NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

# REMOVING BARRIERS & EXPANDING OPPORTUNITY

## NASFAA HIGHER EDUCATION ACT REAUTHORIZATION PRIORITIES

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Today's federal student financial aid system works for some, but it doesn't work for all. Technological advances, a global pandemic, and shifting demographics have all contributed to major changes in postsecondary education, including more innovative learning models, diversity in delivery of instruction, and piecemeal congressional and executive actions. For all of these reasons, it's prudent, and also well overdue, for Congress to update the law that governs higher education to ensure it meets the needs of today's students.

The last comprehensive reauthorization of the Higher Education Act (HEA) occurred in 2008, and the law has been overdue for another reauthorization for nearly two decades. During that time, the National Association of Student Financial Aid Administrators (NASFAA) has worked continuously on creating and updating reauthorization recommendations. Beginning with the original 2013 Reauthorization Task Force (RTF) report — and followed by updates in 2016 and 2019 — NASFAA's HEA recommendations reflect the work of more than 15 member-led policy development task forces.

Since 2019, two pieces of legislation have been signed into law that will bring much-needed improvement to students and the federal student aid system as a whole. Signed into law in December 2019, the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act allowed for direct data-sharing between the Internal Revenue Service (IRS) and the Department of Education (ED), in turn simplifying the financial aid application and student loan repayment processes for millions of students. Building off the FUTURE Act, the FAFSA Simplification Act, signed into law in December 2020 as part of the Consolidated Appropriations Act of 2021, simplified the aid application process for all students by eliminating irrelevant and unnecessary questions from the Free Application for Federal Student Aid (FAFSA), changing the Federal Methodology formula to be more equitable, and making Pell Grant eligibility more predictable for the neediest students.

Although there has yet to be a comprehensive bipartisan reauthorization proposal introduced in either congressional chamber, the cooperation that led to the passage of the FUTURE Act and FAFSA Simplification Act is a promising reminder that there are policy proposals with strong bipartisan support. Policymakers on both sides of the aisle have demonstrated a common goal of improving postsecondary access and success for our nation's students, and these areas of shared agreement can serve as the foundation for a comprehensive reauthorization of the HEA.

As Congress inches closer to taking a wholesale look at the federal role in higher education, NASFAA is pleased to share its updated reauthorization recommendations. Below, we offer our top priorities, organized by topic, to modernize the HEA so that it meets the needs of today's students and institutions. Please visit https://www.nasfaa.org/higher_education_act_reauthorization to view NASFAA's complete list of HEA recommendations.

# Strengthening Federal Student Aid Programs

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, limited federal aid dollars, and the impact of the COVID-19 pandemic, have increasingly placed 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 enter the workforce directly after high school so they can 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.

*Double the maximum Pell Grant.* 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) 1978 when adjusting for inflation[1]. The 2024-25 maximum Pell Grant covers only 30% of the average cost of tuition, fees, housing and food at a public four-year institution, while it covered more than three-quarters in 1975[2]. The time has come for Congress to make a substantial investment in the program by doubling the maximum Pell Grant, a proposal that is enthusiastically supported by many in the higher education community. The current maximum is increasingly insufficient to move the needle on college access, leaving low-income students forced to borrow high amounts, work unsustainable hours, or, worse yet, not attend postsecondary education at all. Doubling the maximum Pell Grant will provide myriad benefits not only to our nation's lowest-income students, but also to the federal government and broader society. Students who persist in higher education are more likely to be employed, tax-paying, productive members of society[3].

*Reinstate the Pell Grant's automatic inflation adjustment.* In addition to doubling the maximum Pell Grant, Congress should reinstate an automatic inflation adjustment to the maximum award. 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. Once the maximum Pell Grant has been doubled, indexing the maximum award to inflation will deliver the sustained and certain annual increases needed to ensure the grant maintains its purchasing power. These predictable, set increases to the maximum award will also assist financial aid offices, and students and families, in determining a student's ability to pursue higher education.

*Restore the 5% minimum Pell award to smooth out steep eligibility cliffs that would result from doubling the Pell Grant.* Prior to the Higher Education Opportunity Act of 2008, the statutory minimum Pell Grant award was equal to 5% of the maximum award. Along with doubling the maximum Pell Grant to $13,000, NASFAA recommends lawmakers restore the minimum Pell Grant award of 5% of the maximum award (rather than the current 10%). This would allow students who qualify for at least 5% of the maximum award to receive a grant, maintaining the minimum award closer to its current level and removing the possibility of a steep eligibility cliff for students whose Student Aid Indexes (SAIs) fall just outside of the Pell-eligible range.

