MAKING FINANCIAL AID WORK FOR ALL
NASFAA Higher Education Act Reauthorization Priorities
Today’s federal student financial aid system works for some, but it doesn’t work for all. Antiquated program design provides little room for flexibility, innovation, or the changing behaviors of students—and the institutions that serve them. As Congress inches closer to taking a wholesale look at the federal role in higher education through the reauthorization of the Higher Education Act (HEA), the National Association of Student Financial Aid Administrators (NASFAA) is pleased to outline recommendations to make financial aid work for all.

NASFAA’s reauthorization priorities include:

- Strengthening Need-Based Aid
- Promoting Opportunity Through Education
- Simplifying the Federal Financial Aid Application Process
- Curbing Excessive Student Indebtedness
- Reforming Student Loan Repayment
- Improving Information for Students and Families
- Enhancing Student Aid Delivery
STRENGTHENING Need-Based Aid

NASFAA strongly supports the primacy of need-based aid: the idea that a qualified student should not be denied a higher education because of a lack of financial resources. The rising cost of college, coupled with state disinvestment and limited federal aid dollars, place a strain on many students and families attempting to pursue higher education today. As costs rise, many low- and middle-income students face a difficult dilemma: do they choose to put everything on the line and pursue a postsecondary credential, or do they take a job out of high school to provide for themselves and for their families? Existing need-based federal student aid programs play an important role in college access and success.

Federal Pell Grants

The Federal Pell Grant Program remains the foundational federal student aid program. Without it, thousands of students every year would miss out on the benefits of a college education. The program has benefited tremendously from small changes over the years, including the now-expired addition of a mandatory inflation-adjusted add-on to the maximum award, and the expansion to allow students to pursue their education year-round. But there’s more to be done to improve the program designed for the nation’s neediest students.

Ensure the Pell Grant maintains its purchasing power.

Despite the increased attention to the importance of college affordability, today’s Pell Grant maximum award remains at a level similar to fiscal year (FY) 1975, when adjusting for inflation.1

From FY 2014 to FY 2017, the Pell Grant maximum award was indexed to the Consumer Price Index for All Urban Consumers (CPI-U); however, that small boost, which averaged only $69 per year, expired at the end of FY 2017. Since then, Congress has passed small increases to the maximum award as part of the annual appropriations process. Whatever path forward Congress takes on advancing a sufficient Pell Grant maximum award to support low-income students, it should, at the very least, reinstate an automatic inflation adjustment to the maximum award. Sustained and certain investment is necessary to ensure the Pell Grant regains its purchasing power. Predictable, set increases to the Pell Grant maximum award assist financial aid offices—and students and families—in determining a student’s ability to pursue higher education.

Consider a “Super Pell” that incentivizes timely completion.

Understanding the importance of both access and completion in higher education means looking at ways to improve the ability of low-income students to attend an institution of higher education and leave with a degree in hand. One way to spur both access and completion is to incentivize students to enroll in a higher number of credits through bonus Pell Grant dollars, which could lead to students completing their programs closer to on-time—or even early. This could help students avoid higher loan debt loads and could lower the overall cost of the Pell Grant program. As it stands, a student enrolling at the minimum threshold for full-time status (12 credits) cannot complete a degree on time in four years.

Shift the Federal Pell Grant Program to full mandatory funding.

The annual federal budget and appropriations process adds unnecessary uncertainty to a program that plays a vital role in the lives of thousands of students every year. Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year allocation to mandatory funding.

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1 “Trends in Student Aid, 2018,” The College Board.
Campus-Based Aid Programs
The Federal Campus-Based Aid Programs include the Federal Supplemental Educational Opportunity Grant (FSEOG) Program and the Federal Work-Study (FWS) Program. These programs require an institutional match of federal funds and are administered at the institutional level. FSEOG provides additional grant aid to low-income undergraduate students, often on top of a Pell Grant award. FWS provides aid to both undergraduate and graduate/professional students with need in the form of wages from on- or off-campus employment. The Federal Perkins Loan Program provided loans out of institutionally-based revolving funds to needy students, but expired in 2017.

