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ABSTRACT
Nationally obtained public testimony, evaluations of previous studies, discussions of prior recommendations, examinations of federal reports, and review of federal investigations have identified serious problems that threaten to undermine the integrity of federal student financial assistance programs, as well as public confidence in their administration. The recommendations made by the study group are designed to serve as specific answers for the improved management, delivery, and integrity of these programs. Three key areas requiring resolution are identified and serve as focal points for the report: (1) eligibility and certification procedures for institutions, students, and lenders; (2) delivery systems of the various financial assistance programs; and (3) program management and integrity of the agencies, institutions, and publics involved in federal student assistance programs. Some of the recommendations made in the report have been carried out or are being carried out; others require legislative and/or regulatory action, and some, deliberative review. Recommendations are indexed by subject area. A list of participants in public hearings and a bibliography are included. (Author/MSE)

ED143260

REPORT TO THE SECRETARY

Recommendations for Improved Management of the Federal Student Aid Programs

The Student Financial Assistance Study Group

June 1977

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
USA

U.S. Department of Health, Education, and Welfare

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

The Honorable Joseph A. Califano
Secretary
Department of Health, Education, and Welfare
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Mr. Secretary:

I have the honor of transmitting to you the enclosed report of the Student Financial Assistance Study Group, "Recommendations for Improved Management of Federal Student Financial Aid Programs."

The recommendations are respectfully submitted to serve as general and specific remedies for the maladies affecting the complex programs which are funded annually at $3 billion.

A host of studies, especially since 1973, have pointed to the need for serious reform in the area of Federal student financial aid. Unfortunately, however, little has changed. The work of the Study Group confirmed the existence of serious problems, some of which may undermine the integrity of the programs, as well as public confidence in them.

The report of our study focuses on three areas of major concern: eligibility and certification procedures for institutions, lenders, and students; delivery systems; and the program management and integrity of all the agents involved in Federal student financial aid.

To assure that the results of the study are utilized to the fullest extent, the Study Group requests that you assign to a person or unit within the Department responsibility for monitoring the implementation of its recommendations. Moreover, the Group requests that you call together an interagency task force to review the student aid programs as they interrelate within the Federal Government.

Finally, the Group requests that a report on the implementation of these recommendations be prepared and sent to each member prior to a follow-up meeting which the Study Group requests take place in six months.

The Study Group stands ready to consult with and assist you or your staff in any way necessary to benefit the student financial aid programs.

Sincerely,

John A. Perkins
Chairman

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PREFACE

This report to the Secretary of Health, Education, and Welfare contains recommendations for the improvement of Federal student financial assistance programs. The recommendations are in response to the growing concerns of Congress, the Department of Health, Education, and Welfare, and the general public regarding problems encountered in the administration and management of the programs.

Nationally obtained public testimony, evaluations of previous studies, discussions of prior recommendations, examinations of Federal reports, and review of Federal investigations have identified serious problems which threaten to undermine the integrity of the programs as well as public confidence in their administration.

The recommendations are the result of careful deliberation by the Secretary's Study Group and designed to serve as specific answers for the improved management, delivery, and integrity of federally-sponsored financial assistance to postsecondary students.

Three key areas requiring resolution were identified and serve as focal points for the major sections of this report. They are:

1. Eligibility and certification procedures for institutions, lenders, and students;

2. Delivery systems of the various financial assistance programs;

3. Program management and integrity of the agencies, institutions, and publics involved in Federal student assistance programs.

The specific recommendations contained in each topical unit have been shaped by members of the Study Group with full consideration of the diverse views presented in public testimony and in written reports by the many interested organizations and institutions. Some of these recommendations already have been carried out or are being carried out as of this date. Others will require legislative and/or regulatory action and some will require deliberative review. The reader is referred to Appendices A and B, an index of the recommendations by interest area.

We wish to express our gratitude to the hundreds of individuals throughout the country who supported our mission by sharing their ideas, their beliefs and, most important, their recommendations. Without their help the report would be incomplete.

Appreciation is extended especially to the Federal staff members assigned to support our work. Their expertise, diligence, and dedication were invaluable in helping meet our objectives. We also commend the Department of Health, Education, and Welfare for its support and cooperation in this public examination.

In fulfillment of the charge given to the Study Group through its Federal charter, we submit this report in the firm hope that the recommendations for action will contribute to the vitality, responsiveness, and integrity of student financial assistance programs.

INTRODUCTION

Establishment of the Study Group

Recognizing a need to improve student financial assistance programs administered by the Department, the Assistant Secretary, Comptroller was directed by the Secretary of HEW to develop a plan obtaining independent outside advice to assist in dealing effectively with the subject of fraud and abuse, and related management issues. In response, a memorandum dated June 21, 1976 proposed the appointment of a group of highly experienced non-Federal persons to study the management and organization of student financial assistance programs administered by HEW's Office of Education.

The programs to be examined were the National Direct Student Loan (NDSL) Program, Basic Educational Opportunity Grant (BEOG) Program, Supplemental Educational Opportunity Grants (SEOG) Program, College Work-Study (CW-S) Program, Guaranteed Student Loan (GSL) Program, and State Student Incentive Grant (SSIG) Program. The Assistant Secretary, Comptroller recommended that the approach to the study be similar to one used recently to study the Supplemental Security Income Program administered by the Social Security Administration.

The memorandum outlined issues related to management and organization by raising the following questions:

1. What should be the relative roles of Federal and State governments in the administration of the six student assistance programs?

2. What should be the role of proprietary schools which act both as lenders of federally guaranteed funds and providers of education services?

3. What should be the role of Regional Offices in the administration of the various student assistance programs?

4. How should these programs be organized within the Office of Education? For example, should there be a separate organizational structure to administer all student assistance programs?

5. How adequate are the existing steps to prevent abuse and fraud in these programs?

6. How adequate is the legal authority of the Commissioner of Education and the Secretary of HEW to effectively administer these complex programs involving millions of students and thousands of institutions?

7. What opportunities, if any, are there for the use of common administrative and management approaches to the six now existing student aid programs? Each program now develops separate regulations, data systems, disbursement systems, and standards for the determination of eligibility.

8. How adequate is the internal staffing and particularly the mix of skills required to manage these programs effectively?

9. How can the regulatory process be speeded up and simplified?

10. What should be the appropriate role of the accrediting agencies? What should be the process of terminating schools that manage public funds poorly?

On August 11, 1976, the Assistant Secretary for Education formally requested the establishment of the Student Financial Assistance Study Group and, on August 27, the Secretary offically approved the request. The announcement of the establishment of the Study Group -- under the provisions of the Federal Advisory Committee Act (Public Law 92-463), 5 U.S.C. App. 1 -- appeared in the Federal Register, September 1, 1976. Its stated purpose was, "To advise of ways and means to implement more effectively and efficiently the student financial aid programs administered by the Department."

The Study Group Charter

The Charter of the Student Financial Assistance Study Group, appearing in Appendix C, called for a membership of not less than seven nor more than 12 to be appointed by the Secretary to serve for a term not to exceed one year. The members, including the designated Chairperson, were to be selected from persons of outstanding expertise in the fields of higher education, large scale student financing systems, management of public financial institutions, and the application of data processing systems to public financial management operations. The Charter also called for the Secretary to designate a Staff Director and an Executive Secretary.

The Charter called for Study Group meetings approximately three times each month and for public hearings. In order to achieve maximum sensitivity to the concerns of interested groups and of the general public, the public hearings were to be scheduled in different locations throughout the United States.

The Charter also called for periodic progress reports to the Secretary, the Assistant Secretary for Education, and the Commissioner of Education. It was stipulated that the final report would be submitted within six months after the Study Group's first meeting.

Early Planning and Development

A Staff Director was appointed in mid-September 1976 and an Executive Secretary and other support staff in October. Most staff members were detailed from various HEW components.

In late September and early October, twelve individuals outside the Federal sector accepted invitations from the Secretary to serve as members of the Study Group.

Study Group Members:

Chairman:	John A. Perkins, Professor of Political Science, Vice President, Business and Finance, The University of California, Berkeley, California.
Members:	Norman E. Beck, Director, Student Financial Aid, Ball State University, Muncie, Indiana
	Lola J. Finch, Associate Dean of Students, Washington State University, Pullman, Washington
	James M. Furman, Executive Director, Illinois Board of Higher Education, Springfield, Illinois
	Toussaint L. Hale, Loan Officer, First National Bank of Chicago, Chicago, Illinois
	Richard Johnson, Director, Student Financial Aid, C.S. Mott Community College, Flint, Michigan
	James F. Kauffman, Vice President for Student Affairs and Admissions, Cornell College, Mount Vernon, Iowa
	Clifford L. Larson, Chairman of the Board and Chief Executive Officer, Northwestern Electronics Institute, Minneapolis, Minnesota
	David W. Phipps, Vice President, Financial Affairs and Treasurer, University of Alabama, Tuscaloosa, Alabama
	Paula B. Reeder, Director, Loan Division, Vermont Student Assistance Corporation, Burlington, Vermont
	David E. Stahl, Executive Vice President, National Association of Home Builders, Washington, D.C.

Charles C. Teamer, Vice President for Fiscal Affairs, Dillard University, New Orleans, Louisiana

Study Group Staff:

Admin[illegible]	Mary Jane Calais -- Staff Director
	Nan Stoney -- Assistant to the Director
	Frank Stewart -- Executive Secretary
	Carol L. Erickson -- Staff Assistant
Research and Writing	Henry Kirschenmann -- Research Associate
	Francis Nassetta -- Research Associate
	Jeffrey Lee -- Research Associate
	Joan Ratteray -- HEW Fellow
	Josephine Ferguson -- Program Officer
	Robert B. Holmes -- Consultant
	Mary Ellen Flynn -- Writer
	Barbara DeBose -- Secretary
	Edith McIlwain -- Secretary

Marjorie Lynch, Under Secretary of Health, Education, and Welfare presided over the official swearing-in of members on October 28, 1976. Dr. John A. Perkins, Professor of Political Science and Vice President for Administration statewide, University of California, was appointed Chairman. Following the swearing-in ceremony, members were briefed on the objectives of the Study Group by various officials from the Office of Education and the Department of HEW.

At its first meeting October 28-29, after hearing from Federal student financial aid program officials about current program operations, problems, and concerns, the Study Group outlined a scope of work and developed both a tentative workplan and meeting schedule. Rather than duplicate the efforts of earlier task forces, it was agreed that earlier

reports and studies would be reviewed and appropriate recommendations considered. It also was agreed to concentrate efforts on existing programs under current legislative authorities, rather than on fundamental changes which would require Congressional action.

Conduct of the Study

Nine working meetings were held throughout the country and, in accordance with the provisions of the Federal Advisory Committee Act, all were open to the public. (Dates, locations, and purpose are included in Appendix D). Attendance by the membership was consistently high and the combination of individual expertise and experience contributed to a thorough examination of the issues.

The work was aided significantly by seven well-attended public hearings throughout the country where oral testimony was received from representatives of national and State associations, Office of Education Central Office and Regional Office staffs, student financial aid administrators, State financial aid agencies, lenders, high school counselors, parents, students, and Congressional aides. (Appendix G)

Although each hearing focused on a particular aspect of the study, those testifying were free to comment on any aspect of the Group's work. Since points of view differ significantly among the various segments of the postsecondary education community and others concerned about program operation, every effort was made to provide for their expression.

To further communicate the Study Group's work to the field on an ongoing basis and to solicit additional public participation, a mailing list of more than 400 interested persons and organizations was developed. "Dear Colleague" letters from the Staff Director transmitted information on issues under consideration, summary minutes of each meeting, tentative recommendations as they were developed, and other relevant documents. In addition, comments and reactions were invited and many received. On an occasional basis, tentative recommendations were published in the Federal Register to solicit public comment and, throughout the period of the study, Study Group members and staff met individually with interested parties.

At various times, individual members were designated to prepare reports and papers on specific topics for the consideration of the entire Study Group. Background papers also were prepared by the Staff.

Early in its work, the Study Group identified the major areas with which it would be concerned and agreed upon an approach to meet the Group's objectives within the time constraints set by the Charter. The study focused on three broad areas:

1. Eligibility/Certification: who is eligible to participate in the programs -- institutions, lenders, and students;

2. Service Delivery: how assistance is provided;

3. Program Management and Integrity: how well the programs are managed and how well the interests of institutions, and lenders are safeguarded.

Each of these topics is the subject of a chapter of this report.

AN OVERVIEW OF STUDENT FINANCIAL ASSISTANCE

Background Of Student Financial Assistance

Some limited sources of financial aid had been established from almost the beginning of higher education in the United States. Privately financed scholarships had been available since the founding of the Nation's oldest institutions of higher education, and some States established publicly-financed scholarship programs as early as the 1800's. In early years, the bulk of these funds were available to only the most academically outstanding students and the great majority had to depend entirely on family financial resources. Access to higher education was limited. Students enrolled in institutions of higher education were primarily those who were "able" academically or who came from families "able" to meet the costs of a college or university education. However, compared to today's standards, the amount of financial aid available to students in higher education prior to World War II was insignificant.

Institutional Aid Programs

Institutions of higher education created student aid programs almost simultaneously with their founding. Although there has been no aggregate historical record of institutional expenditures for such programs, most institutions have always had as one of their goals the attraction of a limited number of students from among the "common people." The Charter of the College of William and Mary, founded in 1639, recognized the need for institutional subsidies for students who could not pay their way. By 1797, the Phi Beta Kappa Chapter of Harvard had established a gift fund for their less affluent members.

Like scholarships and other forms of direct aid, student employment developed very early as an indirect method of subsidizing students. During the 1830's there emerged a work-study and cooperative education movement resembling that of today. A few institutions such as Berea College were established on the principle that students' work experience was an integral part of their education as well as a means of reducing educational costs. Some institutions, like Emory University, established "self-help dormitories," and by 1900, Yale had developed a Bureau of Self-Help. Most institutions arranged part-time, unskilled positions in areas such as libraries and food service which could be filled by financially needy students.

State Aid Programs

The concept of financial aid to students from State sources arose late even though States had long assisted higher education institutions through loans, direct appropriations, and grants of land. Perhaps the

first state scholarship program was proposed for Virginia by Thomas Jefferson in 1800. Need and academic ability were the controlling factors in the distribution of the limited amount of State aid and, in fact, until the Civil War, most State gift-aid awards were called "charity funds", illustrating the almost total emphasis placed upon need. Before the 20th century, few States had established even limited student financial aid programs except for some fee waivers for Civil War veterans. By 1909, Connecticut had established the first State scholarship program and the New York Regents Scholarship Program was developed in 1913. Wisconsin established what was probably the first State higher education loan program in 1933.