*Shift the Federal Pell Grant program to full mandatory funding.* The Pell Grant program already functions like an entitlement, in that a student who meets eligibility criteria receives a Pell Grant at their applicable award amount, regardless of whether sufficient levels of funding have been appropriated. 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 complete mandatory funding.

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1 "Trends in Student Aid, 2019" The College Board
2 http://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf
3 https://research.collegeboard.org/pdf/education-pays-2019-full-report.pdf

*Extend Pell Grant eligibility to Deferred Action for Childhood Arrivals recipients.* While 54% of the U.S. population between ages 15 and 32 has some college experience, just 36% of those eligible for Deferred Action for Childhood Arrivals (DACA) in the same age range are either enrolled in college, have completed some college, or have earned a bachelor's degree[4]. Providing access to Pell Grants is a critical step in providing this population with access to affordable higher education opportunities.

## 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 a non-federal 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[5].

*Bolster investment in the campus-based aid programs.* The campus-based aid programs play a critical role in helping students access and succeed in postsecondary education. FSEOG directs additional grant dollars towards students with exceptional financial need, and FWS supports needy students while also providing valuable work experience. Despite their proven positive impacts, federal support for both programs has remained relatively flat over the last decade, with annual FWS and FSEOG appropriations still hovering around FY 2001 levels[6]. FSEOG and FWS represent a worthy use of federal dollars, as the programs require contributions from institutions to leverage federal support — an existing and effective form of institutional risk-sharing. In a period of financial austerity, the campus-based aid programs stretch the federal dollar further in support of the neediest students. Congress should ensure the programs receive the consistent annual funding increases needed to expand their impact to our nation's lowest-income students.

*Increase awarding flexibility in FSEOG.* Currently, FSEOG must be awarded first to students with exceptional need, with priority given to Pell Grant recipients. The law defines "students with exceptional need" as students with the lowest Expected Family Contribution (EFC, now renamed the Student Aid Index, or SAI) at the institution. Congress should retain the tie between the FSEOG and Pell Grant programs, but NASFAA supports prioritizing FSEOG awards to students whose SAIs falls into the Pell eligibility range, rather than the student's actual receipt of a Pell Grant. Effective July 1, 2012, Congress imposed a lifetime eligibility limit of six scheduled awards for Pell Grant recipients. Due to the very limited nature of FSEOG funding, the requirement that FSEOG be awarded first to Pell Grant recipients effectively causes a loss of FSEOG funding once a student reaches their Pell Lifetime Eligibility Used (LEU) limit. In addition, the "lowest SAI" order of awarding should be eliminated. Students whose SAIs would enable them to receive Pell Grants are, in fact, the neediest students. Further defining an order within that range seems unnecessarily redundant. Schools should be able to establish their own packaging policies within the SAI priority range to best support their students with need.

*Improve and strengthen the FWS program.* NASFAA recently developed recommendations for Congress and ED to bolster the FWS program, particularly after the COVID-19 pandemic and the temporary nature of some FWS flexibilities. After the pandemic, many institutions found it difficult to spend their FWS allocation in the same manner as prior years and were granted temporary waivers to transfer more than 25% of their FWS to FSEOG. Institutions should be allowed to transfer up to 60% of their FWS allocation to the FSEOG program moving forward. Additionally, the current 7% community service requirement creates an administrative burden for many schools and should be removed – though institutions should still encourage and offer community service jobs and maintain the federal funding to do so. Additional recommendations can be found in NASFAA's Examining Federal Work-Study Task Force Report.

4 https://www.migrationpolicy.org/research/education-and-work-profiles-daca-population
5 "NASFAA Task Force Report: The Campus-Based Formula," NASFAA, June 2014, (https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report).
6 Ibid

# Ensure a Smooth Implementation of the Simplified Federal Financial Aid Application Process & Enhance Student Aid Delivery

## Ensuring a Smooth Implementation of the Simplified Aid Application Process

NASFAA has long been interested in ways to make the FAFSA and the overall application process simpler and more efficient for students and families. As a result of the passage of the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act in 2019 and the FAFSA Simplification Act in 2020, there were unprecedented changes to the federal student aid process, impacting all areas of the experience from application to eligibility determination. Implementation of these changes required a complete overhaul of the decades-old Federal Student Aid systems. The rollout of the 2024-25 FAFSA was plagued by operational glitches, missed deadlines, and data integrity issues. There were delays in delivering applicant data to schools, which left them working within a compressed timeline to get financial aid offers into the hands of their students. These delays left students less time to make informed decisions about which school to attend. Despite the challenges and errors that occurred, the FAFSA Simplification Act will ultimately expand Pell Grant eligibility and deliver a system that is easier for students and families to navigate.

