Report of the NASFAA Task Force on Re-Examining Paradigms of Campus-Based Aid

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Introduction

The NASFAA task force for Re-Examining Paradigms of Campus-Based Aid was established in June 2017 to examine the "one grant/one loan" concept with a specific focus on whether and how the existing campus-based programs fit into this model. Although the "one grant/one loan" concept is not a new one, recent focus on simplification of the Title IV aid programs has brought it back to the forefront of conversation in the financial aid community and on Capitol Hill. As Congress gets closer to reauthorization of the Higher Education Act (HEA), discourse surrounding "one grant/one loan" has surfaced among key lawmakers. This, combined with the 2016 election leaving leadership in place that has historically been very supportive of the concept, means there is strong interest on Capitol Hill in moving this model forward.

The Task Force was asked to:

- Discuss the different possible structures of a campus-based program in a "one grant/one loan/one campus-based" model and the implications of such a model;
- Discuss whether or how the strengths of the campus-based programs could continue to exist in a new model;
- Discuss if the three individual campus-based programs should be separately maintained under such a model, or if they might dissolve and become one single source of funds for a school to utilize, and with how much institutional discretion;
- Identify the level of flexibility that a school would retain in a "one grant/one loan/one campus-based" model, e.g., would schools get flexibility over how to use the funds, such as using the funds to develop a student success initiative? If a school chooses, based on their own population, to use all the funds for FWS, would that be permissible?;
- Discuss institutional "skin-in-the-game" and whether and how much of an investment would be required by institutions;
- Consider other implications of a "one grant/one loan/one campus-based" model, such as consumer information and loan servicing; and
- Provide recommendations and considerations to the NASFAA board.

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About NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every ten undergraduates in the United States. Based in Washington, DC, NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit www.nasfaa.org.

Background

In June of 2014, the House Committee on Education and the Workforce released a white paper entitled, "Strengthening America's Higher Education System: Republican Priorities for Reauthorizing the Higher Education Act".[1] A portion of the paper is dedicated to exploring a "One Grant, One Loan, and One Work-Study Program" proposal. In the Senate, the Committee on Health, Education, Labor, and Pensions (HELP) chairman, Sen. Lamar Alexander (R-TN), along with Senator Michael Bennet (D-CO), re-introduced the bipartisan Financial Aid Simplification and Transparency (FAST) Act in 2015. The FAST Act includes a provision establishing a "one grant/one loan" model, and may serve as a cornerstone for the Senate's efforts moving forward.

Where do the campus-based programs fit into this model? In prior discussions about "one grant/one loan" it has been assumed, but not always explicitly stated, that Federal Work- Study (FWS) would be retained. FWS has and, likely, will continue to have, a great deal of goodwill and bipartisan support on Capitol Hill. However, some have argued that the Federal Supplemental Educational Opportunity Grant (FSEOG) Program and the now-defunct Federal Perkins Loan program make financial aid more complex for students, are unnecessary, and should be eliminated.

Executive Summary

Proposals to eliminate the campus-based programs are at odds with NASFAA's reauthorization recommendations[2]. NASFAA's reauthorization proposals also do not support a move to a "one grant/one loan model". However, should Congress move forward with such a model, we want to explore the various possible iterations and the pros and cons of each. In 2016, NASFAA convened the "Examining 'One Grant, One Loan'" task force to consider trade-offs, implications, and implementation recommendations if a "one grant/one loan" model were to be adopted by Congress. This new task force builds on their work and examines potential ways to retain the most valuable aspects of the campus-based programs while also achieving simplification of the overall system.

Following discussions about the merits and drawbacks of each of the federal grant, loan, and work programs, the task force attempted to incorporate the best features of each program into a cohesive model. Ultimately, two distinct scenarios were considered: a true "one grant/one loan/one work study" model that adds a portable Federal Work-Study award, and a "one grant/one loan/one campus-based" model that retains the flexibility of the campus-based programs. The task force members found merits in both approaches and did not endorse one of these options over the other. We present both options here for further consideration.