Within the past few decades, however, the States have developed a number of categorical aid programs. These programs base awards of aid upon the student's academic status, intended career field, or family relationship rather than upon any demonstration of financial need. Included in these programs are financial aid to students in medical, teaching and engineering fields; widows or children of veterans; and disabled or children of disabled individuals.

States still continue to establish additional categorical programs from time to time. Since the mid 1950's, however, there has been a simultaneous major development in State financial aid for postsecondary education in the form of comprehensive State scholarship, grant, and loan programs at the undergraduate level based on financial need. At last count, 50 States and five territories had established such programs providing over $645 million in assistance to more than one million students each year. These now represent the largest proportion of State assistance to students in postsecondary education and have established the States as major sources of student aid. Nevertheless, there is wide variation among the States in their levels of aid and half of all State aid funds are provided by only five States: New York, Pennsylvania, Illinois, California, and New Jersey. Many of these programs operate to help equalize the student's expense of attending higher-cost institutions. Although the recently enacted State programs differ greatly among themselves in eligibility, requirements, administrative procedures, and types and amounts of aid provided, they share one important characteristic: they are based primarily upon financial need.

Federal Aid Programs

The Federal Government also is a latecomer in the awarding of financial aid to postsecondary students. Prior to the Civil War, the Federal Government had little involvement of any kind in postsecondary education. Its first major initiative was the Morrill Act of 1862 which established the system of land grant colleges. Throughout the remainder of the 19th century and most of the first half of the 20th century, the limited Federal role in postsecondary education focused mostly on assisting institutions rather than upon directly aiding students who attended them.

Notwithstanding the emphasis on institutional support, the Federal Government did institute a number of student aid programs during the long period between the Civil War and World War II. These were categorical programs of many different kinds, not based on need. Some of them had purposes of other than education although they provided indirect benefits to education. Funds were provided for such purposes as international student exchange, the development of ROTC units, vocational education, and vocational rehabilitation. A massive youth employment program, the National Youth Administration (NYA), was begun in 1933 as an anti-depression measure. The NYA provided financial aid to two million students even though the major purpose of the legislation was to offer public employment and thereby remove youth from the private labor market. A temporary Federal loan program was established during World War II to prepare scientists who would be directly involved in the war effort.

A landmark event in Federal student aid occurred with the passage of the Servicemen's Readjustment Act of 1944, more familiarly known as the G.I. Bill. This led to a dramatic and permanent change in the composition of the postsecondary student population. Veterans returning to civilian life took advantage of the educational opportunities offered by the G.I. Bill to enroll in college or other types of postsecondary education. For the first time, postsecondary institutions enrolled large numbers of older students, many of them married. The experience of the G.I. Bill clearly demonstrated that persons who had been raised in families with lower and middle incomes could succeed in college or university training and most colleges and universities lost whatever elitist character they still possessed. This phenomenon has sometimes been referred to as the "democratization of higher education." Although aid under the G.I. Bill was not conditional on financial need, it enabled large numbers of veterans to enter postsecondary education who could not otherwise have done so.

Partly as a result of the success of the G.I. Bill, the attitudes of American society toward postsecondary education began to change through the late 1940's and the 1950's. The desire for postsecondary education rose among middle and lower income families where previously it would have been considered unrealistic. New institutions and new types of institutions, such as community colleges, were established to serve the growing and changing student population. Total degree-credit enrollment in higher education rose from 2.1 million in the fall of 1946 to 3.6 million by the fall of 1960, and then to 7.9 million by the fall of 1970, and 9.7 million in 1975.[1] This rapid increase in enrollments came mostly from lower and middle income families as well as from other nontraditional students, and it placed a severe stress upon all of the existing sources of student aid, whether institutional, State or Federal.

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[1] U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, Digest of Education 1976 Edition, Table 83, p. 85.

In response to this growing need, new Federal aid programs were established during the late 1950's and the 1960's, evolving into the array of Federal programs now in existence. Student aid obligations of the Office of Education rose from approximately $41 million in Fiscal Year 1960 to $608 million in Fiscal Year 1970 to $1830 million in Fiscal Year 1975. This rate of growth was much more rapid than the growth in expenditures in postsecondary institutions. For example, while the OE student aid represented about 1/2 of 1% of the expenditures by institutions of higher education in 1960, this figure had increased to over 4% in 1975.

The first important piece of legislation during this period was the National Defense Education Act (NDEA) of 1958, passed largely in support of the United States "race to space" with the Soviet Union. One title of the NDEA called National Defense Student Loans, authorized loans to postsecondary students, with the hope that the Nation's scientific, technological, and educational progress would be emphasized. These loans were awarded to students after considering their academic abilities, their chosen course of study and, to a lesser degree, their financial situation. The program subsequently evolved into the present National Direct Student Loan program.

A second impetus to increasing student financial aid arose in the early 1960's, as the Nation became increasingly aware of the need to equalize educational opportunities for all members of our society. The Economic Opportunity Act of 1964, the legislative vehicle of the War on Poverty, authorized the College Work-Study (CW-S) program. The program, administered by the Office of Education under a delegation of authority from the new Office of Economic Opportunity, provided subsidized work opportunities for financially needy students.

The United States made a further major commitment toward ensuring both access and choice in higher education for students from all-income levels in 1965. The landmark Higher Education Act of 1965 established the basic pattern of Federal aid to higher education which still exists. Its comprehensive provisions authorized many new sources of Federal assistance both to institutions and to students. The primary intent of the Higher Education Act, most simply stated, was to provide an "equal educational opportunity" for all students.

The Act authorized two major new student aid programs. The Educational Opportunity Grant Program -- the first Federal program to base direct aid solely on the criterion of financial need -- provided non-repayable grants of up to $1,000 to students from low-income families.

In response to the need for assistance to students from middle-income families, the Act also established the Guaranteed Student Loan Program (GSLP) as a source of low-cost loans of convenience. The Guaranteed Student Loan Program provided Federal insurance of educational loans made by commercial lenders, and a federally-financed interest subsidy on

loans made to students from families with an adjusted family income of less than $15,000 annually. Loans were obtained under the GSLP by large numbers of middle-income students, and also by low-income students who, because of funding limitations, could not be served by the other aid programs designed for their needs.

The Higher Education Act also incorporated the College Work-Study program and assigned responsibility for it to the Office of Education. Finally, the National Defense Student Loan Program was slightly revised to place more emphasis on need than on academic performance and endeavor.

By 1965, therefore a set of four Federal student aid programs were in place, all based largely on financial need as the criterion for assistance. The programs embodied the three basic types of student aid (grants, loans, and work opportunities). Three of the four programs (National Defense Student Loans, Educational Opportunity Grants, and College Work-Study) were administered through colleges and universities. The fourth program, the Guaranteed Student Loan Program, rested on the participation of private lenders.

The next substantial revision of Federal student aid programs occurred in 1972. Congress recognized that the types and amounts of funding under existing programs were not sufficient to meet fully the goal of equal opportunity for postsecondary education. Therefore, the Education Amendments of 1972 (P.L. 92-318) amended the Higher Education Act to establish two new grant programs, the Basic Educational Opportunity Grant (BEOG) program and the State Student Incentive Grant (SSIG) program.

The BEOG program represented a new concept in Federal student aid, the concept of entitlement. According to the legislation, each undergraduate student was entitled to a maximum of $1,400 per year of Federal funds in a non-repayable grant. The actual amount of the grant depended on the student's family financial status and the costs of the institution to be attended. The program was intended to insure access by all students to at least the less expensive postsecondary education.

Only entering freshmen were eligible for the first year of the BEOG program, and the grants actually averaged only $271 the first year (1973) due to limited appropriations. An additional class became eligible in each succeeding year, and the amount of the average grant increased year by year to $618 in 1974 and $800 in 1975. In a departure from past student aid programs, the BEOG program was administered directly by the Federal Government.

The BEOG program has come to be regarded as the cornerstone of Federal student aid for financially needy students. Over the years since its enactment, the level of funding for the program has risen rapidly while the funding for other student aid programs has remained relatively

constant. As a result, the FY 1978 budget request of $2.3 billion for BEOG constitutes more than 70 percent of the total request for all Office of Education student aid programs.

With the establishment of the Basic Grant program in the 1972 Amendments, the existing Education Opportunity Grants program was somewhat altered to become the Supplemental Educational Opportunity Grant (SEOG) program. It now serves as a means to provide aid to students, who may or may not also have qualified for a Basic Grant, to attend the institution of their choice.

The other new aid program authorized by the 1972 Amendments, the State Student Incentive Grant (SSIG) program, provided a financial incentive for States to establish their own scholarship or grant programs.

The SSIG program provides funds to participating States on a matching basis (up to a limit established by formula) to establish or continue State programs to award aid to students on a basis of need. The determination of need under SSIG may include consideration of student expenses at higher-cost institutions. Presently the total of State funds in these programs outweighs the Federal contribution under SSIG by a ratio of about 15 to 1.

The most recent omnibus education legislation, the Education Amendments of 1976 (P.L. 94-482), continued the six existing programs. The SEOG program was extended without significant change; CW-S was not changed significantly, but its authorization was substantially increased; administrative requirements for the NDSL were tightened to control abuse and student default; some technical modifications were made in SSIG; and the major change in the BEOG was to increase the maximum entitlement to $1,800 beginning with the 1978-79 school year. The most extensive changes were made in the GSL program which was thoroughly amended to increase borrowing limits for both graduate and undergraduate students, to establish new controls over lenders and borrowers to reduce defaults, and to tighten Federal administration. The new GSL legislation encourages States which do not now have guarantee agencies to establish them. The six programs were reauthorized for periods through fiscal year 1979 for NDSL, SEOG, BEOG, and SSIG, through fiscal year 1981 for GSL, and through FY 1982 for CW-S.

One additional special-purpose program patterned after GSLP was added to the set of need-based Federal student aid programs in 1976. Section 401(a) of P.L. 94-484 provided federally-insured loans to students engaged in study in the health professions, including osteopathy, podiatry, public health, dentistry, veterinary medicine, optometry, and pharmacy. Responsibility for this program was assigned to the Office of Education in March 1977 in the HEW reorganization which created the Bureau of Student Financial Assistance. Loans up to $10,000 a year -- for a

combined total of $50,000 -- will be insurable for all but pharmacy students who will be limited to $7,500 a year for a combined total of $37,500. The funds may be used only for education expenses. Unlike the GSLP, there are no interest subsidies in this program. Therefore, from the time the loan is made, students will pay interest compounded semi-annually at a rate not to exceed 10 percent of the unpaid balance of the loan. Cancellation of both principal and interest to a maximum of $10,000 a year is allowable for borrowers who serve in the National Health Service Corps and for those who practice their professions in an area where there is a shortage of health manpower. The law provides stiff penalties for failure to comply with a cancellation agreement.

The programs which have been discussed represent the most important developments in Federal student financial aid for postsecondary education since 1958. (Appendix E contains a description of these programs). In addition to these major programs, other smaller special-purpose aid programs have been authorized. These special-purpose programs usually award aid on the basis of personal status or occupational goals, without reference to need. There are programs which provide aid for the education of veterans and their families; to students in health and criminal justice programs; to the dependents of retired, disabled, and deceased workers under Social Security and other Federal retirement systems; and to persons physically handicapped.

The Status of Student Aid

Approximately $2.9 billion in student grants (including CW-S) and loans will be made in 1978 under the six need-based Office of Education (OE) programs. At least one-third of these funds will be going to students receiving aid under more than one program.[2] However, as siginficant as they are, these programs must be kept in proper perspective among the total spectrum of sources of aid for postsecondary education. The total estimated expenditures for institutions of higher education for 1976-77 is $49 billion dollars.[3] In fiscal year 1977, about $7.9 billion

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[2] U.S. Executive Office of the President, Office of Management and Budget, Special Analyses: Budget of the United States Government, Fiscal Year 1978 (Washington, D.C.: Government Printing Office, 1977), p. 182.,

[3] U.S. Department of Health, Education, and Welfare, NCES, Projections of Education Statistics to 1985-86 p. 71.

has been provided in Federal student assistance, another $4.8 billion in Federal institutional aid and $1.7 billion in Federal tax expenditures (i.e., tax exemptions). Therefore, the six OE student assistance programs represent only about one-third of all of the Federal student aid available. Nevertheless, if these programs had not been available, many academically qualified students would have been unable to meet the costs of any postsecondary education or would have had to choose from a much more limited set of options. Table I and Figure 1 on pages 15 and 16 show the extent that these programs have focused on low and moderate income students.

The other sources of Federal aid are not need-based. Half of the total Federal student aid comes from the Veterans Administration. The relative importance of ~~aid~~ from the Veterans Administration can be expected to decline in the future as former military personnel exhaust their eligibility and because veterans' educational benefits have been sharply reduced for persons who are entering military service. The student aid provided by the Social Security Administration system, like that provided by the Veterans Administration, depends upon the individual's personal status as an orphan or dependent of a past or present Social Security recipient, and not upon demonstrated need.

Two other providers of aid are institutions and the States. Most institutions accept an obligation to make available some sources of aid to financially needy students. However, much of it is awarded on the basis of academic attainment or personal status, in accordance with the conditions specified by donors of the funds, rather than on the basis of need. Institutions will continue to be important sources of aid, but their role probably will decline in the future relative to Federal and State sources.

States are clearly more important sources of need-based aid now than was the case only a few years ago. All States now have some sort of aid program which meets the minimal requirements for Federal matching under the SSIG program, in addition to a large assortment of State programs based on criteria other than need. While State governments have recognized their obligation to assist needy students to enter and remain in postsecondary education, they will find themselves hard-pressed in coming years to maintain or increase their level of student aid in the face of competing demands for State funds. Although the overall trend of State aid is upward, some States have found it necessary to reduce their aid in recent years.

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[4] U.S. Congress, Congressional Budget Office, Postsecondary Education: The Current Federal Role and Alternate Approaches (Washington, D.C.: Government Printing Office, February, 1977), p. xx.

