MAKING FINANCIAL AID WORK FOR ALL

NASFAA Priorities for 2017 and Beyond
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) and a new President of the United States and Congress take office, the National Association of Student Financial Aid Administrators (NASFAA) is pleased to outline recommendations to make financial aid work for all.

ABOUT NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a non-profit membership organization that represents more than 20,000 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 capitol. 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.
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 PPY.

In October 2015, President Obama and the U.S. Department of Education announced their intention to use their authority under the Higher Education Act to use income information from two years’ prior (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.

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 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 THE IRS DATA RETRIEVAL TOOL (DRT).

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 retrieval of income earned from work for non-tax filers.

---

IMPROVING INFORMATION FOR STUDENTS AND FAMILIES

With a complicated federal student aid system, Congress and the Department of Education 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 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.


**REDUCING UNNECESSARY REGULATORY BURDEN**

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.

**IMPROVE THE OPERATIONAL EFFICIENCY OF THE DEPARTMENT OF EDUCATION’S OFFICE OF FEDERAL STUDENT AID.**

Tasked with implementing the federal student aid programs, the Department of Education’s (ED) Office of Federal Student Aid (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. We urge Congress and the senior leadership at ED 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.

**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, 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. While NASFAA has several recommendations to improve the process, Congress and the Department of Education should consider eliminating the requirement altogether, devising a new set of rules (perhaps through a dedicated negotiated rulemaking session), or fixing the current process.

---

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 post-secondary education through various means. The ability to benefit provisions were eliminated for budgetary reasons in 2012, 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 ability to benefit 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. A simple process for a student to regain eligibility if he failed to register would provide a productive path forward to the student. 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.

ADVANCE THE DREAM ACT TO SUPPORT A PATH TO CITIZENSHIP FOR CERTAIN UNDOCUMENTED STUDENTS.

Students who were brought to the United States with their parents while under the age of 15, who have good moral character, have graduated from high school or obtained a GED, and have completed two years of college or military service deserve a legal path to citizenship. These students, who have already been in the U.S. educational system for years, have already demonstrated their ability and worth.

CONSIDER THE IMPACTS OF POORLY DESIGNED RISK-SHARING MODELS ON LOW-INCOME STUDENTS.

Institutions have a vested interest in the success of their graduates, but to tie an institution to the repayment behavior of its former students can be problematic. For example, some institutions, particularly community colleges, have “open enrollment” policies and do not select which students are admitted and, therefore, have little control over their student body and its level of preparation for higher education. Further, once a student leaves an institution, schools have no control over the actions or inactions of servicers in the repayment process. As a result, a poorly designed risk-sharing system could increase the number of institutions (most likely community colleges) that choose not to participate in the federal loan programs, since high cohort default rates (CDR) can put institutions at risk for losing all federal student aid funding. This could result in reduced access for students and/or a greater reliance on private borrowing where consumer protections are inconsistent.
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 ORIGINATION FEES.**
Deemed a “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.

**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. 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. 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 has released a discussion draft of a proposal to allow for additional borrowing at institutions with higher costs and a proven track record of low default rates.

**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.

---

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 October 1, 2015. Of these, there are eight widely available repayment plans, including five income-driven repayment plans, such as the new “Revised Pay As You Earn” (REPAYE) plan, which first became available to borrowers in December 2015. Understandably, this creates a great deal of perplexity 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.**
As we approach the first year of forgiveness under Public Service Loan Forgiveness (PSLF) in 2017, important questions about the use and effectiveness of the program remain unanswered. More PSLF data should be made public, so policymakers and advocates can make informed recommendations for the future of the program. How many students will receive forgiveness in 2017? In turn, how much will the program cost? Varied reports suggest vastly different realities for PSLF, but several modifications can be made to ensure the long-term efficacy of this important forgiveness 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 will ensure that students are discouraged from over-borrowing. 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 both 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 Department of Education (ED) Office of Federal Student Aid (FSA) outlining policy direction on federal student loan servicing. 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.

---

10 “Federal Student Loan Forgiveness and Repayment Programs,” Congressional Research Service.
NASFAA strongly supports the primacy of need-based aid: the idea that a qualified student should not be denied 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.