Revise the campus-based aid allocation formula.
Due to the antiquated design of the funding formula, today’s allocation of campus-based aid largely reflects a 40-year-old distribution of funds, in which institutions receive a “base guarantee” of funding. Currently based on FY 1999 expenditures, the base guarantee was intended to be a temporary measure to mitigate losses to individual institutions as a result of radical fluctuations in funding. Due to the static nature of the formula, for most schools, the prior year expenditure is linked to its program participation in the 1970s. Growing schools that are serving needier student populations cannot increase their funding because other institutions’ funding levels are largely protected, regardless of institutional need. NASFAA recommends phasing out the base guarantee portion of the allocation formula over 10 years; thus, allocations would be based only on a “fair share” formula.  

Bolster investment in FSEOG.
In constant dollars, average FSEOG award amounts have declined by 40% since award year (AY) 2001-02. FSEOG represents a worthy use of federal dollars, as the program requires contributions from institutions to leverage federal support—an existing and effective form of institutional risk-sharing. In a period of financial austerity, FSEOG stretches the federal dollar further in support of the neediest students.

Boost funding for FWS.
The FWS program enjoys broad, bipartisan support—and rightly so. Work-study supports needy students while also providing valuable work experience. With that said, however, federal support for FWS remains relatively flat, with annual appropriations still hovering around FY 2001 levels. Like FSEOG, FWS stretches federal investments further by requiring matching funds from institutions and work-study employers.

Increase flexibility in FWS.
With institutions located in a variety of geographic regions and locales, rigid, one-size-fits-all requirements for FWS positions can prevent some schools from awarding all of the program dollars available. NASFAA supports the elimination of the private sector employment cap. Schools should be able to place students wherever jobs are available and reasonable. In addition, NASFAA supports the elimination of the community service set-aside in FWS. Many schools already had a strong, broad-based commitment to community service before the concept was incorporated as a requirement under FWS. Other schools are located in areas where qualifying community service positions are not readily available. Eliminating the requirement will not lead to the elimination of community service positions altogether; instead, institutions will be better able to tailor their FWS program to the individual characteristics of their school, students, and the surrounding community.

Consider the entire student aid landscape when evaluating program consolidation.
The interest in consolidating the federal student aid programs into one grant program, one loan program, and one work-study program prioritizes simplification, but NASFAA encourages lawmakers to bear in mind that, in addition to federal financial aid programs, many students and families will apply for various other financial aid options, including state and institutional aid programs. Each state has various grant, scholarship, and work programs that students will have to navigate. Likewise, many institutions have multiple funds awarded to students based on need, merit, and various other factors. Thus, a financial aid package may never look as simple as is intended under “one grant, one loan, and one work-study” proposals, as students will continue to engage in multiple options to finance their education, and those funds, once awarded, will also appear on a student’s financial aid offer. Consolidation of federal student aid programs could contribute to simplification efforts, but it is important to acknowledge that robust state and institutional aid programs, not to mention private scholarships—all critical funding sources for millions of students—will continue to add some measure of complexity to the entire student aid picture.
The federal student aid programs provide an opportunity for students to improve their lives regardless of financial circumstances. Over time, certain barriers have limited the ability of the student aid programs to fully support low-income and first-generation students. Making several modifications can have important implications for students, communities, and the nation.

**Restore “ability-to-benefit” access.**
For many decades, a student without a high school diploma or GED could receive federal student aid if he or she demonstrated the “ability to benefit” from postsecondary education through various means. The ability-to-benefit provisions were eliminated for budgetary reasons in 2012, in most cases forcing a student to first get a GED before enrolling in a postsecondary degree or certificate program. This prolongs the time to completion and may impact a student’s ability to obtain a well-paying job and support his or her family. The Consolidated Appropriations Act of 2016 restored ability-to-benefit provisions, but only for students in eligible career pathways programs, a small minority of students who could benefit from these provisions.