DISTRIBUTION OF FISCAL YEAR 1977 OUTLAYS*
FOR STUDENT ASSISTANCE FUNDS BY INCOME, IN MILLIONS OF DOLLARS

Income Range of Families of Dependent Students	Outlays: Major Student** Assistance Programs	
	Dollars	Percent
$0- 7,500	895	35
7,500-10,000	370	14
10,000-15,000	440	17
15,000-20,000	198	8
20,000 and up	72	3
All Self-Supporting Students	595	23
Total	$ 2,570	100%

*Estimated
**Included are Basic Grants, Supplemental Grants, Direct Loans, College Work-Study and Guaranteed Loans (subsidy interest and special allowance)
Source Congressional Budget Office Estimates

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PERCENTAGE OF FUNDS AND RECIPIENTS IN MAJOR STUDENT ASSISTANCE PROGRAMS BY INCOME CLASS, FISCAL YEAR 1977 OUTLAYS

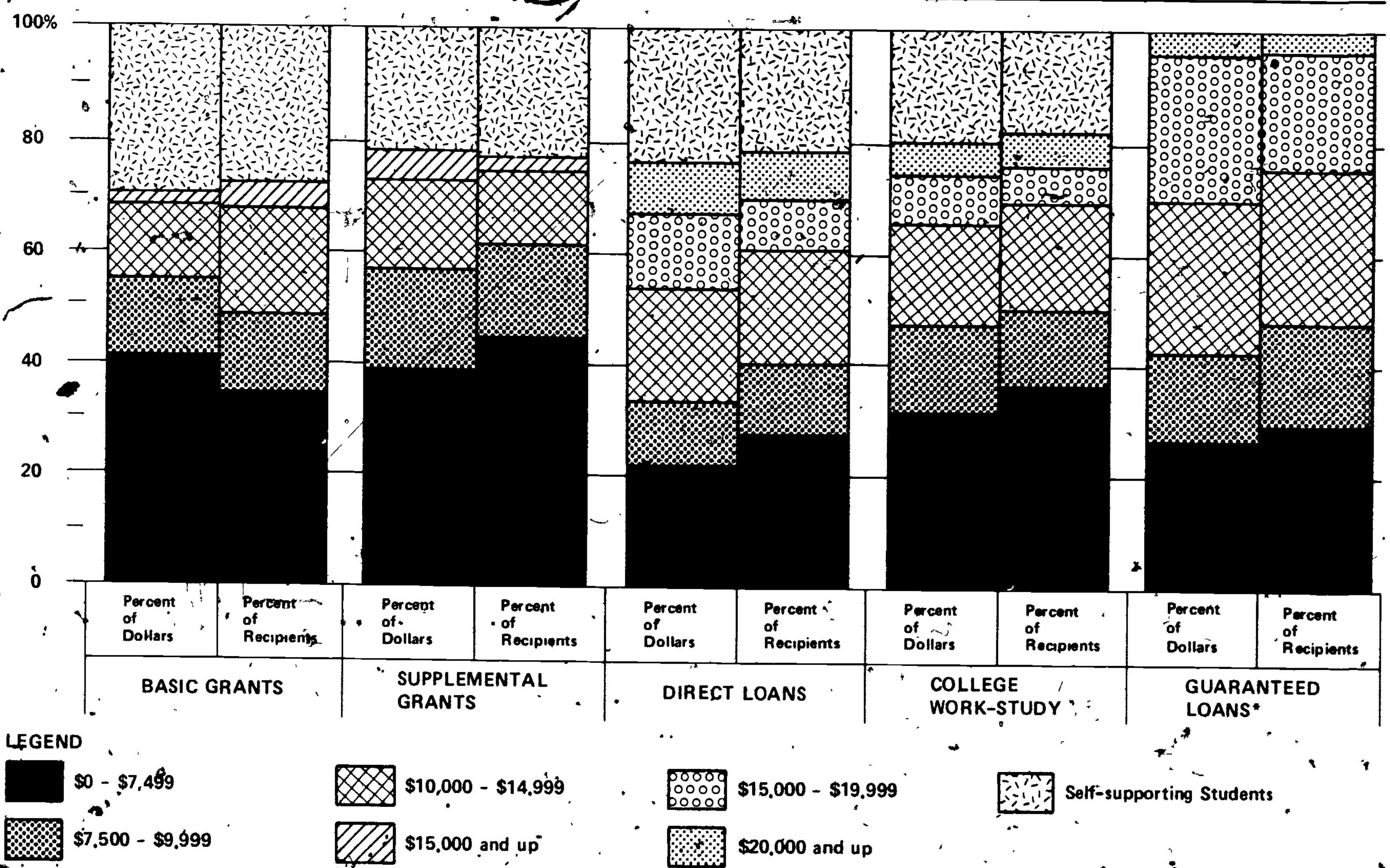

Figure 1

*GSL distribution (subsidy interest and special allowance only) includes self-supporting students

Source, Congressional Budget Office estimates based on Basic Grants applicant data, fiscal operations reports, and unpublished OGSL data

Two important general conclusions can be drawn from the history of student financial aid programs: First, although the most recent trend emphasizes financial need as the basis for awards -- a trend which will probably continue for the foreseeable future as the cost of education rises -- most of the aid, e.g., VA and SSA aid, continues to be awarded on other criteria. Second, there is no single, operational approach to the awarding of aid. Assistance may be received by the student through many different channels -- through the educational institution, directly from the State, directly from the Federal Government, or as a loan or grant from a private source. The various Federal programs reflect all of these different approaches to the delivery of aid.

It would be contradictory to our tradition of diversity in postsecondary education if the Federal Government were to enforce standardization of philosophy or procedures upon all of the providers of aid. Nevertheless, as a major source of student aid, the Federal Government has an obligation to examine its own aid programs to be sure that they are properly coordinated with each other and with other sources of aid, and that their administration does not present unnecessary problems to other parties in the financial aid process. Furthermore, in evaluating the extent to which the programs are coordinated, it is essential that the Federal Government analyze the impact of the programs separately and in conjunction with each other on students or on educational institutions to determine the extent to which national policy objectives are being met.

Sources of Current Problems and Concerns

Despite the relative success of student financial programs in meeting many of their basic aims, they are experiencing problems which have warranted the attention of Congress and program administrators. The following chapters specifically discuss and make recommendations regarding problems. A brief outline of the sources of the problems will be presented here in three general categories: the rapid growth and change in the programs, their inherent complexity, and the opportunities they present for fraud and abuse.

Growth and Change

Each of the programs has experienced rapid growth since its establishment. For BEOG, the growth has been explosive: in only five years, it has become the largest program administered by the Office of Education.

More than three and one half million BEOG applications must be processed each year. The loan volume of the GSL and NDSL programs would rank them among the largest consumer loan systems in the country.

The number of entities involved in the six programs has increased significantly each year, as has the number of students being served.

This rapid program growth has placed great stress upon the Federal Government, State agencies, lending institutions, and education institutions as staffing levels lag behind the actual volume of work to be performed. For example, the Basic Grant program has position authorizations for a Central Office staff of 70 persons in FY 1976 and 107 persons in FY 1977; it is concerned with over 3.5 million applicants and 1.5 billion dollars. Each year, thousands of new persons assume important responsibilities in the administration of the program, and there have never been sufficient resources to provide adequate training and technical assistance of the scale needed.

Furthermore, the programs are not static. They must be periodically reauthorized by Congress, and usually they are modified in the review process prior to reauthorization. The changes made in the GSL program, particularly, have been substantial as Congress has attempted to respond to emerging problems in the program.

Once legislation has been passed, the details of administration are spelled out in the Federal Register in order to identify issues that must be resolved in regulations and on which the Department seeks guidance from the public. Following a period of public response, and the analysis of comments, proposed regulations are published in the Federal Register. Following still another period for public comment and an analysis of the comments, final regulations are published in the Federal Register. The process may also include public hearings.

While intended to provide for maximum public participation in HEW rulemaking, this process is very time-consuming. Including the time required to secure Department reviews and clearances, two years or more have often elapsed before final regulations appeared. During this period, those who receive funds are subject to the law despite the absence of implementing regulations.

In programs like the student assistance programs which are subject to frequent Congressional changes, revised legislation may be passed even before final regulations for the previous legislation have appeared. For example, proposed rules for the GSL program published in the Federal Register on November 5, 1976, did not reflect the sweeping changes made in the program by the Education Amendments of 1976, signed into

law on October 12, 1976. In addition to changes in regulations required by legislative amendments, the Department may initiate changes in regulations because of some experience in implementing the program.

A similar problem has often existed in the publication of handbooks and manuals to be used by school officials, lenders, and State and Federal employees in day-to-day program administration. Because they must be based upon the law and final regulations and must be initiated or prepared by overburdened Federal staffs, they have seldom been available on a timely basis. Manuals have not been revised since 1967 for NDSL, 1971 for CW-S, and there has never been a manual for the SEOG since its inception in 1972. Only the BEOG program has succeeded in producing annual revisions of its program handbook.

Program Complexity

A second source of problems is the basic complexity of the programs. Complex administrative requirements typically are stated in the fine detail in the law. Consequently, detailed regulations are required. The trend is for the programs to become still more complex as Congress modifies them to extend their benefits and correct administrative problems.

Each of the programs has an administrative process involving at least three parties: the student, the school, and the Federal Government. In a loan program, a private lender and/or a State agency may also be involved. Accountability for Federal funds must be maintained requiring a large amount of information from all of these parties. Complex procedures are involved in transferring this information from one party to another and, in order to establish the student's continued eligibility and the amount of assistance he or she may receive, this information must be kept current.

Furthermore, because the programs were enacted at different times in response to different conditions they contain some inconsistencies which increase the possibilities for confusion and error. There are inconsistencies in legislative purpose, allocation processes, eligibility requirements for students and schools, and administrative requirements. Further, there is a fundamental conflict in legislation which requires both that funds be made readily available to students and that the programs be managed prudently to minimize losses.

Sadly, experience shows that the programs are quite vulnerable to fraud and abuse. The flow of funds is dependent upon a base of information which is verified only after the fact or which may not be verifiable except at prohibitive cost. Resources have not been available to monitor the performance of Federal fund recipients on any regular basis.

While most have acted in good faith, and most problems can be attributed to ignorance or honest mistakes, the complexity of the programs and the looseness of their administration have been an open invitation to a few who would deliberately abuse them. Abuse can take many forms. Students for example, may receive grants without intending to use them for the given educational purposes or may take out loans intending to evade their repayment obligations. Unscrupulous schools may use federally insured loans to attract students and then fail to deliver the education for which students have indebted themselves. Beyond these forms of misuse, there are well documented instances of outright criminal fraud in the submission of false information, diversion of Federal funds, bribery, and kickbacks.

It would not be possible to eliminate completely the possibility of fraud and abuse without imposing onerous and expensive controls upon the parties involved. Such controls probably would make the programs unappealing to the students whom they are intended to benefit, as well as to the educational institutions and lenders who are involved in their administration. While rigid controls probably would be counter-productive, responsible management still requires that reasonable corrective actions be taken by the Federal Government to minimize opportunities for fraud and abuse.

HIGHLIGHTS OF MAJOR RECOMMENDATIONS

The Study Group's recommendations address a wide range of problems and concerns at different levels in the providing of Federal financial assistance to students seeking postsecondary education.

These recommendations call for changes in all financial assistance programs administered by the Office of Education. In some cases they are very broad, and in others they are specific and technical. Because of this variation in the recommendations, responsibility for approving an action required to implement change also varies. Changes will be required in legislation, regulations, and administrative procedures. Thus, in order for the changes to be implemented, action will be needed by Congress, the Secretary of HEW, the Commissioner of Education, and the Deputy Commissioner for Student Financial Assistance.

For these changes to be fully effective, the cooperation and coordination of those parties who play major and important roles in delivering Federal financial assistance to students is necessary. Those parties include Federal agencies, States, educational institutions, the banking community, and private agencies.

In drawing up its recommendations, the Study Group found several overriding problems as it addressed specific issues and concerns. Many of these problems have been identified in reports, studies, and audits during the past several years and were restated by individuals testifying at public hearings across the country. In general these problems and concerns are as follows:

1. The Federal Government has no overall philosophy of financial assistance to students on which to build a comprehensive and logical program of support.

2. Legislation has provided a patchwork of assistance to meet particular problems and concerns. This has led to different definitions for like situations and has added to the complexities that are faced today.

3. The major goal at the Federal level had been to "get the money out" as soon as possible. Little thought was given to good organizational management or control. To a large extent the goal has been accomplished, but this has left in its wake serious problems of mismanagement, abuse, and fraud. Now that the problems exist, regulations are being put in place to add controls. More regulation augments the concern of institutions that they are being overregulated and overburdened in administering student aid programs.

4. The organization for administering these programs in the Office of Education has followed the patchwork pattern of the legislation and thus added to the problems. Each program staff acted as a separate entity, with almost complete autonomy in operation. This led to administrative and technical differences in handling each program and confusion in the field.

5. Institutions of postsecondary education and the financial aid administrators of these institutions have major responsibilities for the operation of these programs. However, the level of commitment and competency to fulfill these responsibilities varies considerably. Many institutions dedicate considerable resources and operate exemplary programs with a high level of professionalism and integrity. On the other hand, a few institutions have had less than an honorable intent and in some cases even a criminal intent.

6. The tremendous growth in the numbers to be served by these programs and in the dollars available for them the past five years has far exceeded the resources available to administer them.

7. The need for information is a major concern of students and parents. Information on availability of assistance is required very early in planning for postsecondary education. The application process should be consolidated and simplified. Students and parents need to be fully informed of their rights and responsibilities once assistance is available.

8. The present State allocation formulas and institutional applications for campus-based programs need a major overhaul to provide equity and integrity in these programs.

The Study Group feels the highlights of its recommendations, which follow, summarize major steps needed to improve the organization and management of student financial assistance. These steps will help considerably in solving the problems and concerns outlined above. Each can be found in one or more of the recommendations in the Study Group's report to the Secretary of HEW.

<u>Organization Structure</u>

The Study Group recommends that all HEW student financial assistance programs be administered by a single Bureau of Student Financial Assistance in the Office of Education. To the extent possible, the Bureau should be organized along functional lines, instead of along

individual program lines, to enhance coordination and integration of student financial aid programs. Recognition should be given to the heavy management and fiscal responsibilities of this operation when assigning staff members to this Bureau. A Division of Certification and Compliance should be established to strengthen the eligibility process and emphasize the prevention of fraud and abuse.

Allocation of Funds for Campus-Based Programs

The Study Group recommends major changes in the State allocation formulas. Under present legislation these formulas vary among each of the three campus-based programs (National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grant) and have no direct relationship to the distribution of funds to institutions and students. These formulas should be based on the population to be served. Furthermore, the current method of assigning the discretionary portion of the ten percent campus-based funds has led to considerable inequity and grantsmanship and should be completely restructured.

Institutional Application Process for Campus-Based Programs

The Study Group recommends the establishment of a new process for the filing of applications for Campus-Based program funds. In testimony heard around the country the current institutional application process has been identified as a major problem because it fails to provide an equitable distribution of funds and encourages grantsmanship for those who "know" the system.

