

# TEXAS PROPOSALS FOR THE REAUTHORIZATION OF THE HIGHER EDUCATION ACT

## **The Texas Student Financial Aid Community's Reauthorization Proposals:**

Strengthen need-based student financial aid programs  
Enhance outreach, awareness, recruitment, and retention programs  
Continue funding authorization increases for minority-serving institutions  
Expand the availability of student loans  
Increase flexibility for schools in awarding student financial aid funds  
Urge complete parity between the Federal Family Education Loan Program (FFELP) and Federal Direct Loan Program (FDLP)  
Encourage a complete and thorough review of the student loan consolidation program  
Standardize student loan forgiveness and forbearance policies

## **INTRODUCTION**

The Texas student financial aid community, including representatives from the Texas Association of Student Financial Administrators (TASFAA), Association of Texas Lenders for Education (ATLE), and Texas Guaranteed (TG) have worked over the past several years to build an informal coalition among Texas-based student financial aid (SFA) associations to identify issues, develop positions, and advocate these positions at the state and national levels. This approach is continuing with respect to the 2003 Higher Education Act (HEA) Reauthorization.

At the national level, we will work in conjunction with the National Council for Higher Education Loan Programs, National Association of Student Loan Administrators, Education Finance Council, Consumer Bankers Association, and the National Association of Student Financial Aid Administrators, as well as staff and members of the Texas Congressional Delegation. The purpose of this approach is to develop a consensus among the Texas student financial aid community on primary recommendations concerning student financial aid and access issues that the community would like to see addressed during the 2003 Reauthorization of the Higher Education Act. In addition to readily available background information and research, the 2002 TASFAA regional rallies, association conferences, and the Internet were used as the primary vehicles to solicit and receive input from the Texas SFA community to develop this paper. The Texas SFA community's primary interests during the next HEA Reauthorization include:

- Strengthening the existing federal need-based SFA programs,
- Targeting funds to underrepresented low income populations,
- Improving the administration of the SFA programs, and
- Exploring ways that Texas' *Closing the Gaps* initiative can be supported through the federal programs.

*Closing the Gaps* involves several components, including student financial aid, outreach, and academic preparedness. The initiative also includes the goal of the recruitment, retention, and graduation of an additional 300,000 students (beyond the 200,000 increase expected through overall population growth) by 2015. However, as a complement to these state efforts, the federal Title IV student financial aid programs and programs like TRIO and GEAR-UP will be extremely important in ensuring that adequate need-based student aid, financial aid information, and support services are available to successfully carry out this important initiative.

In Texas, where, after decades of being one of the least expensive states to obtain a postsecondary education, the average resident cost of attending a four-year public university is now 99.4 percent of the national average (\$12,690 vs. \$12,771), \$2.7 billion in student financial aid is awarded annually, with 87 percent of this amount coming from the federal Title IV student assistance programs.

It is the Texas SFA community's position that the recent and growing trends toward merit-based student financial aid, and the use of income tax credits and deductions, college savings programs, and prepaid tuition programs, are of greatest concern. While these tools are useful for a particular segment of society, they do little to assist truly needy families and students in accessing and obtaining a postsecondary education.

The minority population (Hispanic and African American) of the United States is projected to increase from 24 percent today to 34 percent in 2025. The percentage of Hispanics and African Americans enrolled in grades Kindergarten through 12 has increased by 55 percent since 1972, with Hispanic student enrollment increasing by 250 percent during this period. The figures for minority populations are even greater for several states in the South and Southwest. These populations are the *fastest growing* and most *underrepresented* in postsecondary education. Many of these students and families are also low-income.

The Congress' own Advisory Committee on Student Financial Aid (ACSFA) has issued two reports since the 1998 HEA Reauthorization - *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity* (February 2001) and *Empty Promises: The Myth of College Access in America* (June 2002). Both of these reports present a compelling case that the primary reason most low-income, academically prepared high school graduates in the U.S. do not choose to enter postsecondary education because of a lack of financial resources. Both reports provide a solid basis for strengthening the federal student financial aid programs to address this issue, which is especially relevant to underrepresented minority populations.

