



# REIMAGINING FINANCIAL AID TO IMPROVE STUDENT ACCESS AND OUTCOMES

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

# REIMAGINING FINANCIAL AID TO IMPROVE STUDENT ACCESS AND OUTCOMES

The National Association of Student Financial Aid Administrators

## TABLE OF CONTENTS

Foreword.....	1
Executive Summary.....	2
Suggested Areas for Policy Reform.....	2
About NASFAA .....	4
Background and Process.....	4
Policy Context .....	5
Underlying Principles .....	5
Scope.....	5
Suggested Areas for Policy Reform.....	6
Examining the Value of Institutional and Student “Skin in the Game” .....	6
1. Incentives for Students to Enroll in More Credit Hours—Super Pell.....	6
2. Incentives for Schools to Improve College Success—Campus-based Aid Funding Partially Tied to Graduation Rates .....	9
Reforming Student Loans.....	11
3. Defining a Student Loan Eligibility Index .....	11
4. Rethinking Student Loan Default—Automatic IBR .....	14
Streamlining and Improving Consumer Information and Early Information and Commitment .....	16
5. Making an Early Commitment—A Pell Promise .....	16
6. Increasing Predictability for Pell-eligible Students—Pell Well .....	18
7. Helping Students to Make Informed Choices—Providing Predictive Wage Information before Students Enroll .....	21
Rethinking Entitlement and Professional Judgment .....	23
8. Preventing Excessive Borrowing—Providing Schools with Professional Judgment Authority to Limit Loan Amounts for Groups of Students.....	24
Conclusion.....	26
References .....	28
Acknowledgements.....	30

## FOREWORD

At the time of this project, Congress is once again at a stalemate, unable to come together in any meaningful way to tackle some of the largest fiscal issues this nation has ever faced. While student aid programs have largely been shielded from cuts when compared to other federal programs, they have by no means been insulated entirely. Students have lost access to interest subsidies, been denied access to the Federal Pell Grant program through the implementation of arbitrary program eligibility changes, and will likely face additional cuts in the coming year irrespective of what results from any deal brokered from the fiscal cliff.

For the last several years, NASFAA and other advocates of the student aid programs have expended considerable effort defending the funding of the student aid programs. That defense, along with a groundswell of support from students and the general public, has helped to ensure that both political parties support basic student aid programs like the Federal Pell Grant program.

There is, however, no end in sight to the significant financial pressures we face as a nation. As a result, NASFAA has partnered with the Bill & Melinda Gates Foundation to move from defense to offense by exploring new ways to design and deliver the annual \$160 billion of federal student aid. To be sure, putting forward proactive policy considerations for the student aid programs is not without its risks for students or institutions of higher education. It is always easier to sit on the sidelines and quickly shoot down ideas than to critically examine new ways of using existing and future dollars. Change is also partnered with uncertainty and the reality that it will yield both winners *and* losers.

But our fear of change cannot stop us from exploring alternatives to the status quo. To that end, this policy brief seeks to explore potential policy considerations related to the current student aid programs at a high level. We have engaged thought leaders in the student financial aid profession (NASFAA members), economists both inside and outside of higher education, and other policy experts to focus on specific policy considerations that target both access *and* success. Importantly, these policy considerations would each require additional research on impact and implementation, and demonstration projects whenever possible.

Our hope is that this issue brief will be the beginning, not the end, of the discussion. Ultimately, we can be spectators, or we can be participants. The time we face is too critical for financial aid administrators to sit on the sidelines. We choose to participate.

Justin Draeger  
NASFAA President & CEO

## EXECUTIVE SUMMARY

As the student aid programs rapidly approach reauthorization in 2014, they continue to face severe funding and efficiency problems. With grant assistance from the Bill & Melinda Gates Foundation through their “Reimagining Aid Design and Delivery” (RADD) project, NASFAA examined current systems of student aid with an eye towards reimagining how they could be improved in the future. This policy brief puts forward broad ideas intended to generate discussion and debate with the goal of advancing key policy issues facing student aid.

The issues discussed in this brief were generated through a multi-step process, layered with healthy, challenging, and innovative discussion regarding the current and future states of the federal student aid programs. NASFAA convened first and foremost a group of financial aid directors from across the country and from all sectors of higher education to serve as a discussion and reaction group. NASFAA also convened a group of policy advisors, made up of student aid experts and economists. In addition, NASFAA solicited feedback from a separate group of aid administrators, student aid advocates, and higher education policy experts along the way.

Throughout the RADD project, NASFAA relied on a series of underlying principles to guide our efforts. The principles were predicated on NASFAA’s Core Advocacy Principles and included the promotion of fairness, access, equity for all students, the primacy of need-based financial aid, increased accountability and transparency, and the acknowledgement that student success is a function of shared responsibility between institutions and students, while recognizing that students hold primary responsibility for successful outcomes. The policy considerations put forward in this issue brief should not be construed as recommendations—rather, they are conversation starters and require additional research, data analysis, and demonstration projects whenever possible.

### SUGGESTED AREAS FOR POLICY REFORM

NASFAA’s RADD policy advisors and member-based discussion groups decided to pursue issues and solutions that fall within four main policy areas. Using existing research as a basis, NASFAA puts forward several policy considerations within each policy area.

- 1. Examining the Value of Institutional and Student “Skin in the Game”:** Can (and should) Title IV aid be used as a lever to change institutional *and* student behavior? Within that context, NASFAA puts forward the following policy considerations:
  - *Policy Consideration:* Use a *Super Pell* to incentivize students to enroll in more credit hours.
  - *Policy Consideration:* Use a portion of campus-based funding to incentivize schools to create an environment that fosters better-than-predicted student outcomes.
- 2. Student Loan Reform:** Given all of the safeguards to protect students from defaulting on loans, far too many students end up in student loan default. Research shows that most students who find themselves in trouble with student loans did not complete their degree and had tools they *could* have used to avoid default. How can we protect academically-unprepared students from default while still maintaining access to a postsecondary education and – as appropriate – student loan funds?

- *Policy Consideration:* Use a “*Student Loan Eligibility Index*” that would introduce minimal underwriting standards on federal loans to shield academically-unprepared students from loan indebtedness.
- *Policy Consideration:* Rethink the entire concept of student loan default by implementing an *automatic Income-Based Repayment* plan for all borrowers.

**3. Streamlining and Improving Consumer Information:** How can we make college and financial aid information more timely, effective, valuable, and concise?

- *Policy Consideration:* Make an early funding commitment to high school students through a *Pell Promise* to increase college-going rates and student outcomes.
- *Policy Consideration:* Increase disbursement flexibility and the predictability of net costs to students by offering a *Pell Well* of funds for students to “draw” from throughout their undergraduate career.
- *Policy Consideration:* Provide predictive wage information before students enroll to decrease indebtedness and improve student outcomes.

**4. Rethinking Entitlement and Professional Judgment:** The lack of practical tools available to schools to effectively counsel or deter unneeded borrowing can lead to students exhausting loan eligibility before program completion or over-borrowing relative to their degree. How can we ensure that schools have the appropriate tools to prevent excessive loan borrowing?

- *Policy Consideration:* Provide schools with the authority to limit borrowing for groups of students while still allowing – on a case-by-case basis – students to borrow up to the federal annual loan limit.

While none of these policy considerations are put forward as definitive solutions, they are all worthy of additional consideration and discussion. The ideas outlined in the following report are based on the principle that each stakeholder in the higher education process has a role to play, and that any incentives (or penalties) should accurately reflect that participant’s expected role. We affirm that the *primary* role of student aid is to ensure that no qualified student be denied access to a postsecondary education; and the goal of the institution is to create an environment where every qualified student has the tools, environment, and information needed to succeed.

## ABOUT NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents approximately 20,000 financial aid professionals at 3,000 colleges, universities, and career schools across the country. Each year, financial aid professionals help more than 16 million students receive funding for postsecondary education. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit [www.nasfaa.org](http://www.nasfaa.org).