A new institutional funding system should include a simplification and consolidation of the data collection system eliminating all but required, used and unduplicated data. It should be fully operational to cover awards made for the 1979-80 fiscal year. In addition steps should be taken immediately by the fall of 1977, to effect any possible changes for fiscal year 1978-79 which can be directed toward a permanent solution. The Study Group recommends the immediate appointment of a working group to accomplish these objectives.

Student and Parent Financial Data Requirements

The Study Group recommends that students and parents be required to submit financial data only once each year in applying for Federal student financial aid programs. It recommends that a common financial data collection system be established for use in the 1978-79 award year. The

system the Group proposes would permit selected facts from the data collected by private needs analysis systems and State scholarship and grant agencies to be transmitted to the BEOG processor. The BEOG processor would inform the student directly as to his or her BEOG eligibility without an additional application. To further enhance data quality, the required family financial data required would be year-end data which could be verified. The proposed system will be a major step toward the goal of a common student financial aid application form.

Validation of Information with Income Tax Records

The Study Group recommends that the Office of Education require States and institutions to verify financial data submitted by parents and students in applying for financial aid. Comparisons should be made if data is received from various sources, including final verification with income tax records. This will help reduce fraud and abuse.

The Eligibility Process

Even though eligibility and approval for participation in the Federal student aid programs have been viewed as though they were identical items, the Study Group has conceived of them as two parts of a single process. The first part, the determination of basic eligibility, is the shared responsibility of the Federal Government, the States and the private accrediting agencies; the second part, approval for individual program participation, is essentially a Federal responsibility.

The Study Group recommends that the determination of basic eligibility remain the responsibility of the Division of Eligibility and Agency Evaluation and suggests that much of the process involved in arriving at its determination remain unchanged.

In reference to the second part of the process the Study Group has recommended substantial changes. After being certified as eligible, educational institutions would apply to participate in particular Federal programs. Changes in the approval process for an educational institution's participation in the student financial aid programs would include 1) the development of a single application for use by institutions in applying for participation in one or more of the seven principal student aid programs, 2) the submission of application forms to and handling of all forms by a single Federal office and 3) the addition of a comprehensive evaluation of the institution's resources, integrity, financial aid program management and consumer protection practices as they apply to the administration of federal student aid programs.

Student Information Network

The Study Group recommends that the Secretary of HEW establish a clearinghouse for all major student assistance information. The major duties for this clearinghouse would include collecting, developing, and disseminating information, coordinating existing information programs, and conducting outreach efforts. One activity would be to improve coordination of Federal, State, and institutional financial aid programs with manpower planning, career education, and social and community service, including Talent Search, Upward Bound, and Special Services.

The Study Group also recommends that HEW extend the scope of its dissemination activities to fill needs beyond those covered by proposed program regulations. Specifically, 1) the scope should be broadened to include all governmental student financial aid programs, 2) an effort should be made to intensify the cooperation of the mass media, education and student associations, and industry in reaching students, and 3) the information disseminated should be tailored to those prospective students who would not ordinarily make inquiries of a postsecondary institution; to those of differing academic levels and with non-traditional interests; and to those in a position to influence a student's decisions, e.g., counselors, referral services, and parents.

Computer Utilization

Although the Study Group was not able to examine in detail the computer utilization, its study did lead to deep concern regarding the continued propriety, as public policy, of long term contracting for major computer systems; the potential for favoritism and abuse that exists in selecting vendors and awarding contracts; the consequence of a systems failure upon the continued viability of the GSL and BEOG programs; and, finally, the almost total lack of coordination between the GSL, SSIG, BEOG, and campus-based programs in their respective computer system design and operations.

As a result the Study Group has recommended that HEW undertake a full scale review of all student financial assistance computer operations and exercise stringent control over the procurement of computer services. Specifically, HEW should 1) reassess the continued propriety and public policy implications of long term contracting including its practical constraint upon meaningful competition, 2) investigate the potential for integrating part or all of the now separate GSL, SSIG, BEOG, and campus-based systems, 3) impose stringent prior approval conditions on contract modifications, 4) further tighten the current restrictions on sole source procurements, 5) strengthen technical review panels by requiring

that such panels include a sufficient number of reviewers independent of the contracting program office to assure an objective appraisal of bidders, and 6) establish a functional Management Systems Division to monitor and coordinate SFA computer operations.

Coordination with Other Federal Student Financial Aid Programs

The Study Group recommends that HEW tighten the coordination between student financial aid programs and other Federal and public support programs to assure against duplication of funds in meeting a student's educational expenses and assure that maintenance payments to students or their parents from other public aid sources are not reduced for students receiving student financial aid for direct education expenses.

Manuals and Handbooks

The Study Group recommends that the Office of Education immediately begin to develop, for use in 1979-80 at the latest, an integrated set of guidelines or manuals to govern all student financial aid programs. This should be done in consultation with a committee composed of a cross-section of institutional respresentatives and OE Central and Regional Office representatives. The guidelines should provide direction on the general and individual aspects of managing all student financial aid programs.

Financial Aid Transcript

The Study Group recommends that the Office of Education develop a standard financial aid transcript for institutions to use in monitoring students' financial aid to assure that cumulative award limits are not violated and to communicate other needed information.

Training

The Study Group recommends that the Office of Education stimulate and guide the development of comprehensive training for ~~all~~ those involved in the management of student financial aid programs. The training should take into account the varying functions of the individuals involved, i.e., administrators, financial aid counselors, business officers, and non-institutional aid personnel.

Clarifying Responsibilities of Institutions

The Study Group recommends precise definition of the responsibilities of educational institutions for the administration of student financial aid programs, especially BEOG, to end confusion about the institutions' responsibility for accuracy of data, the amount of validation required, the requirements to pursue repayments of over-awards, etc. The Group recommends that a clear statement of institutional responsibility become a part of the regulations.

National Assessment of Student Financial Aid Programs

The Study Group recommends that a major study of the student financial aid programs be undertaken to determine the following:

1. Whether they are fulfilling their intended purpose,

2. Actual and perceived barriers to the equitable distribution of aid,

3. The ramifications of expected changes in the size of the eligible population and of likely changes in social security and other benefits,

4. The extent to which the student financial aid programs are shifting conventional State and institutional funding responsibilities to the Federal Government,

5. Whether the financial characteristics of GSL borrowers have altered with the establishment of new upper limits of family income and, if they have altered, the effect on the available of loans for lower-income families and on the need for additional grants and work-study funds,

6. The fiscal and social implications of the growing number of "independent" students and part-time student qualifying for financial aid,

7. The needs and problems of the non-traditional urban commuter student, who is typically independent, older, and a member of a minority group,

8. The general attitude of students, parents, schools, lenders, and the taxpaying public toward the various types of financial aid programs and the availability of aid funds to students,

9. The reasons that some students who apply for and are eligible to receive BEOG's fail to attend a postsecondary institution, and

10. The examination of alternatives to the present programs and the effects of these alternatives on institutions and students.

The Study Group believes that studies such as those outlined above are needed because student financial aid has grown to become one of the dominant factors affecting higher education today. Total aid to students from all Federal programs is now estimated at more than $7.9 billion a year.

Moreover, as the volume of student aid has increased, a substantial administrative structure has been created at every level. The Study Group believes it is time to rethink the extent to which, and how, financial aid should be provided and to rethink the respective responsibilities of the Federal Government, State governments, educational institutions, and students and their parents for sharing the costs of education and training. Furthermore, increasing efforts must be directed toward analyzing the impact of the student aid on institutional decision-making.

CHAPTER I

ELIGIBILITY AND PROGRAM CERTIFICATION: FINDINGS AND RECOMMENDATIONS

A. Introduction

One of the three major areas of study undertaken by the Study Group was that of determining the eligibility of students, educational institutions, and lenders and the subsequent certification of educational institutions and lenders to participate in the various Federal student aid programs. The study included a review of the processes of determining basic eligibility, certifying eligibility for program participation once basic eligibility is determined, maintenance of eligibility, and improved alternatives to existing systems of eligibility determination.

An eligibility determination, and the following certification determination, assume that the approved party can be depended upon to act properly for some period into the future. If these determinations are valid, the acts of the approved party need to be monitored only periodically.

In its consideration of issues pertaining to institutional eligibility and certification, the Study Group has been careful to maintain sharp distinctions among accreditation, institutional eligibility, and institutional certification for participation in Federal programs.

Accreditation, historically, has been the responsibility of non-governmental accreditation groups. The primary focus of the accreditation progress is the determination of educational quality. Educational quality is a necessary condition for institutional participation in Federal aid programs. Thus, students who use Federal financial assistance or incur loan obligations to attend an institution should expect at least minimal standards of quality in the institution's educational programs.

Even though the accreditation criteria include a consideration of institutional integrity, accreditation alone is not a sufficient guarantee of the competence and willingness of the institution to manage Federal aid funds in accordance with the law. To protect its own legitimate interests, the Federal Government is justified in establishing certification requirements to ensure the sound and efficient administration of Federal programs. However, these requirements which are designed to ensure good program management differ in character from those requirements necessary to determine educational quality.

The Study Group has made eligibility/certification recommendations related to institutions, to students, and to lenders. The Study Group also considered the role of State approval agencies in the Federal student financial aid programs.

States are eligible for participation in the GSL and SSIG programs if they agree to meet requirements set forth in the law and specified in Office of Education regulations. Many State agencies are or will be important participants in these programs. Since there is a definite number of potentially eligible States and, since the guidelines are stated in a direct manner, State eligibility is readily determined. Eligibility is ensured if the State agrees to perform in a manner acceptable to the Office of Education.

States' involvement is most pervasive in the SSIG program, where States are designated as the responsible administrative organization. States have also become heavily involved in the GSL program by establishing guarantee agencies for student loans. The guarantee agencies vary in form in that they may be a loan guarantee agencies which operate in conjunction with a State scholarship agency, a division of a large State agency (e.g., a State Department of Higher Education) a quasi-governmental agency or a private or public non-profit corporation within a State. In one instance a private non-profit corporation, United Student Aid Fund, Inc., serves a number of States. States also have an option to act as lenders in the GSL program on the same basis as other types of direct lenders and to have their loans insured by the Federal Government.

Unfortunately, the lack of uniform lending policies among eligible State guarantors is a cause for some concern. Among States participating in the Guaranteed Student Loan Program there are differing residency criteria, loan limits, portability standards and levels of lender participation. In some areas Guaranteed Student Loans are not available through either a Federal or State or private non-profit agency. There are also obvious differences in the quality, program performance, and service between State administered and federally administered programs. The lack of consistent policy and participation results in a condition whereby students throughout the country are not assured of equal access to or flexibility in their use of Guaranteed Student Loan Funds. Obviously, encouragement of increased State participation, program coordination, and standardization to the degree possible are key solutions to the problems of unequal access.

The major responsibilities in the administration of Federal student aid programs focus on the educational institution which the student attends. The educational institutions directly administer the three campus-based programs (SEOG, NDSL, and CW-S) and the GSL program if they participate as direct lenders. They also have important roles in managing funds under the BEOG and GSL programs. Altogether, more than 8,000 postsecondary institutions of many different kinds, participate in one or more of the programs. The Study Group has carefully examined the eligibility/certification processes and the mechanisms available to OE to monitor institutional performance in their management of Federal financial aid dollars.

A determination of eligibility and certification under Federal aid programs carries with it the responsibility for proper use of Federal funds. Administrative responsibility for the large amount of Federal aid funds is dispersed among thousands of institutions; the authority to create obligations against the Federal Government is held by thousands of lenders; and the financial benefits of these programs accrue to millions of students who must fulfill legal requirements for participation. The process of eligibility and certification determination is, therefore, crucial to the integrity of the programs.

B. Institutional Eligibility/Certification

BACKGROUND AND ISSUES

The issues involved in institutional eligibility/certification can be grouped into several areas. First, there is a group of issues relating to the conditions for basic eligibility/certification for Federal programs. The general trend has been to broaden the population base of institutions that would be eligible. In fact, until very recently more emphasis has been placed on expanding the number of organizations eligible to participate in the financial aid programs than on providing safeguards to protect students against improper institutional practices. Consequently, in recent years, many institutions have taken on the responsibility for Federal funds for the first time. This has strained the management capability of some and placed on them a Federal compliance responsibility which is not adequately understood and which, therefore, cannot be adequately exercised. Until very recently, more emphasis has been placed on broadening eligibility for student financial aid programs by expanding the numbers of organizations eligible to participate than on providing safeguards to protect students against unproper institutional practices.

Several requirements must be met by an institution which participates in one or more Federal financial aid programs. The institution must meet both the minimum eligibility requirements stated in each program's authorizing legislation and the requirements of the general legislation applicable to all recipients of Office of Education funds.

The Higher Education Act of 1965 defines seven major elements of eligibility. The institution must be one which: 1) admits as regular students only high school graduates or which practices "open door" admissions; 2) is legally authorized by its State; 3) awards baccalaucreate or advanced degrees or two-year associate degrees or includes non-degree programs of at least six months duration leading to gainful employment; 4) is appropriately accredited; 5) has operated for at least two years; 6) is in compliance with the Civil Rights Act and the Family Educational Rights and Privacy Act; and 7) does not use Federal funds for religious or sectarian purposes.

Since the intended ultimate beneficiary of the programs is the student, if the institution fails to fulfill its responsibilities, it is the student who is harmed most. The best interests of the student and institution may not always coincide, and the Federal Government has a particular responsibility to ensure that student interests are upheld.

The second set of issues is related to the process for determining eligibility/certification. These issues directly inovlve the most sensitive questions of institutional autonomy and the limits of Federal authority. This explains why the roles of the various parties in the eligibility/certification process are subject to great confusion and considerable uncertainity. The Study Group has viewed eligibility and certification as two parts of a single process, and its recommendations reflect that view. The eligibility process is a responsibility shared by the Federal Government, the States, and private accrediting agencies. On the other hand, certification is essentially a Federal responsibility.

By both tradition and the will of Congress, the Federal Government does not have the authority to assess directly the quality of institutional program offerings.

Nevertheless, the Federal Government has a legitimate need for assurance as to the educational quality and probity of postsecondary institutions for the purpose of determining their eligibility to participate in Federal programs. Consequently, the Federal Government has relied upon States and, especially, on private accrediting associations to fulfill this need.