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[1] United States House Committee on Education and the Workforce. "Strengthening America's Higher Education System: Republican Priorities for Reauthorizing the Higher Education Act." https://edworkforce.house.gov/uploadedfiles/hea_whitepaper.pdf

[2] National Association of Student Financial Aid Administrators. July 2016. "Updated Report of the Reauthorization Task Force." https://www.nasfaa.org/uploads/documents/updated_rtf_report.pdf

Existing Campus-Based Grant, Loan, and Work Study: Merits and Drawbacks

Grants

Federal grant programs have been the cornerstone of access to postsecondary education for low-income students since 1965. The Basic Educational Opportunity Grant (or BEOG, now known as the Pell grant) program was the sole federal grant program until 1972. At that time, the BEOG was divided and a second grant program, the Federal Supplemental Educational Opportunity Grant, was created. The creation of the FSEOG program was intended to provide supplemental funds to the neediest students. Institutions were required to have "skin in the game" through a mandatory institutional match to the federal allocation. The FSEOG model is an effective partnership between the federal government and schools in providing postsecondary educational opportunities to low-income students.

FSEOG's primary merit is the flexibility granted institutions to meet individual student needs. While Pell grant awards are fixed based on expected family contribution (EFC), cost of attendance (COA), and enrollment status, FSEOG may be awarded at the school's discretion to meet student needs that may not necessarily reveal themselves via the EFC formula. FSEOG is an opportunity for financial aid professionals to utilize their expertise to identify students in need of extra funds to enable them to enroll in and, ultimately, complete postsecondary education.

A drawback of FSEOG is that, in practice, many schools actually have very little flexibility in awarding funds. The statute requires that institutions award FSEOG first to students with the lowest EFCs and to give priority to Pell grant recipients, and a 40-year-old FSEOG allocation formula relies too heavily on institutions' historical allocations instead of the need of the populations they currently serve. These factors contribute to an environment in which many institutions that serve high-need populations exhaust their entire FSEOG allocation making small awards only to zero-EFC students, making minimal impact to those students' awards and exercising little discretion over who receives them. Meanwhile, other institutions' allocations allow them to make meaningful awards not only to their Pell-eligible students but even to needy students who fall just out of Pell-eligible range.

The campus-based FSEOG as it exists today impacts similarly-situated students disparately depending on the college they choose. Worse, they are not aware that their college choice impacts their FSEOG award until they receive their financial aid award letter. It is confusing for students and their families to understand, and for financial aid administrators to explain, why a student may be eligible for FSEOG funds at one school and not another.

Loans

The federal Perkins loan program began in 1958 as the National Defense Student Loan (NDSL). School authority to make new loans expired on September 30, 2017. Like FSEOG, a major benefit of the campus-based Perkins loan was the flexibility afforded institutions to make awards to the students they identified as having the most need. As Direct Loan annual limits have failed to keep pace with rising tuition costs, the Perkins loan often filled a gap that students would have otherwise needed to fund with additional parental support, longer work hours, or with private loans that lack the consumer protections of federal loans. For students who aren't able to rely on those other financing sources, the consequences could be failure to either enroll or to persist in their postsecondary studies.

Statutory restrictions on who was eligible to receive Perkins loans were similar to but less restrictive than for FSEOG, with institutions required to award Perkins loan funds first to students with exceptional need (which, per regulations, was defined by the school). This greater degree of flexibility was still limited by issues with the allocation formula that left some schools with enough (or more than enough) Perkins funds and others wanting for more. Many schools chose not to participate in the Perkins loan program due to the administrative burden of loan servicing. Again, as with FSEOG, it is difficult to explain a federal student aid program that varies depending on the institution a student attends. Finally, a drawback of the Perkins loan for students was the complexity of a separate loan to track in addition to the Federal Direct Loan– more paperwork, different loan terms and conditions to understand, and "split servicing", which occurs when students have more than one loan servicer, requiring separate monthly payments and multiple entities to notify of address changes, to file requests for deferment or forbearance, or to change repayment plans.

Work Study

Federal Work Study got its start as the College Work Study Program in the 1964 Economic Opportunity Act. Research has found that participation in between 1 and 20 hours per week of student employment is associated with student success[3]. The FWS program needs to remain a core component of the conversation in terms of the student experience and as an avenue to facilitate student engagement and retention. As with the other campus-based programs, flexibility is a key benefit of the FWS program. FWS also enjoys the largest degree of awarding discretion by schools, with the requirement only that students demonstrate financial need in order to qualify.