## BACKGROUND AND PROCESS

In the summer of 2012 NASFAA was awarded a grant from the Bill & Melinda Gates Foundation as part of the Reimagining Aid Design and Delivery (RADD) project, which charged the participating organizations with examining current systems of aid design and delivery with an eye toward reimagining how they may be improved in the future.

This examination has been a multi-step process, layered with healthy, challenging, and innovative discussion regarding the current and future states of the federal student aid programs. NASFAA solicited feedback for this project from its members—financial aid experts working with students every day—and researchers and policy experts studying broader higher education issues. Specifically, NASFAA staff performed the following steps:

1. Reviewed relevant existing literature, research, and proposals, including previous recommendations by NASFAA and related external proposals, to develop an initial set of broad policy goals and principles;
2. Convened a group of policy advisors, including researchers and economists. Each advisor met with NASFAA staff for approximately three hours. They presented what they believe are the most acute shortcomings of the current student aid system and provided possible solutions to those issues. NASFAA staff also shared the initial set of broad policy ideas (as referred to in #1) in these sessions and asked for feedback from the advisors;
3. Based on the ideas and feedback put forth in these meetings, augmented and fine-tuned the initial set of ideas to create a specific set of policy considerations for review by NASFAA members;
4. Invited 13 NASFAA members and two advisors to serve as our discussion group to provide feedback. This group was convened on multiple occasions. At each meeting they heard, discussed, and debated several specific proposals. Policy advisors were asked to provide formal proposals with additional research based on feedback from the discussion group. Consensus was not sought because the final product was a group of policy considerations, not specific recommendations;
5. Discussed the purpose of RADD and solicited ideas from NASFAA members nationwide through state and regional meetings and electronic solicitations to the entire NASFAA membership;
6. Hired a graduate student to assist with research, analysis, and note-taking;
7. Participated in a convening for all 16 RADD grantees, focusing on collaboration and shared principles for reform;
8. Discussed RADD policy considerations with the presiding officers of the NASFAA board of directors; and
9. Produced this final policy brief.

## POLICY CONTEXT

Few would argue that the financial aid system as it is currently structured and funded is operating with maximum efficacy. Each year student aid advocates like NASFAA battle for appropriations that barely keep key programs like the Pell Grant level funded. Yet, there have been few attempts to unite experts in the field—including student aid professionals on campus and those who study and represent higher education—to identify where problems exist in the programs as well as opportunities for broader financial aid reform.

As the student aid programs rapidly approach reauthorization in 2014, they continue to face severe funding and efficiency problems. The RADD project presents a perfect opportunity for NASFAA to engage with other stakeholders in a meaningful discussion around reform and improvement, ultimately for the greater good of students.

## UNDERLYING PRINCIPLES

NASFAA relied on a series of underlying principles to guide our efforts throughout the RADD project. The principles were predicated on NASFAA's Core Advocacy Principles. Those underlying principles include:

- Promote fairness and equity for students across all sectors of postsecondary education, with a particular emphasis on low-income, underrepresented, and underserved students
- Stress the primacy of need-based aid
- Support policies that address the needs of disadvantaged students
- Advocate accountability
- Acknowledge that student success is a function of shared responsibility between institutions and students, while recognizing that students hold primary responsibility for their own success
- Encourage simplicity and predictability
- Empower student financial aid professionals and their schools with the flexibility to respond to the specific needs of their students
- Recommend policies that accommodate the diversity of academic delivery models
- Validate proposed recommendations with research, data analysis, and demonstration projects wherever possible.

## SCOPE

This policy brief puts forth broad ideas intended to generate discussion and debate with the goal of advancing key policy issues facing student aid. Importantly, we do not view these policy considerations as a panacea, as they could certainly have unintended consequences, some of which will be discussed in the brief. These considerations will require additional research, exploration, and/or demonstration projects to determine their viability as sound policy recommendations.

## SUGGESTED AREAS FOR POLICY REFORM

Within the context of reimagining student aid, NASFAA’s RADD policy advisors and member-based discussion groups decided to pursue issues and examine potential solutions that fall within four policy areas:

- Examining the Value of Institutional and Student “Skin in the Game”
- Student Loan Reform
- Streamlining and Improving Consumer Information and Early Information and Commitment
- Rethinking Entitlement Aid and Professional Judgment

### POLICY AREA: EXAMINING THE VALUE OF INSTITUTIONAL AND STUDENT “SKIN IN THE GAME”

#### Issue

Historically, the goal of Title IV student aid has been to ensure access to higher education. In recent years, the high cost of college coupled with the need for fiscal austerity at the federal level has led to increasing emphasis on college completion as a policy goal—that is, student success. As policymakers and taxpayers look for more return on their investment in the Title IV aid programs and students are facing increasing student loan debt burden, graduation and completion rates are taking on a more significant role in policy discussions. Title IV aid can be used as a lever to change behavior by both students and institutions, since both have a role in student success.

Behavioral change can be motivated by either carrots or sticks, i.e., incentives or penalties. When applied to students, carrots or sticks must be designed to foster student success, but must not set the bar so high that students are unduly penalized. When applied to schools, carrots or sticks must take into account the student population served by individual schools. In this case, if the bar for the carrot or stick is set too high, it would likely have the unintended consequence of perversely incentivizing schools to increase their selectivity, as well as funneling additional federal funding to schools that serve almost exclusively students who are already likely to attend and succeed in college.

#### Policy Considerations

##### 1. Incentives for Students to Enroll in More Credit Hours—Super Pell.

A scheduled award in the Federal Pell Grant program represents the amount of a Pell Grant which would be paid to a full-time student for a full academic year. The award made to a student for a payment period (i.e., an academic term for term-based programs) is based on the student’s enrollment status for that payment period, as determined by the institution, but meeting the following minimum standards:

- Full-time: 12 semester or quarter credit hours, for programs using semesters, quarters, or trimesters
- Three-quarter time: 9 to 11 semester or quarter credit hours
- Half-time: 6 to 8 semester or quarter credit hours
- Less than half-time: Fewer than 6 semester or quarter credit hours

*Note: For the sake of simplicity, this report describes policy considerations in the context of credit-hour programs. However, it is our intention that the proposed reforms could be equally applicable for clock-hour programs.*

Using these enrollment status standards, a student's Pell payment for less than full-time status is a straight proration of the full-time award. That is, a three-quarter time payment is three quarters of a full-time payment, a half-time payment is half of a full-time payment, etc.

A school may establish more lenient enrollment status standards for other purposes, but for all Title IV purposes, the above minimum enrollment status standards must be used. Although schools do have the option to use stricter enrollment status standards for all Title IV purposes, most do not, since it would limit some students' Pell eligibility.

At schools that use the minimum enrollment statuses, students enrolled for more than 12 credits do not receive additional Pell dollars. For example, suppose Sam and John are both eligible for the current maximum Pell Grant scheduled award, \$5,550. For the fall semester, Sam is enrolled for 12 credit hours and John is enrolled for 15 credit hours at the same institution. Both Sam and John would receive a fall Pell Grant disbursement of \$2,775. This is true even if the school charges additional tuition for credit hours taken above the minimum full-time amount, which would in this example negatively affect John. Although not common, some institutions charge tuition on a per-credit basis, or assess certain fees based on enrolled credits or the number of classes in which the student is enrolled. There are many ways the direct costs to Sam and John could be different.

Even if direct costs are the same for both 12-credit Sam and 15-credit John, John would likely incur more indirect costs than Sam as a result of his higher enrollment. For example, John may have higher expenses for books and supplies. If he does not live on campus, he may also incur higher transportation costs and/or dependent care costs, if applicable. He also may have less opportunity to work part time.

Although the Title IV minimum enrollment status standards do not distinguish between enrollments of 12 credit hours and 15 credit hours, there is a very significant difference between these two enrollment levels regarding program completion. Most academic programs require a minimum of 60 credits for completion of an associate's degree program, and 120 credits for completion of a baccalaureate degree. To complete an associate's degree in two years or a baccalaureate degree in four years, as these degree programs were originally designed, students must enroll and successfully complete an average of 15 credit hours per term.

