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Preliminary Reauthorization Proposals
American Association of State Colleges and Universities

Submitted to the Honorable William F. Goodling, Chairman
Committee on Education and the Workforce
United State House of Representatives

January 31, 1997

Introduction

The American Association of State Colleges and Universities (AASCU) is comprised of more than 400 public colleges, universities and systems of public higher education throughout the United States and its territories. These institutions enroll about three million students. In addition, AASCU members award one-third of the nation's bachelor's degrees, one-quarter of its master's degrees, and 6 percent of all doctorates. AASCU member institutions also educate about one-half of all the teachers in the United States.

The following recommendations are AASCU's preliminary proposals for the upcoming reauthorization of the Higher Education Act of 1965 (HEA). Because of their tremendous importance for making access to college a reality for millions of Americans, the student financial aid programs contained in HEA, Title IV will be our sole focus in this document. Despite our focus on certain Title IV programs, however, the association has views and recommendations on a broad range of other programs and titles, which will be submitted to Congress at a later date.

The following recommendations are predicated on our commitment to support and advance the best interest of students. The association's approach to the reauthorization, therefore, rests on the following fundamental premises:

- Higher education is a common good that both serves the interests of society, and provides individual benefits to students. While the individual gains that obtain from higher education are well documented, the social benefits are even greater. These include not only such tangible national dividends as enhanced national productivity and increased tax revenues, but even more profoundly, the fostering of an enlightened citizenry, and greater social cohesion.

- America's public higher education system is the most concrete embodiment of the nation's democratic ideals. Public colleges and universities educate the vast majority of the nation's students.

- The burdens of investing in public higher education should be borne in an equitable manner by all beneficiaries. Financing public higher education is the shared responsibility of students, families, and federal and state governments.

- The primary function of federal financial aid is to guarantee access to higher education; this aid should be directed to the individual.

- The primary purpose of state appropriations is to keep student tuition as low as possible to guarantee easy access by all residents of the respective state; this aid should be directed to the institution. Low tuition is the most effective guarantee of access for all and is essential to a broadly-educated citizenry.

- Families should be encouraged and empowered to assume their share of, and save for, their children's higher education expenses.

- No American should be denied the opportunity to pursue higher education for lack of financial resources. Affordable public sector tuition and need-based federal aid are the two requisite ingredients of realizing this ideal.

Pell Grants

General Discussion

The Pell Grant Program is the cornerstone of the federal government's student financial assistance programs. The program provides grant aid to some four million low- and moderate-income students, and, at a funding level of $6 billion for fiscal year 1997, is the largest federal student aid program. Over the program's 25-year history, Pell grants have been instrumental in enabling millions of Americans to attend college.

Despite its proven track record of success, however, the Pell program has gradually been weakened as a result of the federal failure to commit the resources necessary for the expanded demands successive reauthorizations have imposed on it. In what has become an too familiar pattern, authorizing committees have typically used each reauthorization to broaden eligibility rules for Pell, and have increased the maximum allowable award levels in the hope that appropriations committees would follow through with substantial additional funding. The large increases in the number of students newly eligible for Pell-a phenomenon that is also partially attributable to the rapid growth in the number of trade schools in the 1980s—combined with the limitations imposed on appropriators by the federal budget deficits, have resulted in huge disparity between the authorized and actual maximum Pell grants. The maximum authorized Pell grants stand at $4,500 in academic year 1997-98, while the actual maximum lingers at $2,700.

AASCU is committed to advocating authorizing changes to the Pell program that would restore the program to its intended function of standing as a significant mechanism of access for the neediest students. A return to a focus on the neediest student is particularly important in the light of the likely higher education agenda of the next few years. While using the tax code for the creation of new higher education support programs appears to be much in vogue, AASCU remains committed to need-based aid grant programs—especially Pell grants—as the most efficient and effective delivery mechanisms for access.

Specific Provisions

Maximum grants. Maximum authorized grants will stand at $4,500 by academic year 1997-98. Given the extremely low probability that the actual maximum can catch up with this high an authorized maximum, AASCU will advocate no additional increase beyond $4,500.

Minimum grants. The 1992 reauthorization increased the minimum grant to $400, but provided that students eligible for award levels between $200 and $400 be given $400 minimum awards. This provision not only adds another "step" function to the award rules, it is regressive in its effect because it allows for disproportionately higher awards for higher income recipients. AASCU advocates the elimination of the step function.

Award rules. AASCU was closely involved in the development of the 1992 reauthorization's "tuition-sensitive" Pell formula, and continues to advocate an appropriate degree of tuition-sensitivity in the Pell formula. The tuition-sensitive component of the 1992 formula only comes into operation when the actual maximum Pell grant exceeds $2,400. Since FY 1997 will be the first year that this will be the case (the AY 96-97 margin of $70 was correctly judged too narrow to bring this component of the formula into play,) this provision will only have been in effect for one year before the next reauthorization. AASCU advocates not only the retention, but also some expansion of tuition-sensitivity in the Pell formula. One simple alteration in the formula to achieve this goal would be to set a subsistence allowance as one component of the award rule, and to match direct tuition and fee expenses at the rate of 25 cents for every dollar as the other component. Not only would this change result in a non-inflationary tuition index, it would also make additional increases of the Pell grant maximum award much less costly than they are under the current formula.

Student Loans

General Discussion

Over the more than three decades since their creation, student loans have expanded in both the number of borrowers and amounts borrowed in a manner that can only be described as alarming. For far too many students, educational debt is fast becoming the norm rather than the exception. Even more ominously, loans are increasingly relied on by students for whom they were never intended, i.e., the neediest and the most at risk. The gradual shift from grant aid to loan aid, which policymakers pledged to reverse in 1992, far from slowing down, accelerated in the direction of more borrowing. The creation of the Unsubsidized Stafford program compounded the adverse consequences of increased borrowing by creating a loan program that was less costly to the federal government, but more expensive for students. There is a great likelihood that calls for higher loan limits will be responded to through increases in annual and aggregate loan limits in the Unsubsidized program, since the federal costs of such increases would be lower than they would be in the Subsidized Stafford program.

In addition to the basic policy questions regarding educational borrowing, the details of the two currently available modes of financing, i.e., direct lending on the one hand and government-guarantees on the other, will also need to be re-examined. AASCU's main interest with regard to the two alternatives is to ensure institutional and student choice, the best combination of terms and conditions for borrowers, and greater streamlining, efficiency, and program integrity, from the perspective of all parties involved (i.e., students, institutions, the federal government, and the loan industry in the case of government-guaranteed loans.)

Specific Provisions

Annual loan limits. AASCU opposes increasing annual Stafford loan limits. With the broad availability of PLUS loans, the parents of dependent students who need to borrow beyond the Stafford maximums could borrow additional amounts to finance their children's education. Independent students (and dependents whose parents cannot borrow under PLUS,) on the other hand, already have access to substantial additional unsubsidized loans, and increasing their loan limits is inadvisable.

Aggregate loan limits. AASCU will advocate on behalf of retaining current aggregate loan limits, except for students formerly eligible for the HEAL program. whose aggregate loan limit should be adjusted to reflect their additional annual borrowing eligibility for Unsubsidized Stafford.

Parental Loans for Undergraduate Students. The 1992 reauthorization changed the annual loan limit in the Parental Loans for Undergraduate Students program from $4,000 to the cost of education minus other aid. Despite parents' eligibility for enormous amounts of annual borrowing under PLUS, however, there is no test of parental ability to repay in current law. The only limitation on PLUS eligibility, i.e., the absence of an "adverse credit history," is an insufficient indicator of repayment ability because of the peculiar manner in which it is legislatively defined. While AASCU endorses federal policies that enable parents to assume their appropriate role in paying for their children's education, the current eligibility criteria for PLUS are set so loosely that they can cause inappropriate parental borrowing. There is much by way of anecdotal evidence that low- and middle-income parents are being forced into PLUS borrowing despite their own responsible judgement that they would be unable to repay the debt involved.

To ensure that parents do not—and are not forced to—borrow amounts they would be unable to repay, AASCU proposes the addition of an ability-to-repay criterion for PLUS borrowing. To ensure that such a safeguard does not adversely affect access, it would be important to retain the current additional unsubsidized Stafford eligibility of dependent students whose parents' PLUS application is denied.

Institutional authority on loans. Under current law, institutions are granted authority, on a case-by-case basis, to refuse to certify loans and to adjust loan amounts for their students. AASCU proposes that this authority be expanded to allow institutions to set broad borrowing policies—including lower loan limits—for their students based on such factors as academic program, department, year-in-school, etc. In addition, institutions should be allowed to decide the exact pattern of their students' participation in the Unsubsidized Stafford program. Restrictive institutional policies would, of course, be subject to all other federal laws, and would not result in discriminatory practices.

State risk-sharing. Current law includes a provision—not yet regulated or enforced by the Department of Education that requires states to pay "risk sharing" fees to the federal government for the cost of defaults at any of their institutions with default rates in excess of 20%. This provision is entirely unworkable, as demonstrated by the Department's failure to invent a scheme of enforcing it, and would either turn the states into collection agents for the Department, or result in a lowering of the states' funding of public higher education to make payment on this form of federal fine. AASCU advocates the deletion of this provision.

Default rate exemptions. Current law exempts Historically black colleges and universities, Tribally controlled community colleges, and Navajo community colleges from the loss of eligibility to participate in the loan programs based on high default rates. AASCU believes that in light of the critical role of these institutions in educating minorities, their current exemption should be renewed.

Student Loans: Leveling the Playing Field

General Discussion

One of the most contentious cluster of policy issues that will need to be addressed by the upcoming reauthorization is the nature of the much discussed "level playing field" on which the direct and the guaranteed loan programs will compete with each other. Under current law, there exist a number of identifiable provisions where one program has clear advantages over the other program. In some instances, the advantages that accrue to one or the other program are a simple function of the manner in which current law designs them, and it is AASCU's position that these artificial disparities must be removed. An example of this would be the availability of the Free Application for Federal Student Aid (FAFSA) as the application form for direct loans, but its unavailability for the same purpose for guaranteed loans. The following provisions would address inequitable disparities that should be corrected through the creation of identical provisions:

Specific Provisions

Retention of two loan programs. The freedom of institutions to decide which of the two loan programs best serves their students has introduced the benefits of market competition to the financing system, and has induced both the loan industry and the Department of Education to improve quality of service as a means of attracting institutions. AASCU advocates the continued availability of both direct and government-guaranteed loans, based on school choice on the front-end, and based on borrower choice upon entry into repayment.

Origination fees and insurance premiums. Under current law, borrowers in the guaranteed loan program may be charged a combination of origination fees and insurance premiums that, at their maximum, equal the up-front origination fees mandated for direct loan borrowers. Because lenders are allowed to pay all or part of the origination fee on behalf of Subsidized Stafford borrowers, however, there can be substantial disparities in cost of student loans based on lender practices and criteria. These disparities not only result in different costs for direct versus government-guarantee borrowers, but also in different costs for different groups of guaranteed student loan borrowers. AASCU advocates the outright elimination of all up-front fees for borrowers in both loan programs.

Use of FAFSA as application form for guaranteed loans. Under current law, the Free Application for Federal Student Aid (FAFSA) serves as the application form for direct loans, but not for guaranteed loans. To ensure a similarly convenient method of application for both types of loans, the use of FAFSA as application form should also be authorized for guaranteed student loans.

Loan consolidation. Under current law, direct consolidation loans have three distinct advantages over guaranteed consolidation loans: guaranteed loans can be consolidated into direct loans while the reverse is not possible, direct consolidation loans have lower interest rates, and they—unlike guaranteed consolidation loans—retain the interest subsidies on underlying subsidized loans where subsidized and unsubsidized loans are being consolidated. AASCU believes that just as institutions should have the right to choose the loan program they participate in, borrowers should be allowed to choose freely between the two programs after leaving school. AASCU therefore advocates that:

- borrowers be allowed the right to consolidate their loans—whether these are direct or guaranteed loans—in the loan program of their choice;
- the payable interest rate for guaranteed consolidation loans be defined in a manner that would not *force* a higher borrower rate for guaranteed consolidation than the currently interest rate for direct consolidation loans; and
- direct consolidation loans' treatment of subsidies attributable to consolidating subsidized and unsubsidized loans, and their advantageous treatment of certain categories of deferment, be extended to guaranteed consolidation loans.

Proper federal cost accounting. It is in the interest of all policymakers, regardless of their views and preferences in favor of direct or guaranteed financing, that policy decisions be informed by fair, accurate, and reliable federal cost comparisons. The Credit Reform Act of 1990 was the culmination of the reform effort that sought to bring uniformity to federal accounting conventions. By substantially distorting the federal cost accounting rules for direct student loans, the Fiscal Year 1996 Congressional Budget Resolution altered the uniform government accounting rules instituted by the Credit Reform Act. The changes in question continue to stand as the sole exception to credit reform, and were inserted into the resolution as a result of lobbying by the loan industry as a means of artificially inflating the federal costs of direct student loans. AASCU believes that the uniform federal credit cost accounting rules embodied in the Credit Reform Act should be fully adhered to, and that the "directed scoring" rules mandated by the FY 96 Budget resolution should be eliminated.

In addition, three separate types of administrative activity—direct loans, guaranteed loans, and general management of student aid—are currently funded through the same provision of the law, i.e., HEA, Title IV, Section 458. Because Section 458 happens to be situated in Part D of Title IV, which also contains the direct loan authorizing language, many have erroneously believed that all administrative funds provided by Section 458 are used exclusively for the operation of direct loans. In order to provide accurate comparative administrative cost information, AASCU urges the creation of separate administrative expense provisions for each type of activity currently funded through Section 458. All federal costs attributed to each loan program, including all payments to guarantors, should be accounted for in an appropriate manner.

Student Loans: Disparate Features Unique to Each Program

General Discussion

In distinction to the first category of disparities discussed above, there are competitive advantages enjoyed by one or the other loan program that are endemic to their very nature, and that can only be removed through a diminution of the quality of the program with that advantage, or through a reduction of its benefits for borrowers. This mode of leveling the playing field would be a mechanical approach that simply satisfies itself with creating identical features in two distinct programs through a "lowest common denominator" approach. AASCU believes that while such an approach may be appealing for its simplicity, it would substantially disadvantage all parties involved in student loans. In place of a mechanical approach, AASCU proposes the strengthening of each program to the maximum extent, which would create two programs with unique strengths and advantages, both of which would be available to both schools and students based on their respective preferences. The following provisions are examples of such distinct, but systemic, advantages in each program, and suggest ways in which they could be made identical in a mechanical manner.

Specific Provisions

Interest rates. Under current law, the statutory interest rate formula for guaranteed loans is a "maximum allowable rate," which permits lenders and holders to charge less if they wish, while the interest rate spelled out for direct loans is the mandatory rate the Department must charge. For purposes of a mechanical level playing field, this disparity should be removed by mandating the lowest possible interest rate for both programs.

The definition of entitlement. Under current law, direct loans stand as an entitlement for eligible students attending eligible institutions. Guaranteed loans, however, are entitlements not for eligible students attending eligible institutions, but for lenders and guarantors. In practice this disparity in definitions means that participating lenders are allowed the authority to refuse to make loans based on their internal guidelines. The definition of entitlement in the government-guaranteed loan program could be modified to ensure that all eligible students attending eligible institutions participating in the guaranteed loan program have access to bank-based loans. Participating lenders would thus be required to make loans to eligible students at eligible schools. This definition would, in the case of both loan programs, be subject to the constraints of institutional loan policies described earlier in this document.