Aside from flaws with the allocation formula that similarly impact the FSEOG and Perkins loan programs, institutions are further challenged in using their FWS funds simply by nature of geographic location. An institution located in an economically depressed area might have students clamoring for FWS jobs, whereas one located in a thriving area might struggle to spend FWS dollars because students choose off-campus employment instead. Institutions in rural parts of the country find it difficult to meet the FWS community service spending requirement due to lack of a large enough community in need, from lack of transportation options, or both.

Under existing "one grant/one loan" proposals, multiple loan and grant programs are collapsed into a single loan and a single grant. Senators Alexander and Bennet's FAST Act[4] does not specifically address

[3] Pascarella, E.T., & Terenzini, P.T. (2005). *How College Affects Students: A Third Decade of Research.* San Francisco: Jossey-Bass.
[4] Financial Aid Simplification and Transparency Act of 2015, S. 108, 114th Congress. (2015). https://www.congress.gov/bill/114th-congress/senate-bill/108

FWS, but nor does it recommend its elimination. The House Committee on Education and the Workforce's "Republican Priorities for Reauthorizing the Higher Education Act"[5] includes retaining FWS in its current form. This task force chose to retain FWS in both of its proposals and makes recommendations for improvements to the program.

Two Proposed Models for Simplifying the Federal Student Aid Programs

One Loan

Both models proposed by the task force, detailed below, share in common a vision for a single federal loan which is outlined here. With the recent demise of the Perkins loan as a source of funding for campus-level loans, a "one loan" model has effectively been decided for us. However, the loss of Perkins funding leaves a large gap for more than a half-million students who relied upon the Perkins loan to pay for college each year, so there is still an opportunity to refine the details of a "one loan" scenario to preserve funding options beyond the existing Direct Loan program for needy students. The task force proposes increasing annual Federal Direct Loan limits by the annual Perkins loan limit and increasing aggregate borrowing limits to accommodate the higher annual borrowing levels. To prevent overborrowing, institutions should be given the authority to limit borrowing for populations of students as suggested by NASFAA's Dynamic Loan Limits Working Group[6].

The task force recommends making the federal loan interest subsidy available only to Pell grant-eligible students. Many low-income students are ineligible for subsidized loans either because of large need-based grant awards at high-cost institutions or because they attend very low-cost schools whose tuition is covered by the Pell grant. Conversely, many students from higher-resourced families qualify for the interest subsidy only because they attend high-cost institutions. Tying the subsidized loan to EFC instead of to cost of attendance ensures that only needy students benefit from the interest subsidy while all other students still enjoy the benefit of an unsecured federal loan with myriad borrower protections, flexible repayment options, and opportunities for forgiveness. A further recommendation is to determine eligibility for the interest subsidy upon entering repayment, instead of annually. A student who received a Pell grant during any year would be retroactively eligible for the interest subsidy on all of their undergraduate loans. This solution would reduce the number of mid-year aid adjustments for receipt of outside scholarships or due to enrollment status changes, and would also eliminate tedious Subsidized Usage Limit Applies (SULA) reporting and tracking. It is recommended that NASFAA commission another task force to examine the feasibility of such a plan.

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[5] United States House Committee on Education and the Workforce. "Strengthening America's Higher Education System: Republican Priorities for Reauthorizing the Higher Education Act." https://edworkforce.house.gov/uploadedfiles/hea_whitepaper.pdf

[6] National Association of Student Financial Aid Administrators. July 2016. "Dynamic Loan Limits Working Group Proposal." https://www.nasfaa.org/uploads/documents/Dynamic_Loan_Limits_Discussion_Draft.pdf

Finally, the task force recommends that the Teacher Education Assistance for College and Higher Education (TEACH) program be eliminated entirely as a grant program and that, in its place, loan forgiveness programs (under the one loan model) for teachers be revisited and redefined.

Model 1: Portable Option (One Grant, One Loan, One Work)

Because of flaws in the campus-based allocation formula–which includes a "base guarantee" that favors institutions that have participated in the campus-based aid programs the longest[7]–the institutions with the largest allocations of campus-based funding are not always those with the greatest proportion of high-need students. To address this inequity, the task force proposes a portability option that would provide students with an individual determination of federal aid eligibility which would be available to them at any college of their choice. This award would be a guarantee of a single federal grant and a single federal loan, and of work study eligibility (but not earnings, as explained later). Since aid would presumably still be dependent upon enrollment status and grade level, language would need to be included in any notification to students explaining that the guarantee of aid is still subject to other eligibility restrictions, including the availability of work study positions on campus. Because there would be no federal discretionary funds for institutions, there would also be no institutional match.