*Continue to ensure a smooth rollout of the 2025-26 FAFSA.* In early August 2024, ED announced its plans for a "phased rollout" of the 2025-26 FAFSA. The phased rollout made the form available to a limited number of students and institutions through a beta testing period up until the form became available to all students on November 21. We call on the administration and ED to continue to implement fixes to ongoing bugs even after broad release—especially those that impact broad populations of students, such as those from mixed-immigration status families— and to provide proactive and transparent communication. These fixes will enable the financial aid community to plan appropriately and continue serving their students.

*Pass legislation to implement technical amendments to the FAFSA Simplification and FUTURE Acts, without risking the timely opening of future FAFSA cycles.* As with any substantial piece of legislation, there is a need to address some unintended consequences or oversights. Now that both laws have been fully implemented, we have identified several areas within the Internal Revenue Code (IRC) and the Higher Education Act (HEA) that should be reformed to ensure FAFSA simplification functions as intended.

- *Higher Education Act (HEA) Requested Amendments*
  - Reinstate the student housing choice question on the FAFSA
  - Allow for skip logic on the FAFSA for dependency status questions
  - Discontinue use of IRS number of dependents to determine family size
  - Allow for alternate Student Aid Index for enrollment other than 9 months
- *FUTURE Act Requested Amendments*
  - Add authorization for IRS to disclose amount of foreign tax credit claimed to ED
  - Add authorization for IRS to disclose amount of earned income tax credit claimed to ED

In June 2024, following the initial rollout of the 2024-25 FAFSA, NASFAA sent a letter to Congressional leadership on the education and finance committees outlining needed technical amendments. Congress should make these changes to fully carry out the purpose of the legislation.

*Eliminate the gender question on the FAFSA form.* Congress should eliminate the gender question on the FAFSA because a student's response to the question is no longer required to determine their aid eligibility. Removing the gender question falls in line with efforts to continue simplifying the FAFSA form and eliminating unnecessary questions that do not relate to a student's eligibility. ED already collects this data through the Integrated Postsecondary Education Data System (IPEDS), which can be used for research purposes.

*Ensure an October 1 Release Date for Future FAFSA Cycles and Execute the Provisions Included in the FAFSA Deadline Act.* Before the 2024-25 FAFSA rollout, NASFAA had long advocated for codifying the October 1 release date of the FAFSA. When operating as intended, an earlier release date allows colleges and universities to provide financial aid information to students much sooner. NASFAA supported the [FAFSA Deadline Act](), which was signed into law on December 11, 2024, and requires ED to certify and make October 1 the official launch date for the FAFSA each year. Moving forward for future FAFSA cycles, we urge Congress to hold ED accountable in fulfilling the provision outlined in the law requiring them to certify to Congress, by September 1, that the FAFSA will be ready by October 1.

*Increase transparency and repeal ED's authority to regulate Cost of Attendance.* The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) made two significant changes to the Cost of Attendance (COA). First, it permitted the Secretary of Education to regulate all components of the COA, except tuition and fees. Second, it prescribed more specificity for how several existing COA components can be determined by institutions. As it relates to the CRRSAA modifications, NASFAA recommends the following:

- Repeal ED's authority to regulate COA components: NASFAA understands the importance of transparency and consistency as it relates to COA, but has concerns about the unintended consequences of ED regulating in an area that has historically been institutional purview.
- In place of giving ED authority to regulate COA, add institutional requirements that increase transparency about how COAs are developed:
    - Require institutions to disclose their COA methodology: In order to ensure full transparency, institutions should be required to disclose their COA methodology for each component (or a link to it) wherever their COA is disclosed. This will allow students and families, peer institutions, and the federal government to fully understand how the COA is derived.
    - Require institutions to update the dollar amounts for each COA component per their disclosed methodology on a reasonable, set schedule. Some methodologies used by schools are time-intensive, so institutions should have the ability to set a rotating schedule, updating different components each year, as opposed to each component each year.
- Repeal the requirement that the cost of professional licensure be included in the COA for all students in programs that lead to licensure, and instead require this cost to be included in the COA only upon student request. Require that institutions conduct outreach to students enrolled in programs that require professional licensure about the ability to include related costs in the COA. Upon request of an affected student, the institution must include the one-time cost of obtaining the first professional licensure to the student's COA. By mandating the inclusion of these costs in the COA for affected students who request it, this approach ensures that students who need to borrow to cover such costs have the ability to do so but requiring that the COA be increased by these costs for all students in a program requiring professional licensure, certification, or a first professional credential, as required by CRRSAA, may inadvertently lead to unnecessary borrowing by some students.