Full-time students who enroll for only 12 credits per term will need at least an additional semester to complete a 60-credit associate's degree program, or an additional two semesters to complete a 120-credit baccalaureate degree program. Forty-five percent of undergraduate students who attend full time need more than four years to complete their degree programs (NCES, 2009, as cited in Scott-Clayton, 2011). During that extra period of enrollment, needy students are likely to receive additional Pell Grant funds and may also incur additional student loan debt.

An immediate financial incentive in the form of extra Pell dollars (i.e., Super Pell), on top of a full-time Pell Grant scheduled award for enrollments greater than 12 credit hours, would have the effect of encouraging students to complete their academic programs more quickly. Depending on how it is structured, Super Pell

could also lead to fewer lifetime Pell dollars being spent on these students because students would receive a small amount of extra Pell funds for each term at greater than 12 hours, rather than an extra term or year of a full scheduled award.

Pell-eligible students who complete a baccalaureate degree within four years rather than longer would also likely incur less student loan debt. Even for the minority of schools that charge higher amounts for greater workloads, the marginal higher costs due to enrollment greater than 12 credits are certainly less than the costs of additional terms of enrollment, not to mention the opportunity costs of enrollment in college. (An opportunity cost might be, for example, lost wages if the student had been working rather than attending school.)

Higher rates of on-time completion would help our country's progress toward President Obama's 2020 college completion goal, whereby the United States will have the highest proportion of college graduates in the world by the year 2020. At some institutions, higher rates of on-time completion would also free up scarce enrollment space for other aspiring college students.

### **Potential Unintended Consequences**

Super Pell would offer an incentive, rather than a requirement or penalty, for Pell-eligible students to enroll for greater than the minimum number of full-time hours. Because students who enroll for 12 credit hours would continue to receive a full-time Pell payment, academically underprepared students and students who work while attending school will not be pressured to enroll for more credits than they can handle realistically. However, if these students enroll for greater than 12 credits, they could have a higher risk of not successfully completing all their classes, which could ultimately jeopardize their Title IV eligibility through the satisfactory academic progress requirements and reduce the probability that they will achieve their educational goals.

### **Alternative Policy Considerations & Unanswered Questions**

- An alternative, related proposal raised in recent years would require a minimum 15 credit hour full-time enrollment standard for Pell Grant purposes. This proposal would increase the likelihood that some students will graduate within the standard 2-year or 4-year degree program period. However, it would also pressure students with low chances of academic success at that enrollment level to attempt 15 credit hours, which could be detrimental to at-risk students.
- One significant unanswered question surrounds the Super Pell as an incentive for higher enrollment: How would the incentive of additional Pell funds change the enrollment behavior and academic success of full-time Pell recipients? How much extra would the Super Pell have to provide to be a true incentive and cover additional costs as well as possible lost wages? Because we don't know if full-time Pell recipients would complete their academic programs more quickly if Super Pell were available, it is difficult to estimate the cost or overall benefits of such an incentive.
- Adding to the difficulty of cost estimates is the lack of data on the number of full-time Pell recipients who are already enrolling for greater than 12 credit hours, even without any incentive of additional Pell funds. Reporting rules only require that institutions report student enrollment within enrollment categories (e.g., full-time, half-time). Therefore, it is difficult to estimate on a national basis how many full-time Pell recipients are already enrolling for more than 12 credits.

## Next Steps

Because it is so difficult to predict changes in the behavior of full-time Pell recipients, NASFAA recommends that a small demonstration project be implemented. On a small scale, Super Pell could be offered to students and their enrollment behavior, academic success, and completion status could be tracked. Tracking data could also be used to project cost estimates and to determine the value of such a program on a large-scale basis.

### **2. Incentives for Schools to Improve College Success—Campus-based Aid Funding Partially Tied to Graduation Rates.**

As an incentive for institutions to continuously work to improve their graduation rates, this proposal would set aside a portion of campus-based funds for participating institutions to be awarded based on the institution's graduation rate, as compared to benchmarks that consider student demographics.

President Obama's current campus-based aid reform proposal, as outlined in his FY 2013 budget request, would reward college and universities that do their fair share to keep tuition affordable, provide good value, and serve needy students well. However, defining value and the ability to serve needy students well is nebulous at best—weighted graduation rates are a more easily defined measure.

Because of the vast differences in institutions, their missions, and the students they serve, use of graduation rates as performance benchmarks must take these differences into account, rather than set a single standard that all institutions must meet. For example, a graduation rate of 70 percent at a 4-year, highly selective, private institution should not be considered equivalent to a 70 percent graduation rate at a 2-year, open-enrollment community college.

Any institutional incentive provision that uses an across-the-board, one-size-fits-all graduation rate standard runs the risk of encouraging institutions to increase their admissions selectivity to ensure that the graduation rate standard is met. While increasing selectivity would certainly help an institution meet a completion goal, it does so to the detriment of college access goals. Benchmarks that account for institutional type and student demographics establish an appropriate balance between access and completion as policy objectives.

Mortenson (2011) developed a research model that provides a good starting point for setting appropriate benchmarks of success. He analyzed *actual* versus *predicted* graduation rates by controlling for academic and family backgrounds of students served. When these factors are controlled, the real contribution of each institution to the success of its students is revealed.

Once graduation rate benchmarks are defined, they can be used to determine a portion of a school's campus-based funding allocation. As an example, say that 10 percent of a school's campus-based funding was allocated based on graduation rates. Schools that exceed their graduation rate benchmark would receive their allocated 10 percent, plus a bonus of some designated dollar amount or percentage. Schools that meet their graduation rate benchmark would receive their allocated 10 percent, and schools that do not meet their benchmark would receive some amount or percentage less than their allocated 10 percent.

## Potential Unintended Consequences

A potential unintended consequence of making a school's allocation of Title IV campus-based aid funding dependent in part on graduation rates is that schools will likely be motivated to increase their admissions selectivity in order to avoid the consequences of lower graduation rates. However, the use of appropriate graduation rate benchmarks based on comparisons of similar institutions will likely reduce this motivation.

## Alternative Policy Considerations & Unanswered Questions

Other similar proposals offer incentives or penalties based on schools' success in serving needy students, which is generally measured by graduation rates of Pell-eligible students. However, Pell-eligible students are not the same at all types of institutions; for example, community colleges have lower graduation rates than those at highly selective 4-year colleges. Failing to set appropriate benchmarks that account for institutional type and student demographics would punish the schools that serve the highest percentages of Pell recipients and are generally underresourced, and reward those institutions who serve the smallest percentages of Pell recipients and are more likely to be adequately resourced.

To be successful in tying a portion of campus-based funding to benchmarked graduation rates, we must answer the following:

- What are the appropriate graduation rate benchmarks and metrics?
- Can we accurately control for different student types to hold schools responsible based on the likelihood of success from their student population?
- What percentage of a school's campus-based aid allocation should be subject to this incentive provision?
- What are the appropriate adjustments to the designated portion of a school's campus-based aid allocation when a school exceeds or falls short of the graduation rate benchmarks?

## Next Steps

We recommend that a demonstration project be implemented before this provision, or another like it, is instituted on a large-scale basis in order to assess costs, institutional response, and any unintended consequences. The demonstration project should use a cross-section of institutions from every sector, representing the full range of campus-based funding allocations. The assessment of the demonstration project could lead to adjustments to the quantifiable element, i.e., graduation rate benchmarks, percentage of campus-based funding subject to these standards, and the resulting adjustments to campus-based aid allocations.

We also recommend an analysis of the relevant data available on short-term programs, where 70 percent completion and placement rates are currently required for federal student loan eligibility. Relevant data would include initiatives these programs undertake to ensure they reach the required 70 percent, such as student support and career services, agreements with local employers, etc.