Ordinarily, no school or college may exist without a charter from the State in which it is located. In most States where it exists, licensing reflects only very minimal standards. Some States do a conscientious job of licensing. Other States do not have an effective basic law, while still others do not enforce existing laws. There is no common understanding of the purposes of State licensing, and State licensing alone is not an effective or reliable indicator or quality. It is entirely possible for an institution to lose its license to operate a branch in one State while continuing to operate in other States. Indeed, the other States may never learn that the license has been revoked.

The Office of Education's responsibilities for eligibility determination are now lodged in the Division of Eligibility and Agency Evaluation (DEAE) in the Bureau of Higher and Continuing Education. Basic institutional eligibility is determined primarily on the basis of accreditation by a recognized accrediting agency or by one of the approved alternative methods. Since accreditation is presently the most significant determining factor leading to a determination of basic eligibility, it is important to understand the procedures employed in the accreditation process. First, the accrediting agency establishes its standards for accreditation which include program quality. Secondly the applicant institution completes a self-study which is used to determine its comformity with the standards of the accrediting agency. Thirdly, a

review team of educators designated by the accrediting agency visits the institution to see if, in fact, accreditation standards are being met in practice. If the review team is satisfied, the final step is for the institution to be listed as officially accredited educational institution. It bears repeating here that accrediting agencies are most concerned with evaluating the overall quality of educational programs offered by an institution and are neither adequately trained nor do they desire to evaluate the capability of an applicant institution to properly administer Federal student financial aid programs.

Increasing Federal reliance on private accrediting agencies in the eligibility process presents some problems. The most serious problem is that accrediting agencies are private, independent, voluntary organization fundamentally responsible to their member institutions. They have no legal responsibility to State or Federal governments; they are funded entirely from their members' dues and application fees (they receive no public funds, either State or Federal); and their purposes do not necessarily coincide with Federal needs. Accrediting associations are not regulatory or enforcement bodies, and they are opposed to being called on to assume responsibilities of a regulatory nature. This has been a source of friction and some confusion as Congress has sought means to achieve greater institutional accountability for student financial aid funds.

To make the problem more complex, institutions which are not accredited may satisfy the accreditation requirement via other legal avenues. These include:

1. Certification by three accredited institutions that they have accepted transfer students or will accept credits from the nonaccredited institution on the same basis as transfer from accredited institutions (the "three letter" system);

2. Interim approval by the Commissioner's Advisory Committee on Accreditation and Institutional Eligibility for categories of schools which lack access to a nationally recognized accrediting agency;

3. Specific State agency approval;

    a. Schools of Nursing approved under the Nurse Training Act (8 States);

    b. Public postsecondary vocational schools approved under the "Mondale Amendment (12 States). Institutions approved by a State agency recognized by the Commissioner under the Mondale Amendments as "reliable authorities" are automatically eligible for participation in all Federal student financial assistance programs;

4. Commissioner's determination of "satisfactory assurance" of anticipated future accreditation by a recognized accrediting agency.

These alternatives to accreditation are even less adequate mechanisms for determining basic eligibility because none of them require on-site reviews.

When institutional eligibility status is confirmed, a letter is issued to the institution listing those Federal programs and titles to which the institution may apply for participation. The institution must then apply to and be approved for participation in each individual program.

Several problems arise from the present procedures for eligibility determination and certification for program participation. There is no clear delineation between basic eligibility and certification for participation in specific programs and the conditions which should apply to each. The process of granting certification is cumbersome, resulting in a significant paperwork burden for the institutions and the Office of Education and leading to the possibility of confusion regarding programs for which an institution is eligible. Given the ever-growing number of institutions seeking eligibility for student financial aid programs, DEAE's eligibility determination can be little more than pro forma.

A third set of issues relates to communications among the organizations with interests in accreditation and eligibility. The Study Group finds that there is a pervasive problem of poor communication among the parties in the triad -- private accreditation agencies, State licensing and approval agencies, and the Federal Government. The Office of Education, and particularly the DEAE, is in a strategic position to foster improved communications and cooperation. A fully developed communications network on institutional eligibility and certification would include institutional student financial aid administrators, concerned Federal agencies, and State guarantee agencies. All of the parties have a strong mutual interest in improving the quality of postsecondary education, and this should provide the basis for cooperative efforts which can be achieved without compromising the prior separation of responsibilities.

A fourth group of issues relates to the area of monitoring the performance of institutions which have been certified and determining their continued participation. As was mentioned earlier, the Office of Education does not now have a unified procedure for systematically reviewing institutional performance.

In making decisions regarding continued funding, OE can review fiscal operations reports, but it cannot verify the accuracy of the data submitted. Once an institution's program participation has been certified, it is presumed to be performing adequately and recertification is perfunctory until or unless some contrary information emerges either through routine on-site reviews or audits or through special reviews or audits triggered by a suspected problem. The Office of Education has been slow and inconsistent in its response to complaints about institutional program mismanagement submitted by program offices, State agencies, and consumers. Regulations authorizing the Office of Education to limit, suspend, or terminate the participation of institutions (referred to as L, S, and T) will provide a means for dealing with problem situations once they are identified.

While the most serious problems do eventually come to light, serious losses of Federal funds and harm to the educational aspirations of students may occur before a problem is recognized. Worse, less severe problems may go undetected year after year. Often the result of misinformation or a lack of understanding, such problems can best be addressed by improved communications, increased technical assistance, and simplified and consolidated procedures. Hopefully, the implementation of the following recommendations will aid in promoting more efficient and effective management of Federal student financial assistance programs.

RECOMMENDATIONS

Institutional Eligibility/Certification

I-B-1 Two-Step Institutional Eligibility Process

I-B-2 First-Step: Determination of Basic Eligibility

I-B-3 Second-Step: Determination of Certification

I-B-4 Alternative Procedures for Determining Basic Institutional Eligibility

I-B-5 Single Set of Requirements for Certification

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I-B-7 Strengthening State Participation

I-B-8 Information Network Exchange -- Basic Eligibility

I-B-9 Contracting Between Eligible and Non-Eligible Institutions

I-B-1 Two-Step Institutional Eligibility Process: 1) Basic Eligibility and 2) Certificate

Recommendation

The Study Group recommends a formal and complementary two-step process for the determination of institutional eligibility to participate in Federal programs.

The first step is called "Basic Eligibility" which has the determination of educational quality as its foundation. The Division of Eligibility and Agency Evaluation would be responsible for granting basic eligibility which would qualify an institution of postsecondary education to apply to participate in one or more of the student financial aid (SFA) programs.

The second step is called the "Certification" process. Institutions possessing Basic Eligibility status must meet certification requirements to become eligible to participate in specific Federal student aid programs. The Certification and Compliance process would be the responsibility of the Division of Certification and Compliance in the new Bureau of Student Financial Assistance (BSFA). (See III-B-1). In addition to a review of an institution's practices with respect to both general and program specific statutory requirements, the process would involve a thorough and comprehensive evaluation of the institution's resources, integrity and capabilities in the areas of financial stability, financial management, program management, and consumer protection practices as they apply directly to the institution's administration of the student financial aid programs. (See III-E-1).

Rationale

Experience has shown that institutional program participation based primarily on basic eligibility determinations such as the criterion of education quality have been inadequate to preclude fraud and abuse.

Precautionary procedures and more stringent certification requirements should be implemented before eligibility for program participation is granted and Federal monies are allocated to an institution and its students. Such procedures would protect the interests of the Federal Government, as well as those of student consumers, against potential fraud and abuse.

I-B-2 First Step: Determination of Basic Eligibility

Recommendation

The Study Group recommends continued reliance by the Division of Eligibility and Agency Evaluation on the partnership between Federal agencies, State agencies, and approved voluntary accrediting agencies in establishing basic eligibility for educational institutions to participate in Federal student financial aid (SFA) programs. The principal component of Basic Eligibility is educational quality.

State chartering and licensure, accreditation by a nationally recognized accrediting agency, approval by a recognized State agency, and/or recognition by the Commissioner are criteria to be considered by DEAE in the determination of an institution's basic eligibility.

Rationale

DEAE has developed and refined the standards that postsecondary educational institutions must meet in order to meet basic eligibility criteria. Institutional accreditation by an approved accrediting agency is one of the primary requisites for participation in the Federal SFA programs, and it is the responsibility of DEAE to grant approval of accrediting agencies who provide this important service. Various State agencies play a significant role in recognition of institutions to operate and offer postsecondary education. In some cases, this is in addition to the role of the voluntary accrediting agency, and in others, it is the primary and only source of legal authorization and right to operate.

Basic eligibility, as it is under the current system, would be the first step in becoming certified to receive Federal funds and is of primary importance because it is the only quality assurance of the product (educational programs) to be offered to the consumer (student). For quality assurance to be as effective as possible, there must be full cooperation and coordination between the parties concerned. The DEAE plays a key role in the process and provides a central point at the Federal level to serve various Federal programs which need this assurance before granting funds. In this sense, DEAE's role in granting basic eligibility would not be altered.

I-B-3 Second Step: Determination of Certification

Recommendation

The Study Group recommends the establishment of a Division of Certification and Compliance within the Bureau of Student Financial Assistance (BSFA) to be responsible for certification of institutions to participate in

Federal student assistance programs. (See III-B-1). One set of factors in certification determination should be related to the institution's ability to manage student financial aid programs and to assume fiscal responsibility and accountability for Federal funds.

The qualifying criteria must include evidence of basic eligibility, a plan for management and financial responsibilities, an ability to comply with the requirements of SFA programs, proof of competent staff to operate the programs, and procedures for proper program management and administration.

Educational institutions seeking certification for participation in one or more of the SFA programs shall submit one formal application for certification to participate in specific programs. The Division of Certification and Compliance of BSFA will process the application and may arrange an on-site review of the applicant institution to conform compliance with established criteria.

Certification shall be finalized by the issuance of a letter of certification and the receipt of a signed (notarized) participation agreement from the applicant institution. This process will take the place of the multiple "terms of agreement" currently issued by the several SFA programs. It is recommended that there be an annual review for the renewal of certification. A change in ownership will require an immediate and thorough review.

Certification may be denied or deferred. In such cases, the applicant institution will be informed of prescribed procedures for appeal of adverse decisions.

<u>Rationale</u>

Efforts must be made to insure that the institution has the capabilities to operate SFA programs and has been made aware of all rights and responsibilities. These actions would be a major step in the prevention of misuse, abuse and fraud. These actions will put emphasis on the front end of the process to minimize or eliminate the problems that have been encountered in the past.

The compliance area of the Division of Certification and Compliance will be responsible for the direction and coordination of on-site reviews of institutions to ensure their compliance with program policies and regulations and to assess their financial and management operations.

Coordinating the certification to participate in the programs with the compliance function will add strengthen to the process by giving more recognition to the management and administrative responsibilities inherent in these programs. It will also allow emphasis to be placed on the new enforcement procedures provided by the L, S, and T authority which, to a large extent, will be carried out as a result of compliance actions.

I-B-4 Alternative Procedures for Determining Basic Institutional Eligibility

Recommendation

The Study Group recognizes the need for altenative procedures to determine Basic Eligibility because, for various reasons, all institutions are not presently served by an approved accrediting agency. Nevertheless, the Study Group has serious reservations about some of these alternatives.

1. Three Letter Procedure

   The Study Group recommends that the current "Three Letter Procedure" (letters from three accredited institutions stating they will accept transfer students and credits from the institution seeking eligibility, prior to accreditation) be discontinued. Should the Commissioner deem this alternative to be necessary, then it is imperative that additional controls be added to the procedure to provide appropriate safeguards to insure integrity.

2. Commissioner's Approval

   The Study Group recommends continued operation of the procedure for interim approval by the Commissioner's Advisory Committee on Accreditation and Institutional Eligibility for those institutions which do not have access to a nationally recognized accrediting agency.

   Statutory authority for interim approval is presently provided only with respect to the Guaranteed Student Loan Program. The Study Group recommends that legislative changes be made as necessary to authorize the approval of eligibility to participate in other student aid programs for institutions that do not have access to accrediting agencies.

3. State Agency Approval of Public Postsecondary Vocational Schools and Nursing Schools

a. State Agency Approval of Public Postsecondary Vocational Schools. The Mondale Amendment (Section 438(b) of the Higher Education Act of 1965 as amended by Public Law 92-318), requires that the Commissioner publish a list of State accrediting agencies which have been determined to be reliable authorities regarding the quality of public postsecondary vocational education in their respective States for the purpose of determining eligibility for the Federal SFA programs administered by the Office of Education.

b. State Agency Approval of Nursing Institutions

The Study Group recognizes that under P.L. 88-581, Nurse Training Act of 1964 as amended, nursing schools (generally not affiliated with a college or university) may be declared eligible through State accrediting agency approval.

The Study Group recommends continued operation of the procedure by which the Commissioner recognizes State accrediting agencies that approve the quality of training offered in these select nursing schools.

4. Commissioner's "Satisfactory Assurance"

In the past, there has been a need for the Commissioner to provide the alternative, "satisfactory assurance" for institutions that did not fit under any other approved process for determining basic eligibility status.

~~The~~ Study Group recommends that this alternative procedure be used rarely and only when an unaccredited institution can not be accommodated through any other available procedure.

Rationale

All postsecondary educational institutions should have access to a procedure which will determine basic institutional eligibility. However, the processes by which alternative accreditation procedures are used as part of the determination of basic institutional eligibility require better definition to insure that all institutions are treated equitably.

I-B-5 Single Set of Requirements for Certification

Recommendation

The Study Group recommends that, to the extent possible, certification requirements be standardized.

Rationale

When institutions participate in multiple programs, simplification and improvement in the consistency of certification approval actions is a necessity. A single institution should be able to meet many of the certification criteria for each of the SFA programs by meeting a common set of requirements. Such action would further ensure that all institutions, regardless of the governance structure or type of academic program, would be treated uniformly.

I-B-6 Formal Recognition and Approval of State Accrediting, Licensing and Charter Agencies

Recommendation

The Study Group recommends that State accrediting, licensing and charter agencies be recognized and utilized by the Commissioner of Education as supportive resources in the same manner as private accrediting agencies. Identification of these State accrediting, licensing and charter agencies should be published and distributed nationally to all concerned.

Rationale

It is necessary to give recognition to the important role that State agencies can play in making the determination of basic eligibility. Various agencies have this responsibility at the State level; therefore, it is of vital importance that a communication linkage be established and maintained. An approved list of State agencies could serve as a foundation for such a communication network.

I-B-7 Strengthening State Participation

Recommendation

The Study Group recommends that the Office of Education strengthen the roles of the State accrediting, licensing and charter agencies in the process of granting basic eligibility where reliance on their approval is the basis for granting basic eligibility.