Identical repayment options. Holders in the guaranteed loan program could be required to offer standard, extended, graduated, income contingent, and alternative repayment options to borrowers within the same guidelines as the repayment options currently available to direct loan borrowers. As a condition of the government guarantee extended to their loan portfolios, holders would agree to write-off the unpaid balance of loans repaid on an income-contingent basis after 25 years of repayment, as is the case with the direct loan program. In addition, the choice of repayment options would be entirely the borrowers', who should be given the right to switch repayment options in the same manner as in direct loans.

One holder rule. The "one holder/one guarantor/one servicer" rule could be legislatively mandated in the guaranteed student loan program to ensure that borrowers only deal with one set of intermediaries for all of their student loans.

Student Loans: An Alternative—and Preferable—Approach

General Discussion

While it would indeed be possible to create identical terms and conditions in the manner described in connection with the four provisions listed above, AASCU proposes a comprehensive alternative with regard to these four important issues, provided that all other needed changes listed earlier are implemented.

Specific Provisions

Interest rates. Federal law should set a maximum allowable rate that lenders and holders could reduce at their option. In addition, lenders should be allowed to pay all or part of any up-front fees on their borrowers' behalf.

The definition of entitlement. Current law's advantageous treatment of FFELP should continue with regard to lender discretion. Since schools would have access to student loans through direct loans, Lender-of-Last-Resort authority within FFELP would be unnecessary.

Repayment options. Lenders and holders of FFELP should only be required to offer the standard repayment option to borrowers, and all other mandates as to other repayment options should be removed. Since students would have access to such repayment options through direct consolidation loans, it would be reasonable to assume that the loan industry would voluntarily offer a variety of repayment plans to borrowers. The industry should be allowed to offer such innovative repayment plans, subject to basic consumer protection measures to ensure that borrowers are not burdened with excessive negative amortization.

One holder rule. This issue, too, could be left for the market to settle, provided that borrowers who are dissatisfied with their particular holders could consolidate into direct lending.

Need Analysis

General Discussion

As the basic means test for the federal student aid programs, need analysis is the mechanism which sets forth conditions, amounts, and type of eligibility for the various programs. Despite its highly technical nature and its arcane jargon, therefore, need analysis is the proper object of policy attention.

There is a high likelihood that more ambitious goals could be set for need analysis. Among these may well be the laudable goal of attempting to modify parental behavior by inducing greater savings for their children's college. While AASCU does endorse federal efforts to provide incentives for college savings, we believe the tax code, not need analysis, is the right tool for achieving this end. The only manner in which college savings can arguably be rewarded through need analysis is by excluding such savings from consideration in need analysis. This approach would, in turn, result in substantial unfairness because it would cause actual need to be ignored at a point where the family that failed to save no longer has any viable options for retroactive behavior modification. AASCU endorses the use of the tax code to provide real-time inducements for families to put money aside for their children's education, and believes that need analysis can only work if it is based on actual financial circumstances at the time of application, not on long-term normative mandates of what "ought to have been the case."

Specific Provisions

Definitions. AASCU proposes that HEA, Title IV, Part F be re-written in a manner that better defines it for what it in fact is, i.e., not need analysis-proper, but a means-test for certain federal benefits. Such a change would go far in clarifying much of the current confusion caused by inappropriate uses of need analysis language in Part F.

Single Independent Students. AASCU will advocate increasing the "Income Protection Allowance" for single independent students from its current $3,000 to as close to $6,400 as possible. This allowance should, like the current treatment of the dependent allowance, also be indexed for inflation. This change will restore the eligibility of several hundred thousand non-traditional students for Pell grants, and requires conforming technical changes to ensure that these students' loan eligibility amount is not artificially inflated.

Dependent student earnings. AASCU will also argue on behalf of increasing the income protection allowance granted dependent students as a means of providing an incentive for working, rather than borrowing, for these students. The dollar amount of the allowance should be set at a level that encourages a reasonable number of hours of work, leaving sufficient time for study.

Gatekeeping, Oversight, and Accountability

General Discussion

The current framework of ensuring program integrity in the federal student aid programs has evolved over the three decades of the programs' existence, and consists of a patchwork of statutory and regulatory provisions that were often created in response to specific problems. The absence of a rationalized, comprehensive, and systemic approach to gatekeeping and oversight has resulted in mass victimization of students by shoddy trade schools, enormous losses to the taxpayer, and the imposition of entirely unnecessary regulatory and compliance costs on colleges and universities. AASCU believes that the "one size fits all" approach to gatekeeping and oversight that has been the hallmark of the student aid system should be abandoned in favor of a system of equitable and appropriate regulation of participating institutions by type and control. Such an approach would allow the Department of Education to focus its limited enforcement resources on problem schools, and alleviate the unnecessary burdens imposed on institutions.

Specific Provisions

Accreditation. AASCU advocates the retention of the federal requirement that all institutions be accredited as a condition of participating in Title IV programs. Voluntary accreditation has proven to be an important safeguard against abuse in the case of traditional colleges and universities. On the other hand, accreditation has clearly failed to protect students and the taxpayers in the case of proprietary trade schools. Proprietary vocational schools continue to be where the federal fiscal interest and students are most at risk of waste, fraud, and abuse. The accreditation of for-profit trade schools should be strengthened through the following provisions:

- Accrediting agencies that grant or continue accreditation of trade schools that fail to meet prescribed financial and administrative standards should be held financially liable for losses suffered by students or taxpayers.
- Accreditation of new for-profit trade schools should be barred until a site visit by the accreditor has been made.
- The requirement for unannounced site visits by accreditors of for-profit trade schools should be maintained.

State Role. Prior to 1992, the role of the states within the gatekeeping "triad" was limited to licensure. The 1992 reauthorization created an expansive role for state oversight through the mechanism of "State Postsecondary Review Entities." While the SPREs were starting up, however, Congress, under pressure from institutions, decided to *de facto* terminate the program by zero-funding it. The authorizing statute does, however, remain intact within Title IV, Part II of the Higher Education Act, and could be resuscitated in the future. In view of the dangers inherent to further state intrusion into the affairs of colleges and universities, AASCU believes that the statutory authority for SPREs should be repealed, and that the state role should be limited to basic licensure, and possibly, the facilitating of consumer information.

Federal integrity measures. There are a large number of federal provisions aiming at strengthening program integrity and curbing waste, fraud and abuse. AASCU will work with Congress, other members of the higher education community, and with student and consumer advocacy groups to ensure that these provisions are streamlined and strengthened. Specifically, the use of appropriate performance criteria and outcomes would be preferable to the current system of micro-management of institutions.

Regulations by sector. AASCU supports strengthening the authority of the Department of Education in its oversight of collegiate versus non-collegiate institutions. The Department should similarly be required to take cognizance of the non-profit/for profit character of participating institutions in matters where this distinction is crucial. An obvious example of this would be the broad range of participation and eligibility criteria related to financial responsibility. The vocational, for-profit sector has much higher instances of waste, fraud, and abuse than the collegiate sector, and given the very different profiles of collegiate institutions and trade schools, equitable administrative differentiation would be essential and appropriate.

Standards of Financial Responsibility. The federal government has every right, and indeed the duty, to ensure that participating institutions have sufficient financial resources to deliver educational services to students for the period of enrollment for which such students receive federal aid. This seemingly simple task, however, is one that the Department has consistently failed to perform, as evident in the regularity of precipitous closures and bankruptcies in the trade school sector. Instead of focusing its resources to prevent financially marginal trade schools from participating in Title IV programs, however, the Department has repeatedly attempted to establish financial responsibility standards for all institutions, including traditional colleges and universities. AASCU will advocate an improved set of financial criteria for participation in student aid programs, and since there has never been a single case of precipitous closure within the public sector, will urge Congress to treat the designation "public" as prima facie evidence of financial responsibility.

In order to assist the Department to better deploy its limited resources on meaningful gatekeeping, AASCU proposes that reasonable financial safeguards be imposed on for-profit vocational institutions. To this end, personal financial guarantees or individual liability should be required of owners and officers of for-profit trade schools that:

- are placed on provisional certification;
- owe unmade student loan refunds; or
- appeal their cohort default rate, and are unsuccessful.

The 85-15 Rule. The 85-15 Rule stands as the best example of a highly effective market-based gate-keeping provision that protects students and the federal fiscal interest from trade schools providing worthless "training." The Rule denies Title IV eligibility to any for-profit school that cannot obtain at least 15 percent of its revenues from non-Title IV sources. By preventing 100 percent reliance on Title IV, the Rule weeds out schools that are providing training that have no buyers other than Title IV programs. The 85-15 rule has the additional advantage of requiring no additional data collection or compliance measures from schools, and thus stands as an example of gatekeeping measures that prevent waste, fraud and abuse without the imposition of heavy compliance costs on all participants.

Delivery

General Discussion

In addition to the hidden costs imposed on participating institutions by the unruly and unworkable gatekeeping and accountability system currently in place, the actual delivery of student aid funds is a source of great cost to schools, institutions, and the taxpayers. The Department of Education's delivery system, with the sole exception of direct loans, has failed to keep up with technology, and is decidedly not a "customer friendly." The Department's student aid delivery system costs inordinately too much, and delivers exceedingly low quality. AASCU views the modernization and comprehensive redesign of student aid delivery as an important topic of attention during the upcoming reauthorization, and will seek appropriate changes in the statute to achieve the goals of efficiency and quality in this area.

Specific Provisions

Mutual Benefit Corporation. AASCU encourages Congress to examine the feasibility of privatizing the student aid delivery functions currently delegated to the Department. The association believes that much of the delivery tasks can be prudently privatized through a mutual benefit corporation. Such a corporation would have to have significant public controls, and be arranged in a manner amenable to all participants in the student aid system, including the federal government, students, institutions, and the loan industry.

Tax Provisions

General Discussion

The tax code has emerged as a new potential source of support for higher education. The President and Senate Republicans and Senate Democrats have each put forth proposals to deliver federal incentives for higher education through tax expenditures. These proposals speak forcefully to the high value that both parties attach to higher education.

Specific Provisions

Student loan interest deduction. AASCU supports the restoration of the student loan interest deductibility as an "above-the line" deduction.

Loan forgiveness. AASCU supports the non-taxability of any loan-forgiveness received by borrowers in the income-contingent repayment plan. Similarly, tax-free loan discharge and loan forgiveness by educational or charitable organizations would be effective ways of promoting community service.

Taxation of employee educational assistance. AASCU supports the permanent extension in the tax code of tax-free tuition benefits for employees who enroll in college-level undergraduate and graduate courses under the Employee Education Assistance Program (Internal Revenue Code, Section 127).

Tax-free college savings. AASCU supports the expansion of eligibility for Individual Retirement Accounts (IRAs), and recommends that penalty-free withdrawal of such savings be permitted for payment of educational expenses.

Recommendations for Reauthorization of the Higher Education Act

Submitted by:

American Council on Education
American Association of Colleges for Teacher Education
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
Association of American Universities
Association of Catholic Colleges and Universities
Association of Governing Boards of Universities and Colleges
Association of Jesuit Colleges and Universities
Coalition of Higher Education Assistance Organizations
Council for Advancement and Support of Education
Council of Graduate Schools
Council of Independent Colleges
Council for Higher Education Accreditation
National Association for College Admission Counseling
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of State Universities and Land-Grant Colleges
National Collegiate Athletic Association
National Council of Educational Opportunity Associations
The College Fund/UNCF
University Continuing Education Association

March 19, 1997

This report has been prepared to help the House and Senate authorizing committees as they undertake the reauthorization of the Higher Education Act. We have organized our suggestions around 15 goals that we believe are the most appropriate for federal higher education policy.

1) <u>Maintain and strengthen the focus on financially needy and moderate income students</u>. The Higher Education Act (HEA) has helped open the doors of higher education to millions of students who otherwise would have lacked the resources to enroll. Today, thanks to the availability of federal student assistance, a larger percentage of low-income students than ever before are participating in higher education. In 1970, 46 percent of students from the lowest-income families went to college. By 1994, 58 percent of the students from the same income group were enrolled. In an era in which it is commonplace to question the value of federal programs, it is clear that we have made progress. But we can, and should, do better. The Higher Education Act is the indispensable tool to accomplish this goal.

The Pell Grant program embodies the federal policy objective of achieving equal education opportunity. However, the constant-dollar value of the maximum Pell Grant award peaked in the mid-1970s. Nearly 25 years after its inception, the program has been far outstripped by the federal loan programs as the chief means of financing higher education for low-income students.

Several factors have contributed to the decline of the purchasing power of Pell Grants and the concomitant rise in federal student loans as a financing mechanism for higher education. Foremost among them is the fact that, unlike loans, Pell Grants are funded through the annual appropriations process. Appropriated funds must be stretched each year as far as they can go to cover all eligible recipients. While reauthorization amendments consistently have expanded the authorized annual maximum awards, appropriations never have kept pace with authorized increases. Moreover, Congress has increased the number of students eligible to participate in the program. Broadened eligibility, combined with stagnant appropriations, has created a situation in which, by 1992, 4.2 million Pell Grant recipients shared essentially the same amount of money in constant dollars that was distributed among 2.9 million students in 1987.

Other policy changes increased the utilization of federal student loans. In 1992, for example, the creation of the unsubsidized loan program, the expansion of student aid eligibility to more middle-income families, and increased borrowing limits guaranteed that more students would turn to loans to help pay for their postsecondary education. Thanks in large part to these changes, the number of student loans made annually increased from 4.6 million in 1991-92 to 7.1 million in 1995-96.

We urge Congress to restore the Pell Grant program as the central focus of federal student aid to low-income students. Keeping the focus of Pell Grants on the financially needy should be one of the most important objectives in the coming reauthorization. Enactment of several ideas currently under consideration would be a valuable step in this direction.

Independent students -- We applaud the President's decision to boost funding for the Pell Grant program in the fiscal year 1998 budget by $1.7 billion. The President's proposal would increase the income protection allowance (the amount of money that students are assumed to need for basic living expenses) for single independent students from $3,000 to $9,150; from $6,000 to $12,030 for married independent students without dependents when one spouse is enrolled in college; and from $3,000 to $9,950 for married independent students without dependents when both spouses are enrolled in college. Approximately $700 million would be required to make these changes.

We believe that the proposed increases in the income protection allowances are extremely generous and recommend that Congress address the needs of both independent and dependent students, using the same amount of money the President proposes to spend on independent students alone. Specifically, we recommend that Congress increase the income protection allowance for single independent students, and for married independent students when both are in school, from $3,000 to $6,000, and for married independents students without dependents from $6,000 to $9,000. In addition, Congress should raise the dependent student earning allowance from the current level of $1,750 to a more reasonable $4,200. We believe that the current earning allowance is unreasonably low and acts as a disincentive to student employment. Increasing the allowance as we have proposed will provide the proper incentive. All changes we recommend can be accomplished for the same amount of money the President has proposed to spend on independent students.

In the 1992 Amendments, Congress modified the Pell Grant award rule to make a student's award sensitive to the tuition charged at the institution. At present, no consensus exists within the higher education community over what degree of tuition sensitivity is desirable. Some associations believe that the current award rule provides a more than adequate level of tuition sensitivity, while others contend that the rule should be made more tuition sensitive.

2) **Strengthen campus-based programs so that, together with Pell Grants, they will help reduce student borrowing**. The Supplemental Educational Opportunity Grant (SEOG) program, the Federal Work-Study (FWS) program, and the Perkins Loan program allow campus financial aid officers to provide funds directly to students who need resources beyond Pell Grants and student loans to meet college costs. These programs are flexible and work well.