## POLICY AREA: REFORMING STUDENT LOANS

### Issue

A postsecondary degree is an asset that pays dividends over a lifetime of higher earnings. The current college wage premium is roughly 100%. College degree holders earn double what their high school educated counterparts earn (Kantrowitz, 2009). Net of paying for college, the net present value of the additional earnings for people who earn a bachelor's degree is, on average, between \$300,000 and \$600,000 (Avery & Turner, 2012). The benefits of education are not just monetary. Even when one adjusts for income differences caused by higher levels of schooling, more schooling leads to greater job satisfaction, better health outcomes, and longer life expectancy (Oreopoulos & Salvanes, 2011).

Paying for college is an investment that has a higher upfront cost than any other asset most people will acquire, other than purchasing a home. And like home ownership, prudent use of debt is the only way for many people to achieve the long-term benefits of acquiring a higher education. With the sharp tuition increases and eroding value of grant assistance over recent years, students are borrowing more to finance a college education. Average student loan debt for college graduates now stands at \$26,600 (The Institute for College Access and Success, 2012), and has been increasing at a rate of around 5 percent per year.

What this number does not reflect are the students who borrow loans but fail to complete their academic programs. Accompanying the increase in borrowing is an increase in the student dropout rate (Nguyen, 2012). Without many of the financial benefits of an academic credential, these borrowers may struggle to repay their loans. The most recent national default rate data show that just over 9 percent of students default on their federal student loans in the first two years after they begin repayment. This rate has been steadily increasing since 2005 (The Institute for College Access and Success, 2012, and U.S. Department of Education, 2012).

The federal government should indeed share in the risk of educating students who cannot afford to pay for postsecondary education out of family income. The nation's current loan program accomplishes this. But present loan programs have no prudential underwriting, and students who leave school with unsustainable debts relative to their future income carry a severe financial burden that can last many years. Loan forgiveness is a remedy, but for those who qualify it acts at the back end, after large debts are accrued, and creates a moral hazard.

How can we tell when student debt becomes too much? And how can we take practical steps to reduce student default rates without choking off access? Default is a burden that alters lives for the worse, and its consequences are long lasting.

### Policy Considerations

#### 3. Defining a Student Loan Eligibility Index.

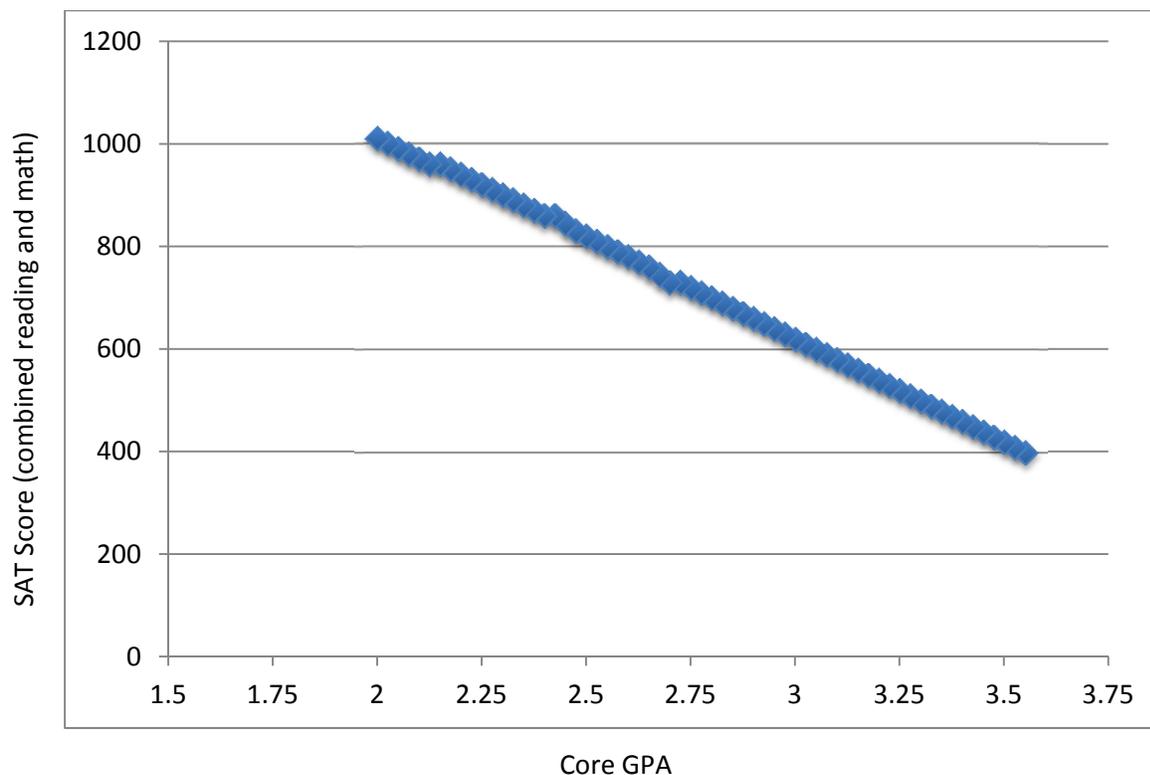
A new, simple eligibility rule could help policymakers determine the extent to which students entering postsecondary education would qualify for student loans. Under the premise that it is unwise and socially unjust to put students into loan debt if they are unprepared for college, this idea would create an index or sliding scale to measure one's eligibility for student loans. Students who met a certain eligibility threshold

(e.g., as quantified by a combination of GPA and SAT or ACT performance, or some other metric) would be eligible to take out student loans immediately, and those who did not meet the threshold would not be *initially* eligible for loans. Such an eligibility index would reduce financial risk for students and for the government, while preserving pathways back into the loan program for students who demonstrate that they can succeed in a lower cost college or community college environment.

This approach attacks the default issue at its root in the beginning of the borrowing process, not at the back end after students experience the consequences of their accrued debt. An eligibility index would be most effective if a substantial portion of the default problem, and of crushing over-borrowing more generally, arises from the debt taken on by students whose high school record does not predict success. This group is also the least likely to earn a meaningful credential with which to pay back the debt obligation (Zwick & Sklar, 2005).

The National Collegiate Athletic Association (NCAA) developed such an index for student-athlete eligibility (NCAA, 2012). Applying a similar index to student loan eligibility essentially introduces a form of risk-based underwriting on federal loans. Under this policy consideration, the students at greatest risk for academic failure would not be allowed to borrow (or they would be limited to a lower loan limit), just like students who fall below the threshold in the NCAA standards cannot initially participate in college athletics. The student loan eligibility index would not affect Pell Grant eligibility, so would preserve basic access to postsecondary education for all.

**Figure 1. A Sample Sliding Scale Loan Eligibility Index (Current NCAA Scale)**



SOURCE: Data was used from the 2012 NCAA Eligibility Requirements.

It is important that the eligibility index not be a permanent barrier to loan eligibility. Within this proposal there would be a path for these students to move into eligibility after demonstrating some measure of postsecondary success. For example, students who enter a community college or a university and meet that school's continuance requirement (or perhaps a specified college GPA), would earn a pathway back into the full loan program after one semester or after one academic year.

## Four Potential Benefits

1. A published eligibility index would give families real information about the consequences of weak preparation while students are still in middle school and high school. This may lead to some positive behavioral changes early enough to improve the academic readiness of the pool of students entering the higher education system.
2. Students who might otherwise fail in 4-year programs, and accrue significant debt in the process, may choose lower-cost community college programs instead. Some of these students may discover that postsecondary training is not the right path for them, and they will learn that lesson in a less expensive way. Others will develop the proper academic habits that will allow them to succeed in attaining a 4-year degree later on.
3. A group of high-risk students who are more likely to fail in postsecondary training (assuming we can identify the correct predictors) would move directly to the labor market without accumulating debt.
4. Schools that want to take risks with certain students will need to increase their own aid to these students. This "skin in the game" may cause schools to pay more attention to retention and remediation.