Rationale

In general, the State role in accreditation and licensure is limited to those areas where voluntary accrediting agencies are not available. However, it also enhances or acts in areas supprotive to the other parties in the process. Each partner in this process should play a defined role which is not duplicative of another.

It is to the benefit of all the partners -- Federal, State, and private -- to work together in a non-duplicative manner to serve the goal of providing quality postsecondary education. The Federal Government can assist in reaching this goal by recognizing and strengthening the State role where necessary.

I-B-8 Information Network Exchange -- Basic Eligibility

Recommendation

The Study Group recommends the establishment of a formal national information exchange network relating to basic eligibility issues which would be coordinated by the Division of Eligibility and Agency Evaluation. This network would include national accrediting associations which meet minimum standards established by DEAE for such associations; State accrediting, licensing, and charter agencies; the Federal Trade Commission; the Veterans Administration and State Veterans Administration Approving Agencies; and similar organizations.

Rationale

Clear lines of communication are essential in coordinating systems operations. The Division of Eligibility and Agency Evaluation should continue to rely heavily upon external sources for information regarding the quality of educational offerings at specific institutions. Accrediting agencies could perform the evaluation function. State licensing, accrediting and charter agencies, the Federal Trade Commission, the Veterans Administration and State Veterans Administration Approving Agencies, and similar organizations could be solicited for available information regarding applicant institutions. Decisions regarding basic eligibility then could be made from a compilation of information made available to DEAE from all of these sources.

In addition, as part of the determination of basic eligibility DEAE will plan, implement, and direct an information exchange network for the purpose of facilitating communication between these agencies and associations, both public and private. It is anticipated that the formation of such a communication network would facilitate better and more timely decision-making by all of the agencies and associations involved and thus help to prevent fraud and abuse.

I-B-9 Contracting Between Eligible and Non-Eligible Institutions

Recommendation

The Study Group recommends that the Commissioner promulgate specific regulations which would limit and control the educational services that are contracted between a non-eligible institution and an institution with Basic Eligibility.

Rationale

It is come to the Study Group's attention that, as a result of contractual arrangements between ineligible institutions and institutions with Basic Eligibility, some students are receiving Federal financial assistance to meet the costs of attending an ineligible institution. The Study Group believes that such arrangements are not in keeping with the intent of Congress and urges the Office of Education to take immediate steps to correct this dangerous loophole in its basic eligibility procedures.

C. Student Eligibility

BACKGROUND AND ISSUES

The determination of the eligibility of institutions to participate in Federal student financial assistance (SFA) programs is only an intermediate step to the delivery of the services of these programs to students. Each of the millions of students involved must meet a variety of requirements in order to receive aid from specific SFA programs.

Federal student financial aid programs have four basic criteria for student eligibility: citizenship, need, good standing, and enrollment. To be eligible for assistance, a student must be a national of the United States or be in the United States for other than temporary purposes and be planning to become a citizen. The student must need the amount of the aid he or she receives. The student must be considered to be maintaining good academic standing and must be enrolled at least halftime. Although the wording of these criteria varies slightly from one program to another, most of the concerns of student eligibility cluster under these categories. Even though these criteria appear straightforward, the Study Group has found that there are some significant problems in their practical application because of a lack of clarity in and a lack of consistency among the defintitions used by programs, and because of ambiguities in the use of key concepts.

The citizenship requirement presents fewer issues than the other three criteria. A determination of citizenship is easily made for natural-born or naturalized citizens. However, when students who are not United States citizens apply, there are some inconsistencies regarding the treatment of the various types of visas issued by the Immigration and Naturalization Service.

The criteria of student need presents several major concerns regarding both educational costs and student resources. The difference between the student expense budget and expected individual or family contribution determines the extent of the student's financial need. It is this need which must be met by grants or loans under institutional, State, or Federal aid programs.

There is no single accepted method for institutions to determine student expense budget. While there is a reasonable consensus among student financial aid administrators as to the basic components of educational cost, there is a lack of agreement as to how to treat all of the variables which enter into each component. Some budget components allowed for

by one program may not be allowed for by others. There may be differences between an institution's budgets used for State programs and those used for BEOG. It is possible for institutions to manipulate student expense budgets and award financial aid in order to recruit or retain particular students.

There are even more controversial issues regarding the determination of the expected financial contribution of the student and/or his or her parents. There are nine approved analysis systems or variations of systems which may be used in determining student financial need. Some of these systems produce markedly different results, a situation which is an obvious source of confusion for students and their families.

One particularly serious concern is the definition of the independent (self-supporting) student. For purposes of Federal, State and institutional student financial assistance, an independent (self-supporting) student is usually considered to be one who:

1. Has not and will not be claimed as an exemption for Federal income tax purposes by any person except his or her spouse for the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested;

2. Has not received and will not receive financial assistance of more than $600 from his or her parent(s) in the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested; and

3. Has not lived or will not live for more than two consecutive weeks in the home of a parent during the calendar year in which aid is received and the calendar year prior to the academic year for which aid is requested.

Most Federal student financial assistance programs are based on an assumption that most postsecondary students are dependent upon their parents for the majority of their financial support. However a large and growing percentage of postsecondary students is independent of parental support. The proportion of students receiving benefits under Federal student financial assistance programs who are independent of parental support now has reached 30% and continues to rise each year. There are many reasons for this shift away from the traditional pattern. The present postsecondary student population is on the average older than has been historically true. The mean age of postsecondary students has significantly increased as more students defer entry into postsecondary

education or choose to reenter education later in life. As the eligibility to participate in Federal student financial assistance programs has been extended to additional types of institutions, greater numbers of older students have become eligible for the programs. There also has been a general trend in American society for individuals to assert their ~~independence at earlier ages. The voting age has been reduced to 18, and~~ many States have recently reduced the legal age of majority.

The need analysis systems used in financial assistance also create incentives for students to assert their independence. The amount of financial assistance to which an independent student may be entitled, based only on his or her limited income and assets, is usually far greater than that of a dependent. It is difficult or impossible for the Federal Government to verify the accuracy of information provided by students to support their claim of independent status. The problem is that students from middle or upper class families who successfully claim independent status will almost certainly have financial need and will be in competition with students from poor families for limited student financial aid funds. It seems clear that the concept of the independent student needs to be reexamined.

Another area of emerging problems concerns the treatment of part-time students. The postsecondary student population includes increasing numbers of part-time students. Determining their need for assistance, and the amount of assistance to which they should be entitled, involves considerations which are significantly different from those for full-time students. The present laws and regulations attempt to deal with the situation of the part-time student, but fall short of clearly defining and addressing the special problems and needs of part-time students.

Another group of issues concerns the definition of good standing. The Congressional intent is that student financial assistance funds be used to assist the student's ongoing costs of education. This intent is violated when students enrolled in postsecondary institutions receive their grant or the proceeds of a loan, and then drop out and use the funds for other purposes. There have been instances where students have repeated this pattern term after term, thus converting the programs into a form of general income assistance rather than educational assistance. Another form of abuse occurs when students receive financial assistance based on full-time attendance, and then reduce the academic load to a part-time level without reporting the change.

Congress, concerned about these problems, included in law a provision requiring that students receiving aid under programs of Title IV of the Higher Education Act maintain satisfactory progress in the course of study pursued in keeping with the individual institution's standards. Institutions not having standards of satisfactory progress will be required to develop and adopt such standards. At the time of writing this report, no final regulations to implement this provision for the NDSL, CW-S, SEOG, and BEOG programs have been published.

Another set of issues is related to determining and verifying enrollment status. This may appear to be a simple procedure: a student is either enrolled or not enrolled. It is not so simple, however, when one considers such increasingly common situations as the work-study student working full-time away from campus, students enrolled in correspondence programs, or students in external degree programs. Continued enrollment is not easily determined without taking class attendance, a procedure many educational institutions fail to take.

Finally, the Study Group addressed the issues related to the way in which student financial assistance is packaged by the educational institution. Too often, assistance is made available to students on a piecemeal basis, rather than as part of a coordinated package which takes into consideration the student's total need. This problem is often complicated by a lack of coordination among the funding schedules for Federal programs, but institutions also bear a responsibility to develop and implement a clear policy and process for packaging student financial assistance from all sources.

The determination of student eligibility for various Federal student financial assistance programs rests with thousands of different individuals in State agencies, educational institutions, and lending institutions. These individuals need to have logical, clear, standards of student eligibility which they can apply. On the other hand, efforts should be made to ensure that a student can anticipate with reasonable certainty whether or not he or she will be eligible for financial assistance, the general amounts, the terms, and whether or not funds will continue to be available. Only then can a student make rational decisions within the wide range of postsecondary alternatives. The Federal program monitor or auditor likewise needs clear standards of student eligibility in order to determine that only eligible students are being served and that the benefits of the programs are being provided in accordance with the law. To the extent that definitions, criteria, and guidelines are unclear or ambiguous, there is a possibility for intentional or unitentional manipulation in their interpretation.

RECOMMENDATIONS

Student Eligibility

I-C-1 Common Definition

Recommendation

The Study Group recommends that statutes should be amended to make qualifying criteria for determining student eligibility consistent for all student financial assistance programs.

Rationale

The Study Group believes that many of the existing problems involving student financial assistance can be resolved if legislation and regulations contain a common fundation for qualifying who is eligible.

It is the Congressional intent that student financial assistance programs be compatible and complimentary. For this reason, eligibility criteria must not be contradictory.

I-C-2 Clarification of Terms

Recommendation

The Study Group recommends that statements such as "very needy", and "greatest need" which are current found in specific program legislation be eliminated and replaced with a single term "needy." If however, specific degrees of need are intended by Congress, these differences should be more precisely defined.

Rationale

The interrelationships between the Federal student financial aid programs need to be clarified. The extent to which the programs serve either similar or different clienteles needs further elaboration, and the current statutory language provides little assistance.

I-C-3 Student Expense Budgets

Recommendation

1. The Study Group recommends that the OE support the development and publication of a manual of budget construction for use by the financial aid community. The Study Group suggests that this publication include information and standards on:

   a. Allowable budget components and a definition of each component;

   b. Rationale to support the inclusion of deviations from the normal budget components;

   c. A detailed description of allowable budgets for various types of students (i.e., graduate, part-time, career, disadvantaged, etc.);

   d. A recognition of differences in budgets caused by geographic variances in the cost of living;

   e. Agreement on common methodology for budget construction; and

   f. Means of training student financial aid officers in budget construction.

2. The Study Group recommends that institutions of postsecondary education be required to use student budgets in making awards which are consistent with those published in the institutional literature.

Rationale

It is difficult to address the eligibility criteria of "need" without exploring student expense budgets. Need is defined as the difference between the cost of the education and the family resources which can be applied against that cost. Cost is made up of various budget items.

Much energy and time have been devoted to studying and testing need analysis systems with the objectives of increasing their precision and equity. Little research and effort has been devoted to the development of standardized student expense budgets.

To permit budgets that are too high, is to permit many dollars in over-awards to students. Moreover in fund applications based on aggregate cost not regulating and standardizing budget items results in grossly inflated requests.

In recognition of the problems outlined above, the Study Group recommends that OE give consideration to the results of two conferences on this subject sponsored by the Midwest Association of Student Financial Aid Administrators and the National Association of Student Financial Aid Administrators. Broad issues discussed at these meetings were:

1. The parties who should determine budgets - the donor, the institution, the State or the Federal Government, etc.;
2. Debates as to whether budgets should be adjusted for different life styles, or low-income students should receive aid based on criteria differing from the norm;
3. Acceptable methods of budget construction; and
4. Essential budget components.

A work plan for the conferences designated six different types of students: undergraduate, graduate and professional, non-traditional, disadvantaged, career, and part-time. For each type, the conferees attempted to: describe the student, determine how each student characteristics impacts on each budget component, describe the allowances which should be made for unique circumstances, and attach a dollar-cost-figure, or average or range of figures, to each component per type of student. Additionally, the conferees discussed the methodology of budget construction, training of the financial aid officer in budget construction, budgeting of Federal aid dollars, and economic standards of budgeting.

The Study Group believes that the results of these discussions may provide a base for agreement between OE and the financial aid community.

I-C-4 Defining the Independent (Self-Supporting) Student

Recommendation

The Study Group has concerns about the definitions of independent (self-supporting) students. In order to prevent program(s) abuse, the Study Group recommends both a review of the problems represented by this student category and immediate steps to resolve them.

Rationale

The Study Group is greatly concerned over the dissolution of parental contribution to student support and the growing numbers (now 30 percent in BEOG) of independent (self-supporting) students. The problem of tightening the definition through a more stringent rule of age, martial status, etc., has been considered. Since other active and persistent efforts are being made to define the category of independent students, the Study Group has agreed to indicate its support of those efforts rather than to attempt to develop another solution.

I-C-5 Use of Need Analysis Systems for Independent (Self-Supporting) Students

Recommendation

Regulations should be promulgated to prohibit the practice of including a living allowance in the budgets for independent students when the need analysis system has provided for such an allowance before determining a student's contribution. When using this type of need analysis, only direct educational expenses should be permitted as budget cost items.

Rationale

Currently approved need analysis systems for (self-supporting) students calculate a contribution for direct educational costs only. A portion of the student's income and assets has been protected in such systems to provide for other expenses including those for his or her dependents. Therefore, inclusion of additional maintenance costs in the student's

budget, also based upon family size is duplicative and, when used, results in overawards. For example, since the BEOG system is an approved needs analysis system for independent students, its limitations need to be clearly specified by OE. If this action is not taken, the less sophisticated financial aid administrator may be in serious violation of the spirit of the law and still be within his or her understanding of the law's literal intent.

I-C-6 Equitable Packaging Procedures

Recommendation

The Study Group recommends that institutions be required to define and publish financial aid packaging procedures in their administrative policies. The establishment of fair and equitable aid packages by institutions, taking into consideration all available fund(s) sources, should be encouraged by OE.

Rationale

Several approaches to more uniform packaging practices have emanated from a number of recently released reports from the Office of Education, prominent educators, and professional financial aid conferences. Most of their approaches fall short of recommending precision or complete standardization because of the vast differences among institutions and the amounts of grant and self-help aid available. The implication persists, however, that standardization is an ultimate goal. It is the opinion of the Study Group that abuse can be controlled and equity achieved through training efforts which OE should foster, but without the direct imposition by OE or others of rigid packaging regulations.

I-C-7 Progress Requirement

Recommendation

The Study Group recommends the establishment of a requirement that a student must successfully complete a minimum number of credits or the institutional equivalent in an academic year in order to be considered eligible for financial aid in the subsequent year.