Our 21st-century economy requires students to pursue a degree or credential to fill the jobs of tomorrow. While the maximum Pell Grant award has increased from $4,000 to $5,815 from award year 2002–03 to 2016–17 and congressional appropriations to FSEOG have increased from $725 million to $733 million in the same span, these minor increases have not kept pace with the average net price of attending a four-year public institution, which is now $14,210 in 2016–17, up $4,950 from $9,260 in 2002–03.

**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 addition of a mandatory inflation-adjusted add-on to the maximum award and the temporary 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.

**RESTORE YEAR-ROUND PELL.**

The changing landscape of higher education is marked by the changing behavior and characteristics of today’s student. Increasingly, “non-traditional” learners with non-traditional enrollment patterns are becoming the new norm, but the Pell Grant still lives in a world where students enroll for only two semesters in an academic year. Eliminated due to budgetary reasons in 2011, the year-round Pell Grant would provide students with access to an additional scheduled Pell Grant award in an academic year to ensure students who want to advance or accelerate in their studies have the funds to do so. Future attempts to restore year-round Pell should consider two implementation challenges in the last short-lived iteration.

**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.

**RETAIN THE MANDATORY INFLATION-ADJUSTMENT TO THE MAXIMUM AWARD.**

Beginning in award year 2013–14, the annual inflation-adjusted add-on to the Pell Grant maximum award represents a valuable increase to the Pell Grant, which has seen its purchasing power erode over the years. However, the inflation adjustment expires after award year 2017–18, meaning the maximum Pell Grant award will remain at $5,920 in perpetuity absent congressional action.

**SHIFT THE FEDERAL PELL GRANT PROGRAM TO FULL MANDATORY FUNDING.**

Pell Grants are awarded as an entitlement program in that everyone who qualifies does in fact receive the grant. Pell Grant funding should match the awarding process and be protected from the unnecessary uncertainty in the annual appropriations process by moving the funding stream from the discretionary year-to-year allocation to mandatory funding.

---

14 “2016 Trends in Student Aid,” College Board.
CAMPUS-BASED AID PROGRAMS
The Federal Campus-Based Aid Programs include the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, the Federal Work-Study (FWS) Program, and the Federal Perkins Loan Program. All three of 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, oftentimes on top of a Pell Grant award. Federal Work-Study provides aid to both undergraduate and graduate/professional students with need in the form of wages from on- or off-campus employment. Finally, the Federal Perkins Loan Program provides loans out of institutionally-based revolving funds to needy students.

SUPPORT THE CAMPUS-BASED STRUCTURE.
Risk and cost-sharing between institutions and the federal government, along with the relative discretion by institutions in awarding funds to students in a way that works best for their students, makes the campus-based programs unique. Whatever changes may occur to the campus-based aid programs in the future, NASFAA calls on policymakers to uphold and strengthen these two unique qualities: the federal-institutional partnership and the awarding flexibility.

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, where institutions receive a “base guarantee,” based on their allocation from FY 1999. 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.17

BOLSTER INVESTMENT IN FSEOG.
In AY 2013–14, the average FSEOG award stood at $598, a steady decline from $778 in AY 2001–02.18 After adjusting for inflation, average FSEOG award amounts have declined by approximately 47% since award year 1993–94.19 FSEOG stands as 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 Federal Work-Study 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.20 Like FSEOG, FWS stretches federal investments further by requiring matching funds from institutions and work-study employers.

COLLECT BETTER DATA ON FWS.
While policymakers have shown little appetite to significantly alter the FWS program recently, future efforts, including the potential examination of the program through HEA reauthorization, should be based on evidence surrounding the effectiveness of the program. Through a national FWS student survey, policymakers and advocates could better understand key issues from the student perspective. If conducted by the Department of Education, this could require lifting the ban on the collection of student-level data depending on the survey design.

18 “Campus-Based Student Financial Aid Programs Under the Higher Education Act,” Congressional Research Service.
20 “Campus-Based Student Financial Aid Programs Under the Higher Education Act,” Congressional Research Service.
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, the Department of Education, and the White House on making financial aid work for all.

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