**Eliminate the tie between student eligibility and drug convictions.**
NASFAA believes that financial aid should not be used to enforce social policies. A federal or state drug conviction can disqualify a student for federal aid if it occurred during a period of enrollment for which the student was receiving federal student aid. Many, if not most schools currently have admissions and student conduct rules that address drug use.

**Eliminate the provision requiring institutions to monitor and enforce Selective Service registration.**
To be eligible for federal student aid, male students must have registered with the Selective Service before the age of 26; however, in some cases, some students inadvertently miss registering. From a simplification perspective, the addition of the Selective Service component, which is completely outside the domain of financial aid, adds hurdles to the student aid process. In addition, financial aid officers should not be shouldered with the burden of resolving discrepancies over a student’s registration status when they could be better using that time to counsel students and families.

**Consider the impacts of poorly-designed accountability proposals on low-income students and under-resourced institutions.**
While policymakers continue to emphasize the need for additional “skin-in-the-game” for institutions, schools already take on significant risk when dedicating scarce resources to students who have been deemed at-risk. Institutions admit at-risk students and provide remediation for students who need extra investment to benefit from higher education. In addition, colleges and universities provide—whenever possible—generous grant aid and participate in the campus-based aid programs, which entail risk-sharing in the form of institutional contributions and administrative expenses. A poorly-designed model could end up hurting the same students the HEA is designed to support. Institutions have a vested interest in the success of their graduates, but to tie an institution to the repayment behavior of its former students, for example, can be problematic, as institutions would be discouraged from taking on risk. Instead, Congress should attempt to work within existing institutional risk-sharing parameters or consider “carrot” versus “stick” approaches to accountability if developing new models.6

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SIMPLIFYING THE FEDERAL FINANCIAL AID APPLICATION PROCESS

NASFAA has long been interested in ways to make the Free Application for Federal Student Aid (FAFSA) and the overall application process simpler and more efficient for students and families. NASFAA has offered recommendations to simplify the form and has been generally pleased by the improvements over the past several years, including “smarter” skip-logic on the form and the implementation of the IRS Data Retrieval Tool (DRT)—but there’s more work to do.

Codify Prior-Prior Year.
In October 2015, President Barack Obama and the U.S. Department of Education (ED) announced their intention to use their authority under the HEA to use income information from two years’ prior—or the prior-prior year (PPY)—for the purpose of need analysis. The change, supported by NASFAA, represents a first step in simplifying the federal aid application process; however, to solidify this progress, Congress should codify the change into statute. In addition, Congress should revise the Master Calendar in the HEA to ensure institutions have the information necessary for administering the aid programs early enough to fully realize the promise of PPY by requiring ED to release Pell Grant disbursement schedules by November 1.

Simplify the FAFSA by directing applicants down one of three paths based on predicted financial strength.
In response to calls for simplifying the federal aid application form, NASFAA developed a model that would simplify the FAFSA process, while still ensuring program integrity and accurate targeting of federal funds. By eliminating irrelevant and unnecessary questions, including those not related to student aid, and fully utilizing technology with existing federal and state systems, NASFAA’s model makes the aid application process much easier for the neediest students. Under the proposal, students and families participating in a federal means-tested benefits program, such as the Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI), would not again have to prove they are poor. Instead, they would be automatically eligible for the maximum Pell Grant award. From there, the remaining applicants would enter additional financial information based on their predicted financial strength.

Expand data sharing between the IRS and the Department of Education.
Generally speaking, the goals of “simplicity” and “program integrity” are at odds with each other, i.e., a highly accurate need analysis system is not simple. However, the use of more information obtained directly from the IRS would allow for a simpler application and reduced burden for applicants, while still retaining a high standard of accuracy. Using PPY income data instead of prior-year data also presents the opportunity to explore expanding the DRT to include information from W2 forms, which would permit the retrieval of income earned from work for non-tax filers. Expanded data sharing could also simplify the income-driven repayment application and recertification processes.