Rationale

There is undue ambiguity in the delineation of conditions that will result in continued student eligibility for financial aid in a subsequent academic year. There is a need for tighter regulatory guidelines pertaining to satisfactory progress for the receipt of Federal student aid funds.

Additional regulation is needed so that a student who continues to be enrolled but does not successfully complete work can be denied future aid awards.

I-C-8 Duration and Funding Limitations for the College Work-Study Program

Recommendation

The Study Group recommends that legislation define distinct periods and/or monetary limitations during basic and advanced periods of study. Basic and advanced study correspond with undergraduate and graduate course work or initial and advanced certification, respectively.

Rationale

Clearly established student funding limits are essential components for the allocation of funds. Such limitations, both on length of eligibility and the dollar amount of eligibility are required 1) in order to eliminate potential abuse, and 2) to ensure equitable treatment of full-time and half-time students.

I-C-9 Part-Time Students

Recommendation

The Study Group recommends that OE initiate research efforts related to financial aid to part-time students. Such research should attempt to assess the long-range impact of part-time students on postsecondary education: their goals, age, and demographic characteristics. Such research also should assist in clarifying definitions, in testing the necessity of a separate need analysis system, as well as in exploring the educational opportunities available to this group of students.

Rationale

The Study Group has received testimony from several sources suggesting that the part-time student has special needs and require a different type of "need" analysis. While some costs are similar to those incurred by full-time students, the extent to which earnings should be applied to assist in defraying such costs remains ambiguous and requires resolution.

The broadening pool of persons eligible to receive Federal student aid through extending eligibility to part-time students may have serious impact on the availability of funds for the full-time student. There is some contradiction between meeting the original Congressional objectives of access and the more recently pronounced concerns for life-long learning and enrichment.

In periods of tight money, when colleges and universities must establish priorities for the distribution of financial aid funds under their control, should full-time students be given a higher priority than part-time students because they may be generating more income for the institution?

Although much has been written about the need to support the part-time student, sufficient data is lacking to judge whether part-time students need more assistance and whether they are being adequately served. Data should be gathered and analyzed in the following areas:

1. The purpose of the part-time student's educational pursuits -- to fill leisure time, enrich life, develop employable skills, etc.;
2. The age and social background of students;
3. The employment and earning power of part-time students;
4. The length of educational experience;
5. The course work pursued;
6. The meeting of educational objectives by part-time students;
7. The circumstances relating to a part-time student becoming full-time; and
8. Alternative methods of determining financial need.

I-C-10 Correspondence School Students

Recommendation

The Study Group recommends that the Office of Education should reassess programs of student financial aid to correspondence school students since application of existing regulations is not appropriate to them. The Study Group believes that in no event should correspondence school students receive Federal student financial aid funds for expenses beyond the direct costs of education.

Rationale

Students enrolled in correspondence schools are eligible for GSLP, BEOG, and campus-based programs. However, many definitions and procedures appropriate for non-correspondence institutions are inappropriate for the home-study institution. Before the eligibility criteria of a half-time student can be met, there must be a definition of what constitutes half-time. Before the cost of education can be determined, there must be agreement on the allowable items of cost. Questions regarding what constitutes enrollment, what constitutes good standing, what resources should be available to the home study student for his or her education -- all complicate OE's ability to judge between proper use or misuse of funds.

D. Lender Eligibility

BACKGROUND AND ISSUES

Two of the six programs, GSL and NDSL, involve another type of participants, a lender. In the case of GSL, the lender may be either a financial institution, regulated by State and/or Federal authorities, or a non-regulated institution like a college, or an insurance firm. Loans are made from the lender's own capital, and are guaranteed by the Federal Government or State or private non-profit guarantee agency. In the case of NDSL, a school lends directly to its students from a fund which it administers but 90 percent of which has been provided by the Federal Government.

Although the source of the loan principal and the type of organization serving as lender may differ, many of the same considerations apply to lenders under both programs. Lenders must manage and be accountable for Federal funds in accordance with the changing requirements of Federal law and regulations. They must determine borrower eligibility, manage portfolios of student loan paper which may remain outstanding for up to 15 years, and take steps to secure timely repayment of loans and minimize loan defaults. These are major responsibilities which differ significantly from the responsibilities involved in administering grant programs or work programs. The success of these Federal student loan programs depends on how well the responsibilities are exercised by the thousands of lenders involved.

The issues involved in lender eligibility can be grouped into several broad areas. First, there is a group of issues relating to who should be permitted to participate as a lender in Federal loan programs. Lending has historically been a function of regulated financial institutions and, initially, only these institutions could act as lenders in the GSL program. However, later changes in the program permitted the participation of ~~both regulated and non-regulated lenders.~~ Regulated lenders include banks, savings and loan associations and credit unions -- businesses whose primary purpose is to fulfill a lending and money-management function in accordance with State and Federal banking laws. Non-regulated lenders include educational institutions, life insurance companies, pension funds, etc. Educational institutions compromise the majority of non-regulated lenders in the Guaranteed Student Loan Program and loan the vast majority of funds committed by non-regulated lenders. Educational institutions are, of course, the only lenders in the NDSL program. Even though the same institution may serve as a lender both in the GSL program and NDSL program, it must meet distinct criteria to participate in each program.

Different processes are followed for approval of regulated and non-regulated organizations to serve as GSL lenders and for monitoring their performance as lenders.

Historically, approval of an application from a regulated lender was <u>pro forma</u>. Under the Federal Insured Student Loan (FISL) Program component of the GSL, the financial institution completed OE Form 1156 (Lender's Application for Contract of Federal Loan Insurance) and forwarded it, together with a current statement of financial condition, to the Division of Insured Loans (now the Office of Guaranteed Student Loans) in the Office of Education headquarters. The Contract of Insurance (OE Form 1182) and a six-digit lender identification number were forwarded to the applicant, and the financial institution became an eligible FISL lender. In 1974, the processing of applications from regulated lenders and the issuance of the Contract of Insurance were among the functions transferred to the ten HEW Regional Offices. However, the authority to issue Federal Contracts of Insurance to financial institutions operating in guarantee agency States was retained in the Central Office.

The activities of regulated GSL lenders are monitored by the Performance Council (within the Central Office of the Guaranteed Student Loan program) which annually reviews a Call Report which regulated lenders are required to submit and which reflects the condition of their student loan portfolios. Particular attention is paid to the lender's delinquency and default rates. If it is determined that a lender is experiencing difficulties, the Performance Council may call these concerns to the lender's attention and attempt to remedy the situation. When warranted, lines of credit are established.

In the case of the State guarantee program option under GSL, each guarantee agency must become eligible under broad Federal guidelines. The State guarantee agency then receives and approves applications from regulated institutions in the same manner as does the Federal Government in non-guarantee agency States. The State guarantee agencies are responsible for monitoring the performance of their participating lenders.

Educational institutions and other non-regulated organizations seeking approval as GSL lenders follow a different process. Initially, no authority existed to allow for a review of any lender's application. Schools requesting lender authority were simply issued a Contract of Insurance without any review of their financial or administrative capability. However, in response to mounting problems with school lenders, new GSL regulations were published on October 31, 1970, establishing a process

for the evaluation of applications for schools as lenders. The applicant organization was required to demonstrate that its procedures were in accordance with generally accepted commercial lending practices. The non-regulated organization was expected to provide information such as a certified financial statement; a description of its educational programs; a statement noting the description and size of the sales staff; copies of recent advertising, tuition schedule, dropout rate, refund policy, collection procedures, source of loan funds, and bank and credit references.

An Evaluation Committee was appointed in the Central Office of GSL July 1, 1970, with two functions: (1) to review and analyze applications from "non-regulated" applicants, and (2) to continue to review these lenders once they began to function under the program. In addition to the information provided by the applicant, the Evaluation Committee could draw upon information that might be available from other sources such as the USOE Regional Office, a State guarantee agency, as State regulatory authority, accrediting bodies, Dun and Bradstreet reports, complaint files, and NDSL experience, if applicable. The Evaluation Committee could accept, reject, limit, or table the application.

The Evaluation Committee annually reviews a certified financial statement and a projection of their loan requirements for the next year which all non-regulated lenders are required to submit. Based on an analysis of the overall financial condition of the institution and a review of its past performance in the program, with particular emphasis on its delinquency and default rates, a line of credit is established for a specified period of time (no longer than ayear, but for a shorter period of time if the lender's performance is marginal). A zero line of credit is established if the lender's performance is unacceptable. Commitments are monitored to ensure that the line of credit is not exceeded.

The process of becoming eligible as a GSL lender is fairly well standardized for both regulated and non-regulated institutions.

There is no comparably comprehensive process for determining the eligibility of educational institutions to act as lenders in the NDSL program. Any accredited institution may apply for NDSL capital funds on the Tripart application. The amount of funds which may be granted to the institution is determined on the basis of the regional panel review of the data on its application. There is no specific determination of the institution's specific competence to serve as lender for NDSL apart from consideration of its eligibility to participate in the other two campus-based programs.

The process of monitoring the operation of eligible lenders and the standards and procedures for the termination of eligibility are not well defined for either GSL or NDSL. The system of credit limits for non-regulated GSL lenders provides one control, and the Office of Education received formal L, S, and T (limitation, suspension, and termination) authority for GSL lenders in Section 438(a) (3) of the Education Amendments of 1972 as a means to deal with problem situations. An L, S, and T authority similar to that already existing for GSL was extended to all Title IV aid programs, including, NDSL, by the Education Amendments of 1976. Regulations for the new, comprehensive L, S, and T authority are, as of this writing, being developed. These regulations, when finally adopted, will hopefully provide an orderly process for dealing with problem schools. Still, there will remain the need to identify situations early enough that L, S, and T procedures may be invoked in time to prevent losses to students and the Federal Government.

There is accumulating evidence that educational institutions have been less successful than regulated financial institutions in fulfilling the responsibilities of a lender. While there are obvious exceptions, the default and delinquency rates experienced by non-regulated lenders (largely educational institutions) in the GSL program are, on the average, five to six times as high as the rates for regulated lenders. Delinquency and default rates for the NDSL program are calculated on a different basis from the rates for GSL, so direct comparisons between the two are not appropriate. However, default and delinquency rates in the NDSL program are also disturbingly high. The number of institutions whose NDSL delinquency rates are high enough to cause concern has been rising rapidly in recent years, particularly in the public community college and proprietary school sectors.

There are several factors which appear to contribute to the difference between the performance of regulated and non-regulated institutions as lenders.

The first factor relates to the question of lending expertise. Although there are some educational lenders who have demonstrated an ability to manage their portfolios and maintain low delinquency and default rates, this has not been the experience of the average educational lender. There have been serious, well-publicized problems with Education Amendments of 1976 eliminated home study schools as lenders and provided for additional regulation of educational institution lenders with poor performance records as GSL lenders.

It may be argued that the role of lender is not an appropriate one for postsecondary educational institutions in general as lending functions are inconsistent with their overall purpose and function.

The lack of training programs for schools lending officers, the frequent shortage of resources and staff, inadequate recordkeeping facilities and systems, and the rapid turnover of financial aid personnel contribute to serious problems with the average educational institution's ability to act as a competent, responsible lender. The management of a loan program is a specialized financial activity, and the necessary expertise probably will not be acquired by persons for whom it is only one part of a job. It is not only unscrupulous proprietary institutions, but otherwise respectable educational institutions as well, which may misadminister loan programs and intentionally or unintentionally abuse student borrowers.

The educational institution which also acts as lender may find itself in a conflict of interest situation. A school whose survival depends on recruiting students in a competitive market may not be strongly motivated to stress the applicant's repayment obligation. As competition for students becomes more intense, schools may be induced to become lenders to compete with other schools that already are lenders. The purpose of Federal loan programs, to serve the needs of students, could become subverted to serve the needs of institutions. Furthermore, one possible safeguard usually does not exist in educational institutions: the sales (student recruitment) function is not separated from the credit (student loan) function as it would be in a business organization.

Educational institutions may not have strong incentives to follow prudent lending practices when they are the beneficiaries of the loaned funds. Unlike educational lenders, regulated lenders have as strong an interest in the recovery of funds lent to students as to other borrowers and thus may be more inclined to exercise proper care at the point of loan origination. When any lender fails to exercise due diligence, the cost of that failure ultimately falls upon the Office of Education and the taxpayer.

The benefits to a commercial lender from participating in the GSL program are marginal at best. Some people have suggested that, should more and more eucational institutions become lenders in the GSL program, commercial lenders would withdraw their participation since they could refer their student customers to another source of loans. Additionally, if loans through educational institutions were readily available, commercial lenders might adopt extremely restrictive lending policies. For example, they might make loans only to members of the families of their regular customers, only to students at elite institutions, only to students with outstanding academic records, only to students in certain career fields, or only to students beyond the freshman level.

Supporters of education institutions as lenders have suggested some compelling reasons for their continued participation. They argue that educational institutions provide access to loans when such loans are not available through regulated lenders, and that education institutions have managed the large NDSL program for many years.

A second set of issues lies in the area of the skills, information, and administrative safeguards needed by lenders in the GSL and NDSL programs, and how the Office of Education can ensure that they are present.

This problem is greatly complicated by the sheer size of the two programs and the rapid growth in numbers and diversity among the lenders involved. About 19,000 regulated and non-regulated lenders are authorized in GSL [1] (there has been a gradual increase since 1965), and about 3300 schools participate in NDSL (there has been a progressive year-to-year increase in NDSL participation). A number of individuals within each lending organization are involved, and those individuals in turn deal with more than 750,000 individual student borrowers each year. The task of communicating necessary information to all of these individuals on a timely basis is vast and unending. Conditions, personnel, policies and procedures change within an organization over time; the performance of a lender which once may have operated well may have deteriorated. Without adequate technical assistance and monitoring by Federal or State staff, poor practices may become established. Without adequate and timely independent auditing, the misuse of Federal funds may go undetected for long periods. By analogy, the administration of a program like GSL through private lenders is like a national organization with thousands of local branches -- with the critical difference that the Office of Education does not have significant authority over the "branches" which operate as independent organizations.

It was once generally believed that banks and other financial institutions regulated under State and Federal laws could operate a student loan program with little or no supervision, assistance or training. Actual experience demonstrated that the assumption was not valid. In most cases, problems resulted from a lack of full understanding of the program's requirements; and in a few cases there was purposeful abuse. While their regulated status provides a safeguard as to general probity and can help to detect gross irregularities, it does not ensure in itself their competence and satisfactory performance in Federal administering programs the GSLP.

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[1] Approximately 19,000 regulated and non-regulated institutions have received vendor numbers for participation as GSL lenders. However, this total includes separate vendor numbers assigned to branches of commercial banks.