## Potential Unintended Consequences

- At this point, we do not know the demographic profile of students who would not qualify for loans under this idea. We also do not know the profile of the students who are at the greatest risk of default or those who would fail to earn a substantive educational credential.
- There are students who would fall into the "no loans" or "reduced loans" category, but who would be successful at a 4-year institution. This group of students comprises the "false negatives" that lose from a proposal of this sort. We need to understand the potential size of this group. We also must offer this group a quick path back into the full loan program. Conversely, there are students who fail in college yet have all the predictors of success.
- Lastly, this proposal could have different effects on institutions of various types and controls, such as public or private, nonprofit or for-profit, 2-year or 4-year, etc.

## Next Steps

Next steps would involve identifying which students will be affected and to what extent. During 2013, researchers will use the next release of the National Center for Education Statistics (NCES) ELS: 2002 data set to evaluate the likely effect of this kind of risk underwriting of student loans. They will explore the relationship between risk characteristics of individual students and their path through higher education and the labor

market. This will allow us to see the kinds of students who fall on either side of a risk threshold, examine how these students have behaved, and determine what success or failure they have encountered in postsecondary schooling and in the labor market. Lastly, this information will allow us to draw important conclusions about the likely positive and negative effects of using risk criteria to structure student borrowing. Analyzing the 2002 data set should be done before this proposal moves forward.

#### 4. Rethinking Student Loan Default—Automatic IBR.

The student loan cohort default rate has steadily increased over the past several years, even after the introduction of income-based repayment (IBR), which continues to have a less-than-optimal participation rate. There are currently roughly 5.9 million students in default and of the 37 million borrowers who have outstanding loan balances, only 1.1 million are enrolled in IBR (Brown, Haughwout, Lee, Mabutas, & van der Klaauw, 2012; Nelson, 2012). One contributing factor to the low uptake rate of IBR is that it is an *optional* repayment plan that requires borrowers to take proactive and sometimes cumbersome steps to enroll. Borrowers must:

- Know about the IBR plan
- Express an interest in it and either calculate potential IBR loan payments themselves or ask a loan servicer to do the calculation for them
- Complete paperwork and income verification with their loan servicers
- Provide income verification on a yearly basis in order to verify eligibility and monthly payment amounts

With all of these proactive steps that borrowers must take, it is easy to understand at least part of the reason why IBR participation is lower than desired. Consequently, many individuals who would qualify for IBR don't actually follow through with the application process due to its complexity (Nelson, 2012).

This proposal would establish IBR as the automatic repayment plan for student borrowers and require that students opt out (or simply make larger payments) if they would prefer a different repayment plan or to repay their loans faster. Automatic IBR would not eliminate loan defaults entirely; however, if all students were automatically enrolled in IBR, then “inability to repay” would no longer be a reason for default. Default rates would decrease, as would the harmful consequences of defaulting on a federal loan for individuals and the taxpayers' burden of having to shoulder the costs of a defaulted loan.

The United Kingdom and Australia offer student loans with automatic, income-based repayment. Although their higher education systems and government agency structures and operations differ from those in the United States, their methods could provide models for implementing automatic IBR in a simple and straightforward manner.

#### Potential Unintended Consequences

- If current loan forgiveness provisions remained in place, some institutions may see little benefit to counseling borrowers about manageable loan debt, since borrowers would only repay a portion of their outstanding loan debt and the remaining portion would be forgiven.
- If current loan forgiveness provisions remained in place, schools may raise tuition. However, federal loan limits would likely keep tuition in check.

- Because the reduced monthly payment in IBR generally extends the repayment period, some borrowers may pay more total interest over the life of the loan than they would under the standard 10-year repayment plan. Of course, if a borrower is unable to afford the monthly payment under the standard repayment plan but can afford the monthly payments under IBR, this trade-off seems worth the higher total interest.

## Alternative Policy Considerations & Unanswered Questions

Although it seems fairly straightforward to simply switch the default repayment plan from standard repayment to IBR, there are many operational considerations and unanswered questions about the best way to accomplish this.

- How can IBR be an “automatic” repayment plan when it requires the borrower to provide income verification? One suggestion is for the Master Promissory Note (MPN) signed by borrowers to authorize the Internal Revenue Service (IRS) to share future income tax data with the Department of Education. This approach presents several challenges, including the need to revise IRS policies regarding information-sharing with other federal agencies. Also, at the time of signing the MPN, it is unknown when the borrower will enter repayment, and therefore difficult to determine in which year to begin sharing federal tax return data. Further, authorization to share tax information via the MPN also does not address how non-tax filers will verify their income.
- An alternative approach is to have borrowers make payments under IBR through employer withholding. NASFAA supports this approach because we believe that employer withholding is the simplest way to implement automatic IBR; income verification is not necessary and the payments are made automatically through withholding. Employer withholding does add some complications that would need to be resolved related to IRS procedures and interagency procedures within the federal government.
- Currently, IBR offers loan forgiveness after 25 years (soon to be 20 years, in 2014) of repayment. In addition, the public service loan forgiveness program offers forgiveness after 10 years of repayment during employment in public service. If all borrowers are repaying their loans under IBR, is there still a need for forgiveness provisions?
- Should IBR be the only repayment plan available, or should borrowers be able to opt out of IBR and select another repayment plan? If borrowers are provided a simple way to increase their payment amount, are any other repayment plans necessary? If opting out remains an option, which other repayment plans would be offered? Can employer withholding work if some borrowers are not in the IBR plan?

## Next Steps

Automatic IBR would represent an ideological shift in the way we view the student loan system in this country. Although this shift is logical from a policy standpoint, it is unclear if the American public would be supportive of the idea. Therefore, we would recommend that public opinion polling be conducted.

In addition to the ideological change, automatic IBR would also involve a complicated restructuring of the student loan repayment system that involves several government agencies. Possible procedures and implications must be further researched to determine if the complications can be resolved such that, from the borrower’s perspective, automatic IBR is a simple, efficient, and fair repayment process.

If it is determined that employer withholding can work effectively, we would recommend a long transition period to allow existing student loan borrowers the option of finishing their education with the current repayment options.

## **POLICY AREA: STREAMLINING AND IMPROVING CONSUMER INFORMATION AND EARLY INFORMATION AND COMMITMENT**

### **Issue**

The content and the timing of information about financial aid is extremely important for students and families. To be effective, information must be valuable, concise, and delivered at an influential time. As such, the federal government must focus on creating student aid policy that is equipped with accurate, clear, timely, and consumer-tested information. Sound policy in this area will allow students to not only be knowledgeable consumers but also to use the information wisely in making critical decisions about higher education.

### **Policy Considerations**

#### **5. Making an Early Commitment—A Pell Promise.**

Pell Promise would teach 9<sup>th</sup> grade students about Pell Grants, notify them of how much Pell funding they will be eligible to receive in the future, and guarantee that amount toward higher education upon successful completion of high school. In other words, students would not only have information about the Pell Grant, but would also have a *commitment of funding*. An early commitment program could have great behavioral effects by introducing a level of certainty for low-income students and families as they decide whether to pursue higher education. It could also have the impact of getting those students on a college-ready track at an earlier stage.

Specifically, a Pell Promise program might look something like this: A low-income 9<sup>th</sup> grader would receive a commitment from the federal government that upon successful completion of high school, a Pell Grant will be available for higher education. “Low-income” would be determined by existing means-tested programs such as Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and free or reduced-price school lunch. The amount of the Pell Grant could be scaled such that the maximum grant is at least equal to the present maximum award (currently \$5,550). Alternatively, the amount shown could be provided in terms of the percentage of costs covered at an average 2- or 4-year institution. Although the Pell Grant program has faced serious budgetary challenges over the past several years, the assumption is that while the Pell Grant maximum may not grow, it is unlikely to decrease by the time the student graduates from high school.

The underlying economic theory is simple: People respond to incentives. A Pell Promise program could incentivize students and families by providing a commitment of funds toward a level of education that may otherwise seem unattainable. The prime incentive would likely be the monetary value attached to a promise of successful completion. A secondary, non-monetary incentive would be the pride of being able to enroll in higher education and the social mobility that may be achieved by completing postsecondary education. This dual incentive structure that the Pell Promise could create is important because research shows that people respond to both monetary and non-monetary incentives. As economist Russell Roberts states in his aptly-named article, *Incentives Matter*, “[M]oney isn’t all that matters. People care about their reputation and

their fame and their conscience. They care about glory and fame and love. All of these can act as incentives” (Roberts, 2006, par. 19).