## 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, currently allocated to compliance, on counseling students and families. Moving forward, federal objectives to improve student aid policy should be constructed in a way that does not lead to an increase in unnecessary burden for financial aid offices. NASFAA supports the recommendations of the bipartisan Task Force on Federal Regulation of Higher Education[7].

*Improve the operational efficiency of ED's Office of Federal Student Aid.* The 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. 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[8]. We urge Congress to prioritize accountability and

7 "Recalibrating Regulation of Colleges and Universities: Report of the Task Force on Federal Regulation in Higher Education," ACE, February 2015, (https://www.acenet.edu/news-room/Documents/Higher-Education-Regulations-Task-Force-Report.pdf).

8 "NASFAA Testifies Before Congress on Financial Aid Administrators' Experiences with FSA," NASFAA, (https://www.nasfaa.org/fsa-testimony)

oversight of FSA and increase the involvement of stakeholders in the FSA strategic planning process by requiring FSA to provide the final report for a program review within 60 days after receipt of an institution's response, introducing additional performance metrics, and establishing an FSA Oversight Board[9]. Additionally, while there are positions that deal with the student loan programs in FSA, there are no current positions with a specific focus and responsibility for delivering quality student loan servicing, which is why Congress should also establish a new, required role of chief servicing officer. The size, scope, and impact of loan servicing require a dedicated leader. The chief servicing officer should report directly to FSA's chief operating officer.

*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 comprise over 130 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[10]. While the basic concept underlying R2T4 is quite straightforward, the details have become so complicated that it has become very burdensome to explain to students and to administer. Even ED needs over 130 pages in the Federal Student Aid Handbook to describe and illustrate this process. Worse, ED continues to make changes to the R2T4 regulations every few years, even reversing course after changes have been in place for a very short time. This leads to additional confusion and burden. Errors are virtually inevitable in such a complex set of rules. Further, given the wide range of program formats, individual student circumstances, and other factors, it is very difficult to address all scenarios that arise logically under a "one size fits all," highly regulated approach. 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[11].

## Promoting Opportunity and Innovation Through Education

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.

*Address the continued challenges faced by justice-impacted scholars.*
Incarcerated individuals, on July 1, 2023, became eligible to receive Pell Grants if enrolled in an eligible Prison Education Program (PEP). Incarcerated students experience a unique set of challenges when trying to navigate the financial aid application process. These challenges could be addressed by:

- Streamlining and expediting the application and approval process for PEPs;
- Removing structural barriers that prevent incarcerated students from participating in financial aid, including the ability to equitably access personal records and federal programs not prohibited by law;
- Considering methods for supporting incarcerated students if they are unable to complete a course due to a correctional facility action out of the student's control. Areas addressed might include LEU and R2T4 calculations.
- Ensuring incarcerated students have access to digital technologies so they can fully participate in the acquisition of academic material; and
- Restoring the ability for financial aid administrators to enter and fully correct the paper FAFSAs of incarcerated students.

*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.

9 "Improving Oversight and Transparency at the U.S. Department of Education's Office of Federal Student Aid." NASFAA, (https://www.nasfaa.org/uploads/documents/NASFAA_FSA_Report.pdf)

10 NASFAA letter to ED on regulatory relief solicitation, September 2017, (https://www.nasfaa.org/uploads/documents/ResponsetoEDSolicitationof6-22-17.pdf).

11 "Return of Title IV Funds Task Force: Report to the Board," NASFAA, July 2015, (https://www.nasfaa.org/Return_of_Title_IV_Funds_Task_Force_Report_to_the_NASFAA_Board).

A poorly-designed risk-sharing 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 can be problematic. For example, open-access institutions such as community colleges, which have little control over their student bodies and their levels of preparation for higher education, may choose not to participate in the federal loan programs because high cohort default rates (CDR) can put institutions at risk for losing all federal student aid funding, which could result in reduced access for students and/or a greater reliance on private borrowing where consumer protections are inconsistent. Policymakers should take caution to avoid unintended consequences and perverse incentives for institutions that could incentivize serving fewer at-risk students than more. Instead, Congress should attempt to work within existing institutional risk-sharing parameters or consider "carrot" versus "stick" approaches to accountability if developing new models[12].