On a cost-benefit basis, these programs are superb investments: federal appropriations are matched by participating campuses, so every dollar of federal support generates at least $1.30 of student aid that goes directly to students. Beneficiaries are overwhelmingly low-income students; more than 80 percent of SEOG and work-study recipients, for example, also receive Pell Grants. Absent these programs, many students would find their range of choices sharply narrowed or the opportunity to attend higher education foreclosed entirely. We encourage the Committee to hold hearings into the vital role these programs play in enhancing participation in higher education.

Campus-based formula -- We support the current hold-harmless provision in the formula for allocating funds under the campus-based programs. This provision was designed to assure predictable funding for institutions that have invested in these programs and participated in them since their inception. Unexpected changes in annual allotments to campuses would wreak havoc with the assistance available to individual students. Over the last 15 years, the purchasing power of the campus-based programs has declined for all students. In addition, insufficient appropriations have made it particularly difficult to meet the needs of students at schools that are not protected by the hold-harmless formula. While we believe that the current formula continues to serve its intended purpose of stabilizing funding for students and schools, additional funding is needed to ensure that more students can benefit from these critically important programs.

Non-traditional students -- On college campuses, non-traditional students represent an increasing share of the total student population. For example, independent students receiving campus-based aid represent 64 percent of the recipients at community colleges; 29 percent at public four-year colleges; 17 percent at private colleges; and 51 percent at proprietary schools. In 1992, Congress mandated that at least 5 percent of the program funds be reserved for non-traditional students if the students are counted in the institution's application for funds. The 5 percent requirement generates excessive bookkeeping. Because the percentages of non-traditional students receiving campus-based aid far exceed the minimal requirements in the statute, this provision is unnecessary and should be eliminated.

Simplify deferment and cancellation provisions in the Perkins Loan program -- Congress should simplify the deferment and cancellation provisions for new Perkins Loan borrowers, using an approach similar to that taken with the deferment provisions in the Stafford Loan program in 1992. The complexity surrounding current law makes it inevitable that some students who are eligible do not realize that the benefit is available. The elimination of the signature requirement to receive a Perkins deferment is an example of a needed improvement that would benefit students and simplify the program for institutions.

<u>Streamline administration of the Perkins Loan program</u> -- Congress should standardize the terms and conditions of the Perkins program to simplify its administration and improve its repayment features. In addition, we recommend that Congress make several other changes to the Perkins Loan program to improve its features for borrowers and simplify its administration for institutions of higher education. Specifically, institutions should be permitted to use the NSLDS to verify student enrollment status; Perkins Loan rehabilitation features should be made consistent with those of other federal student loan programs; and institutions should be allowed to recover reasonable "late charges" and "collection costs" if litigation becomes necessary.

<u>Increase options for student placement in the Federal Work-Study program</u> -- We recommend that Congress make several changes in the FWS program to increase options for student placement. First, we urge Congress to remove the limitation on the percentage of jobs an institution's students may hold in the for-profit sector. Work-study participants should have access to as many jobs as possible, and the current limitation adds a regulatory burden that merely narrows student opportunity. Second, we suggest that Congress make several changes to encourage more community service placements. Congress should clarify that community service jobs on campus count toward the 5 percent community service requirement currently in the law. In addition, we recommend that Congress allow reasonable travel and training time for community service positions to be counted toward hours worked. Providing some flexibility in these matters will result in an increase in the number of high-quality community service placements.

<u>Delete the Federal Work-Study bonus for schools with high graduation rates</u> -- The FWS program includes a provision that requires 10 percent of the work-study funds to be awarded to institutions that graduate more than 50 percent of their Pell Grant recipients whenever the federal appropriation exceeds $700 million. While we applaud the desire to reward schools that graduate a large percentage of their Pell Grant recipients, the allocation rules for the work-study program are extraordinarily complicated without the addition of this requirement.

In addition, to implement this provision, the federal government and colleges would need to establish systems to track the academic progress of Pell Grant recipients for several years to determine which schools were meeting the statutory standard. Given the modest amount of money provided by this provision ($13 million in fiscal 1997) and the enormous amount of work to establish, implement, and document the graduation rates of Pell Grant recipients, we encourage Congress to delete this provision and keep the FWS program focused on work.

Allow Federal Work-Study Job Location and Development Program (JLDP) funds to be spent for cooperative education programs -- Currently the JLDP allows institutions to use up to 10 percent of their FWS funds or $50,000, whichever is less, to locate off-campus jobs for students. This small but important provision greatly expands work opportunities for all students. We recommend two changes to the program. First, the current limitation of $50,000 should be raised to $75,000. Second, colleges should be allowed to use JLDP funds to locate cooperative education placements for students. The elimination of the cooperative education program in the last Congress has reduced greatly the opportunity to locate and utilize desirable placements. By permitting JLDP funds to be used to locate appropriate and desirable placements, Congress would encourage successful educational and employment opportunities.

Provide incentives to encourage community service in the FWS program -- Colleges and universities strongly support community service and the use of FWS funds to place students in such jobs. However, while many colleges use far more than the required 5 percent of their FWS funds for community service, not all colleges can provide the same opportunities for their students to engage in community service. Specifically, colleges located in rural areas often face difficulty in finding appropriate community service placements for their students -- especially if the students lack access to personal or public transportation. For these reasons, we oppose any efforts to increase the federal mandate now in place.

Other changes in federal regulations would facilitate more community service placements in the FWS program. For example, it is unreasonable to expect financially needy students to pay transportation costs to get to a FWS placement. Allowing institutions to use work-study funds to address travel costs would be a desirable change. In addition, students who accept FWS positions may not be compensated for any time spent in training. Since many community service placements require training, current policy has the effect of forcing students who wish to accept such positions to volunteer the time required for training. This also acts as a disincentive to accepting such placements.

Continue support for Work Colleges -- Six colleges currently share approximately $2 million to help strengthen service-work-learning programs. These programs instill the value of work in undergraduates and reduce reliance on borrowing by allowing students to work their way through college. This concept should be encouraged and expanded.

Review the Pell Grant recipient first rule in the SEOG program -- The SEOG program currently requires that priority be given to students with the "lowest expected family contribution," i.e., those who are Pell Grant recipients. This rule does not take into account that such students may be receiving additional grants from other sources. Consequently, it may result in situations where students with fewer overall grants but greater financial need are precluded from receiving assistance. We recommend that Congress review this rule and consider changes to allow consideration of total available grant assistance received by students before SEOG funds are awarded.

3) Increase investment in early intervention and support services programs, such as TRIO, that help open the doors of college to low-income first-generation college students. High quality intervention and support services programs are structurally integrated into college campuses and yet provide individually focused and intensive assistance to students. Such programs increase the participation and retention of students from low-income first-generation families in higher education and thus enhance the federal investment in student assistance programs. For example, at Pennsylvania State University, the retention rate for students in the Student Services program is 81 percent, and 52 percent of the students in the Ronald McNair program enroll in graduate programs. The University of New Hampshire Talent Search program enrolled over 90 percent of its 1996 graduates in postsecondary education, compared with an average enrollment rate of 61 percent at its target high schools.

TRIO is a critical complement to federal student aid. Congress should examine the vital role TRIO plays in expanding access to higher education and the success it has achieved, and seek ways to expand the availability of TRIO programs and services. The operational structure and eligibility requirements for these programs do not require modification. We recommend only minor changes, such as increasing the minimum grant levels to account for inflation and increasing the authorization levels for all TRIO programs. We soon will submit specific legislative language designed to fine tune the TRIO programs.

4) Make borrowing in the federal student loan program less expensive for students. Student loans have become far and away the largest form of financial assistance to help students and families meet college costs. While we strongly support efforts to reduce the grant-loan imbalance, we believe that the increasing reliance on student loans makes it essential to improve the conditions of the student loan program for all borrowers so that students have the most generous terms possible. Such steps can put more money in the hands of students and facilitate loan repayment.

Eliminate origination fees and the insurance premium -- Eliminating the up-front fees that students pay is a critically needed step. At present, borrowers in both the William D. Ford Direct Student Loan Program and the Federal Family Education Loan Program (FFELP) must pay a 4 percent fee to borrow money. Thus, a borrower in the subsidized Stafford Loan program must pay $40 in fees for every $1,000 borrowed. Originally enacted in 1981 as a "temporary" cost-saving step, these fees have become a financial drag on every student borrower. We believe these fees constitute an unfair tax on financially needy students who must take out loans to get an education. We urge Congress to eliminate these fees.

Changes to Loan Limits -- Under current law, undergraduates can borrow up to $23,000 in the subsidized Stafford Loan program and $46,000 in the subsidized and unsubsidized programs combined. Graduate and professional students may borrow a total of $65,500 in the subsidized Stafford Loan program and up to $138,500 in the subsidized and unsubsidized programs combined. While the total amount of student loan borrowing has increased significantly in recent years, most college students do not borrow at the maximum levels permitted. The National Postsecondary Student Aid Survey shows that less than one-quarter of undergraduate financial aid recipients (23.3 percent) currently borrow at the maximum levels permitted by law.

Higher loan limits are merited for two categories of students. First, the decision to terminate annual appropriations for the Health Education Assistance Loan (HEAL) program means that students attending schools previously eligible for HEAL have seen the amount of federal loan capital available to them shrink significantly in the last two years. The Department of Education has increased annual loan limits in the unsubsidized student loan program for academic programs formerly eligible under HEAL. However, the Department has not increased aggregate loan limits for these students. We strongly encourage the Committee to increase annual loan limits for borrowers in programs previously served by HEAL. We recommend that the aggregate loan limits for students in the unsubsidized loan program who are enrolled in programs that participated in HEAL in 1995 be increased by $40,000.

In addition, a modest increase in loan limits is necessary for graduate and professional students. Under current law, graduate and professional students may borrow $8,500 a year in the subsidized student loan program and an additional $10,000 in the unsubsidized program, with an annual aggregate limit of $18,500. For many graduate and professional students, this is not enough. At present, 38 percent of the students seeking a professional degree who borrow under the federal student loan program borrow the annual maximums. In some professional disciplines, such as law and dentistry, more than one-half of all borrowers currently hit the annual aggregate limit. For these reasons, a modest increase in the annual borrowing limits is warranted.

We recommend that loan limits for graduate and professional students be increased as follows: in the subsidized loan program, the annual borrowing limit should be raised by $2,000 to $10,500; in the unsubsidized program, the annual limit should be increased by $2,000 to $12,000; the annual aggregate loan limit should be increased to $22,500; and the lifetime total aggregate limit in the subsidized program should be raised to $79,500. We do not, however, recommend any change in the total lifetime aggregate limits in either the subsidized or unsubsidized programs above the current level of $138,500.

Authority to set lower loan limits -- Colleges and universities also could minimize student borrowing if they were given authority to set lower loan limits for all students in a similar situation or in a particular program. At present, colleges have the authority to refuse to certify loans for individual students when, in the opinion of the institution, such borrowing would not be advisable. Many institutions are reluctant to exercise this authority because of the documentation and paperwork burden it entails. By giving schools the authority to set lower loan limits (including a limit of $0) for entire categories of students, such as first-time, first-year students, Congress would help ensure responsible student borrowing. This change also would help to reduce further the number of student loan defaults.

Improve income-contingent repayment -- The increased availability of student loans has been critical to ensuring student access to postsecondary and graduate/professional education. However, educational indebtedness increasingly is affecting the career choices of graduating students. For example, many graduate and professional students are unable to pursue less remunerative public interest and public service careers because of their inability to afford high loan payments while earning low salaries.

Under the Department of Education's current income contingent repayment (ICR) system, if a student stays in ICR for 25 years and still owes money, the remaining debt is forgiven. This system does not appeal to many graduate and professional students, because most are unwilling to stay in ICR for the 25 years necessary to have their loan debt forgiven. The result is that many individuals with high debt, who often have the ability to command higher salaries, do not pursue public service job opportunities.

We believe it is possible to change the ICR program so that it accelerates the loan forgiveness function of ICR for students with high educational indebtedness and low salaries, making it more affordable and attractive for such students to work in public service fields. We hope to work with the Committee to implement this improvement in the ICR program.

Eliminate risk-sharing -- Current law requires states to pay "risk-sharing" fees to the federal government for the cost of student loan defaults at schools where the cohort default rate exceeds 20 percent. This is an inequitable and inappropriate mechanism for reducing student loan defaults. It could lead a state to pass along the cost of the risk-sharing fee to all institutions within the state -- including those with low default rates. The Department of Education never has implemented this authority. In light of the sharp decline in student loan defaults and the manifold problems involved in administering such a scheme, this provision should be repealed.

5) **Retain both the Ford Direct Student Loan Program and the FFELP and create a level playing field of beneficial student terms and conditions in both programs.** The advent of direct lending has resulted in dramatic improvements in the quality of service in the student loan program, and these changes have resulted in better service for students and institutions. These improvements are attributable to the competition that resulted from the two programs competing for business. We ask that the Committee maintain both programs.

Avoid legislative caps that would limit institutional participation artificially -- In addition, the Committee should avoid any changes that would cap or limit institutional flexibility to participate in either program. Most schools are satisfied with their current student loan arrangements, and it is unlikely that a substantial shift from one program to another will take place unless the quality of service changes significantly. In the event that the quality of service does change, schools should have the flexibility to move rapidly to a better alternative.

"Level playing field" amendments -- A complex set of issues certain to come before the Committee is the request to "level the playing field" between direct lending and FFELP. In many cases, such changes really are thinly veiled attempts to give advantage to one program over the other. We urge the Committee to act cautiously in this regard.

A "level playing field" may be defined in two fundamentally different ways. One approach would make the programs function in exactly the same way, with exactly the same terms and conditions, and with identical repayment options. We oppose this approach because it puts artificial limitations on each program and squeezes out the healthy competition that has proved so beneficial to students.

Instead, Congress should take a second, more constructive approach to leveling the playing field. Specifically, we suggest the Committee recognize the real differences inherent in a bank-based versus a government-based program and allow the two programs as much flexibility as possible to deliver the best benefits they can for students. Certainly the Higher Education Act should ensure that some characteristics are common to both programs, such as interest rate ceilings, 10-year repayment plans, deferment and cancellation provisions, and appropriate consumer protections. However, both programs should be given the flexibility to design more generous packages for borrowers.

Common characteristics needed in both loan programs -- Several differences between the FFELP and the direct loan program should be eliminated. One important change would be to permit the use of the Free Application for Federal Student Aid (FAFSA) for both programs. Currently, FAFSA is used for direct loans but not for FFELP. It would be far more convenient for students and schools to be able to apply for either program using FAFSA, and Congress should permit this.

In addition, direct consolidation loans currently have three significant advantages over guaranteed consolidation loans. First, guaranteed loans can be consolidated into direct loans, but direct loans cannot be consolidated into guaranteed loans. Second, direct consolidation loans have lower interest rates than guaranteed consolidation loans. Finally, direct consolidation loans, unlike guaranteed consolidation loans, retain the interest subsidy on the underlying subsidized loans when subsidized and unsubsidized loans are consolidated.

Just as institutions should have the option to choose which student loan program to participate in, borrowers should be allowed to choose, with no preconditions, which program to participate in after leaving school. Therefore, Congress should allow direct loans to be consolidated into guaranteed loans if the borrower wishes and vice versa; define the payable interest rate for guaranteed consolidation loans in a way that does not mandate a higher interest rate for borrowers than the rate available under direct consolidation; and extend to guaranteed consolidated loans the advantage now enjoyed by direct consolidation loans in the treatment of subsidies and of some categories of deferment.

Unique advantages in each loan program that should be preserved -- Some competitive advantages enjoyed by one or the other loan program are endemic to their design. Elimination of these advantages would diminish the quality of the program for those participating in it. While such an approach has an appealing simplicity, it would disadvantage all parties involved in student loans.