Some states have already implemented early commitment programs and have seen improvements in low-income student attainment. Indiana’s “21<sup>st</sup> Century Scholars Program” closely resembles what a federal Pell Promise program might look like. This program began in 1990 with the goal of increasing access to higher education for Indiana’s low-income student population. Income-eligible 7<sup>th</sup> and 8<sup>th</sup> graders who choose to enroll in the program are guaranteed to receive up to four years of undergraduate tuition at participating Indiana colleges and universities. Students who enroll in the program must sign a pledge of good citizenship called the Scholar’s Pledge.

Data collected during the program’s more than 20-year history show that students who participate in the program are more likely to enroll in higher education than students who did not participate (Lumina Foundation, 2008). In addition, the percentage of low-income students attending higher education in Indiana has increased substantially since the inception of this program. Specifically, between 1986 and 2004, the college-continuation rate (the proportion of high school graduates entering college the following fall) increased by 88 percent (from 33 percent of high school graduates to 62 percent). During this same period, Indiana rose from 28<sup>th</sup> to 10<sup>th</sup> of the fifty states in the proportion of high school graduates entering college the following year. Furthermore, this program has allowed Indiana to consistently increase its students’ year-to-year college persistence rate since 1996, despite this being a period of national decline in college-going behaviors (Lumina Foundation, 2008).

A federal program would certainly differ from a state program, particularly in terms of implementation. However, research surrounding Indiana’s program suggests that potential behavioral differences can result when low-income students are given incentives at an early age. It is also notable that Indiana’s program is purely need-based—a feature that would be very important in a similar federal program. NASFAA strongly advocates for federal grant-aid programs to be need-based versus merit-based under the premise that our valuable student aid dollars are best spent serving students with need, who may not otherwise have the opportunity to attend college.

### **Potential Unintended Consequences & Unanswered Questions**

- Given the unstable financial footing of the Pell Grant program, a Pell Promise may be unrealistic from a budgetary standpoint. It may be difficult to calculate the level of funding in federal budget projections. Knowing that the next several years hold more uncertainty for the Pell program, we risk making empty promises to students if the program changed substantially.
- Although research shows income-upward mobility has decreased in the last two decades, some students may be promised Pell in the 8th grade year who would not otherwise have been eligible for Pell come their first year of college (Bradbury, 2011). If this occurred, would those students still receive the funding committed to them in the 8th grade? This is something policymakers would have to consider. However, a recent study on the feasibility of a targeted early commitment program found that most students would remain eligible. The study modeled eligibility based on free and reduced price lunch and found “that the proposed program would be well-targeted, with fewer than one in ten students qualifying for the program not receiving a Pell Grant under current rules” (Kelchen & Goldrick-Rab, 2012).

- Would the Pell Promise be offered to all Pell-eligible students, or limited to those who are eligible for the maximum Pell Grant? Restricting the Pell Promise only to those eligible for the maximum Pell Grant may be a way of reducing costs, though likely marginal. However, many low-income who are very near, but not at, the maximum Pell Grant level are equally at risk of not enrolling in college.

### Alternative Policy Considerations & Unanswered Questions

- Section 894 of the Higher Education Opportunity Act (HEOA) of 2008 authorized a similar demonstration program to Pell Promise—the Early Federal Pell Grant Commitment Demonstration Program. Unfortunately, while the authority to enact this program exists in law, it was never given funding to get off the ground.
- In lieu of promising a certain amount of funds, students could also simply be given a letter that states the amount of Pell Grant money they *would* receive if they were graduating high school in the current year (similar to what is currently done with Social Security).

### Next Steps

Existing programs must be further researched to understand more about their benefits and unintended consequences. In addition, the higher education policy community should collectively advocate for the funding of the Early Federal Pell Grant Commitment Demonstration Program as found in Section 894 of the HEOA. A demonstration program is an excellent way to pilot this idea; policy experts have advocated for funding for a demonstration project and much information could be gleaned from the results (Heller, 2012).

### 6. Increasing Predictability for Pell-eligible Students—Pell Well.

Higher education is one of the only major expenditures in the United States that is financed on a year-to-year basis. This model means very little predictability for students and families, as eligibility and funding may fluctuate from one year to the next. These fluctuations are manageable for students and families with the financial strength to absorb changes in aid eligibility from one year to the next. However for low-income families, these changes can mean the difference between program completion and dropping out, often with the added burden of student debt. The current system of Pell Grant delivery, which is based on the traditional fall/spring academic calendar, is also outdated and confusing to families in light of trends toward innovative academic calendars, online education, and the influx of part-time and non-traditional students.

A “Pell Well” of funds available for student use throughout the course of an undergraduate education would increase predictability for Pell-eligible students and their families. Students would “draw” funds from the well as needed (under certain current rules, such as proration for less-than-full-time enrollment) until the student either completes the academic program or runs out of Pell funds.

A second benefit to the Pell Well concept is that it allows the Pell Grant program to respond to non-traditional enrollment patterns. Currently, Pell Grant funds are awarded on a scheduled award basis, which represents the amount of a Pell Grant that would be paid to a full-time student for a full academic year. Because the scheduled award covers an academic year rather than a full 12-month period, Pell-eligible students who wish

to enroll year-round often run out of Pell funds before the end of the 12-month period, and are not eligible to receive another scheduled award until the next award year (which begins on July 1).

The Pell Well concept would facilitate and incentivize continuous enrollment and, hopefully, higher retention and graduation rates. Students who are continuously enrolled are less likely to default than students who drop out, even if they do not graduate (Podgursky, Ehlert, Monroe, Watson, & Wittstruck, 2002; Woo, 2002).

Table 1 illustrates a full-time transfer student’s current Pell Grant distribution and how the Pell Well proposal could better serve the student. Lee, a student who has transferred from a community college to a 4-year institution, has five full-time semesters remaining in her bachelor’s degree program. She is eligible for the maximum Pell Grant award, which we assume is \$5,550 for the duration of her enrollment. Her enrollment and Pell Grant eligibility under current rules would be as follows.

**Table 1. Lee’s Distribution of Pell under Current Rules**

Semester	Pell Grant Eligibility	Award Year Assignment of Pell Payment	Total Pell Distributed to Date
Fall 2012	\$2,775	1 <sup>st</sup> payment from 2012–13 scheduled award	\$2,775
Spring 2013	\$2,775	2 <sup>nd</sup> payment from 2012–13 scheduled award; 2012–13 scheduled award now exhausted	\$5,550
Summer 2013	\$2,775	No remaining eligibility from 2012–13 scheduled award, so school makes a Pell payment from 2013–14 scheduled award	\$8,325
Fall 2013	\$2,775	2 <sup>nd</sup> payment from 2013–14 scheduled award; 2013–14 scheduled award now exhausted	\$11,100
Spring 2014	0	No remaining 2013–14 eligibility	\$11,100
Summer 2014	\$2,775	1 <sup>st</sup> payment from 2014–15 scheduled award	\$13,875

Because of the structure of the Pell Grant program, Lee has no Pell Grant eligibility in what could be her last semester before completing her program. At a point in her program when Lee should receive a final push toward graduation, she may be forced to sit out a semester before she can tap into her 2014-15 scheduled award. This is true even if Lee has remaining lifetime Pell eligibility, since Pell awards are made on an academic year basis within those lifetime eligibility limits.

The Pell Well could be structured to calculate a student’s lifetime Pell eligibility when the student initially applies for financial aid, based on the current 600 percent limit. For example, using the current \$5,550 maximum scheduled award, a student enrolling in a 4-year program would be notified of a lifetime Pell eligibility of \$33,300 (\$5,550 multiplied by 6 years). The student could use this Pell Well amount to plan accordingly, both financially and academically.