*Authorize a demonstration project to permit Pell Grant funding for enrollment in short-term programs.* Today's students and employers need and demand shorter-term credentials to either complement or replace traditional degree programs. Modern careers require lifelong learning to advance in their roles, or in some cases to even keep up with the changing demands of their existing roles. Allowing Pell Grants for short-term programs, with appropriate protections in place to protect taxpayer dollars, could allow for smaller bursts of learning throughout an individual's career. NASFAA conducted a national landscape analysis of existing short-term programs and found that outcomes data such as earnings[13], employment in field of study, and success on certification exams, is lacking, partly because there is no national source of short-term program data. While ED recently concluded a short-term Pell project using its authority under the Experimental Sites Initiative, it also did not provide the full picture of data that would either support or discourage expanding Pell Grant eligibility to short-term programs[14]. Congress should authorize a demonstration project to explore this expansion, and should require a comprehensive study of student outcomes.

# Curbing Excessive Student Indebtedness

While media depictions of the nation's student debt center on graduates of elite institutions with six-figure debt loads, borrowers with small amounts of debt without a college degree reflect a better representation of the student debt crisis today. Pursuing higher education while amassing some student debt is an acceptable and responsible investment because the consequences of not pursuing a degree or credential can be devastating, but there must be sound policies in place to deter excessive borrowing and ensure repayment is simple and understandable.

*Eliminate student loan origination fees.* Deemed the "student loan tax[15]", 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 Program (FFELP). Though FFELP 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 loan cost and adding unnecessary confusion. Under sequestration, loan fees are modified based on an annual adjustment percentage determined by the Office of Management and Budget (OMB). Origination fees withhold, on average, $227 of an undergraduate student's and $1,370 of a graduate student's loan proceeds after factoring in associated interest while still requiring repayment with accrued interest of the full loan amount. 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[16].

*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) and their graduates' indebtedness through the Gainful Employment (GE) and Financial Value Transparency (FVT) regulations. 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 intensity,

12 NASFAA letter to Sen. Alexander on accountability, February 2018, (https://www.nasfaa.org/uploads/documents/NASFAAHELPAccountabilityComments_2151.pdf).
13 https://www.nasfaa.org/uploads/documents/Analysis_Existing_Short-Term_Postsecondary_Programs.pdf
14 https://www.newamerica.org/education-policy/edcentral/short-term-pell-evaluation-report-leaves-policymakers-and-observers-shrugging/
15 "End the Student Loan Tax," The Hill, by Rep. Susan Davis and Justin Draeger, Oct. 20, 2014.
16 "Issue Brief: Origination Fees," NASFAA, (https://www.nasfaa.org/issue_brief_origination_fees)

dependency status, or any other parameters[17]. 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. Congress should allow schools to set lower loan limits for specific populations based on academic program, dependency status, living arrangement, credential levels, enrollment intensity, or other categories established by the school, and allow aid administrators to increase a particular student's loan from the school's imposed limit, up to the regular applicable statutory limit, on a case-by-case basis under professional judgment. This authority would provide aid administrators with a tool to help students avoid incurring unnecessary debt and reaching aggregate loan limits before the program of study is completed, and protects students and taxpayers alike by allowing institutions to measure outcomes and adjust loan limits to levels appropriate to those outcomes.

Furthermore, institutions do not even have the authority to require additional loan counseling or documentation supporting a request for loan funds. To ensure students are well-educated about their borrowing and future repayment obligation, Congress should provide institutions with the authority to mandate additional counseling for students borrowing federal student loans, if the school believes their student population would benefit from additional counseling. Providing this authority will allow institutions to tailor counseling requirements to meet the unique characteristics of their students, rather than having to comply with a one-size-fits-all annual counseling requirement that would result from a federal mandate.

NASFAA has endorsed the Responsible Borrowing Act and urges Congress to pass the bill, which would allow higher education institutions to prorate or limit the amount of a federal loan a student could borrow for the academic year, or in the aggregate.

*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[18].

*Restore graduate and professional student eligibility for subsidized loans.* Undergraduate students with demonstrated financial need are eligible for Federal Subsidized Direct 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 low-income 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. Congress should pass the Protecting Our Students by Terminating Graduate Rates that Add to Debt (POST GRAD) Act, a bill supported by NASFAA that would restore the in-school interest subsidy for graduate students.