The primary benefit of this approach for students and families is transparency and predictability–knowing that their federal student aid eligibility will not be dependent upon their college choice. For institutions, the main benefits would be simpler administration of the federal aid programs and elimination of the campus-based allocation formula that results in an inequitable distribution of campus-based funds. Institutions would also no longer be required to complete the FISAP under this model.

The task force recommends incorporating an early commitment of federal student aid funding under this model, as has been put forth by NASFAA in its issue brief, "Reimagining Financial Aid to Improve Student Access and Outcomes"[8] Ideally, as early as their freshman year in high school, a student could receive a letter of eligibility for federal loan, work, and grant funding that they would be able to use for enrollment at an eligible postsecondary institution. Research has shown a link between early notification of Pell grant eligibility and increased enrollment in postsecondary education.[9] The opportunity for earlier communication would address the current concern that those who would benefit the most from federal student financial aid fail to pursue postsecondary education because they are unaware of the resources available to them.

The simplicity and predictability of federal student aid eligibility proposed in this option might be seen as coming at the cost of institutional flexibility in awarding, however limited that may be. Financial aid

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[7] National Association of Student Financial Aid Administrators. 2014. "The Campus-Based Formula." https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report

[8] National Association of Student Financial Aid Administrators. 2013. "Reimagining Financial Aid to Improve Student Access and Outcomes." https://www.nasfaa.org/Reimagining_Aid_Design_and_Delivery_RADD

[9] Kelchen, R. & Goldrick-Rab, S. "Accelerating College Knowledge: A Fiscal Analysis of a Targeted Early Commitment Pell Grant Program." The Journal of Higher Education, vol. 86 no. 2, 2015, pp. 199-232. Project MUSE, doi:10.1353/jhe.2015.0007

administrators at schools with few or no institutional financial aid funds might envision their roles as changing significantly, with fewer options to help individual students who present unique circumstances that demonstrate need but which don't necessarily impact the EFC. However, under this model, institutions could repurpose those funds previously earmarked for the campus-based aid institutional match to create institutional grant funds that could serve the same purpose as campus-based aid does now, but with the benefit of a greater degree of discretion and flexibility.

Assuming the "one grant" in this model is the Pell grant and that funds currently appropriated to FSEOG would be added to the funds appropriated for the federal Pell grant, it would be essential to incorporate NASFAA's recommendations to make the Federal Pell grant a true entitlement program with 100% mandatory funding and to apply the inflation adjustment to the entire award[10] to ensure that the FSEOG funds are not simply reabsorbed into the Pell grant program and subsequently lost in future appropriations. It is assumed that the Pell grant Administrative Cost Allowance (ACA) would be preserved under this model.

Another potential drawback to this approach is the alignment of federal work study positions available on campus with the number of FWS-eligible students enrolling. Under the current model, institutions can base the number and amount of FWS awards on the number of available FWS positions. Similarly, they can gauge the number of FWS positions needed based on their historical allocations. Further, institutions that are limited in the number of FWS positions they can make available have the ability to limit their allocation by requesting a specific FWS amount on the Fiscal Operations Report and Application to Participate (FISAP). Under a fully portable FWS award model, institutions would lose some ability to predict the demand for FWS positions. This concern can likely be addressed with the use of historical enrollment data since the need levels of an institution's population would be unlikely to change under this new model and, as such, the number of FWS-eligible students could be reasonably estimated. While it is hoped that institutions will create positions for all FWS-eligible students, the task force recommends that notifications of eligibility be worded to include language that the FWS award is dependent upon availability of jobs at the institution the student ultimately attends, to accommodate institutions that are unable to meet demand for FWS positions.

This "Portable Option" incorporates the "One Loan" detailed at the beginning of this section.