Payments for any given payment period would be calculated using the concept of a yearly scheduled award, but without the timing restrictions and current enrollment status rules, similar to the original concept of year-round Pell Grants. This prevents students from drastically frontloading their use of the lifetime Pell amount. (For example, a student at a high-cost institution would not be able to use \$30,000 of his or her lifetime Pell eligibility in one year.)

If this concept were implemented, the enrollment pattern and Pell Grant eligibility of our sample student, Lee, might appear as follows.

**Table 2. Lee’s Redistribution of Pell Grant Disbursements under Pell Well Proposal**

*Note: Because the Pell Well proposal does not recognize award-year assignment of Pell funds, that information is not included in Table 2.*

Semester	Pell Grant Eligibility	Notes	Total Pell Distributed to Date
Fall 2012	\$2,775		\$2,775
Spring 2013	\$2,775		\$5,550
Summer 2013	\$2,775		\$8,325
Fall 2013	\$2,775		\$11,100
Spring 2014	\$2,775	School is able to make a full-time Pell payment to Lee Lee finishes her program and graduates	\$13,875
Summer 2014		Not enrolled	\$13,875

Tables 1 and 2 show that the total amount of Pell dollars disbursed to Lee under the Pell Well proposal is the same as under the current Pell structure. However, under the Pell Well proposal, Lee could continuously enroll and complete her studies a full term earlier than under the current structure.

### Potential Unintended Consequences

- Students may overuse Pell at the associate’s degree level, leaving insufficient funds for baccalaureate study. A possible solution may be stepped aggregate limits for Pell funds, such that a student would only be able to receive a certain amount of Pell funds while completing a 2-year degree.
- An inaccurate “snapshot” of the student’s eligibility may be taken at the time the Pell Well award is determined. Family circumstances may change during the course of the student’s education, affecting the student’s eligibility. Unless professional judgment decisions were allowed to accommodate changes in family circumstances, reductions in family income (e.g., the death of a family’s sole wage-earner) may penalize the student, while families that experience improved financial conditions after the snapshot is taken may receive unneeded funds.

## Alternative Policy Considerations & Unanswered Questions

- While the Pell Well concept does not change the current 600 percent lifetime Pell eligibility limit, it does require an up-front commitment of that lifetime eligibility. Also, because current timing restrictions would be removed, it may condense use of an individual student's Pell Grant eligibility into a shorter time frame, thus frontloading the use of Pell Grant funds to some extent. However, because it is difficult to predict how changes to the aid programs may affect students' behavior, the financial costs of such changes are unknown.
- Another factor is the length of time for which the Pell Well funds are available to a student. For example, if a student begins college attendance, withdraws but does not graduate, and returns to school after a certain number of years, would the original Pell Well funds be available for use or would an updated need analysis be required? One alternative may be to provide students with a "well" of funds for a specified period of time, after which the student and family's ability to pay for college would need to be reassessed.

## Next Steps

Because behavioral changes and, thus, financial costs, are hard to predict, we would recommend that a demonstration project be implemented to deliver Pell Grants to a subset of students under the structure of a Pell Well concept. The students' enrollment behavior, graduation rates, and total amount of Pell funds received could then be compared to a control group to analyze the costs and benefits of this structure and determine whether it would be financially feasible and beneficial for Pell Grant recipients.

## 7. Helping Students to Make Informed Choices—Providing Predictive Wage Information before Students Enroll.

Existing consumer disclosure requirements are sorely in need of a complete review to determine their value to consumers. Currently, there is little evidence on what type of information, and what timing and method of disclosure, actually helps students and families make responsible, educated decisions about college. New consumer disclosure proposals continue to pile onto existing requirements without any examination of the effectiveness of current disclosures.

Current consumer disclosure requirements also contain "information asymmetry," that is, they focus heavily on college costs, but they provide no information to the consumer about possible outcomes in terms of future wages. Students and families should have easy access to information—either from the Bureau of Labor Statistics or real wage data—regarding the salaries of certain occupations and current and projected market demand for different degree programs at the time of enrollment. In order to obtain this information, there should be greater transparency through tying wage records to transcript data. While some states already do this, they are not necessarily effective in how they present the information to students. According to Carnevale, Jayasundera, and Hanson (2012) sharing the data in a more effective manner could help "(1) Students understand the demand for specific types of education and training; (2) Educators reform their programs to better serve students; and (3) Employers find the workers they need to fill their increasingly complex occupational needs".

Although no direct research has been done on the impact of timing of disclosures, a 2012 report from Young Invincibles, *The Student Perspective on Financial Aid Reform*, found that a high percentage of students were unaware that they had gone through loan counseling prior to or after accepting their loans (Mishory & O’Sullivan, 2012). While these students almost certainly *did* complete entrance and exit loan counseling (which institutions are required to provide to federal student loan borrowers), these findings suggest that the loan counseling requirements are ineffective. Put simply, it exemplifies the need for new, more effective consumer disclosure tactics and timing.

Similarly, the content of the current consumer disclosures and related proposals is a concern. In a recent consumer-test of the College Scorecard—an Obama Administration consumer disclosure initiative—the Center for American Progress (CAP) found that many students did not find the information valuable or easy to understand. For example, students said that the scorecard would have been more effective if it had simpler wording, better graphic design, and more relevant data (Morgan & Dechter, 2012). The problem, however, is that the College Scorecard will be released in its final format in the very near future—the opportunity to incorporate feedback from the results of CAP’s consumer testing is now past.

With respect to information asymmetry, existing consumer disclosures contain no information about what students may expect on the “back end” of their postsecondary experiences, i.e., their future wages. With student indebtedness on the rise, wage data information is more critical than ever as it allows students to make informed and practical decisions about their college choice. In fact, CAP’s consumer testing of the scorecard revealed that students want additional information about future earnings. The Young Invincibles report also underscored this notion, stating, “Job placement rate was a top factor for student leaders in choosing a school, and those surveyed strongly support measures that will improve that connection, including reforms to work-study” (Mishory & O’Sullivan, 2012, p. 17).

Some states have started collecting future wage information and making it available to students, and could serve as examples for similar national disclosures by the federal government. For example, a 2012 American Institutes for Research (AIR) study examining data from Virginia state institutions found that graduates with certain 2-year degrees earn more money than graduates with certain 4-year degrees from schools in the same state (Schneider, Massa, & Vivari, 2012). This information could allow students to weigh the cost of education against the future value of their education, and may affect students’ choices when enrolling in a degree program.

Data on employment and earnings related to major field of study are readily available, but a conscious decision must be made to use them in consumer disclosures. Earnings information should not be viewed in terms of its potential to discourage or encourage students to enter particular fields of study due to projected future income, but rather as a means to empower students with the information they need to make responsible decisions.

### **Potential Unintended Consequences & Challenges**

- Without specific research and consumer testing regarding the best time and ways to reach students with disclosure information, new information—even helpful information such as wage data—will not be very useful.

- Wage data included on consumer disclosures could have the long-term effect of discouraging students from entering lower-paying areas of high need, such as teaching and social work.
- Wage data for specific certificate and training programs will likely be more useful than wage data based on general areas of study that are not closely aligned with one specific job (e.g., liberal arts).
- The traditional college model focuses on giving students a wide breadth of experience before requiring them to decide on a specific major. As such, wage data may not be useful for some students who do not choose a specific major or career path until later in their college experience.

### Alternative Policy Considerations

Wage data could be given to students in high school—even earlier than the college choice process. Information given in 9<sup>th</sup>-12<sup>th</sup> grades could help students during the college selection process, rather than solely informing their choice of academic major.

### Next Steps

All new federal consumer disclosure proposals should be tested by the federal government *prior* to implementation. Proposals and draft legislation in this area should contain a broad framework for the desired outcome, but then allow flexibility for the results of consumer testing to inform the final product. If new disclosures are required by law, Congress needs to set effective dates to reasonably allow the Department of Education to conduct testing.

A demonstration project would be helpful in determining the value to students and families achieved by including wage data in consumer disclosures.