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CURBING Excessive Student Indebtedness

While media depictions of the nation’s “student debt crisis” center on graduates of elite institutions with six-figure debt loads, borrowers with small amounts of debt without a college degree reflect the real student debt crisis today. Pursuing higher education while amassing some student debt is an important and responsible investment because the consequences of not pursuing a degree or credential can be devastating.

Eliminate student loan origination fees.
Deemed the “student loan tax,” loan origination fees are a relic of the 1980s, when additional revenue was necessary to offset loan subsidies in the now-defunct Federal Family Education Loan (FFEL) Program. Though FFEL no longer exists, origination fees remain. Origination fees withhold a portion of a student’s proceeds while still requiring repayment with accrued interest of the full loan amount before the deduction of fees, thereby masking the borrower’s true cost and adding unnecessary confusion. Under sequestration, loan fees are increased based on an annual adjustment percentage determined by the Office of Management and Budget (OMB). Though origination fees serve as a revenue generator for the federal government, the federal budget should not be balanced on the backs of students and families. The average undergraduate borrower in a four-year program will pay an estimated $294 in origination fees and associated interest if enrolled in a standard 10-year repayment plan, while the average graduate student in a two-year program pays about $1,174 in fees and interest on those fees if repaying over 10 years.9

Provide financial aid offices with more tools to curb student indebtedness.
As it stands now, institutions have little control over the borrowing behavior of their students, even though they are held responsible for their cohort default rates (CDR). Financial aid administrators want to be good stewards of federal funds, but more importantly, they want to ensure their students avoid accruing unnecessary or excessive debt and are able to repay their loans. Because of the entitlement nature of the Direct Loan Program, a school cannot impose across-the-board restrictions on borrowing institution-wide, or even by program, enrollment status, dependency status, or any other parameters.10 On a case-by-case basis a school can deny a loan to a student, but financial aid offices are reluctant to exercise this authority to deny or restrict borrowing because they may be subject to legal action. Furthermore, institutions do not even have the authority to require additional loan counseling or documentation supporting a request for loan funds. Providing institutional authority to mandate additional counseling allows institutions to tailor counseling requirements to the unique characteristics of their students, instead of having to comply with a one-size-fits-all annual counseling federal mandate. By enhancing a school’s authority to limit excessive loan borrowing or require additional counseling, schools can better serve their students.

Modify the current structure of loan limits.
The current structure of annual and aggregate loan limits for Direct Loans reflects piecemeal changes to the loan programs over time and does not necessarily work effectively or efficiently for today’s students. Ideas to improve the structure of loan limits include establishing one annual subsidized limit by eliminating differences based on year in school, eliminating Direct Loan proration for final periods of programs that are less than a year in length, increasing annual and aggregate limits to a more realistic level, and stepping aggregate limits based on year in school. In addition, NASFAA suggests allowing for “bonus borrowing” at institutions with higher costs and a proven track record of low default rates.11

Restore graduate and professional student eligibility for subsidized loans.
Undergraduate students with demonstrated financial need are eligible for Federal Subsidized Stafford Loans. Eligible students do not have to pay the accrued interest on subsidized loans while they are enrolled at their institutions at least half-time, but the Budget Control Act of 2011 eliminated graduate student eligibility for the in-school interest subsidy as a means of reducing the federal budget deficit. With no access to federal grants, the elimination of the in-school interest subsidy harms needy students in their pursuit of an advanced degree and leads to increased debt. Benefits for graduate and professional students are often the first targeted in the federal budget process, which leads to higher debt loads and a growing utilization of private loans with inconsistent consumer protections.

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REFORMING Student Loan Repayment

According to the Congressional Research Service, there are over 50 loan forgiveness and loan repayment programs currently authorized, with at least 30 operational as of Oct. 1, 2017. Of these, there are eight widely-available repayment plans, including five income-driven repayment plans, the most recent being the “Revised Pay As You Earn” (REPAYE) plan, which first became available to borrowers in December 2015. Understandably, this creates a great deal of complexity for borrowers seeking to navigate the variety of loan repayment options. Through HEA reauthorization, Congress has several opportunities to improve and simplify student loan repayment for borrowers.