For example, under current law, the statutory interest rate formula for FFELP loans is a "maximum allowable rate" that permits lenders and holders to charge less if they wish, while the interest rate spelled out for direct loans is the mandatory rate that the federal government must charge. We believe that such a provision should remain in place. In addition, lenders are and should be allowed to pay all or part of any up-front fees on their borrowers' behalf. However, the Secretary of Education should be given authority to improve terms and conditions of direct student loans when such changes can be accomplished at no additional cost to taxpayers above the budgetary baseline.

In addition, in a market-based environment based on borrower choice, FFELP holders should be required only to offer the 10-year standard repayment option to borrowers. Since students would have access to graduated, extended, and income-contingent repayment through direct consolidation loans, we assume that the student loan industry would develop an array of innovative repayment options to encourage borrowers to consolidate their loans into FFELP. Allowing the industry to provide such repayment plans has the potential to enhance repayment options for borrowers. Any such authority should, however, include a requirement that borrowers be given adequate consumer information and that they not be burdened with excessive negative amortization.

<u>Student loan scoring</u> -- Decisions about public policy programs should be informed by fair, accurate, and consistent cost comparisons. The Credit Reform Act of 1990 sought to bring uniform scoring rules to federal budgeting. However, the fiscal year 1996 Congressional Budget Resolution altered the uniform government accounting rules instituted by the Credit Reform Act for student loans. The 1996 changes inflate the projected costs of the federal direct loan program and remain the only exception to credit reform.

At present, three discrete administrative activities -- direct loans, guaranteed loans, and general administration of student aid -- are authorized by Section 458 of the Higher Education Act. Because Section 458 is located in Part D of the Higher Education Act, which authorizes the direct loan program, some observers have concluded erroneously that the administrative funds provided by Section 458 are used exclusively for the operation of direct lending.

We believe that all federal administrative costs attributable to each loan program, including payments to guarantors, should be accounted for in an appropriate fashion. To accomplish this, Congress should mandate the creation of separate administrative expense provisions for each type of activity funded through Section 458.

<u>Student loan default triggers</u> -- The use of student loan default triggers, while a crude and imperfect indicator, has reduced the default rate in the federal student loan program by making many schools ineligible to participate. Nonetheless, the student loan default trigger continues to have significant shortcomings as an element of federal student aid policy. Several provisions are needed to mitigate the unintentionally harsh effects of this provision.

First, current law exempts Historically Black Colleges and Universities (HBCUs), tribally controlled colleges, and Navajo community colleges from the loss of eligibility to participate in the loan programs because of high default rates. We believe that this authority should be maintained. HBCUs and tribally controlled community colleges grant a large percentage of the degrees awarded, respectively, to African Americans and Native Americans. A recent study by the General Accounting Office (GAO) concluded that terminating the current exemption for HBCUs would make almost one-quarter of them ineligible to participate in the federal student aid programs -- a devastating blow to the nation's efforts to increase the number of African Americans in higher education.

Second, the Committee should develop a default trigger exemption for schools with a large number of students but a very low number of borrowers. Many community colleges find themselves with high default rates but few student loan borrowers. For example, a community college with three borrowers out of 1,000 students will have a default rate of 33 percent if one borrower defaults. We suggest that the Committee exempt from default calculations any school where the actual number of borrowers represents less than 15 percent of the eligible borrowers.

6) <u>Reassess the process by which schools become and remain eligible to participate in the student aid programs and seek procedures that are more effective, efficient, and less intrusive than those currently in place</u>. In 1992, Congress sought to reduce the cost of student loan defaults and improve accountability by tightening eligibility requirements to participate in federal student aid programs. Many of the changes introduced in the 1992 Amendments have been successful. Fraud and abuse in the Title IV programs have been reduced, and the number and cost of student loan defaults are down sharply. The default rate in the federal student loan program has fallen from 22.4 percent in the 1990 cohort to 10.7 percent in the 1994 cohort, and the net cost to the taxpayers of defaults has dropped from $1.7 billion in fiscal year 1992 to $250 million in fiscal year 1996. Concurrently, a large number of short-term trade schools have closed or lost eligibility to participate in federal student aid.

The requirement for periodic recertification of institutions that participate in Title IV has been particularly effective. Hundreds of institutions have been removed from eligibility, enhancing the overall integrity of the Title IV programs. We believe recertification should be the primary focus of the Department of Education's monitoring and regulation of Title IV institutional participation. Periodic recertification allows the Department to conduct a comprehensive review of an institution's accreditation status, state licensure, financial stability, and record in Title IV administration. Periodic recertification represents efficient and effective monitoring and regulation for both the Department and participating institutions.

While the 1992 Amendments resulted in significant improvements, they did not anticipate fully the ways in which the various provisions would work in practice. The establishment of the State Postsecondary Review Entities (SPREs), for example, proved to be the least successful initiative in the history of the Higher Education Act. In addition, the 1992 Amendments resulted in a duplication of effort between the federal government and accrediting agencies that has done little to ensure that federal student aid dollars are well spent. Rather, this duplication has added considerable inefficiency and confusion to the oversight framework.

This blurring of roles among the states, the federal government, and accreditors is expensive and confuses rather than helps to focus accountability and performance. The problem can be mitigated by clarifying the roles and responsibilities of the three parties. We recommend that Congress adopt the following framework to govern the determination of eligibility to participate in the federal student aid programs:

> Accrediting agencies should assure academic quality by establishing and maintaining appropriate academic standards for institutions of higher education.
>
> States should license or otherwise approve institutions of higher education to operate within their borders.
>
> The federal government should protect students and the federal fiscal interest through the direct regulation of standards of administrative and fiscal responsibility.

We believe that every legislative provision with respect to eligibility and certification should be reviewed to make certain that it is consistent with this division of responsibilities.

Accreditation is a non-governmental, voluntary process designed to assess academic quality and improve colleges and universities through a rigorous, confidential peer review process. Most of the activities of accrediting agencies are unrelated to the determination of eligibility to participate in federal student aid programs. These activities are not regulated by the federal government and should not be.

The Department of Education authorizing act states explicitly that the Secretary of Education has no authority to set or regulate the academic standards of institutions of higher education. This task historically has been undertaken by accrediting agencies. The limitation on the Secretary's authority is sound public policy and should be reiterated in Part H, since the Department of Education has indicated that the current placement of the restriction does not limit its ability to regulate the academic standards set by accrediting agencies.

We encourage the Committee to examine carefully the provisions in the 1992 reauthorization affecting accrediting agencies. Some of these provisions imposed inappropriate and overlapping federal mandates on accrediting agencies that virtually federalize these organizations without improving oversight of the federal student aid programs. Moreover, the 1992 Amendments imposed new burdens on the accrediting agencies that they are not qualified to perform and that divert their energy and attention away from their central mission. For example, the 1992 Amendments made accrediting agencies responsible for monitoring the expenditure of Title IV student aid funds. While this function is essential, it would be more appropriate for the Department of Education to carry out the task.

<u>The state role is to license institutions to operate and to protect consumers</u>. The federal government should not second guess the processes that state governments put in place to allow institutions of higher education to offer education services within their borders. Rather than federalizing these functions, as was attempted through SPREs, Congress should defer to the states with respect to both licensure and consumer protection. We ask that Congress strike the SPRE authorization and replace it with a requirement that the Department periodically collect information from states about licensure and other procedures they use to allow higher education institutions to operate within their borders.

<u>The responsibility of the Department of Education is to make certain that institutions of higher education participating in Title IV programs have the administrative capability and financial stability to perform their functions as fiduciary agents of the federal government in delivering student aid</u>. More precisely, the Department must do two things. First, it must ensure that if a school shuts its doors, the closure does not harm students or taxpayers. Second, it must provide proper safeguards so that Title IV recipients are not defrauded. Too often, in the past five years, the Department has taken a far more expansive view of its role than is necessary in this regard and, in doing so, has diverted attention from its central mission of protecting students and taxpayers from problem schools.

To allow for the most efficient use of departmental and institutional resources, we recommend that the Secretary be authorized to recertify institutions for up to 10 years, depending on their record of financial stability and sound Title IV administration. This would allow Department staff to schedule more frequent reviews of institutions where appropriate, while providing regulatory relief to institutions that have been reliable and effective in Title IV administration. Such a provision would not affect the Department's ability to conduct regular program reviews and special reviews when warranted.

Better information exchange -- The Department of Education should do more to facilitate the exchange of information about schools participating in the federal student aid program with state governments and accrediting agencies. At present, accrediting agencies and states must inform the Department whenever they take action against a school. Such information allows the Department to determine whether federal action against the school is necessary. However, the Department does not at present always inform accreditors and states when it takes action against a school. We believe that when the Department determines that a school has engaged in a serious violation of federal laws or regulations -- for example, as a result of a program review or audit -- it should inform appropriate accrediting agencies and states.

Financial responsibility -- Despite multiple attempts, the Department of Education has been unable to implement the financial responsibility provisions of the 1992 Amendments in a way that accurately assesses the financial health of a college or university. The Department acknowledges that the current regulations, which set out a series of factors of financial responsibility, do not measure the financial strength or stability of institutions accurately. The Department now is developing new regulations that will involve the calculation of financial ratios based on more readily available data. In this process, the Department has attempted to work with the higher education community, which we welcome. However, after a year-long effort, the Department does not know how many schools will fail to meet the threshold for proving financial responsibility. We are deeply troubled when the Department regulates in such a complex area without a clear understanding of the impact.

To date, the Department's efforts to measure financial responsibility have imposed significant costs on itself to analyze the reports, imposed costs on institutions to prepare the reports, diverted attention and energy away from schools that really are in serious financial trouble, and gained little protection for students and taxpayers. The central purpose of assessing the financial responsibility of institutions of higher education should be to protect students and taxpayers in the event that an institution closes precipitously. It is very difficult to ensure the long-term financial stability of any organization, and the Department should confine its energies to making certain that no institution closes precipitously to the detriment of the public. Thus, we recommend that Congress direct the Department to focus on the financial risk to the Treasury and to students and, in the words of the December 1996 Office of Management and Budget report, "tailor the regulatory approach narrowly" to address the regulatory problem.

To minimize the burden on schools, better protect students, and more sharply focus the efforts of the Department, Congress should amend the law to provide presumptive approval of financial responsibility to any institution of higher education that meets either of two standards. First, any institution officially identified as a public institution by the state in which the school operates automatically should be deemed financially responsible. Public colleges and universities rarely close, and no such school ever has closed in the middle of an academic term. The federal government should not expend its resources needlessly to guard against a problem that does not exist. Moreover, states have clear responsibility to oversee the financial condition of institutions under their control, and the federal government should avoid intruding on that relationship except under extraordinary circumstances.

Second, accredited, degree-granting institutions of higher education that have been in continuous existence since the enactment of the Higher Education Act in November 1965 should be deemed financially responsible. Institutions that have operated successfully for more than 30 years present little risk of precipitous closure. While some private colleges may look financially vulnerable if the only measure of analysis is their balance sheet, such schools often have a community of support that contributes to their financial stability and educational effectiveness. This exemption should be extended to for-profit institutions of higher education that have not undergone a change of ownership during this period.

For schools that do not meet either of the foregoing exemptions, the Department should develop an appropriate and cost-effective process for reviewing and assessing financial stability -- generally as part of the broader recertification review. This would permit an evaluation of the full range of financial and administrative circumstances confronting the institution. Further, in cases in which reasonable doubt has been raised about an institution's financial stability, the school should have the opportunity to provide any of a variety of credible third-party guarantees that would insure students and taxpayers fully in the event of closure. At present, schools that are not deemed financially responsible must provide a letter of credit (the Department of Education never has implemented the broader authority granted by the statute that would give schools other options). Such a change as we propose would guarantee protection for students and greater flexibility for institutions.

<u>Protections for students and taxpayers</u> -- Our proposal for "safe harbors" for public and private institutions of higher education provides the Secretary with considerable authority to intervene if evidence of a problem exists. The Secretary already receives regular information -- such as program reviews, recertification applications, and reports from accrediting agencies and state governments -- that can be used to identify potential problems. In addition, the Secretary has the authority to take decisive action against any school under the "Emergency Action" authority granted by the Congress in October 1989 (P.L. 103-239). In light of the range of information sources readily available to the Secretary and the authority to act if necessary, we recommend

that in-depth investigation of institutional financial health and administrative capability become the exception rather than the norm.

Administrative capability -- In addition to being financially stable, institutions of higher education must be determined to be "administratively capable" to participate in Title IV programs. We believe that the term "administratively capable" refers to the ability of a school to administer the Title IV financial aid programs. It should not be a catch-all phrase that would allow the Department to circumvent restrictions on agency authority that wisely were put in place by Congress.

Clarify Legislative Language – Subpart 3 – Eligibility and Certification procedures would benefit from a careful review and rewriting with an emphasis on making congressional intent clear and unambiguous. As drafted, Section 498 is confusing and difficult to follow, with convoluted logic, double negatives, and excessive use of "notwithstanding." The Committee should rewrite this section so that the intent of Congress is clear and all parties can agree on the plain meaning of the statutory language. Such a step would simplify implementation by the Department and greatly improve comprehension by campus officials.

Refunds -- In the 1992 Amendments, Congress imposed, for the first time, a federal refund policy for institutions of higher education. The purpose of this "fair and equitable" refund policy was to protect students in their first postsecondary educational experience. However, by mandating a single federal standard, Congress has imposed a significant cost on all colleges. Moreover, the statute is complex and the implementing regulations are virtually impossible to explain. We believe that in reauthorization, significant emphasis should be placed on improvements in this area.

Congress should review the pro rata refund policy that requires colleges to make full refunds to students who withdraw before completing 60 percent of their initial enrollment period. This is well past the point at which a student should have determined whether a particular institution of higher education is appropriate and also is well past the point when colleges can redirect the resources that were allocated to the education of that student.

Second, determination of a student's "last day of attendance" has proven extremely troublesome to implement. Under current regulations, institutions are solely responsible for documenting a student's last day of enrollment, leading to several circumstances in which colleges have been told by regulators that they must take daily attendance to ensure that they are aware of exactly when a student has withdrawn. Historically, colleges have not taken attendance; it is up to the student to decide whether or not to attend class on any particular day. We do not believe that Congress intended to require colleges and universities to begin to take attendance.

The statute should be rewritten to make it clear that the institution <u>and</u> the student share responsibility for establishing the date of withdrawal. This could be done by requiring institutions to disseminate information about their official withdrawal policies and allowing the recorded date that a student withdraws to be used as the date for determining refunds for the purposes of Title IV.

In addition, some colleges and universities (both public and private) are required to follow a state-specified refund policy. These institutions can find themselves caught in an intractable conflict between state and federal directives. We urge Congress to examine the interaction between federal and state refund policies to ensure that institutions are not placed in the untenable position of complying with conflicting laws.

<u>Cures</u> – Given the bales of regulations and regular "Dear Colleague" guidance promulgated by the Department, it hardly is surprising that some institutions make occasional minor errors in administering student aid programs, especially involving record keeping or accounting. When this happens, the Department often threatens inordinate fines and penalties even when it has no doubt about the institution's current or future capacity to administer Title IV programs in a responsible and effective way. If no pattern of error and no evidence of fraud or misconduct has been found, institutions should have appropriate ways to correct the mistakes and have the matter settled in the same way that holders of student loans can "cure" problems in loan processing by additional effort.

7) **<u>Eliminate statutory provisions that have led to the development of regulations that are excessive and costly to implement, but that contribute little or nothing to net Title IV accountability</u>**. By any measure, the 1992 Higher Education Amendments were successful in addressing the problems of fraud and abuse in the federal student aid programs. But not all of the dozens of provisions that were added to the statute to curb fraud and abuse have contributed to this outcome. Many of them are redundant with other provisions in the Act, some are pointless, others are contradictory, and still others are so complicated that the Department has not been able to implement them.