Therefore, from a Texas perspective, this HEA Reauthorization should focus on support for programs that will target student financial aid and efforts (e.g., academic preparation, outreach, and awareness activities) to encourage these populations to seek and obtain a postsecondary education. Cost remains a barrier to access to postsecondary education for too many academically qualified students, and these recommendations seek to address this barrier.

The Congress can do this by using the Reauthorization process to establish a long-term plan that:

- Provides increased support and incentives to the states to strengthen middle and secondary school academic preparation for postsecondary education, with emphasis on the needs of the underrepresented and growing population sectors;
- Increases the authorized funding levels for the Title IV need-based student financial aid programs and funds these programs at higher levels, striking a balance between programs to assist middle-income students and families and low-income students and families; and
- Identifies ways to strengthen, through better coordination and funding, federal and state post secondary outreach and awareness programs targeted at underrepresented and growing populations.

## **ISSUES AND RECOMMENDATIONS**

Priority issues and recommendations from the Texas SFA community are:

### **1. Restore the buying power of the federal need-based student financial aid programs.**

*Pell Grant Program* - Increase the amount of the authorized maximum Grant to the 1976 buying power level - \$7,066 - an increase of \$1,266 over the 1998 Reauthorization, and an increase of \$3,066 over the actual maximum grant. The premier federal need-based grant program should be fully funded to the 2003 authorized annual maximum of \$5,800. Ideally, the Congress should raise and fund the authorized annual maximum grant to \$7,600, thereby restoring the buying power of the original grant.

To help pay for these increases, the Congress should explore changing or repealing the Hope and Lifetime learning tax credit programs (which are not targeted at needy students and families) to provide additional funding for the Pell Grant.

*Supplemental Educational Opportunity Grant Program (SEOG)* - Increase and fund the authorized funding for the SEOG to \$1 billion, an increase of \$325 million since the 1998 Reauthorization, and an increase of \$309 million over actual 2001 funding. Allow institutional flexibility and professional judgment for awarding a portion of SEOG funds to non-Pell-eligible students who still demonstrate significant financial need. (Title IV, Part A, Sections 413A, 413B, and 413C)

Additionally, the Congress may want to express its intent that institutions should front-load need-based grants to younger, freshmen, first-time students within the constraints of program funding, in order to minimize the student loan debt that these higher risk students may incur. (Title IV, Part A, Section 401(b))

The Texas SFA community recommends making both the Pell Grant and SEOG programs entitlement programs, if possible, with the maximum annual grant indexed to the cost of education, consumer price index, or some other appropriate index.

*Federal Work-Study Program* - Increase and fund the authorized funding to \$1.3 billion, an increase of \$300 million over the 1998 Reauthorization and an increase of \$289 million over actual 2001 funding.

In recognizing the significant value of community service, the Texas SFA community recommends that the current community service level, mandated at 7 percent, be maintained and that designated funding - similar to that provided for the Job Location Development Program - be granted to institutions to encourage them to voluntarily exceed the mandated percentage to meet local needs, expand institutional community service capacity, and take advantage of opportunities which may exist in their areas of service. (Title IV, Part C, Section 441, Sections 446 - 448)

*Perkins Loan Program* - Increase the authorized funding to \$200 million, an increase of \$100 million over the 1998 Reauthorization and 2001 actual funding levels. Increase the annual maximums to \$5,500 for undergraduates and \$10,000 for graduate and professional students, with cumulative maximums increased to \$27,500 and \$67,500, respectively. Allow institutions that have opted out of participation in the program to continue to collect outstanding loans and use the proceeds to establish a campus-based student aid endowment fund to use to supplement funding for other need-based SFA programs. Repeal the requirement that requires requests for forbearances to be in writing. Allow a defaulted borrower who voluntarily made all past and currently due payments to regain Title IV eligibility for all SFA programs. (Title IV, Part E, Sections 461, 462(e)(3)(a), 464(a)(2)(A), and 465)