*Maintain a single loan program for graduate/professional students with borrowing limits that allow students to borrow up to the in-state cost of attendance at public institutions, with the additional borrowing allowed based on program's earnings data or a debt to income ratio.* Eliminating the Grad PLUS loan program would create a single federal loan program for graduate and professional students. This single program would be the only option available for graduate/professional students to borrow, but would remain separate from the program available for undergraduate borrowing. There should be a borrowing limit on the loan program which should be high enough to cover the costs of public, in-state cost of attendance in the state the institution is located in, regardless of a student's state of residence and whether they are charged at the in-state or out-of-state rate. These limits would be determined by ED and should be sufficient to cover the full cost of in-state attendance, including tuition, fees, living expenses, and other non-tuition costs. Students wishing to attend a program at a private institution would be able to borrow up to the average in-state cost of attendance (including the tuition and fee rate for in-state students) for comparable programs at public institutions in that state. Students would be approved for additional borrowing beyond the annual limit based on either a debt to income ratio or anticipated future earnings for their program. For more details on this recommendation, please refer to NASFAA's Protecting Borrowers & Advancing Equity report.

17 "Report of the NASFAA Task Force on Student Loan Indebtedness," NASFAA, February 2013, (https://www.nasfaa.org/Report_of_the_NASFAA_Task_Force_on_Student_Loan_Indebtedness).

18 "Discussion Draft: Dynamic Loan Limits Working Group Proposal," NASFAA, July 2016, (https://www.nasfaa.org/uploads/documents/Dynamic_Loan_Limits_Discussion_Draft.pdf).

*Reform the Parent PLUS program by using a debt-to-income ratio to meaningfully assess how much a parent can responsibly borrow, and provide forgiveness of loan debt for parent borrowers who received PLUS loans when their incomes were at or near the poverty level.* There should be reasonable restrictions on Parent PLUS borrowing to manage excessive overborrowing and more meaningfully assess whether parents can repay their loans. We do not recommend setting a specific annual limit, but instead propose using a debt-to-income threshold to allow for variable limits based on a parent's income. This ratio should be added to parent PLUS underwriting and should be strong enough to protect parent borrowers, while still being more generous than the private student loan market. Currently, students whose parents are denied a Parent PLUS loan can borrow an additional $4,000 to $5,000 in unsubsidized federal student loans depending on their academic level. This policy should be maintained to ensure students whose parents are not approved for PLUS borrowing have access to additional resources to support their enrollment. In an effort to hold harmless parents who have been adversely impacted by the current Parent PLUS system, FSA should institute a process to review and provide forgiveness of loan debt for borrowers who received PLUS loans when their incomes were at or near the poverty level and should have never been approved for the loans. For more details on this recommendation, please refer to NASFAA's Protecting Borrowers & Advancing Equity report.

# Reforming Student Loan Repayment

According to the Congressional Research Service, there are over 40 loan forgiveness and loan repayment programs currently authorized, with at least 30 operational as of Oct. 1, 20121 or shortly thereafter[19]. This tangled web of repayment options confuses borrowers and was the impetus behind many of the Biden administration's debt relief efforts, like the one-time repayment recalculation, on-ramp to repayment, targeted debt relief, and even the creation of the Saving on a Valuable Education (SAVE) plan. These efforts, many of which are in the midst of legal challenges, have caused even more confusion and disarray. Through the HEA reauthorization, Congress has several opportunities to improve and simplify student loan repayment for borrowers.

*Consolidate the existing repayment plans into three options: a single IDR plan, a standard 10-year repayment plan, and an extended 25-year plan.* Existing IDR plans need to be consolidated into a single income-driven repayment plan that borrowers can easily understand and navigate. In addition to a single IDR plan, a standard 10-year repayment plan and an extended 25-year repayment plan should be maintained, for a total of three repayment plans. All borrowers should be transitioned into one of these three plans, and all other existing repayment plans should be sunsetted.

The standard 10-year plan should be available to all borrowers, and the extended 25-year plan should be available to only borrowers who have more than $30,000 in Direct Loans (this is the same eligibility requirement as the current extended repayment plan). The option of a 25-year fixed repayment plan is essential for borrowers with higher debt, but with incomes that fall outside of IDR plan eligibility. While their income alone may indicate an ability to service their debt on a fixed 10-year plan, they may have significant expenses such as dependent care that hinder their ability to afford high monthly student loan payments. If those borrowers are willing to assume a higher total cost of repayment in exchange for lower monthly payments, they should have that option. For more details on the proposal to consolidate existing repayment plans, please refer to NASFAA's Protecting Borrowers & Advancing Equity report.