Some of the regulations that have bedeviled the Department and schools have their basis in flawed statutory language. We urge Congress to take three steps to address this set of concerns. First, the Committee should examine the statute carefully and eliminate duplicative requirements, such as in the case of the various athletic disclosure requirements described below. Second, Congress should streamline and clarify the statute in cases where the legislative language itself confounds the intent of the provision. The complexity of Section 498, as described above, is a good example of this problem. Finally, Congress should avoid the urge to micromanage the federal student aid program by writing overly prescriptive statutory language that complicates and frustrates the efforts of Department and college officials to implement the law. For example, according to the Department, the statute requires applying the "change of ownership" provisions to private, nonprofit colleges, which by legal definition do not have owners.

Streamline disclosure requirements -- Interest in providing consumers with information that will enable the higher education marketplace to function more efficiently is widespread. However, the plethora of disclosure and public information requirements currently in the Higher Education Act employ different terms and conditions and are not integrated. Taken together, these impose an administrative, financial, and regulatory burden on colleges and universities, with unclear benefits to the public.

Consider, for example, the federally mandated reports colleges must prepare regarding athletic programs and student athletes. Under Section 487 (a)(18), institutions that award athletic scholarships must prepare an annual report of revenues and expenditures for football, men's basketball, women's basketball, all other men's sports, and all other women's sports. In addition, under Section 485 (g), any coeducational institution with an intercollegiate athletic program must prepare and make available a report showing operating expenditures for all sports, the number of coaches and their salaries, the amount of money spent on athletic scholarships, and athletic participation rates for men and women. Section 485 (a) requires institutions to disclose graduation rates for athletes playing basketball, football, baseball, cross country and track, and all other sports. This data must be broken down by gender but, unlike the previous disclosure requirements, also must be presented by race. Finally, under Section 485 (e), institutions must disclose graduation requirements for all students. This last statutory requirement is similar, but not identical, to a regulatory requirement now mandated by the Department of Education under the Institutions of Postsecondary Education Data Systems (IPEDS).

This short summary of a small number of disclosure requirements illustrates the extent to which the Higher Education Act incidentally imposes a large financial and regulatory burden on institutions of higher education. While all such requirements are important to some constituency, the duplication and overlap they create imposes a compliance cost on every institution. Moreover, because these slightly different requirements are littered throughout the Act, it is difficult for colleges to be certain that they are responding completely to each and every provision. Institutions are strongly criticized in the media if they make inadvertent errors when they provide the information.

Congress should compile a full list of the disclosure requirements currently in the Higher Education Act, conduct a cost-benefit analysis to determine which provide significant consumer protection at reasonable cost and burden and should be retained, and terminate those that do not. A consolidation of these disclosure provisions would help institutions understand exactly what requirements are in place. Moreover, by streamlining these provisions, Congress can strengthen those that remain and increase their visibility while clearing away the regulatory underbrush. The higher education community will work closely with Congress in this effort and will make specific suggestions for consideration.

Comprehensive Regulatory Reform/Negotiated Rulemaking -- Apart from carefully reviewing federal statutory language and addressing the specific problems identified in this document, we believe that steps should be taken to simplify existing regulations wherever possible. We urge the Committee to direct the Department to develop a plan for achieving comprehensive, authentic reform that strips away unnecessary regulation and enables the Department to concentrate its oversight efforts in areas that justify its attention.

In addition, Congress should require the Department of Education to engage in negotiated rulemaking, using a professional arbitrator, as it implements the provisions of the Higher Education Act reauthorization. Negotiated rulemaking, included in previous education legislation, requires the Department to meet with interested parties in a formal process to identify issues that need to be resolved as regulations are developed. In our experience, such an effort, while time-consuming and occasionally expensive for the participants, provides the Department with a far better understanding of how regulations will affect the parties who must comply with them, and usually results in more carefully drafted regulations than otherwise would emerge.

8) **Enhance accountability through modernization of student aid processing.** The management of student aid programs by the federal government is extraordinarily complex and confusing. To some extent, this is not surprising; the management of any large-scale financial services program always is challenging.

The problems with the processing of federal student aid are not, we hasten to add, with the Department of Education's career civil servants. To the contrary, the agency's staff is hard working and dedicated. Nor is the issue the Department's political leadership: it is difficult to imagine better and more knowledgeable political appointees than the agency currently enjoys. Rather, the problem is that no federal agency has the state of the art private-sector practices that would enable them to manage the effective delivery of a $50 billion financial services program.

The processing of student aid by the federal government has not changed qualitatively since the Higher Education Act was passed in 1965. Over that same time period, however, the financial services industry has been revolutionized. We believe Congress should examine seriously the possibility of fundamentally restructuring the routine processing of federal student aid to take advantage of the best private-sector practices that have improved the level and quality of financial services available to individuals. This would enable the Department of Education to concentrate on its primary responsibilities.

Complexities of student aid processing -- The processing of federal student aid suffers from four serious flaws. First, policy makers and institutional officials lack critical information that is necessary for making effective decisions. For example, the Department of Education has no real-time data on such basic matters as student loan volume or student loan delinquencies and defaults. Moreover, in spite of more than 10 years of statutory authorization, the National Student Loan Data System (NSLDS) still has not reached the point of being able to deliver reliable student aid tracking in lieu of financial aid transcripts, and it is unlikely that it will do so in the near future.

Second, the cost of administering the current system is high and increasing. To continue the NSLDS example, the effort to achieve an operational data system is now $50 million over budget. Because its completion date is uncertain, it cannot be known what its final price tag will be. Some have estimated that contracting costs alone to administer the student aid programs currently exceed $400 million.

Third, despite improvements such as the advent of direct lending, the delivery of federal student aid is not characterized by customer friendly service. Almost 20 percent of FAFSA applications are rejected because applicants did not complete them properly. Nor is technology used to enhance customer service: consider, for example, the Department of Education's unwillingness to put FAFSA on the World Wide Web.

Fourth, the indirect costs imposed on institutions by the current processing system are inordinately and unnecessarily high. The 1995 FAFSA processing delay illustrates the extent to which service problems can have a serious effect on students and institutions of higher education. The list of reports and data that must be provided by schools to help oversee the administration of student aid grows ever longer. Over the last 20 years, many campus employees have been turned into *de facto* federal agents to ensure that the Title IV programs are well managed.

Advantages of modernizing student aid delivery -- Congress should consider fundamental changes in the way federal student aid is delivered. An appropriate model is the efficient, cost-effective, consumer-oriented system available through Visa and MasterCard, where a single financial servicing business works with thousands of lenders, hundreds of thousands of vendors, and millions of customers. Tens of millions of transactions a day are monitored and approved within seconds; real-time data is available to lenders, vendors, and customers; and a wide variety of repayment options are available. Customer inquiries are handled efficiently and effectively. Because accurate and timely data are provided to lenders and vendors, fraud is not a significant problem.

Such a system would improve the Department's gatekeeping functions, but it would not, and should not, supplant the role currently played by states, the federal government, and accreditors. But the development of a real-time, integrated data system would allow the federal government to complement the lagging indicators (such as default rates) currently used to identify problems, and would permit much faster response when problems are identified.

A change such as we propose would enable the Department of Education to concentrate its attention on the roles that only federal officials can play. The crucial gatekeeping functions, oversight and evaluation of current programs, and policy development, implementation, and regulation all could receive more thorough attention if the routine processing of large amounts of financial aid information were modernized.

This approach could have significant benefits for students and schools. Modernizing the current system would allow campus officials to spend less time processing and tracking federal forms and more time counseling students and families. For students and families, the system could provide more and better information, and provide it far more quickly than currently is possible.

Such a system is not biased in favor of a particular source of loan capital; a high-quality private-sector servicing operation would work as effectively with the direct loan program as it would with private-sector lenders.

This proposal is a bold step, and we have not analyzed all of the issues involved. However, the amount of federal student aid made available and the number of beneficiaries increase every year. Moreover, the possibility that the federal government may establish a new tax credit and deduction to help families finance higher education means that, if anything, the current system will grow even more complex in the years ahead. For these reasons, the impending reauthorization is the ideal time to investigate the feasibility and desirability of major changes to the current system of processing federal student aid.

9) **Explore new ways to expand federal/state partnerships in support of need-based student aid**. Given the central role played by state governments in financing higher education, we encourage the Committee to examine ways to create and expand partnerships with states that will further the federal goals of access and choice in student aid. The State Student Incentive Grant (SSIG) program has been especially successful in using a small amount of federal money to leverage a large amount of need-based student aid. Many states would not have established or maintained need-based student aid programs without this vitally important federal incentive.

We recommend that this small but significant program be reauthorized. More specifically, we recommend that the program's operation remain unchanged when federal appropriations remain at or below $45 million. However, when federal support exceeds $45 million, we suggest that any state willing to provide at least $2 from funds not previously earmarked for student aid for every $1 of federal money be allowed to use the federal funds for any of the following five purposes: 1) increasing grant aid to financially needy students; 2) academic or merit scholarship programs; 3) work-study programs; 4) transition programs from high school to college; or 5) early intervention programs.

10) **Congress should analyze current federal policies with respect to distance education and determine whether modifications are needed to address the enormous opportunities that increasingly are available to students in this area**. Technology is having a significant impact on teaching, learning, and research at colleges and universities. A growing number of students now use distance education for continuing education classes, for work force retraining, and to earn a degree. We believe that these options are most important for non-traditional students and for those who live or work at great distance from a campus offering appropriate postsecondary educational opportunities.

In 1992, Congress responded to evidence of fraud and abuse in this area by limiting the extent to which distance education programs could participate in federal student aid programs. However, because technology increasingly alters the ways in which postsecondary education is provided, it is essential that Congress explore these new methods of teaching and learning, and examine ways in which federal student aid can help provide a high quality education to every qualified student. We encourage Congress to hold hearings to look into the promise of distance education, examine the issues surrounding federal student aid for students enrolled in such programs, and seek appropriate ways to ensure that students have access to the benefits of distance education.

11) Continue and strengthen Title III of the Higher Education Act. The Title III programs complement the investment the federal government makes in student aid. Title III is responsible for substantial, lasting improvements in education and related services at colleges and universities and does not need major changes. However, some modifications are needed to keep the program evolving apace with the changes in higher education.

Modifications to Part A -- Special consideration should be given under Part A to grant applications that request funds for "high technology equipment used for instruction and access to electronic information sources." Some high-quality institutions lack such access, and their students would be well served by such a federal priority. In addition, we recommend that Congress require a two-year wait-out period between the receipt of Part A grants. Such a provision would encourage institutions to examine the effects of a previous grant before launching a new project and would facilitate self-sufficiency. We also recommend that Congress mandate a two-step application process for the Part A program. Under such an approach, institutions would submit brief preliminary applications, and those proposing projects of the greatest interest and promise would be encouraged to submit full proposals. Such a system would save applicants whose proposals are unlikely to be funded the expense and effort involved in preparing full-scale applications and would permit more extensive peer review of those that are submitted.

Hispanic Serving Institutions (HSIs) -- No consensus exists within the higher education community at this time about what changes to this important federal program would be desirable. Some associations believe that a new part should be created within Title III for the HSI program (currently, it is a subpart of Part A); that the eligibility standards should be simplified; and that the "hold-harmless" provision -- which requires that $80 million be appropriated for Part A before any funds are provided for the HSI program -- should be eliminated. However, other associations do not believe that the evidence currently available merits these changes. We will continue to work on this issue in an effort to determine what changes, if any, can generate unanimous support.

Modifications to Part B -- Minor changes also are needed in Part B -- Strengthening Historically Black Colleges and Universities. In particular, the institutional matching requirement in Section 326 should be clarified so that no match is required for small grants of up to $500,000. Also, schools should have the flexibility to use a portion of their Part B funding to build endowments.

Several changes are needed with respect to the Section 326 authorization for graduate or professional institutions. For example, when appropriations increase under Section 326, HBCUs not currently mentioned in the law should be eligible to receive federal funds. In addition, schools with multiple graduate programs should have the flexibility to spend Section 326 funds on any "qualified graduate program" and should not be restricted to the program named in the law. To illustrate this last point, consider Florida Agricultural and Mining University. This HBCU offers graduate degrees in chemical, mechanical, and electrical engineering and pharmacy. However, because of the restrictive language in the statute, the school may use federal Section 326 funds only in its pharmacy program.

Finally, Part C, the Endowment Challenge Grant program, should be maintained in its current form. This small program has helped a number of Title III schools. For example, in 1989, Shaw University in Raleigh, North Carolina, had an endowment of $600,000. Thanks in large part to a $2 million Part C grant, Shaw was able to undertake an extensive campaign to build its endowment, which at present is $9 million.

12) <u>Reauthorize the Urban Community Service program in Title XI of the Higher Education Act with minor changes</u>. The Urban Community Service program is designed to encourage institutions of higher education to establish partnerships with public, private, and civic organizations to address the most pressing problems in urban communities. Grants must include a 25 percent local match. To date, grants have been awarded in 45 cities; in many instances, these funds help institutions of higher education and community service organizations fill voids left by the downsizing of local governments.

Initial evaluations suggest that completed Title XI projects have been successful in bringing the research capacities and resources of urban universities to bear on difficult local problems. Available data suggest that these initiatives have become institutionalized, so that the programs remain even after the start-up funding has been withdrawn.

The Title XI program should be continued with only minor changes. For example, priority in the award of funds should be given to institutions of higher education that have demonstrated their capacity for and commitment to urban community service and that currently are conducting programs of a similar nature. Institutions with a track record of administering successful, collaborative community service programs are more likely to use their grants effectively than those who lack such a record.

In addition, initiatives that provide technology training and access to technology should be added to the list of allowable activities. Technology-related skills can enhance the employability of residents of inner cities and increase the economic vitality of urban neighborhoods.

Finally, successful Title XI practices should be shared with all interested practitioners through the use of the Title XI listserv.

13) <u>**The Fund for the Improvement of Postsecondary Education (FIPSE) plays an important role in encouraging innovation in postsecondary education and should be continued**</u>. FIPSE continues to be a unique and valuable resource, encouraging reform, innovation, and improvement in postsecondary education. FIPSE projects have had a dramatic and lasting impact on individual campuses. We recommend that it be reauthorized, and that no significant changes be made in its mission or operating authority.

14) <u>**Federal support for international education is increasingly important and necessary**</u>. Given the global realities that affect the United States, continuation of the modest Title VI international education and foreign language programs is critical to the nation's long-range strategic interests. These programs are an important federal responsibility because of the importance of international competence and expertise to the conduct of foreign policy, to national security, to the vitality of the U.S. economy in a global marketplace, and to U.S. world leadership on issues of global concern. Informed decisions in these areas depend on human capital with competency in foreign languages and cultures to assess the political, social, and economic implications of decisions. The Title VI programs should be enhanced to strengthen the nation's strategic expertise in critical languages, issues, and world areas; to encourage increased cooperation to build national capacity in these areas; and to incorporate new technologies to meet the nation's needs.

Leadership in international education and foreign language education must be a partnership between the Department of Education and higher education institutions. Having adequate national capacity in foreign languages and international studies never will be a major priority for states or the private sector. This is a national interest that the federal government must address.

Title VI funding provides institutional assistance, student assistance, and faculty support. The best international education programs often are interdisciplinary in nature and thus benefit from a competitive federal grant process that rewards excellence. Thus, merit-based selection of programs and individuals for awards in open, national peer-reviewed competitions is absolutely vital in these fields, where nothing can substitute for knowledge and expertise.