Consolidate and simplify the federal loan repayment plans.
The tangled web of repayment options confuses borrowers. Consolidating the various income-driven repayment plans into a single plan will help borrowers understand the benefits and protections inherent in our federal student loan repayment system.

Solidify Public Service Loan Forgiveness.
Proposals from President Donald Trump and House Republicans have suggested eliminating the Public Service Loan Forgiveness (PSLF) Program. Instead of eliminating the program, NASFAA recommends instituting limits on the amount of forgiveness with 100% forgiveness up to $57,500 and 50% forgiveness of any remaining balance, up to $138,500. A cap on the maximum amount of forgiveness could balance both over-borrowing and budgetary concerns. In addition, strongly encouraging the submission of annual employment certification forms and emphasizing increased outreach to borrowers about PSLF may help improve the effectiveness of the program.

Exempt all loan forgiveness from the calculation of gross income for income tax purposes.
Currently, forgiveness and discharge under the vast majority of federal student aid programs and provisions must be included as income for income tax purposes. Taxing borrowers on the amount of forgiveness received is counterintuitive, as it provides a disincentive for high-debt borrowers to take advantage of forgiveness programs and creates a sudden financial hardship for borrowers receiving forgiveness. At the moment borrowers should finally be emerging from their debts, they are abruptly faced with a significant lump-sum cost. It could be argued that in certain cases this is a more calamitous financial event than simply remaining in repayment.

Continue forward with the Department of Education’s steps on improving loan servicing.
In July 2016, Undersecretary of Education Ted Mitchell sent a memorandum to the ED’s Office of Federal Student Aid (FSA) outlining policy direction on federal student loan servicing. Today, FSA is moving forward with the “NextGen Processing and Servicing” plan. Many of the priorities outlined in the memo match recommendations made in NASFAA’s Servicing Issues Task Force report, including the creation of a universal loan portal, increasing standard consumer protections for borrowers, and removing servicer branding from communications with borrowers. NASFAA also supports the creation of a common policies and procedures manual for servicing.

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12 “Federal Student Loan Forgiveness and Repayment Programs,” Congressional Research Service.
IMPROVING INFORMATION FOR STUDENTS AND FAMILIES

With a complicated federal student aid system, Congress and ED should prioritize providing simple, consumer-tested information to students and families as they begin the federal student aid process and as they navigate the entire student aid lifecycle. While improved consumer information is not a silver bullet; students with limited financial literacy skills may not have the capacity or desire to understand the information presented to them. Better, more targeted information and counseling will improve decision-making.

Develop and consistently use a consumer-testing model when implementing any new consumer information requirements. Moving forward, no new consumer information requirement should be imposed without prior consumer testing, which should then inform subsequent congressional or departmental action. Required testing of consumer information disclosures would provide an opportunity to improve the final product based on the input of the very consumers the disclosures are meant to assist.

Consider intended audience when developing consumer information requirements. Requirements to provide consumer information should distinguish between undergraduate and graduate students. Information that is not relevant to, or does not use data pertaining to, graduate students should be restricted to undergraduates—and vice versa.

Repeal the ban on a federal-level student unit record. Currently prohibited, a limited federal student unit record would allow student-level data to be sent to ED, rather than the current system of aggregated institutional data captured in the Integrated Postsecondary Education Data System (IPEDS). For purposes of postsecondary education, a student unit record would allow for the assessment of, among other things, student success (including transfer rates), completion rates, and salaries by major or program. It could also follow students as they move through and between postsecondary institutions and into the workforce. More importantly, it would address current shortcomings with IPEDS. Acknowledging concerns over privacy, as higher education policy is increasingly focused on student success, completion, and outcomes, it becomes increasingly critical to have robust data that gives an accurate picture to students, families, and policymakers.