*Leveraging Educational Assistance Partnership Program* - Increase and fund the authorized level of funding to \$150 million, an increase of \$45 million over the 1998 Reauthorization level, and an increase of \$95 million over actual 2001 funding. (Title IV, Part A, Section 415A)

*Federal TRIO Programs* - Increase and fund the authorized funding to \$1.5 billion, an increase of \$800 million over the 1998 Reauthorization level, and an increase of \$770 million over actual 2001 funding. (Title IV, Part A, Section 402A)

*Aid for Institutional Development (Title III & Title V institutions)* - Increase and fund the authorized funding to \$815 million, an increase of \$303 million over the 1998 Reauthorization, and an increase of \$423 million over actual 2001 funding.

*Federal student loan programs* - The Texas student financial aid community encourages the Congress to continue to support the largest of the student financial aid programs – the Federal

Family Education Loan Program (FFELP) and Federal Direct Loan Program (FDLP). Student loan maximums for first- and second-year borrowers have not been significantly increased since 1986 (\$2,500 annual maximum to \$2,625 in 1992 for first-year borrowers). The Congress should simplify the FFELP and FDLP by adopting a uniform annual loan maximum for dependent undergraduate borrowers of \$5,500 with an additional \$5,000 for independent undergraduate borrowers. Because research indicates that graduate and professional students are low risk for loan defaults, the Texas SFA community recommends that these borrowers should be able to borrow up to the cost of education.

In addition, to allow institutions to address individual costs and needs, and control student debt and student loan defaults, the Texas SFA community recommends that schools be given the flexibility to set, by institutional policy, annual student loan maximums that are below the statutorily set maximums.

The Congress should establish complete parity between the two federal loan programs in the areas of income contingent repayment, in-school loan consolidation, loan discharge for death and disability, and borrower benefits provisions. Establish a single interest rate for all Stafford loans (FFELP and FDLP) that applies to loans made after 1994 and for in-school, grace, and repayment. Increase the amount of student loan debt that can be forgiven for school teachers that teach in high demand areas.

In addition, to enhance the effectiveness of the campus-based programs, allocation of new funding for these programs should be based on the number of Pell Grant recipients on each campus.

The Texas SFA community also strongly urges the Congress to do all it can to refocus its attention on the crucial need-based SFA programs, thereby reversing the 25-year trend toward reliance on loan and merit-based aid. (Parts B and D of Title IV)

## **2. Restore the exemptions that allow single and undelayed student loan disbursements by low default rate schools.**

The Congress is urged to reauthorize these two provisions which allow schools with lower than 10 percent student loan default rates to disburse loan funds in a single disbursement, immediately, to first-time borrowers. (Title IV, Part B, Section 428G(a)(3) and (b)(1))

## **3. Revise the Return of Title IV funds provisions - (Title IV, Part G, Section 484B).**

The Texas SFA community recommends that the Congress adopt the amendments proposed in HR 4866, with the change that a student not be required to return amounts of \$250 or less.

## **4. Allow institutional flexibility.**

Allow institutions to transfer a portion of Title IV funds among Title IV programs, based on the student's SFA needs.