The central priority of Title VI should continue to be support for producing international expertise, competence, and research. This is accomplished primarily through the support of undergraduate, graduate, professional, and post-graduate training and research, including overseas experience. Programs should continue their emphasis on outreach to elementary and secondary schools, government, and the private sector. Continued and strengthened emphasis also should be placed on the participation of underrepresented groups, such as women and racial and ethnic minorities. In addition, in light of the ever-growing interest in access to foreign information, Title VI should be enhanced to support the development and dissemination of international knowledge to users across academic programs and economic sectors.

We recommend that several modest changes be made to Title VI. Specifically, Congress should: 1) update and fine tune existing programs to better address post-Cold War needs for enhancing U.S. international expertise and for building national capacity in international education and foreign languages at all levels; 2) replace the program authorized by Section 607 ("Foreign Periodicals") with a new program designed to support the use of new technologies for accessing and disseminating foreign information for teaching and research; and 3) encourage partnerships between higher education institutions and the private sector, government, and K-12 institutions to enhance international knowledge and skills.

15) Maintain a strong and visible role in financing graduate education. American leadership in science and technology depends on high-quality, accessible programs of graduate education to produce the scientists and engineers who conduct the nation's research and development. It is inconceivable that the United States can maintain its enviable position in science and technology unless we also encourage the nation's most academically talented students to attend graduate school.

However, the nation's best college graduates have many options. Completing a graduate degree in academic fields takes years of study. Add to this the lost income and the cost of earning a doctorate, and little wonder that many of the best students pursue other goals. Moreover, the fastest-growing demographic groups remain severely underrepresented in graduate education. For the nation to meet the human resource requirements necessary for our international competitiveness, we need to increase substantially the graduate school enrollments of African Americans, Hispanics, and American Indians.

A strong federal investment in graduate education is essential if we are to maintain the preeminence we now enjoy in science and technology. Because graduate education is a national enterprise with an uncertain linkage between local investment and returns, industry and states are unlikely to make the substantial investments required to ensure that national needs are met, even though both benefit substantially from the enterprise.

The Department of Education plays a unique role in the support of graduate education because, unlike other federal agencies, its programs consider both academic excellence <u>and</u> financial need. We recommend that

Congress consolidate and reorganize four current Title IX graduate programs -- Harris Fellowships, Javits Fellowships, Graduate Assistance in Areas of National Need, and Faculty Development Fellowships -- into a single, three-part National Graduate Fellowship Program that awards grants competitively to strong academic departments and talented but financially needy students.

The National Graduate Fellowship Program should have the following provisions: All grants would be awarded competitively by peer review panels; the peer-reviewed competitions would be administered by contract with a non-governmental organization with effective ties to the academic and scientific communities; students would receive a need-based stipend and a tuition waiver; institutions would receive an educational allowance in lieu of tuition and fees; and all grants would be for three years.

To meet the full range of student opportunity and national interest, the National Graduate Fellowship Program should have three components:

Traineeships in areas of national need: Block grants to strong academic departments and programs in areas of national need, to be used by those programs to recruit and support talented students who would pursue the highest graduate degree offered in those areas.

Portable fellowships in humanities, social sciences, and the arts: Fellowships awarded directly to students to pursue graduate study at the institution and program of their choice. Such a program in the humanities, social sciences, and the arts would provide the most effective means of allocating resources in these broad disciplines, where student choice provides the best match of student interest and academic program quality.

Grants to increase the participation of students from underrepresented groups: Grants to institutions to increase the number of students receiving graduate degrees from groups underrepresented in graduate education, with awards based on the academic quality of programs. The Department should track the record of participating institutions in recruiting and graduating students from underrepresented groups and placing them in academic positions.

It is difficult to overstate the importance of graduate education to the nation's economic competitiveness, the health of its citizens, their national security, and their quality of life. We encourage Congress to hold hearings on steps the Department of Education can take to advance the national interest in graduate education most effectively. Such an examination would reveal why the federal role is crucial, and would provide a compelling justification for continued federal investment.

16) **<u>Replace the existing programs in Title V of the Higher Education Act with a streamlined new authority narrowly focused on the initial preparation of teachers</u>.** Passage of the Elementary and Secondary Education Amendments (Improving America's Schools Act) and Goals 2000 provided opportunities for local schools to use federal funds to improve the knowledge and skills of the current teaching force through school-based professional development. Such an investment will provide significant benefits to many of the 2.6 million men and women currently teaching in the nation's elementary and secondary schools.

However, federal support for the professional development of those currently teaching, while valuable and necessary, will do nothing to prepare the next generation of teachers. The need to address this issue grows greater with every passing year: many of the nation's teachers are approaching retirement age at the same time that the number of children in elementary and secondary schools is increasing rapidly. Enrollments in elementary and secondary schools are higher than at any point in the nation's history, and further increases are expected over the next decade. Moreover, while America's younger population becomes more ethnically varied, the teaching force remains predominantly female and white. In short, we need to encourage more and different individuals to enter the teaching profession than we have in the recent past.

<u>Preparation of new teachers</u> -- To address this need, Congress should authorize a streamlined and narrowly focused program to support collegiate efforts to strengthen the initial preparation of teachers. The proposed initiative would provide grants to state education agencies to establish a competitive grant program for colleges and universities with teacher education programs. Such grants would be used to strengthen the capacity of institutions of higher education to prepare qualified teachers to work in schools in at-risk environments with an ethnically and racially diverse student body; encourage partnerships between institutions of higher education, elementary and secondary schools, and others to provide for the systematic and professional induction of persons into teaching; implement strong state and professional standards for teacher preparation; recruit and support individuals into careers as certified teachers; and support programs for school paraprofessionals and support personnel to become fully licensed teachers.

If appropriations for this program do not reach a $50 million threshold, Title V should be a national, competitive program of grants to institutions of higher education, administered by the Department of Education. When appropriations pass the $50 million level, federal funds should be distributed by formula to the states.

Minority teacher recruitment -- We support the currently funded Minority Teacher Recruitment program. This initiative provides grants to institutions of higher education to support efforts to encourage minority students to enter the teaching profession. At present, roughly 3,000 secondary school students are assisted under the program's Partnership Grants and about 250 college students are aided under the Teacher Placement Grants. We encourage Congress to reauthorize this important program without modification.

The need for highly trained school counselors -- The same demographic trends that are increasing sharply the demand for teachers will increase the need for well-trained and highly motivated counselors in the coming decade. Today's school counselors must provide a far wider range of services and assistance to students than ever before. For example, students with disabilities are the fastest-growing segment of those enrolled in higher education. Counseling these students and helping them identify and pursue suitable postsecondary education opportunities can be done only by thoroughly trained and prepared counselors. We encourage Congress to consider the growing demand for school counselors, and, at an appropriate place in the bill, to provide federal financial assistance to help meet this need.

DEPARTMENT OF EDUCATION

Statement by
Richard W. Riley, Secretary
on
the Reauthorization of the Higher Education Act
before the
Senate Committee on Labor and Human Resources

February 27, 1997

Mr. Chairman and Members of the Committee:

I am pleased to appear before you to discuss the Administration's postsecondary education strategy, and the reauthorization of the Higher Education Act of 1965 (HEA) in particular. Our dialogue about Federal education policy comes at a time when, more than ever before in our history, education is the fault line between those who will prosper in the new economy and those who will be left behind. We know that most of today's good jobs require more skills and training than a high school diploma affords. Effective and accessible postsecondary education is critically important both for individuals and for the strength of America's economy and democracy. That is why President Clinton made excellence in education our national mission in his State of the Union address, and why he has issued a bold "Call to Action for American Education in the 21st Century." I have with me copies of this education action agenda to share with you.

Our Nation faces great challenges when we strive to ensure access to effective education. In the next decade, demand for postsecondary education will expand significantly, due to increasing numbers of high school graduates and to increasing desire and need for life-long education and re-training opportunities. A growing population of disadvantaged students will need financial and other forms of support. These demographic changes will occur against the backdrop of two other major challenges: maintaining a strong commitment to education in the face of limited state resources and balancing the Federal government's budget.

The HEA has worked well for more than thirty years and has firmly established the Federal commitment to ensuring access to effective postsecondary education -- but we have an unfinished agenda. We must now look at ways to improve and add flexibility to our education programs so that they can meet the challenges of the future. It is in this context that we have begun examining the current programs and developing proposals to make them even stronger.

We believe that we can best address our commitment to higher education and the challenges we face with a comprehensive, three-pronged agenda. Our tax initiatives and our fiscal year 1998 budget proposals will complement our proposals to reauthorize the HEA, which we hope to share with you this spring. The tax and budget proposals, designed to increase access to education while improving the student loan system, have been described in our budget documents, and our proposed bill language will be provided shortly. These proposals are integral to our coordinated higher education strategy for the twenty-first century.

Tax Initiatives

Let me begin by talking for a moment about our proposals to assist students and families and to encourage postsecondary education through the Federal tax code. We believe that these proposals will effectively complement the traditional student financial aid programs. The tax proposals are designed, first of all, to establish a national ethic of learning to high standards and a national expectation that at least two years of education after high school is the norm for which all students should strive. We want to make at least 14 years of education the standard in America.

Our HOPE Scholarship proposal, modeled after a successful program in Georgia, would provide students who are enrolled at least half-time and have no prior drug-related felony convictions with a maximum $1,500 tax credit for tuition and required fees for their first year of postsecondary education, and another $1,500 for the second year if they stay drug-free and earn at least a B minus average. This credit would put $18.6 billion in the hands of students and their parents over the next five years. It would help 4.2 million students in 1998 alone, allowing them to pay the full cost of tuition at a typical community college and encouraging them to work hard and achieve excellence. In 1998, 8.1 million other students would have available to them a $5,000 tax deduction for higher education expenses. The deduction would increase to $10,000 beginning in 1999. Families would save $17.6 billion over the next five years with this deduction. Eligibility for both of these tax proposals, because they are designed to help middle-income families pay for college, would be phased out for families with incomes between $80,000 and $100,000, and for individuals with incomes between $50,000 and $70,000.

We must also do more to encourage families to save for their children's education. That is why we have proposed greater flexibility in using Individual Retirement Accounts so that funds saved in these accounts can be used for postsecondary education expenses, free from early withdrawal tax penalties. In addition, we have proposed an expansion in eligibility for tax-deductible IRA contributions with phase-outs for high-income ranges similar to those used for the HOPE Scholarship tax credit and the deduction. This expansion would double the previous eligible income levels. Families who save through an expanded IRA, and then use the savings for higher education, could deduct up to $10,000 of their withdrawals a year, making savings for college virtually tax free. I am aware that there are similar proposals in the Senate, so I look forward to working with you on this idea.

In addition, we suggest several smaller but important tax incentives. Like many of you in the Senate, we propose extending the tax exclusion for employer-provided education assistance of up to $5,250 for both undergraduate and graduate students. For 1998-2000, small businesses would be given an additional, new incentive to provide educational assistance to their employees through a ten-percent tax credit. The President's budget also provides tax relief for loan forgiveness so that students whose loans are forgiven by charitable or educational institutions in return for a community or public service commitment, and borrowers whose Direct Loans are forgiven after 25 years in the Income Contingent Repayment plan, are not taxed on the forgiven loan amount.

Our tax initiatives are designed to benefit working families who are struggling to pay for college. Between 1979 and 1993, the bottom three quintiles (fully sixty percent) of our citizens lost ground economically. Over that same period, college costs increased by 165 percent. It is no wonder that so many middle-income families are worried about their financial circumstances and wondering how they are going to pay for college.

Moreover, evidence tells us that we need to improve access to college for both low- and middle-income students, who have much lower rates of participation in postsecondary education than higher-income students. In 1994, only 45 percent of high school graduates from low-income families and 58 percent from middle-income families went directly to college, compared to 77 percent of students from high-income families.

We also believe that our tax initiatives will improve college completion rates, as grants do. Ensuring initial access to postsecondary education is not enough. We want students to complete their education. Our data show that low- and middle-income students are less likely than higher-income students to earn bachelor's degrees within five years, and one of the main reasons that students drop out of college is lack of money. By putting more resources in the hands of students and families, we can help to increase degree attainment. In addition, many adult workers could be expected to return to school on a part-time basis in order to improve their job skills and credentials.

One often overlooked benefit of using tax incentives to provide educational assistance is their predictability. Students are more likely to pursue and complete postsecondary education when they are aware early in their schooling of predictable and consistent financial aid. Taxpayers who see a specific line item reference to the HOPE tax credit and the deduction on their tax forms year after year will be well aware of these sources of college financing. As a result, we expect to see increases in the participation and completion rates of low- and middle-income families.

Thus, the tax proposals will help working families who are struggling to pay for college. They will improve both access and college completion among middle-income students. They will reward savings and help reduce the need to borrow. And they will encourage adult workers to pursue re-training and life-long learning. We know, however, that the tax code may not be the best vehicle for helping the neediest students, who often do not have significant tax liabilities. That is why we have dedicated ourselves to doing all we can to increase the availability of need-based grants, as well.

Fiscal Year 1998 Budget Proposals

Our fiscal year 1998 budget proposals are an integral part of our commitment to accessible and effective higher education for all students. Our budget request would make an unprecedented $47 billion in student financial aid available to some eight million students in fiscal year 1998, with a particular focus on the programs that help the neediest students.

The Pell Grant program is one of our highest priorities, and our proposal would provide nearly $7.8 billion in Pell Grants to four million needy students in fiscal year 1998 -- and at least $40 billion over the next five years. We would increase the maximum award to $3,000 in fiscal year 1998 and expand the eligibility of independent students. This kind of federal commitment to need-based grants is critical to our goal of enhancing access, for grant support remains the most effective way to ensure access and to encourage graduation among financially disadvantaged students.

Our budget will also make a number of changes in the Federal Family Education Loan (FFEL) and Direct Loan programs that will help the increasing numbers of students who borrow to finance their education. Our proposal would cut fees from four to two percent for need-based loans, and to three percent for other loans -- thus saving four million low- and middle- income students $2.6 billion over five years. These fee reductions will put more money in the hands of students when they are paying tuition and other college costs. In addition, because lender costs during the in-school, grace, and deferment periods are very low, our budget would reduce the interest rate during those periods by one percentage point, thereby reducing both Federal costs and borrower costs on unsubsidized loans. We would provide these benefits to students while saving taxpayers $3.5 billion over five years by streamlining the guaranty agency system to make it more efficient and cost-effective and by eliminating excess lender profits.

We will also continue our commitment to expand the Federal Work-Study program, for which the Congress offered such strong support last year. Our expansion, which would bring us closer to our goal of providing Work-Study opportunities to one million students by the year 2000, would help students finance their education and gain valuable work skills. In addition, the President has challenged the higher education community to use one-half of the Work-Study increase for community service. As part of the "America Reads" Challenge, I waived the institutional matching requirement for those schools that use Work-Study funds to tutor young children in reading. Over 70 institutions have already accepted the President's challenge. We cannot miss this opportunity to give financially needy college students the valuable experience of mentoring and tutoring children, while ensuring that no child gets left behind, unable to read, at the start of his or her schooling.

We propose several smaller budget items that are important to us because of the high achievement and effective learning that they encourage and reward. The Presidential Honors Scholarships program would award one-year, $1,000 scholarships to the top five percent of graduating students in every high school in the nation. For the first time, we are requesting funding for the Advanced Placement Fee program, which adds to our effort to raise academic expectations by partnering with the States to help low-income students pay for Advanced Placement tests. In addition, in order to take advantage of our programs, students often need non-financial forms of support. That is why we continue our strong commitment to the TRIO programs. Everything we know about ensuring access to postsecondary education tells us that we must reach children early so that they regard education after high school as a possibility for them.