*Design a single IDR plan.* The previous recommendation proposes consolidating the existing IDR plans into a single income-driven repayment plan. This single IDR plan should be easy to enroll in, include generous terms and conditions, and maximize benefits for borrowers to ensure that those who are struggling have the safety net they need to remain in good standing during economically challenging times. This single IDR plan should be available to both undergraduate and graduate borrowers, and should be the default option for borrowers entering repayment who do not opt into either the standard or extended plan. Forgiveness of the loan's outstanding balance should be provided after 10 years for borrowers who have had a $0 IDR payment for 120 consecutive months, and after 20 years (240 monthly payments) for all other IDR borrowers. For more details on NASFAA's proposal for a single IDR plan, please refer to NASFAA's Protecting Borrowers & Advancing Equity report.

*Strengthen Public Service Loan Forgiveness.* The Public Service Loan Forgiveness (PSLF) program encourages students to pursue and commit to vital public service careers without fear that their student loan payments will follow them for decades. The program is of high value to both students and society, but needs to be evaluated and strengthened in order to ensure it is the most efficient, simple, fair program for borrowers working in public

19 "Federal Student Loan Forgiveness and Repayment Programs," Congressional Research Service, (https://crsreports.congress.gov/product/pdf/R/R43571).

service. Congress should reform the PSLF program by updating the timeline for forgiveness to provide rolling forgiveness opportunities, forgiving $5,000 in debt after each 2 years of time in public service. For borrowers who still have loan debt left after 10 years of working in public service, their remaining balance would be forgiven as it is under the current system. The average borrower graduates with $34,000 in student loan debt. Under this rolling forgiveness proposal, they would see their loan debt shrink to $10,000 after 10 years of service, giving them reduced payments and less accrued interest during their 10 years of service until their debt is ultimately forgiven. Additionally, Congress should encourage ED to increase outreach to eligible employers and, to the greatest extent possible, to use administrative data to automate the enrollment process. Congress should also encourage the Department to provide more publicly available data about the PSLF program's cost, effectiveness, and integrity.

*Explore ways in which interest could be reformed to better align the federal student loan program with its purpose of expanding postsecondary access.*

- Drastically lower interest rates for all types of federal direct loans (subsidized, unsubsidized, parent PLUS) to advance the program's primary goal of promoting postsecondary access. Although further investigation is needed to determine both the most appropriate metric by which to set interest rates, one option is to tie federal student loan rates to the rate at which the federal government borrows and lower the maximum rate that federal student loan interest rates may not exceed specified in the HEA[20]. When determining the appropriate level for the statutory interest rate caps, one important consideration is setting a limit that is low enough to achieve the goal of providing relative consistency in interest rates for those who borrow at different times. There will, of course, be annual fluctuations that will result in a lower or higher interest rate for different borrowers who take out loans several years apart, but the difference should be nominal. Once the lower interest rates recommended above are implemented, all outstanding federal student loans with interest rates higher than the new rate should be automatically adjusted to match the new lower rate. This one-time reset will get all borrowers to the new, lower interest rate, and the revised cap on interest rates will ensure that future refinancing opportunities are not necessary.
- Eliminate negative amortization for all borrowers. Borrowers whose monthly payment is less than the amount they are charged in interest should have their monthly accrued interest charge reduced to an amount that is equal to their monthly principal payment.
- While ED has eliminated all non-statutory interest capitalization in regulation, the HEA still requires some capitalization for some events.