## **5. Reauthorize student loan interest rates and review student loan consolidation.**

The current interest rate formula for FFELP loans should be reauthorized. (Title IV, Part B, Section 427A(a)-(l))

With respect to loan consolidation, the Congress should thoroughly review all of the issues associated with this program. These should include:

- First and foremost, the findings and recommendations of the General Accounting Office study currently underway;
- Before changing the single holder rule through ad hoc legislation (HR 3273/S 2650), the Congress should consider how effectively schools are using the provision in their student loan default prevention efforts;

- The original purpose, benefits, and conditions of the 1985 student loan consolidation program (convenience for the borrower through conventional combining of multiple loans at a single fixed interest rate);
- The interest rate (fixed vs. variable);
- Cost to lenders and holders (the 1.05 percent holder and .50 lender taxes) and parity with FDLP consolidation policies (income-contingent repayment, in-school consolidation, death & disability discharge provisions);
- Borrower eligibility (the opportunity to consolidate only once, rather than to be able to reconsolidate at lower interest rates); and
- The issue of the appropriate level of taxpayer subsidization for consolidated student loans after the borrower leaves school.

All of these issues must be considered while balancing the interests of the borrower (convenience and cost) and the provider (cost of funds and student loan portfolio valuation volatility). However, in balancing the interests, we urge the Congress to consider the cost to the federal government and to the other need-based student aid programs. After all, the central issue here is whether it is better public policy to spend marginal public dollars to continue to subsidize former students, or to spend these funds assisting current and future economically disadvantaged students with need-based student aid. (Title IV, Part B, Sections 427A(k)(4) and 428C(f))

Student loan consolidation was originally intended to be a borrower benefit only in the sense that it provided a mechanism to simplify the repayment of multiple loans by a borrower through refinancing the debt through consolidation. This intent seems to have been lost over time, and it should be revisited.

#### **6. Provide equity in student loan forgiveness.**

Amend Title IV, Part B, Sections 428J and 428K in the FFELP provisions to parallel Part E, Section 465 in the Perkins Loan Program for student loan forgiveness for certain borrowers, including teachers.

Increase the amount of student loan debt that can be forgiven for certain teachers. Despite the new accountability system put in place for K-12 education in Texas, many Texas teachers are still uncertified to teach in their subjects, particularly in predominantly low income, minority high school math, science, and foreign language classes. Providing increased student loan forgiveness may attract more qualified individuals into the teaching profession.

#### **7. Repeal student loan fees.**

The Texas SFA community encourages the Congress to repeal the 3 percent student loan origination fee and the 1 percent guarantee fee. The origination fee was originally established by the Congress in 1981 as a temporary revenue source to address a federal budgetary shortfall. All but a handful of the 36 FFELP guaranty agencies have voluntarily eliminated the 1 percent guarantee fee. Repeal of both fees would save borrowers money and allow each borrower to receive the full loan amount each is eligible to receive. (Title IV, Part A, Subpart 2)

#### **8. Enhance outreach programs.**

Postsecondary education outreach and awareness programs are important and college work-study programs which have as part of their purpose to provide postsecondary education outreach/awareness activities to low-income students and families, e.g., TRIO; GEAR-UP; HEP-CAMP; and Learning Anytime, Anywhere. The Congress should identify opportunities to make these programs even more effective and fund them at the authorized levels.

#### **9. Eliminate tax credits and other alternatives to direct student financial aid.**

These programs complicate an already overly complicated tax code in an effort to deliver student financial aid to students and families. The Texas SFA community believes that increased funding for the existing need-based grant and work-study programs is a far more effective means of delivering student financial aid directly to students who are most in need of financial assistance,

and recommends that the Congress increase authorized levels for these programs and fund them at the authorized levels rather than continuing to support tax credits and other alternatives to directly applied student financial aid.

**10. Review student privacy issues.**

There has been substantial discussion concerning adequate protection of consumer information, with differing requirements among the states, which, with respect to the student loan programs, can hamper the exchange of borrower data among schools, lenders, and guaranty agencies that is used in carrying out delinquency and default prevention efforts, and in the collection of defaulted student loans. The Texas SFA community strongly encourages the Congress to include in its HEA Reauthorization process a thorough review of this issue and clarification in the HEA that borrower data must be shared among all Title IV participants for appropriate purposes in carrying out the administrative provisions of Title IV of the HEA and for use in assessing how effective federal, state, and institutional student financial aid programs are.