Standardize financial aid offer elements and terms. Financial aid administrators value the importance of clear, concise, and accurate information for students and parents, and recognize there are ways to improve financial aid offers, which is why NASFAA supports standardizing core elements and terminology on an aid offer. In fact, in 2014 NASFAA’s Board of Directors adopted language in the association’s Code of Conduct to require institutional members to comply with several aid offer improvement provisions, including using standard terminology and definitions. Congress should maintain institutional flexibility to design their aid offers in a way that best suits their particular student population to help maximize the effectiveness of aid offers and avoid unintended, negative consequences of overly prescriptive standardization.

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ENHANCING STUDENT AID DELIVERY

Federal mandates and requirements, though often justified on their own, have combined to place serious regulatory strain in terms of both time and money on colleges and universities nationwide. Sometimes minor changes to the federal student aid programs in statute lead to burdensome implementation when the regulations are released. Though compliance with federal regulations remains a top priority for financial aid administrators, many would prefer to spend the time now allocated to compliance on counseling students and families. Finding a balance between federal objectives and unnecessary burden should guide policymakers on this issue moving forward. NASFAA supports the recommendations of the bipartisan Task Force on Federal Regulation of Higher Education.19

Improve the operational efficiency of the Department of Education’s Office of Federal Student Aid.

Tasked with implementing the federal student aid programs, FSA was structured as a performance-based organization (PBO) in 1998 with expanded administrative autonomy in exchange for increased oversight and accountability. In the time since the designation of FSA as a PBO, little oversight of the agency has occurred, and financial aid administrators feel that FSA acts more as a watchdog than as a partner in the administration of the student aid programs.20 We urge Congress to prioritize accountability and oversight of FSA, particularly in meeting basic customer service objectives in its interaction with schools, such as by requiring FSA to provide the final report for a program review within 60 days after receipt of an institution’s response. NASFAA also suggests increasing the involvement of stakeholders in the FSA strategic planning process, introducing additional performance metrics, and establishing an FSA Oversight Board.21

Eliminate non-financial aid-related disclosures from Title IV administration.

Consumer information needs to be usable, easy to understand, and make an impact on student choice. Currently, information provided is too complex and includes provisions for consumer information disclosures that have no relationship to federal student aid eligibility. Disclosures related to Constitution Day, athletics, campus safety reports, voter registration, and drug and alcohol prevention information, among others, may have value to students and families, but should not be tied in any way to the administration of the federal student aid programs.

Simplify the return of Title IV funds (R2T4) calculations and process for withdrawing students.

When a student with federal student aid withdraws from college before completing a term, an institution is obligated to calculate the amount of aid the student earned and possibly return those dollars to the federal government; however, the process is entirely too complex and burdensome for institutions to execute. The rules and regulations surrounding the R2T4 process amass more than 200 paragraphs of regulatory text and over 200 pages in the Federal Student Aid Handbook. In response to requests for input on regulatory relief, financial aid administrators mentioned R2T4 more than twice as often as any other topic area.22 While NASFAA has several recommendations to improve the process, Congress and ED should consider eliminating the requirement altogether, devising a new set of rules (perhaps through a dedicated negotiated rulemaking session), or fixing the current process.23

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CONCLUSION

As those who work with students on a daily basis, financial aid administrators nationwide continue to believe there are many opportunities to improve the federal student aid system to ensure success for all stakeholders in all stages of the process. NASFAA looks forward to continued collaboration with Congress on making financial aid work for all.

Please email policy@nasfaa.org with any comments or questions.

ABOUT NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a non-profit membership organization that represents more than 28,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. Collectively, NASFAA member institutions serve nine out of every 10 undergraduates in the United States. For over 50 years, NASFAA has worked to amplify the voice of the nation’s student financial aid administrators in the nation’s capital. NASFAA is the largest postsecondary education association with institutional membership in Washington, D.C., and the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators in all sectors of postsecondary education. No other national association serves the needs of the financial aid community better or more effectively. For more information, visit www.nasfaa.org.
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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