*Reform Student Loan Default. Prior to the COVID-19 pandemic, more than one million Direct Loan borrowers were in default on their student loans.* While there are currently no borrowers in default due to the COVID-19 student loan payment pause and on-ramp period, as well as the Fresh Start program, it remains unclear whether or when default rates might rise to pre-pandemic levels. As of February 2025, the payment on-ramp has ended and borrowers who fail to make payments will begin to be reported to the credit bureau again. Lawmakers should put guardrails in place that help struggling borrowers avoid entering default altogether and make it easier for those who do default to return to good standing. These guardrails should include automatically enrolling delinquent borrowers in income-driven repayment before they enter default whenever possible, increasing the flexibility of IDR and the Economic Hardship Deferment to provide additional safety nets for struggling borrowers who are still at risk of falling into default despite being enrolled in IDR, and allowing defaulted borrowers who enroll and make a payment in IDR to immediately exit default, this new pathway out of default would be available to borrowers only once. Additionally, lawmakers should take steps to reform the current default system so that it is less punitive, minimizes additional hardship, and maximizes support for struggling borrowers. Among the steps that could be taken to make the default system more borrower-friendly are eliminating the acceleration of loan balances, using collections mechanism only in extreme circumstances, delaying credit reporting of default status to provide borrowers with additional time to return to good standing, removing default from the credit history of any borrowers who exits default, and streamlining, standardizing, and reducing collection fees. For additional details on these proposals and NASFAA's complete set of recommendations to reform student loan default, please refer to NASFAA's Protecting Borrowers & Advancing Equity report.

*Improve student loan servicing operations.* FSA should be required to develop and implement a comprehensive manual of student loan servicing practices. The loan servicing contracts should include an amendment that outlines the contents of the manual created by FSA, and all student loan services should be required to adhere to that guidance. All student loan servicers should also be required to adopt student loan servicing best practices

20 https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2021-05-19/interest-ratesdirect-loans-first-disbursed-between-july-1-2021-and-june-30-2022-ea-id-loans-21-06

identified by FSA. We also urge ED to act on opportunities to effectively collaborate with other relevant stakeholder agencies. Additional student loan servicing recommendations put forth by NASFAA and other coalition members can be found in NASFAA's Protecting Borrowers & Advancing Equity report.

# 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[21]. 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.

*Standardize some 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. NASFAA's Code of Conduct includes requirements around aid offers, such as the inclusion of specific elements and the use of standard terminology and definitions[22]. In the fall of 2022, NASFAA along with the leaders of nine other higher education associations representing college presidents, admissions counselors, and school counselors announced the formation of a task force — the College Cost Transparency Initiative (CCT) — to improve the clarity, accuracy, and understanding of student financial aid offers by producing a set of guiding principles and core standards to be used when communicating aid offers. The CCT asks schools to voluntarily sign on to improve their aid offers to meet these standards, showcasing the industry's belief in the importance of transparency aid offers.

Additionally, NASFAA also supports legislation to standardize core elements and terminology on aid notifications and in communications. NASFAA also urges Congress to pass the bipartisan Financial Aid Communication and Transparency (FACT) Act. The FACT Act would improve financial aid offers by requiring institutions to include on their aid offers consumer-tested standard terms and definitions, certain elements such as an itemized Cost of Attendance and aid broken down by type, and explanatory notes about each type of aid, among other information. Congress should maintain institutional flexibility to design aid offers in a way that best meets the needs of each school's specific student population to help maximize the effectiveness of aid offers and avoid unintended, negative consequences of overly prescriptive standardization.

*Develop and consistently use a consumer-testing model for new disclosure 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. Requirements to provide consumer information should consider their intended audience and 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[23].

*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. Congress should pass the College Transparency Act, a bipartisan bill supported by NASFAA that would repeal the student unit record ban and create a secure, privacy protected student-level data network.

*Eliminate disclosures not related to financial aid 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

21 "NASFAA Task Force Report: Consumer Information," NASFAA, June 2014, (https://www.nasfaa.org/Consumer_Information_Report).

22 "Code of Conduct," NASFAA, (https://www.nasfaa.org/Code_of_Conduct).

23 "NASFAA Consumer Information and Law Student Indebtedness Task Force Report: Focusing Federal Aid Websites on Graduate and Professional Students," NASFAA, March 2016, (https://www.nasfaa.org/consumer_info_law_student_indebtedness_tf).

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.

## Conclusion

These recommendations serve as a roadmap for our discussions and will remain "living" in nature, in that we will continue to revisit and refresh to reflect any new developments on Capitol Hill and the broad field of higher education. The need to modernize federal higher education law to ensure that all students have the opportunity to access and succeed in higher education has never been greater. NASFAA looks forward to continuing to work with lawmakers to make progress toward a full reauthorization of the Higher Education Act, and to engaging our membership — financial aid administrators with boots on the ground — on these recommendations.

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

## About NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is the only national, nonprofit association with a primary focus on information dissemination, professional development, and legislative and regulatory analysis related to federal student aid programs authorized under Title IV of the Higher Education Act of 1965, as amended. Our membership consists of more than 29,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every 10 undergraduates in the United States. 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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