**11. Standardize the use of student loan repayment forbearances.**

The Texas student financial aid community encourages the Congress to standardize the student loan forbearance provisions among all student loan programs and to simplify the method for requesting and granting forbearances by allowing oral requests by the borrower and requiring a response by the holder within 30 days of receipt of the request. (Title IV, Part B, Section 428(c)(3) and Part E, Section 464(e))

**12. Remove barriers to distance education.**

The role of distance education offered by postsecondary educational institutions has expanded dramatically during the past 20 years. It has proven to be an especially attractive, efficient, and effective option for nontraditional students seeking an advanced degree, professional certification, or retraining in a different field. In Texas, distance education has served as a valuable tool to train new K-12 school teachers. However, with respect to student financial aid, several technical issues have been allowed to go unaddressed, and the Congress is strongly urged to address them during this Reauthorization. These involve removing barriers that hinder the use of student financial aid for students taking course work delivered via telecommunications technology coupled with the assurance that sufficient oversight of the administration, quality, cost, and outcome measures for distance education courses are in place.

The Texas SFA community strongly encourages the Congress to review the results of the Education Department's evaluations of the Distance Education Demonstration Program authorized in 1998. The Congress should address the long overdue issue of identifying programs that can appropriately and effectively be delivered via telecommunications, while ensuring the safeguard of federal student aid funds. If sufficient safeguards are or can be included, the provisions included in HR 1992/S1445 - The Internet Equity & Education Act - should be included in the Reauthorization legislation. (Parts G and H of Title IV and Part A of Title I)

**13. Include prepaid tuition plans in the need analysis process.**

The Texas SFA community strongly recommends that college tuition prepayment plans be treated the same as 529 college savings plans (as an asset of the account holder, instead of as a resource) in the need analysis process. This will be an added incentive for families to save for their children's postsecondary education. (Title IV, Part F, Section 480(j))

**14. Include veterans' benefits in the need analysis process.**

The Congress is strongly urged to amend the HEA to provide for consistent treatment of veterans' benefits (all chapters) as income in the need analysis process. This will simplify the SFA packaging process. (Part F of Title IV)

**15. Use prior-prior year income tax return information in the need analysis process.**

The Texas SFA community urges the Congress to allow schools to use prior-prior year tax information in the need analysis process. This will allow:

- The SFA application process to begin earlier;
- Schools to use actual, rather than estimated, income information;
- Automated income verification through data exchanges with IRS, ED, and other appropriate agencies;
- Outreach and awareness activities to begin earlier. (Title IV, Part F, Sections 475 and 476)

**16. Combine student and parent income and assets in the need analysis process.**

The Texas SFA community urges the Congress to eliminate the distinction between “student” assets and income and “parent” assets and income, and replace both terms with “family” assets and income. Doing so would:

- Simplify the federal methodology,
- No longer penalize families who save for their child’s college education in their child’s name, and
- Benefit low-income families in which a child’s income plays a significant role in supporting the family and is, therefore, not available to pay for educational costs. (Part F of Title IV)

**17. Change the treatment of recipients of Temporary Assistance for Needy Families (TANF) or other public assistance benefits in the need analysis process.**

Since these applicants have already passed a needs-test to qualify for public assistance benefits, they should not be required to do so again to receive SFA funds. The Congress should amend the HEA to require that the Free Application for Federal Student Aid (FAFSA) include a box that low-income applicants can simply check to indicate that they are receiving public assistance and, therefore, able to forego the rest of the FAFSA process. (Part F of Title IV)

**18. Retain the definition of “independent student.”**

The Congress should retain the current definition used on the FAFSA.

**19. The Student Adjustment Act (HR 1684)**

The Texas SFA Community encourages the Congress and Administration to follow the example of Texas and a few other states, to include this legislation as a part of the HEA reauthorization.

