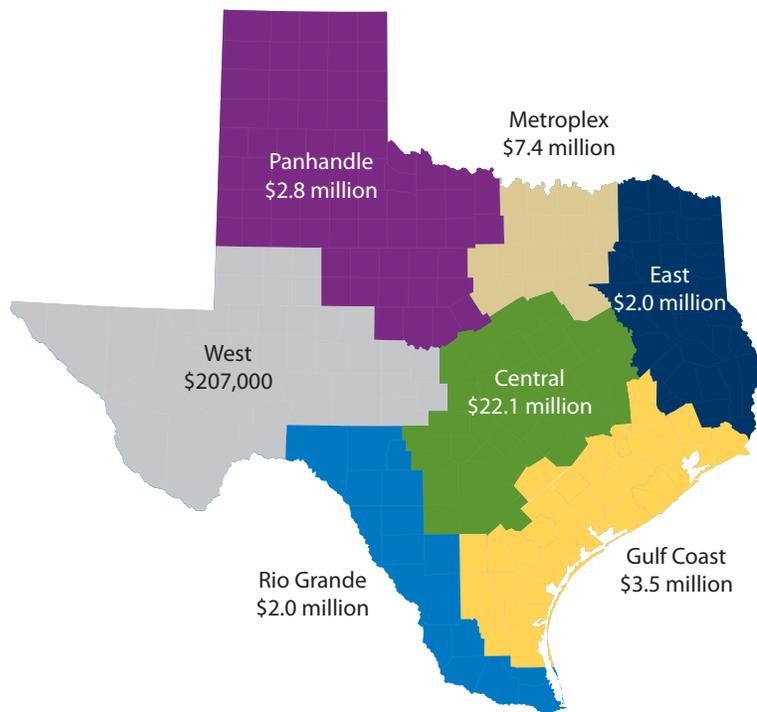
## HISTORICAL BACKGROUND

The Texas B-On-Time (BOT) Loan Program is a unique state aid program intended to increase access to higher education in Texas and encourage on-time graduation. This state student loan may be completely forgiven if the otherwise eligible borrower completes his or her degree on time. The BOT Loan Program was developed in response to low on-time graduation rates; as of 2003, less than 50% of Texas students were graduating within 6 years of entering college. With the creation of this bill, State Senator Judith Zaffirini (D-Laredo) aimed to increase the return on college investment by motivating students to graduate on time and therefore spend less money on their education. A secondary goal of this program is to help prevent overcrowding at public universities in Texas by creating vacancies as more students graduate in less time (Holdsworth, 2004).

The goal of increased on-time graduation rates seems to be working. The Texas Higher Education Coordinating Board (THECB) reports that in fiscal year (FY) 2010, 44 percent of public university students with BOT loans graduated in 4 years, more than twice the 4-year graduation rate for those who received aid but not BOT loans (20 percent). BOT recipients' 6-year graduation rates were studied for the first time in 2010. The 6-year graduation rate for BOT students is significantly higher than the rate for non-BOT students. Seventy-one percent of BOT recipients at public universities graduated within 6 years, compared to 49 percent for aid recipients without BOT (Texas Higher Education Coordinating Board, 2011).

Despite its success, the BOT Loan Program has not been fully utilized. Thirty-six percent of funds were not allocated in FY 2011, and only five out of 136 institutions disbursed their entire allocation (Sunset Advisory Commission, 2012). Four-year private institutions used 90 percent of their funds — the most of any sector. Four-year public institutions used the second highest percentage of funds, with 64 percent, while community colleges used only 3 percent of their allocation. Many students at community colleges go to school part time and do not qualify for the BOT Loan Program, which may explain its very low rate of usage in that sector. On the other hand, a high percentage of students at private four-year institutions attend school full time and meet the requirements to qualify for the BOT Loan Program. The higher tuition and fees at most private institutions may encourage more students to apply for the BOT Loan Program as part of a comprehensive financial aid package.

**BOT Loan Totals by Region 2010**





## ELIGIBILITY REQUIREMENTS

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To be eligible for a Texas B-On-Time student loan, a borrower must:

- Be a Texas resident or be entitled to pay resident tuition rates as a dependent child of a member of the U.S. Armed Forces; and
- Meet one of the following academic requirements:
  - Have graduated no earlier than the 2002–2003 academic year under the Recommended or Distinguished Achievement Program (or its equivalent) from a public or private high school in Texas;
  - As a dependent child of a member of the Armed Forces of the United States, have graduated no earlier than the 2002–2003 academic year from a high school operated by the U.S. Department of Defense; or
  - Have earned an associate degree from an eligible institution no earlier than May 1, 2005.