Higher Education Act Reauthorization

This brings me to the third component of our higher education strategy, the reauthorization of the Higher Education Act. As I mentioned earlier, we believe that the current HEA provides a strong foundation of support for higher education. Its programs work well and have opened the doors to college for millions of students over the last several decades. That is why we support these programs so strongly in our fiscal year 1998 budget. Our task now is to consider how to make the HEA better and to ensure that it can address the challenges of the twenty-first century. Reauthorization will occur in the context of a growing and diverse population of college students who need financial assistance and support services, making our work that much more important.

An important step in developing our reauthorization proposal is to consult the people most affected by our programs. In December, we held a series of public meetings in six cities across the country so that we could listen to and learn from all parts of the higher education community -- students, parents, financial aid administrators, college presidents, business officers, officials of associations, and other representatives from a variety of postsecondary institutions. We are producing a summary of these meetings and will share it with you shortly. We also published a notice in the Federal Register requesting comments and suggestions. We have been very encouraged by the high level of interest in our endeavor, by the near universal support we have heard for the programs of the HEA, and by the community's focus on students, particularly on needy students.

While we are in the process of developing our ideas and do not have complete proposals yet, we do know that whatever decisions we make will be designed to benefit students. We also know that our overall proposal will be aggressive, but realistic. We will identify priorities and suggest targeted program reforms rather than a "wish list" of new programs that we cannot fund in the context of a balanced budget.

I am aware that your committee, too, is conducting meetings with the higher education community. It is my impression that our themes for reauthorization are similar to yours. I am encouraged that we seem to be moving in the same direction and look forward to working with you as we continue this important endeavor. Let me share with you now the four principles that guide the development of our reauthorization proposal, as well as the directions in which we are headed in some specific areas.

The first principle is access -- opportunity with responsibility. We must continue our efforts to ensure that all students, including disabled and economically disadvantaged students, have access to higher education. At the same time, we must help families and students take responsibility for their own education. Postsecondary institutions, too, have the responsibility to protect the value of their students' access by providing high-quality programs, supporting students, restraining tuition increases, and being fiscally responsible in their management of federal funds. And States must take responsibility for investing in the education of their students in spite of tight state budgets and limited resources. We are considering several changes to the HEA that will enhance access.

Of course, Pell Grants are critical to ensuring access, and we will do our best to guarantee that the HEA provides a strong Pell Grant program for years to come. We will complement our increased funding for the program this year by authorizing future maximum awards that are ambitious but also paid for within our balanced budget proposal. In addition, however, we believe that students and families should be encouraged to take responsibility for their educational opportunities. We are concerned that there is a perception that students and families are penalized for saving for their future postsecondary education expenses under the current need analysis system. We believe that the Federal government should do all that it can to encourage savings, and we will include a proposal that reflects this belief.

Likewise, strong student loan programs are necessary to ensure access. Our proposal will continue our commitment to both the FFEL and Direct Loan programs. The 1993 student loan reforms have made loans for students and their families more affordable, and through the Income Contingent Repayment plan, Direct Lending has made debt more manageable. Direct Loans provide borrowers and participating schools with a simple, more automated and accountable system, while saving taxpayers billions of dollars. We can best serve students by maintaining a healthy and fair competition between the two programs while promoting efficiencies in the guaranty agency and lender systems.

The Campus-Based student aid programs, made up of the Supplemental Educational Opportunity Grant, Perkins Loan, and Federal Work-Study programs, are also essential to our goal of ensuring access. The higher education community has expressed great support for these programs, which provide additional financial resources to needy students while leveraging institutional funds and providing for greater institutional flexibility. Our proposal will retain the three existing programs and make modest changes that will improve and simplify their administration.

Access to graduate education is important as well. As we examine the graduate programs, we are considering the consolidation of Title IX's Javits, Harris, and Graduate Assistance in Areas of National Need programs into one flexible, comprehensive fellowship program focused on national need. We are working on a proposal that would provide flexibility by allowing us, in consultation with the higher education community, to define national need in terms of both discipline and population representation. Thus, the new program would retain the important elements of the three programs that it would consolidate.

Our second reauthorization principle is the support of effective education, high standards, and high achievement. Federal programs should continue to promote and enhance outstanding educational opportunities and encourage students to take advantage of those opportunities to the best of their abilities. We should also encourage the effective use of new technologies to meet the changing needs of students by providing access to high quality postsecondary education.

As the President emphasized in his "Call to Action," the professional development of teachers is of critical importance. Teaching is a key variable in students' learning; without effective teaching, the highest standards in the world will not ensure that our children are well educated. We must give teachers the education and support that they need to teach to higher standards. We face major challenges in this undertaking, given that over the next decade, we will need an additional two million teachers to keep up with student population growth and the increasing diversity of our nation's students.

It is with these challenges in mind that we approach the reauthorization of Title V. Whereas Title V currently authorizes a myriad of disconnected programs, we plan to propose targeted programs that can make a difference in a few priority areas. I am planning to hold a national forum in mid-April to discuss our nation's best ideas for a strong Title V. The forum will convene some of our nation's best teachers, public education leaders, and members of the higher education community to explore ways to strengthen all phases of professional development, with a particular focus on recruiting the next generation of teachers, preparing them well, and supporting them in their first few critical years. As a nation we simply are not doing enough in these three areas. We cannot afford to wait another moment to go to work to ensure that we have a talented and dedicated teacher in every classroom in the nation.

The Fund for the Improvement of Postsecondary Education program (FIPSE) is very successful in supporting the most effective and innovative projects in higher education. For example, FIPSE supports the efforts of PACT-USA, an intergenerational literacy program, to develop a teacher training program that helps future teachers learn how to help low-literacy parents gain literacy skills so that they can perform their role as their children's first teachers. The program raises both parents' and children's reading levels, and successfully integrates the parents into the school lives of their children and the school community. In our proposal to reauthorize FIPSE, we hope to enhance the dissemination of information about exciting projects such as this one, so that good ideas can be replicated.

The Title III programs also play an important role in the Federal effort to ensure effective education by supporting improvements in academic quality, institutional management, and endowments at institutions serving disadvantaged and minority students. We seek to ensure that the Title III programs respond effectively to areas of future growth in higher education and that they encourage capacity-building for and effective use of technology. It is also important that Title III funds continue to add value to institutions and that they do not simply replace other funding.

The reauthorized HEA should simplify program delivery and improve management, and that is our third guiding principle for reauthorization. Students and postsecondary institutions should continue to receive outstanding customer service in a predictable and seamless way so that they are assured of aid and can plan ahead. Federal programs should be simplified and burden reduced as much as possible.

We have already begun efforts to simplify program delivery through initiatives such as Easy Access for Students and Institutions (EASI), but we are exploring whether changes in the statute are necessary to complete this project successfully. Students deserve a friendly system of acquiring information about, applying for, and receiving financial aid. Lack of sufficient information and difficulty in applying can be significant barriers to access to postsecondary education. Schools, in turn, would have more resources to spend on education if the administrative burdens of the delivery system were reduced through simplification and greater use of technology. In cooperation with postsecondary education institutions, we are examining ways that the HEA could encourage a streamlined delivery system for student financial aid.

We also can improve management of the Title IV programs and reduce burden by continuing to improve the Department's system of oversight of institutions that participate in these programs. We will continue to strive toward a proper balance between reducing burdens on schools and protecting students and Federal funds. To strike this balance, we expect to propose a performance-based, tailored approach to statute and regulation instead of the current "one size fits all" approach. In recognizing the diversity of American institutions of higher education, a gatekeeping and oversight system based on institutions' track records will reduce burden where appropriate, provide incentives for institutions to be fiscally and administratively responsible, and target Federal oversight resources on high-risk institutions.

And our fourth principle is that we must improve outreach to potential students and ensure strong links among elementary and secondary education, postsecondary education, and employment. As the President emphasized in his "Call to Action," this principle is key to our goal of making college more accessible and more affordable for Americans. Too many young people lose their way between high school and the world of work. We must reach out to potential students as part of our effort to change the way that young people and their families participate in postsecondary education -- so that *everyone* places a high priority on continuing their education.

We will strengthen the TRIO programs with this principle in mind. We are exploring ways to add flexibility to these programs so that they can respond quickly to students' changing needs. Strong TRIO programs are essential to enhancing access to effective postsecondary education, for they provide students with needed support and encouragement so that they will be ready to go to college. These programs also provide students with information early in their schooling about the opportunities available to them and complement our efforts to design, through efforts such as Project EASI, a friendly system for students to learn about and apply for financial aid. The TRIO programs, integral to our overall higher education strategy, should reward the high performance of schools and provide essential support and information to disadvantaged students.

This is our general approach to the reauthorization process. We hope to share with you a complete proposal by the end of the spring that will reflect our best ideas for strengthening the Federal commitment to postsecondary education. We look forward to working with you to craft a strong Higher Education Act whose programs will allow us to meet the challenges of the next century.

It has been my pleasure to share with you our higher education strategy. In proposing tax incentives to help families pay for college, major increases in funding for important postsecondary education programs, and a Higher Education Act that is even stronger than it is today, this Administration is calling for a significant increase in our national commitment to postsecondary education. I hope you will give strong consideration to our proposals, and I am now happy to respond to any questions you may have.

Summary of the Regional Meetings on the Reauthorization of the Higher Education Act

I. INTRODUCTION

The Department of Education, as it begins to develop proposals for the reauthorization of the Higher Education Act (HEA), seeks to improve access to postsecondary education for all students, reduce burden where appropriate, and ensure accountability of taxpayer funds. Toward these goals, the Department convened a series of six regional meetings across the country during December of 1996 in order to obtain the input and suggestions of the higher education community. The public meetings, each one attended by 75-150 people, took place in Atlanta, Phoenix, San Francisco, Chicago, Boston, and Washington, DC. In conjunction with these hearings, a series of smaller meetings were held among students, financial aid administrators, college presidents, business officers, officials of associations, and other representatives from a variety of postsecondary institutions.

The following is a summary of the comments made by participants at these meetings. This paper does not include comments made by representatives of the Department.

II. GENERAL ISSUES

In general, participants in the meetings praised the Department for its commitment to funding increases, for its outreach efforts, and for the direct lending program.

Many people believed that the HEA is fundamentally a strong law that does not require a major overhaul.

Numerous participants, however, voiced major concerns about access for the neediest students and stated that ensuring this access should be the priority in HEA programs. In addition, many people believed that merit should not be used as a condition for financial aid. More emphasis needs to be placed on the programs that are solely need-based, commenters stressed, because Pell-eligible students often have the lower test scores and grades.

Several people said that the Department should not include reauthorization items in the budget process.

One commenter urged that institutions be given enough time to implement new changes resulting from reauthorization; lack of sufficient time was a problem during the last reauthorization cycle.

III. GRANT/PELL ISSUES

Participants at all of the meetings urged an increase in funding for the Pell Grant program and an increase in the Pell maximum award. Others added their strong support of Pell but emphasized that it must be maintained as a program for *needy* students. In addition, many people suggested that Pell continue to fund ESL, remedial, and vocational education as well as short-term programs (2 years or less) and that Pell recipients be allowed to attend school less than half-time. One commenter recommended that Pell awards be sensitive to tuition level. Another said that the $600 Pell Grant minimum award should not be increased. One other participant suggested that Pell awards be prorated based on length of program.

Grant/Loan imbalance:
Participants expressed widespread concern about the imbalance between grants and loans and about increasing debt levels. Some said that heavy borrowing is working against completion, since students (particularly those of low incomes) are driven out of school or forced into unwanted jobs. One commenter said that this phenomenon relegates students to the community college track, even when the students are better suited to education at a different type of school.

State Student Incentive Grants:
Many people, particularly students, asked the Department to support the State Student Incentive Grant program (SSIG). Some said that SSIG should be viewed as a success and left alone. One commenter suggested strengthening SSIG by increasing its matching requirements. Others, however, contended that the program no longer does what it originally was intended to do.

IV. LOAN ISSUES

In general, commenters requested greater flexibility in the loan programs.

Direct Lending:
Participants in all of the meetings offered strong support for the Direct Loan programs, which they testified are easier, faster, and less cumbersome than the guaranteed loan programs. Many people asked that the law preserve both loan programs and create a level playing field in terms of interest rates, repayment provisions, consolidation, application forms, budget scoring rules, and the use of FAFSAs.

Many commenters praised the Income Contingent Repayment option in the Direct Loan program and asked that it be expanded. They also stressed the need for tax forgiveness under the ICR option.

Loan Limits:
Participants expressed many different opinions regarding loan limits. Many people suggested that the law further limit the amount of loan money available to students, while many others asked that

loan limits be increased. Some recommended that the law set aggregate loan limits instead of mandating yearly loan limits. Others requested higher loan limits for subsidized loans for first- and second- year students. Many people believed that financial aid officers should be given the authority to adjust awards based on tuition level or to exercise professional judgment in individual cases regarding loan amounts.

Loan interest:
Many people expressed support for the in-school interest subsidy. Numerous commenters asked for the elimination of loan origination fees and for lower interest rates on student loans. One commenter also recommended allowing lenders to offer lower interest rates to borrowers who are good credit risks.

Medical school loans:
Regarding students preparing for careers in medicine, some commenters suggested full deferral of medical school loans while students are doing their residencies, an in-school interest deferment during residency, and an increase in loan limits in the unsubsidized loan programs for former HEAL borrowers. One commenter suggested that the law not require a credit check for unsubsidized loans from former HEAL borrowers. In addition, medical school students offered thanks to the Department for its ongoing work regarding the HEAL program.

Loan forgiveness:
Several commenters advocated loan forgiveness for bilingual teachers under Title I of the Elementary and Secondary School Act so that the numbers of such teachers will increase.

Lenders, guaranty agencies, secondary markets:
One commenter suggested giving guaranty agencies more incentives to be more effective in collecting loans. Another said that more Federal financing for guaranty agencies is needed. One participant stated the need to put in place ethical standards for lenders and secondary markets with regard to travel and gifts.

Forbearance, deferment, and default:
One participant suggested making students more aware of forbearance and deferment. One person said that servicers should not be required to deny deferment and forbearance applications that are missing small pieces of information that are provided by the school rather than the borrower. Another commenter suggested eliminating a borrower's default status once the loan is in repayment (or at least once the loan is paid off). One other participant stated that loans should be paid back with interest in a reasonable time period, a practice which would encourage savings and reduce pressure on the federal government to use public funds to underwrite what families could do for themselves.

PLUS loans:
One commenter said that the law should permit automatic consolidation of all PLUS loans similar to the consolidation currently available in the FFEL program; this would make the loan process

easier, simpler, and create less paperwork.

V. TAX ISSUES

HOPE Scholarships and the tax deduction:
Participants voiced differing opinions regarding the Administration's HOPE scholarship and other tax proposals. Many people offered strong support for these proposals. Many others were supportive but warned of several areas requiring careful consideration. They emphasized that the new tax proposals should be seen as a *complement* to Pell and not a replacement. There was widespread concern that HOPE would take away support and funding from Pell, and many people believed that shifting the Federal government's commitment away from needy students to middle class students is not good policy. Other commenters were concerned that the tax policies might inadvertently put an artificial cap on the Pell program because of Congress' "one or the other" mind set. Numerous commenters stated that the tax relief dollars should be redirected into the Department's need-based programs. Some others suggested allowing Pell recipients to receive the full $1500 tax credit, a policy which would benefit the neediest students. The commenters recommended lowering the income levels at which families are eligible for the credit in order to help offset the cost of this idea.