## POLICY AREA: RETHINKING ENTITLEMENT AND PROFESSIONAL JUDGMENT

### Issue

Annual loan limits for the Direct Loan program are set in law. While schools must prorate loan limits for academic programs of less than a year in length or if the student is in a final period of enrollment of less than one year, there is otherwise no proration of the annual loan limits set in law. This lack of any restriction on annual loan limits can lead to the following scenarios:

- Students borrowing up to the maximum annual loan limit for as little as half-time enrollment
- Students in an associate's degree program who borrow year after year until they reach the undergraduate maximum aggregate loan limit, which was intended to accommodate borrowing for a baccalaureate degree
- Students who are enrolled for only one term in the middle of their academic program and borrow the entire maximum annual loan limit for that one term
- Students borrowing maximum annual loan limits to pay the costs of educational programs that traditionally lead to lower-paying jobs

These practices can lead to situations where students either accumulate high loan debt very quickly without making progress toward degree completion, or struggle to repay loan debt that is excessive relative to the expected earnings for the student's field of study.

Schools have very few practical ways to prevent students from over-borrowing. The current statute views loan funds as "entitlements," and schools can only deny or limit loan eligibility on a case-by-case basis under Section 479A, Discretion of Student Financial Aid Administrators, of the Higher Education Act. This professional judgment process is time-consuming because each case must be considered individually. Additionally, schools are reluctant to use their authority to deny or restrict loan eligibility because some students misinterpret the use of this authority as discriminatory, which results in costly challenges, investigations, and sometimes lawsuits.

Beyond this limited professional judgment authority, the only means a school has to prevent over-borrowing is to offer advice. If students insist on borrowing up to their maximum eligibility under the law, the school has little choice but to approve the loan. In some instances, schools have attempted to require additional counseling to students before borrowing, but the Department of Education (ED) has rebuffed those attempts, stating that because loan funds are considered entitlement dollars, schools cannot add eligibility criteria—including loan counseling—to the loan programs.

Viewing loan funds as entitlement dollars also creates an environment where schools have limited control over their cohort default rates, which are a Title IV institutional eligibility criterion. Schools with high default rates may lose their eligibility to participate in the Direct Loan and Federal Pell Grant programs, yet they have very limited control over how much money students borrow. This represents a huge disconnect in federal policy because it places responsibility for defaults on the school without providing schools with practical methods needed to help prevent them. Because of this disconnect, some institutions, particularly community colleges, have chosen not to participate in the federal student loan programs. As a result, some students attending those institutions must work longer hours (possibly jeopardizing academic success), or must use private student loans and credit cards to help finance their education.

## Policy Considerations

### **8. Preventing Excessive Borrowing—Providing Schools with Professional Judgment Authority to Limit Loan Amounts for Groups of Students.**

This proposal would provide financial aid administrators with the authority to limit loan amounts across-the-board for all students, or for specific categories of students. Schools would be allowed to limit borrowing for any of the following:

- All borrowers at the institution
- All students pursuing a specific academic credential or academic program
- Specific students based on enrollment status
- Specific students based on length of the period of enrollment

Here are a few examples of how schools might use this authority:

- Since current aggregate loan limits were designed to accommodate reasonable borrowing for a 4-year degree, a community college might set its aggregate loan limits at half of the current aggregate loan limits.
- After reviewing salaries of recent graduates relative to their loan indebtedness or eventual default status, a school may decide to set lower loan limits for students pursuing certain degrees.
- A school may prorate annual loan limits based on enrollment status, with three-quarter time students having an annual loan limit of 75 percent of the full annual loan limit and half-time students having an annual loan limit of 50 percent of the full annual loan limit.
- A school may prorate annual loan limits based on the portion of the academic year attended by the student, such that students enrolled for only one semester are restricted to 50 percent of the full annual loan limit, etc.

Using professional judgment, schools should still have the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis. At its core, this proposal would invert the current professional judgment authority: rather than schools using professional judgment to restrict loan borrowing on a case-by-case basis, schools could establish lower loan limits based on the above criteria, and then use their professional judgment authority to permit students to borrow more than those established limits, up to the annual maximum set in law. Nothing in this section shall be construed as a proposal to allow schools to limit borrowing based on race, sex, color, religion, national origin, age, or disability status.

### **Potential Unintended Consequences**

Restrictions on federal loan borrowing could drive students to borrow under less advantageous private loan programs, discourage some students from enrolling, or cause more enrolled students to drop out due to lack of funds.

### **Next Steps**

The Department of Education has recently begun an experiment under its Experimental Sites program that would permit a participating schools to establish a written policy where it would, for students enrolled in a particular educational program or on some other categorical basis, reduce by at least \$2,000 (the amount of the most recent statutory loan limit increase) the amount of an unsubsidized Direct Loan that the otherwise eligible student would receive, or eliminate the unsubsidized Direct Loan completely. Future data from participating schools will reveal the impact of lower loan limits on student behavior and success, and institutional participation in the federal loan programs.

## CONCLUSION

Together, these policy considerations attempt to address current and future problems in federal student aid by:

- Examining the value of institutional and student “skin in the game”
- Exploring options for student loan reform
- Streamlining and improving student consumer information
- Providing early information and commitment
- Rethinking entitlement and professional judgment

They are put forth not as definitive solutions, but as research-based policy considerations designed to drive this conversation forward. NASFAA believes that healthy discussions about these issues will be challenging, thought-provoking, and necessary.

We must also consider these issues from a broader perspective: With the increasing emphasis on access *and* success (or program completion) have come proposals that include either a carrot or stick to incentivize better outcomes for students and institutions. Most of these policy considerations contain implicit assumptions about who bears the responsibility for student success—the student or the institution.

NASFAA’s presumption is both. We expect institutions to provide appropriate resources for students, particularly low-income and underrepresented students. But no matter how many resources an institution provides its students, each student must ultimately take responsibility for his or her own educational success.

Much of the conversation about student success and completion treats the modern university like a factory that “produces” graduates. This principle holds that if we can determine the right amount and mixture of inputs, we can generate increased outputs—and at a lower cost to boot! However, this is not how higher education institutions are structured. More importantly, it places a disproportionate and unrealistic share of the responsibility for student outcomes on the institution.

Instead, colleges and universities behave much more like health clubs that bundle many different tools and services to help people achieve healthier lifestyles. A gym membership alone does not guarantee a healthier individual. If a patron buys a gym membership but never attends any aerobic sessions, uses the equipment, or improves his eating habits, the outcome will likely be very poor (Salerno, 2012). Likewise, schools have a responsibility to provide the right atmosphere, tools, classes and class availability, and counseling and support for student success. But to hold schools disproportionately responsible for student outcomes may actually create even larger college access problems by pushing schools to become more selective or introduce services at a greater cost to all students. For example, an individualized college success counseling model has been tested successfully at some colleges, but adds \$1,000 per student to the cost of college, making it cost prohibitive for most institutions and unlikely to be scaled up on any national level.

In the end, NASFAA affirms that student aid policy should always be constructed in a way that places primary responsibility for student success on the student, with shared responsibility among institutions, the government, accreditors, and society to:

- Provide quality education aligned with the marketplace and ensure academic integrity
- Provide adequate support services to students who are struggling academically

- Provide predictable funding
- Ensure students (and parents) do not end up with excessive student loan debt burden

In short, sound student aid policy must create a system that provides students with the access, opportunity, and support needed to assist them in contributing to and taking responsibility for their own success. In other words, the primary goal of student aid is to ensure that no *qualified* student be denied access to a postsecondary education; and the goal of the institution is to create an environment where every qualified student has the tools and information needed to succeed.

The policy considerations outlined in this report are based on a principle that each stakeholder in the higher education process has a role to play and incentives or penalties should accurately reflect that participant's expected role. Expectations defined for schools should control for predictors of student success, so that schools can be judged based on the students they serve. Expectations defined for students must not unduly penalize students who are genuinely underprepared. Finding the balance between these two considerations will be the key to placing the U.S. in the forefront of higher education attainment.

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