To be eligible, an applicant must also:

- Not have been granted a bachelor's degree;
- Be enrolled in an eligible institution's undergraduate degree or certificate program full time as determined by the institution; and
- Have completed a Free Application for Federal Student Aid (FAFSA) and be eligible for federal financial aid (Texas Administrative Code, 2003).

## RENEWAL ELIGIBILITY

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To maintain eligibility for future disbursements, the student must continue to meet all of the initial eligibility requirements and must additionally:

- Meet satisfactory academic progress requirements toward a degree or certificate as determined by the institution;
- As of the end of the second and subsequent years, complete at least 75 percent of the hours attempted in his or her most recent academic year, and maintain an overall grade point average of at least 2.5 on a four point scale or its equivalent, for all coursework attempted at public, private, or independent institutions of higher education;
- Enroll in a program leading to a bachelor's degree within 12 months after the month in which the student received an undergraduate certificate or associate degree; and
- Not have exceeded 150 semester credit hours or the equivalent (Texas Administrative Code, 2003).

## FORGIVENESS REQUIREMENTS

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Forgiveness may be granted if the student received an undergraduate degree or certificate from an eligible institution, graduated with a B average, or the equivalent of a cumulative grade point average of at least 3.0 on a four-point scale, and received:

- A bachelor's degree within four calendar years of the date the student initially enrolled in an eligible institution;
- A bachelor's degree within five calendar years after the date the student initially enrolled in an eligible institution if the institution has reported or will report that the student graduated with a degree in architecture, engineering, or any other program that the institution certifies to the THECB is a program that requires more than four years to complete;
- A degree or certificate from a two-year program within two calendar years after the date the student initially enrolled in an eligible institution;
- A certificate from a one-year program within one calendar year after the date the student initially enrolled in an eligible institution; or
- No more than:
  - Six hours more than the number of credit hours required to complete a two-year certificate or a bachelor's degree; or
  - Three hours more than the number of credit hours required to complete a one-year certificate (Texas Administrative Code, 2003).

Between FY 2006 and FY 2009, over \$40 million in BOT Loan Program money was forgiven. Borrowers at 10 schools (Abilene Christian University, St. Edward's University, Stephen F. Austin State University, Texas A&M University, Texas Christian University, Texas Tech University, Trinity University, University of North Texas, The University of Texas at Arlington, The University of Texas at Austin, and

The University of Texas–Pan American) have had over \$1 million forgiven (State Auditor’s Office, 2009). The total amount of BOT loans forgiven at individual institutions ranges from just \$635 to over \$6 million forgiven at The University of Texas at Austin.

## FIGURES

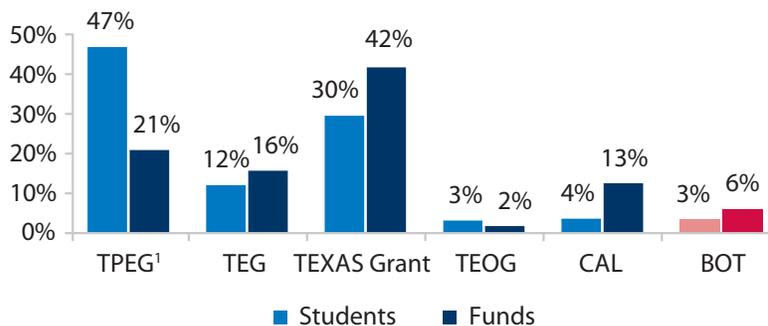
BOT student loan funds comprise about 6 percent of state student aid funds in Texas and serve 3 percent of state student aid recipients. By comparison, the TEXAS Grant Program awards the highest percentage of funds (42 percent) while the highest percentage of aid recipients receives the Texas Public Education Grant (47 percent). In FY 2010, \$274 million was awarded to 68,000 students through the TEXAS Grant Program. The BOT Loan Program is much smaller, awarding just over \$40 million to 7,800 students during FY 2010.