Many people also expressed concerns about the implementation of the tax proposals and about potential administrative complications regarding the drug-free requirement and B-average requirement. People stated their concerns that the B requirement would cause grade inflation and influence course selection and institution selection. Some people suggested replacing the B requirement with a "satisfactory progress" requirement. Many stated that the Department will need to define "B" even though the community does not generally encourage the Department to get involved in such issues.

Many participants expressed concern about the way the Federal HOPE program would work in conjunction with state HOPE programs. Currently, many states see their programs as supplements to the Federal aid programs for which the Pell Grant program is the base, they said. Commenters worried that the Federal HOPE program would create a disincentive for state funding of higher education.

Graduate students and the tax proposals:
Some graduate students said that the tax credit and tax deduction would do little to help them. As independent students, their incomes are too low for them to benefit from the tax proposals, they explained.

Tax deduction for interest on student loans:
Many people asked that the loan interest tax deduction be restored.

Section 127 of the tax code:
Many commenters were in favor of renewing Section 127 of the tax code (allowing a deduction for employer-paid educational benefits) for undergraduate education and restoring it for graduate education. Others asked that the law create tax incentives for corporate tuition assistance.

IRAs:
Participants offered many comments regarding IRAs. Many thought that the IRA-related proposals were the most important tax policies proposed by the Administration. Others said that an IRA solely for education would make a bolder statement than the Administration's current IRA proposal. Some commenters suggested increased limits on contributions to IRAs to create a greater incentive for saving. One person requested tax incentives for relatives (not just parents) using IRAs to finance education.

Taxes on Student Earnings:
One commenter suggested that co-op student wages be exempt from taxes (through cooperation between the Department and the IRS). Another participant suggested a lower tax rate on student earnings so that students have more money to spend on education.

VI. CAMPUS-BASED ISSUES

Many participants suggested that the law allow both transferability among campus-based programs and the transfer of money back and forward across years. People also recommended the revision of the allocation formulas.

Supplemental Educational Opportunity Grant program:
Regarding the SEOG program, commenters believed that funding should be increased. Many people asked that the SEOG program and its formulas be simplified. Some suggested awarding SEOG grants only to Pell recipients. Other commenters supported SEOG for less than half-time students. One commenter stated that the percentage requirement in the SEOG formula should be eliminated.

Federal Work-Study and Community Service:
Regarding Federal Work-Study and community service, many commenters suggested meeting students' variety of needs and opportunities through more flexibility and the optimization of student choices. Participants believed that judgment should be left to students, employers, and institutions. Many said that incentives, not mandates, should be provided, since variety and diversity are particular strengths of postsecondary education in this country. Some people were opposed to the emphasis on promoting early literacy through the work-study program; they said there are many worthy causes that could benefit from FWS and objected to devoting so much money to this one cause. One commenter wanted to broaden the "community service" definition.

Perkins:
One commenter suggested targeting Perkins loans to freshmen. Another suggested eliminating

Perkins but giving each institution title to its current Perkins fund and requiring it to maintain its own capital contribution.

VII. HIGHER EDUCATION PROGRAM ISSUES

TRIO programs:
Many people expressed their strong support for the TRIO programs and requested more funding for these important programs. They thanked the Department for its support of TRIO and urged continued support. Several participants believed that TRIO and federal student aid money should not be "block-granted" to the states.

TRIO funding:
Some people suggested that a percentage of TRIO funds be earmarked for new applicants so that they can compete on a level playing field. Many also asked that the law ensure appropriate geographical distribution of TRIO funding. Others commented that TRIO should not be a writing contest that rewards those who can write the best proposals; rather, it should be need-driven and based on outcomes and effectiveness. One person recommended allowing multiple TRIO applications from the same institution. Another commenter suggested a link between TRIO and the Pell program -- for example, individuals who complete a TRIO program would be eligible for a larger Pell grant.

Prior Experience:
On the issue of prior experience, there were many divergent comments. Many people urged the Department to maintain prior experience points, since this policy contributes a sense of continuity and provides incentives to grantees to run quality programs. Others suggested that consideration of prior experience be removed from the formulas because this policy renders grants to newcomers almost impossible; for this reason, institutions without grants are discouraged from competing.

Hispanic participation in TRIO:
Many people called for greater Hispanic participation in TRIO or said that the program should set a priority for Hispanic students. Some specified that the Upward Bound program needs to serve Hispanics better.

Talent Search:
One participant said that the purpose statement for the Talent Search program is out of date, since it has not changed since 1965. This participant recommended that it be changed to reflect a new emphasis on middle school students.

Upward Bound:
Another commenter suggested raising the caps on the stipends in Upward Bound to permit projects to offer competitive, paid work experience related to students' career goals.

Title III:
Several people asked that the Department support the Title III programs while addressing long-standing criticisms of them. Some commenters suggested that Title III funding be awarded to pilot programs that move people from welfare to college (rather than welfare-to-work) -- and some said that FIPSE might be a better vehicle for this kind of program.

Others asked that Title III, part A, in which funds are used to enhance technology at the schools, be maintained. One commenter recommended the consolidation of the Title III programs, and another suggested requiring a 2-year wait-out period before reapplication for Title III funds. One person suggested that at least 20 % of Title III funds go toward endowment. Another asked for the review of the matching requirement in 326(b) and that the law require a match of any amount over $500,000.

Title XI:
Many people asked that the Department continue support of Title XI.

Title IX-D:
Several commenters stated that Title IX-D, the GANN program, should give preference to Hispanic students.

Law School program:
One commenter said that the law school program should be moved from Title IV to Title IX, renamed the Thurgood Marshall program, and designed to help low-income and disadvantaged students in law school. This participant suggested that the program fund summer institutions, mentoring, LSAT preparation, stipends, and program administration.

Title V:
Some people suggested adding "college counseling" as an allowable activity within Title V in order to emphasize the importance of disseminating more information to students.

VIII. OVERSIGHT, GATEKEEPING, AND INSTITUTIONAL ELIGIBILITY ISSUES

There was widespread agreement that statutory simplicity is needed and that the reauthorized HEA should create a more efficient, simpler, easier-to-understand system of financial aid delivery. Many participants asked that the Department simplify its regulations and requirements; they talked about being "regulated to death." One person suggested limiting the number of titles in the HEA.

Many commenters cited the need for better communication between the Department, guaranty agencies, accrediting agencies, and states. Many people said that overlapping monitoring requirements should be weeded out.

Commenters addressed a variety of oversight issues. Many testified that the Department should set minimum standards, if any, for refunds and let each institution come up with its own policy. One participant suggested the continuing modification of the "85/15 rule" so that more students get access to postsecondary education. Some commenters suggested the strengthening of Ability to Benefit standards. Some participants believed that the Department should not become more involved in educational quality issues than it is now. Some participants suggested maintaining current financial responsibility standards. One person suggested the creation of a national student survey in which students that graduate indicate whether their expectations were met by their school.

Non-traditional students and programs:
Commenters at all of the meetings stated that working adults are not fully recognized in Title IV programs and that they need flexible programs that provide different learning options. The programs need to accommodate an increasing diversity of students and technologies, people said, and the current law and regulations are not appropriate for non-traditional programs (such as ones that use new technology). Some participants stated that Section 484, regarding student eligibility, is an impediment to schools that offer many courses through distance learning. One participant advocated distance learning to support teacher training and development because teachers from rural areas who are trained in those areas stay longer than teachers brought in from elsewhere.

Some participants recommended that the Department, in overseeing non-traditional programs such as distance learning, use assessment and performance outcomes to ensure integrity; many said that the Department should use outcomes and outputs, not inputs, as measures for eligibility. Some commenters suggested that accountability be ensured through regional accreditation, state approval, and the existence and enforcement of policies that demonstrate institutional integrity, such as adherence to Ability to Benefit, satisfactory progress, and student refund policies.

Treatment of Hispanic-Serving Institutions:
There were comments at every meeting regarding the Department's treatment of Hispanic-Serving Institutions (HSIs). Some participants suggested the simplification of the way HSIs are defined, the elimination of irrelevant requirements, and the extension of the default rate exemption for HSIs. Some commenters suggested the repeal of funding triggers that have become obsolete, of the counting of part-time students, and of the 25% low-income requirement. In general, people testified that HSIs should be treated like HBCUs.

Performance-based gatekeeping system:
Commenters expressed wide differences of opinion regarding a performance-based gatekeeping system. Those who opposed a performance-based regulatory system held that non-traditional students are becoming more the norm and that performance-based standards have the potential to threaten access to lower-income students. Those who endorsed a performance-based system believed that there are too many regulations that exist only to accommodate a select few institutions. They stated the need to create a strong gatekeeping system that weeds out poor performers in order to avoid regulations that are geared toward the "lowest common

denominator."

Regulatory relief:
Among the regulatory relief suggested were: allowing single disbursements for short term programs; eliminating delayed disbursement for default rates under 10%; allowing more professional judgment; extending the HBCU exemption; eliminating loan proration; providing flexibility with regard to loan proration; and eliminating selective service requirements.

Many participants supported experimental sites, the Quality Assurance program, and the simplification and regulatory relief that they offer. Some suggested that experimental sites be allowed for all schools.

Accreditation:
Regarding accreditation, many people suggested restoring recognition to specialized accrediting bodies, which are the only ones that can do in-depth reviews of academic programs to ensure program integrity. A few people said that accreditation is overregulated and that one process does not fit every institution. Others added that unannounced visits should be eliminated, since they indicate a "guilty until proven innocent" attitude. Commenters also suggested the inclusion of community college trustees in the accreditation process, since now they are considered institutional members and not public members.

Tiered gatekeeping approach:
Proprietary school proponents urged the Department to treat all schools equally, with no sector-specific or tiered system of relief; the proprietary sector is already treated unfairly, they said, and the Department should recognize the value of these schools. The Department, commenters added, should create a career college position within the Department similar to the community college representative.

A few people suggested separate gatekeeping standards and special consumer disclosure for vocational schools.

Default rates:
There were many comments, especially by representatives of proprietary schools, regarding default rates. Many of these participants said that emphasis on default rates is unsound policy because it discourages schools from educating needy students. In addition, they stated that default rates are not good measures of institutional performance. Others added that default rate calculations are skewed against small schools, which should be treated differently. Commenters questioned the appropriateness of the 25 percent threshold. Many participants said that it is unfair that some schools, such as career colleges, serve the same populations as do HBCUs, but aren't exempt from the default rate provisions, as HBCUs are.

Some commenters believed that *if* default rate calculations are necessary, at least they should not be an absolute criterion. Others said that a cumulative default rate would be a better measure than the cohort default rate. Some people suggested that all schools be measured by outcome standards -- placement, completion, pass licensure -- instead of by default rate measures. The Department, people said, also needs to comply with its own responsibilities, by completing appeals and due process procedures, before terminating institutions. In addition, they added, the Department should recognize that there is a structural default rate similar to the structural unemployment rate.

Many people asked for the repeal of the HEA's provision regarding state share of default costs. In addition, one commenter said that if default rates are high, the Department should work with states in evaluating an institution's programs before revoking eligibility. A SHEEO representative, however, replied that states do not have the resources to do that.

State involvement:
One person suggested that, regarding state licensing, the Department create a central clearinghouse so that states will know what has been done in other states. Many people also urged the elimination of HEA references to the SPRE program.

IX. STUDENT ELIGIBILITY AND NEEDS ANALYSIS ISSUES

Many participants agreed that the system of needs analysis needs to provide for students' outside employment and that the system should not penalize work or savings (especially when work is part of the curriculum, as in a co-op program); that it must be revised regarding single dependent and independent students; and that single independent students without dependents should be eligible for greater financial aid.

Commenters also suggested that the needs formula not penalize students and families who save through pre-paid tuition plans, and, more specifically, that pre-paid tuition plan funds be treated as assets and not as income, to encourage more saving.

Another participant believed that the allowance for housing and the cost of living for overseas service members should not be counted as part of untaxed income in the needs analysis formula.

Regarding special needs students, many commenters believed that these students should receive special treatment in the needs analysis system and that the law should allow aid for students who must continue study after 150% of their time has elapsed, since the special circumstances of their disabilities do not allow them to finish more quickly.

X. DELIVERY SYSTEM

Numerous participants supported a common delivery system, project EASI, and other uses of technology, such as electronic forms and signatures, PIN numbers, the Internet, and electronic data interchange. Commenters agreed that the Department must capitalize on technological advancements.

Several commenters suggested that the Department examine the feasibility of matching its central processing with the IRS, for continued simplification of participation in the programs.

Other commenters recommended an earlier delivery date so that students can make earlier and more informed choices. In addition, people suggested increasing efficiency and access to the aid system by moving back the base year for calculating financial aid, since this would allow more outreach and increase access to disadvantaged students.

XI. GRADUATE PROGRAM ISSUES

Many graduate students attended the meetings and requested that all graduate fellowships be portable; that the Pell Grant program be extended to graduate students; and that loan forgiveness be extended to graduate and professional students who enter public interest fields. Others advocated the consolidation of the graduate programs but also suggested maintaining the intentions of each of the current programs (such as minorities, areas of national need, arts and humanities). Some participants, on the other hand, argued against consolidation if it would result in lower funding. In general, graduate students urged the Department to make more of a commitment -- verbally and financially -- to graduate education and not to treat graduate education as a "second class citizen."

Some participants also suggested increasing Hispanic enrollment in graduate education by providing more graduate money or new grants to Hispanic students.

XII. OTHER ISSUES

Some commenters believed that, to encourage savings, the law should create a national pre-paid tuition plan similar to ones that some states have created; one of the problems with the state plans is that the benefits and costs differ among the states that have them.

Many participants encouraged more teacher preparation partnerships between the higher education community and grades K-12 and urged the federal government to do more to recruit more and better teachers. Some commenters pointed out the need to identify students early through Talent Search and other programs.

Some commenters urged the Department to maintain a community college representative who reports directly to the Secretary.

Other participants suggested that the Federal government do more to facilitate student transfers from 2- to 4-year institutions. They recommended that this facilitation be accomplished by providing more information to students electronically. In addition, participants believed that the Department could encourage states to facilitate transfers by assisting them with the technology needed to make the linkages.

One commenter said that the Federal government needs to help states and schools to do those things that they cannot do themselves, such as build regional strategies for partnerships, because Federal support is needed for information systems and to bring different sectors together.

Another person recommended that the Federal government provide incentives to schools to lower tuition. One commenter added that the Department should take an active role in the community by describing the price structure at colleges and universities.

One commenter believed that study-abroad rules should be changed to encourage study-abroad and not punish schools that encourage such study. In addition, commenters said that consortium agreement requirements cause problems for financial aid officers, since they require institutions to accept credits transferred as though earned on campus.

Several commenters believed that investment in less commonly taught languages should be encouraged.

Several people asked that the Department look again at Individual Education accounts.

Some would like more flexibility to provide ESL to a large and growing number of students who need English instruction, due to the growing influx of students who are native to the U.S. but do not speak English well.

Participants at almost all meetings stated their support for FIPSE and urged its continuation as it currently stands.

Some people asked for an increase in access to library services through Title II.

Some commenters suggested that the Department make future regional meetings and hearings more accessible to students by holding the meetings on campuses and not during exam periods.

Several participants asked that the Department enforce laws regarding the reporting of hate crimes, which are escalating.

One commenter believed that the public should have access to NSLDS and PEPS.

Another suggested the inclusion of a title in the HEA supporting technology enhancements.

There was general support among participants for work-based learning and cooperative education.

One commenter stressed the need for child care programs and programs for pregnant students.

One commenter said that all use of retirement funds for education expenses must be used for legitimate educational expenses.