Model 2: Campus-Based Option (One Grant, One Loan, One Campus-Based)

The campus-based option proposed by the task force has its basis in the premise that there remains a need for institutions to be able to supplement financial aid for high-need students, and that a flexible federal source of funds suits this need best. Maintaining some control at the institutional level helps to fill gaps and allows schools to retain campus-level support for students. This second model offered by the

[10] National Association of Student Financial Aid Administrators. July 2016. "Updated Report of the NASFAA Reauthorization Task Force." https://www.nasfaa.org/uploads/documents/updated_rtf_report.pdf

task force, the campus-based option, achieves flexibility without sacrificing the simplicity afforded by a "one grant/one loan" model.

The "one grant" under this campus-based option would be the Pell grant but would include a campus-based component that can be thought of as a "Pell Plus" program. Similar to the current FSEOG model, institutions that serve large numbers of low-income students would receive an additional, campus-based Pell grant allocation. The Pell Plus grant would fold into the student's original Pell grant scheduled award, and COD reporting would replace FISAP reporting of grants awarded and allow for easier reconciliation for schools.

FWS, under this campus-based option, would remain largely unchanged. The task force does recommend, however, expanded institutional ability to transfer underutilized FWS program funds into the Pell Plus grant, and vice versa. While institutions should be instructed to make it a priority that FWS funds go toward FWS positions, there are institutions that simply cannot make use of FWS funds. The task force does not recommend a specific amount or percentage of campus-based funds that could be transferred between the campus-based grant and work programs other than to recommend that both the ability to transfer funds between programs and the ability to carry funds forward and back between award years be made more flexible than the current rules. The task force also recommends that schools be permitted to transfer one-hundred percent of their campus-based allocation to FWS at their discretion.

In this model, an institutional allocation of the campus-based Pell Plus and FWS programs would still exist. However, in place of the FISAP, the task force recommends that the Department of Education (ED) explore the possibility of eliminating or simplifying the FISAP in favor of using data already available from sources like COD and IPEDS to determine institutional allocations. To allocate the campus-based Pell Plus, the task force recommends adopting the NASFAA Campus-Based Formula task force's[11] FSEOG allocation formula recommendation, basing the campus-based grant allocation on the amount of Pell Grant funds an institution's students receive relative to total Pell grant funds awarded nationally, rather than the current institutional need formula that is largely based on the cost of attendance. This addresses the flaw in the current formula that relies too heavily on an institution's history of participation in the campus-based programs and instead directs more federal grant funds to the neediest students.

It is understood that in this model, campus-based funding levels for some schools would be reduced while others are increased, as limited dollars are spread more effectively across all schools. The impact of this funding shift can be mitigated by the phase-in protection proposed by NASFAA's Campus-Based Aid Allocation Task Force[12].

[11] National Association of Student Financial Aid Administrators. 2014. "The Campus-Based Formula." https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report
[12] National Association of Student Financial Aid Administrators. 2014. "The Campus-Based Formula." https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report

Under this model, the task force emphasizes the necessity of maintaining the current levels of federal funding and not allowing the separate and distinct campus-based funding to be absorbed into the Pell grant or other existing programs. The ability to retain the maximum amount of financial support for needy students should be the most important consideration given when making a determination regarding the future of this funding. The task force also recommends maintaining the campus-based Administrative Cost Allowance (ACA) under this model.

This “Campus-Based Option” incorporates the “One Loan” detailed at the beginning of this section.

Conclusion

With the opportunity of an upcoming reauthorization of the Higher Education Act, it is appropriate to reconsider how all federal student aid programs can be improved to best serve today’s students. The Title IV aid programs were developed with traditional students (enrolling in college directly from high school, enrolling full-time in two- or four-year degree programs) in mind, and were developed over the course of more than half a century. As a result, they are a patchwork of programs, many of which are outdated and– alone or when combined to create a student’s financial aid package– are complex and difficult to understand. The campus-based programs have great value, primarily because of the flexibility afforded institutions to meet the needs of their students. However, the current allocation formula for campus-based funds does not equitably distribute funds to the institutions that serve the neediest populations, and a number of statutory limitations limit institutional flexibility.

The increased interest in simplification of the federal student aid programs provides an opportunity to re-examine the paradigms of campus-based federal student aid with an eye toward building upon the strengths in the existing federal student aid programs and eliminating their weaknesses. With that in mind, the task force has presented two viable options for campus-based aid in a “one grant/one loan” model for federal student financial aid. We hope this report will foster discussion and guide future policy decisions for the reauthorization of the Higher Education Act.

The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues; and is committed to diversity throughout all activities.

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