The institutional sector of the school a student attends affects the likelihood of whether he or she has received a BOT loan. The private nonprofit sector has the highest percentage of state student aid recipients who have received a BOT loan, with nearly 7 percent. At the other end of the spectrum, less than 1 percent of community college students with state aid have received BOT loans. HBCU and HSI students have also been less likely to receive a BOT loan than their public university counterparts.

White students are more likely to receive a B-On-Time loan than any other ethnicity. While 45 percent of BOT loan recipients are White, only 37 percent of all student aid recipients are White. Hispanic students are the second largest percentage of student aid recipients. Twenty-nine percent of student aid recipients are Hispanic, 25 percent of BOT recipients are Hispanic, and only 20 percent of other federal and state student loan recipients are Hispanic.

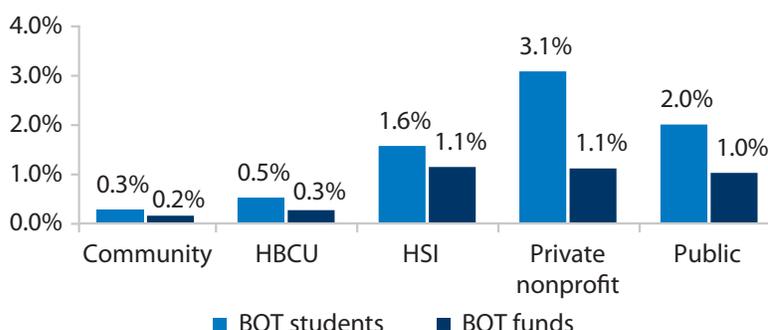
The BOT Loan Program has proven to be popular among schools because of the zero percent interest rate and the potential for complete loan forgiveness as an incentive for borrowers to complete their degree programs on time. However, the BOT Loan Program is not an entitlement, and funds are limited because the program is financed through discretionary appropriations from the state legislature, limited student loan bond proceeds, and a mandatory 5 percent tuition set-aside from public universities. Because of this situation, if a student is interested in a BOT loan, he or she should apply early and check back with the financial aid office soon after.

### Use of Student Aid by Type



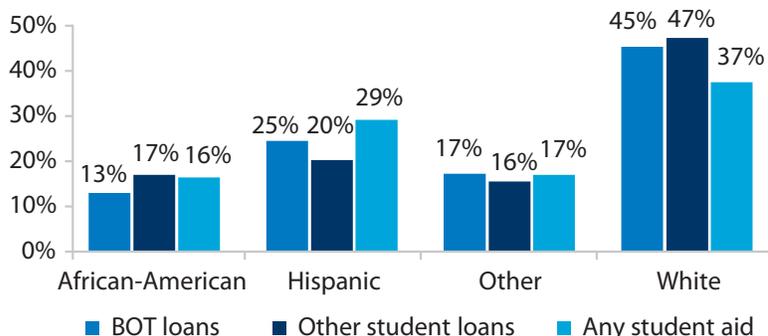
Source: Texas Higher Education Coordinating Board: Financial Aid Database 2010

### Students with BOT Loans by Sector



Source: Texas Higher Education Coordinating Board: Financial Aid Database 2010

### BOT Recipients by Ethnicity



Source: Texas Higher Education Coordinating Board: Financial Aid Database 2010

<sup>1</sup> Acronyms: Texas Public Education Grant (TPEG), Tuition Equalization Grant (TEG), Toward EXcellence, Access and Success (TEXAS) Grant, Texas Educational Opportunity Grant (TEOG), College Access Loan (CAL), Texas B-On-Time Loan (BOT).



Additionally, federal law requires institutions that offer information about any nonfederal student loan programs to include information about every available loan program; as a result, many student financial aid offices do not offer information on the BOT Loan Program due to the administrative burden. This creates an awareness barrier for students and families and contributes to the underutilization of this program.

## SOURCES

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- With Great Challenges Come Great Opportunities: Promising Practices of Texas Community Colleges*, June 2011
- Digging Deeper: An Analysis of Student Loan Debt in Texas*, November 2010
- How to Graduate High-Risk Students: Lessons from Successful For-Profit Colleges and Schools in Texas*, June 2010
- State of Student Aid and Higher Education in Texas (SOSA)*, November 2011
- The Toughest Test: The Student Loan Liquidity Crisis of 2007–08 in Texas*, November 2008
- Ready, Willing, and Unable: How Financial Barriers Obstruct Bachelor-degree Attainment in Texas*, December 2006

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