This bipartisan bill proposes to provide each state with the authority to determine state residency for higher education purposes and to authorize the cancellation of removal and adjustment of status of certain alien college-bound students who are long term U.S. citizens. One of the key benefits of this legislation will be to allow long-term alien resident children to gain lawful permanent resident status and to eligible to pay in-state postsecondary education tuition.

**20. Reauthorize Section 428A – VOLUNTARY FLEXIBLE AGREEMENTS WITH GUARANTY AGENCIES**

The Secretary of Education has cited VFAs as an effective means that have allowed experimentation with new, innovative ways to deliver and finance FFELP guarantor services, including default aversion. This Section has only been in place for about 2 years and should be given a chance to prove itself. This recommendation has been supported by virtually all higher education associations, including the National Association of Student Financial Aid Administrators (NASFAA).

**21. Reauthorize Section 491 – ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE**

The ACSA, established as a part of the 1986 HEA reauthorization, has proven to be an important and effective nonpartisan advisory body to the Congress on key student financial aid and postsecondary educational access issues. It has a proven track record and should be continued and the Texas community urges its continuation.

**22. Reauthorize Section 492 - REGIONAL MEETINGS AND NEGOTIATED RULEMAKING**

This process has proven to be extremely effective in developing and implementing the myriad of changes that result from reauthorization, bringing in input from the entire education community in a formal, structured process.

### **23. Sections 475- 478 – Allocation formulas for campus-based programs**

Adopt the NASFAA recommendations to review and update the campus-based student financial aid programs allocation formulas. Adjusting the formulas will allow funding from these programs to be more effectively targeted to institutions in areas of the country that are most impacted by increases in population growth among those groups historically underrepresented in postsecondary education.

### **24. Closing the Gaps**

Establish a state/federal/institutional partnership pilot program that will provide regulatory relief and financial incentives to states and institutions that develop and implement initiatives designed to increase enrollment, retention, and graduation rates of high need students through targeted student financial assistance, outreach and awareness programs, and mentoring and tutoring programs using university/middle and high school partnerships.

### **25. Finally the Texas student financial aid community strongly urges the 108<sup>th</sup> Congress to pass the following Reauthorization-related bills introduced after the submission of the initial Texas Reauthorization position paper:**

**HR 12, as introduced. HR 12 is important to institutions and students, and the technical changes and extensions should be implemented as soon as possible prior to taking up the complex issues certain to be associated with the next HEA reauthorization;**

**HR 438 and HR 2211. These bills propose to provide increased student loan repayment relief to school teachers who teach in high demand or shortage areas and strengthen postsecondary education teacher preparation;**

**HR 2238 (The Next Generation Hispanic Serving Institutions Act). HR 2238 proposes to build on Title V by strengthen the academic curriculum offered by the 189 Hispanic-Serving Institutions by establishing a new graduate education provision;**

**HR 2956 (Financial Aid Simplification Act). This bill proposes to direct the federal Advisory Committee to conduct a study on ways to simplify the financial aid application and delivery processes and make recommendations to the Congress.**

**College Opportunity Act. This bill proposes to increased the authorized funding levels for the Title IV student financial aid programs, Title III and Title V, TRIO, GEARUP, and proposes a new loan forgiveness program for student loan borrowers who are employed in public service jobs (HR 1306).**

## **CONCLUSION**

The Texas Student Financial Aid community appreciates the opportunity to provide input to the Congress on the upcoming Reauthorization of the Higher Education Act. We hope that the Congress finds the information contained in this paper helpful in its consideration of the issues that will soon come under its review once again.

The Texas SFA community also acknowledges that current and future economic circumstances as well as national priorities may limit the Congress' ability to approve and fund all of the proposals recommended in this paper. As the Congress develops its positions, the Texas SFA community will adapt its priorities accordingly. It is our hope that the Congress will focus its efforts on the priorities that provide the most assistance possible to the neediest populations of students.

Thank you for your hard work toward the improvement of the federal student financial aid programs that provide so many students with the opportunity to pursue their educational dreams.