The management of the GSL program in a lending institution has some marked differences from the management of other commercial loan activities. It requires the mastery of a complex body of constantly-changing Federal law and regulations. It requires adherence to a legislative prupose which may be at odds with the institution's own lending policies. It requires making loans with no collateral to borrowers on the strength of their anticipated future capacity to repay and who are likely to relocate before beginning repayment.

Another important aspect of these issues surrounding the question of lender eligibility concerns the delineation of the differences between eligibility determination and the monitoring of lender performance, and the appropriate placement of these responsibilities within the Office of Education organization. The determination of the basic eligibility of educational institutions for Office of Education programs is presently handled in the Division of Eligibility and Agency Evaluation (DEAE). The GSL program carries out a separate process to certify lenders for program participation. Lender performance is monitored by the appropriate Regional Office and Central Office staffs. The focus of responsibility and internal procedures for the L, S, and T authority have not been finally determined. However, initial steps have been taken to place that authority within DEAE.

A third area of issues in lender eligibility relates to student access to loans. From the standpoint of the prospective student and the institution he or she wishes to attend, the NDSL program offers one very important advantage: certainty. The amount of NDSL loan funds available to the institution is known and reasonably predictable into the near future. The institution, acting as lender, can offer an NDSL loan to an eligible student with a high probability that it will be available. The loan decision is immediate, and the loan can be planned as part of the student's total aid package. The GSL program, on the other hand, depends on the voluntary participation of private lenders. They may reduce their participation in times of "tight money," when the yield on GSL loans becomes particularly unattractive. They may adopt lending policies which are more restrictive than Federal law. They may decline to participate at all, making Guaranteed Student loans unavailable to students from certain areas or attending certain schools.

The availability of private capital for loans to postsecondary students is a critical component of student financial aid. However, there are many actual or potential disincentives to lenders in the GSL program. The complex administrative processes may be a deterrent to participation. Also, the rate of return may not be very attractive, especially in view of high servicing costs. The lack of a clear definition of "due diligence" may be a deterrent, because it presents the real danger that claims will later be rejected by the State guarantee agency or Federal Government on the basis of claim that due diligence has not been met. The high

likelihood of delinquency and default and the effort required to locate defaulted borrowers, who may have moved out of the financial institution's service area, are unappealing. The frequent delay by the Federal Government in paying valid claims means a loss of interest income. The limited liquidity of student loan paper may reduce the lending institution's flexibility to management its total loan portfolio.

The management of loans under a Federal student aid program will probably continue to be complex and time consuming. It is the Federal Government's responsibility, therefore, to see that lenders are provided with the necessary information and assistance to properly administer the GSLP. If the use of private capital to fund student needs is to continue, the Federal Government must take care to recognize and answer the legitimate concerns and needs of lenders.

RECOMMENDATIONS

Lender Eligibility

I-D-1 Nonregulated Lender Requirements

I-D-2 Educational Institutions Lender Certification

I-D-3 Annual Agreement or Contract Provisions

I-D-4 Reporting and Control System

I-D-5 HEW Audit Guidelines

I-D-6 Lender On-Site Compliance Reviews

I-D-7 Improving Communications Between Guarantors and Participating Lending Institutions

I-D-8 Encouraging Good Lender Portfolio Management Practices

I-D-9 Training for Lenders

I-D-10 Encouraging Increased State Participation

I-D-11 Models of Effective State Practices

I-D-12 Development of Regulations Pertaining to the Guaranteed Student Loan Program

I-D-13 Reassessment of the Escrow System

I-D-14 Responsibilities of Educational Institutions Which Do Not Participate as Lenders in the Guaranteed Student Loan Program

I-D-15 Coordination of Program and Compliance Reviews

I-D-16 Certification and L, S, and T Processes - State Agencies

I-D-17 Joint Site Visits by OE and State Agencies

I-D-1 Nonregulated Lender Requirements

Recommendation

The Study Group recommends that nonregulated GSL lenders be required to demonstrate an organizational and managerial capability that is equal to that of regulated financial institutions (such as banks) in the areas of program service, integrity, and accountability before they can be certified for participation as a lender.

Rationale

Educational institutions and other nonregulated lenders currently are authorized to serve as lenders in the GSL program. Before nonregulated lenders are approved, they should be required to give evidence of their ability to manage an effective loan program. This evidence should include proper facilities, trained personnel, a commitment to program objectives and sound management practices. There must also be adequate capital resources and a commitment to established principles of sound fiscal stewardship.

An examination of nonregulated GSL lenders reveals that the administrative talents of these widely dispersed institutions varies from the incompetent to the very sophisticated. The organizational and managerial capabilities of these lenders have a direct impact on the success of loan programs. The specific areas of weakness are loan counseling, processing, servicing, and collections.

I-D-2 Educational Institutions Lender Certification

Recommendation

The Study Group recommends that the Office of Education establish certification standards and criteria to determine if an institutional lender can meet the expected levels of program performance.

This certification process would require the signing of a formal agreement as described in I-D-3.

Standards and criteria would include but not be limited to the following:

1. Full financial disclosure including audited financial statements, statements on source of funds to operate student financial assistance loan programs and, where applicable, a profit and loss statement.

2. A statement of the educational mission including type of educational program offered and degrees or certificates granted; student characteristics, including percentage of full and part-time students, success rate (i.e., percentages of those students who complete their respective programs of study); major social or economic factors which would impact on an ~~institutional~~ student financial assistance program; and placement activities.

3. A report on projected volume in the loan program including documentation to support the institution's projections and a statement of the resources (staff, facilities, administrative budget) the institution intends to commit to the administration of the program.

4. Policies and procedures must be developed and implemented, if not already in place, to establish safeguards and control on the fiscal program management of these loan programs. Provision for separation of duties, along with the appropriate checks and balances needed between the loan approval and disbursement procedures, will be required to accomplish adequate program integrity and fiscal accountability.

5. If the institution has participated in the campus-based programs, it should provide copies of Fiscal Operations Reports for the prior three year, if available, on operation of campus-based programs and related audited statements as a part of their application to become a lender under GSLP.

6. Educational institutions which have not applied for certification for participation in a Federal aid program other than the Guaranteed Student Loan Program should not be allowed to become a lender under the Guaranteed Student Loan Program.

7. Educational institutions who are lenders should be required to insure that an opportunity to obtain a coordinated package of student financial aid is available to students who are eligible for other forms of assistance, such as grant aid, and that the students are made aware of this eligibility.

8. A proprietary institution should provide background information on individuals listed as owners. This could be a professional resume or history of business experience.

Where an educational institution has recently submitted the same information as outlined above to the Division of Certification and Compliance of the Bureau of Student Financial Assistance, that information should be requested from the Division so as to eliminate unnecessary duplication of effort for the institution.

Rationale

The institutional lender has a responsibility as a direct and indirect beneficiary of public funds to demonstrate its capacity to successfully manage this stewardship.

This requirement applies across the board to all types of institutions including public, private, and proprietary. All should be willing to submit full and honest responses to the inquiry into eligibility as well as continued suitability to manage student loan funds. The damaging effect of less vigilant action could be devastating to the integrity of these programs.

I-D-3 Annual Agreement or Contract Provisions

Recommendation

The Study Group recommends that the Office of Education and/or State and private non-profit guarantee agencies design a formal agreement or

contract with lenders which outlines the obligations, limitations, and sanctions on lender activity. These provisions could include but are not limited to:

1. Authorization for the guarantor to set a maximum number and dollar amount of guarantees per year -- with no authorization for carryover of unused authorizations. The authorization would be based on planned loan volume of the lender and any limitations on volume deemed necessary by the guarantor.

2. Guarantor sanctions or penalties which will be enforced in cases of mismanagement abuse or fraud.

3. Minimum management and organization requirements based on loan volume.

4. Provision for an annual review as required.

Rationale

There has been a lack of clear understanding on the part of all parties regarding their responsibilities and what sanctions or limitations will be enacted. One matter that has been a particular problem is "due diligence." It has been difficult to find out what this means and how to determine if it has been accomplished. If an agreement or contract is signed by the lender and the guarantor in advance, clearly setting forth both responsibilities and sanctions, it should facilitate operations. It should also make lenders aware of action that will be taken in cases of mismanagement and, hopefully, will serve as a deterrent to those who would abuse the program.

The first agreement or contract would be drafted and signed after the lender was determined eligible as part of the certification process. Provisions should also be made within the contract to allow for update and necessary changes to the contract in the future.

I-D-4 Reporting and Control System

Recommendation

The Study Group recommends that the Office of Education and/or State and private non-profit guarantee agencies establish reporting and control systems after the initial certification process to measure the performance of educational and other non-regulated lenders in meeting

their defined responsibilities. A direct relationship should be maintained between reports filed and compliance reviews scheduled and performed.

Rationale

The current Federal reporting system does not provide meaningful and useful data for either the lender or the guarantee agency. In some cases, this has led to confusion and misunderstandings, such as the actual extent of delinquency and default rates. In other cases, the information is misleading, or not used. The Federal reporting system should provide data that are useful as a management tool, aid in decision making, and indicate problem potential and should be coordinated and compatable with state and private non-profit guarantee agency information systems.

OE and approved State guarantee agencies should establish a reporting and control system to measure the performance of educational institutions acting as lenders within the Federal program or the individual State program. The performance standards should be clearly defined and enable both the institution and guarantee agency to determine if legal and administrative responsibilities are fulfilled.

These reporting requirements and performance standards would include the following:

1. Submission of independent audits covering both fiscal stewardship and management of the loan program.

2. Lender submission of quarterly reports on program activities that would serve both the lender and guarantee agency in managing the loan program. This quarterly report should include figures for quarter, year-to-date, and appropriate prior year data to permit prompt recognition of any trends or possible problem areas. These reports should also be designed to facilitate the annual audit process. The HEW audit guidelines (recommended in I-D-5) could be used as a foundation for developing the reporting system.

3. Performance activities of the lender include but are not limited to the following:

   a. Number of loans made,

   b. Status of loan portfolio,

   c. Funds available for loan committment,

   d. Number and percent of loans in delinquency and default status,

e. Action taken on loans in default status,

f. Number of claims submitted,

g. Number of claims pending payment and paid, and

h. Policies and procedures that limited full operation of the program (as defined by appropriate Federal or State agency).

I-D-5 HEW Audit Guidelines

Recommendation

The Study Group recommends that HEW Audit guidelines be developed for the audit of all GSLP lenders, both regulated and non-regulated.

Rationale

The obvious need of the Office of Education to maintain constant surveillance of student financial aid programs has been amply demonstrated by recent publicity on the incidence of fraud and abuse at the institutional level.

This may best be done by requiring audits of all student financial aid lenders. The audits should be performed in accordance with guidelines established by the HEW Audit Agency. Hopefully, this will result in consistent and uniform data requirements that in turn will result in information that can be used to measure the performance of the lender.

I-D-6 Lender On-site Compliance Reviews

Recommendation

The Study Group recommends that a system of regular on-site compliance review of lenders be established, funded, and maintained by the Office of Education and guarantee agencies. The first such review should be made prior to the granting of approval as an eligible lender. Others should be scheduled in accordance with a work plan to review all lenders. In addition, in problem situations, they would be performed as needed.

Rationale

Only recently, have on-site compliance reviews been considered and implemented at the Federal level. Additional staff for this purpose was recently authorized and has been added to both the Central and Regional Offices of OE. It is crucial that this effort be fully implemented. Prevention and detection of fraud and abuse must be given priority if loan programs are to continue to be supported at adequate levels. Lack of public trust and confidence in the operation of the programs could result in many deserving students not being served. On-site review is one of the principal methods to insure program integrity at the level of the eligible lender.

On-site compliance reviews should emphasize lenders' compliance with regulations and make every effort, through appropriate tests and reviews, to determine the efficiency and integrity of the procedures followed in actual practice.

OE should coordinate with guarantee agencies to assure that appropriate review procedures have been established and implemented by each State agency.

I-D-7 Improving Communications Between Guarantors and Participating Lending Institutions

Recommendation

The Study Group recommends that the Office of Education and State and private non-profit guarantee agencies, where applicable, undertake the following activities to improve communications with lending institutions:

1. The Office of Education and State and private non-profit guarantee agencies should provide information, guidance, and training regarding the management and administration of student loan portfolios.

2. The Office of Education should establish within each Regional Office of the GSLP, and should encourage establishment within each State and private non-profit guarantee agency, a focal point for receipt of lender inquiries.

3. The Office of Education should establish within each Regional Office of the GSLP and should encourage the establishment within each State and private non-profit guarantee agency an ongoing consultative group of representatives of lending institutions to act as a vehicle for raising problems or issues to the guarantor and for suggesting and discussing solutions to those problems.

Rationale

To date, regulated financial institutions participating as lenders in the Federal Insured Student Loan (FISL) program have not been provided with current and consistent standards and guidelines for administering their student loan portfolios. Lenders have reported that their efforts to obtain answers to questions have been frustrated because they cannot find the agency, or individual within the agency, to respond to their needs. The publicizing of a GSL information contact point for lenders within OGSL would go a long way in assuring that the appropriate sources are reached to provide needed information.

A consistent method for evaluating lender performance also needs to be established to encourage continuous or increased participation, and to keep lenders abreast of new program developments. The most feasible means of accomplishing this would be a program of lender visitation which would have the additional benefit of establishing a regularized face-to-face contact between officials of the lending institutions and representatives of their guarantee agencies, be it a Federal, State or private non-profit agency.

A need also exists to provide a consistent opportunity for representatives of lending institutions to advise guarantors of the success or failure of their promulgated policies, the effect of policy or regulation implementation, and ways the program could be strengthened or improved. It is important for the success of the program that an effective feed-back mechanism be established.

I-D-8 Encouraging Good Lender Portfolio Management Practices

Recommendation

The Study Group recommends that the Office of Education and State and private, non-profit guarantee agencies encourage good lender portfolio management and build into the program disincentives for poor portfolio

management. As necessary, the guarantor should provide training for lender staff, program manuals, collection assistance, and regular on-site compliance reviews to encourage proper administration of the GSLP. Guarantor options to serve as disincentives for poor lender program management should include:

1. Limiting lender authority to make loan,
2. Paying default claims on a sliding scale based on default or delinquency ratio, and
3. Limiting lender authority to sell student loan paper.

Rationale

A great deal of effort traditionally has been spent on problems after they have happened. This has resulted in a crisis management approach to the student loan program. More time and effort should be put into preventing problems, and one way to do this is to build in the proper incentives for good and honest performance.

I-D-9 Training for Lenders

Recommendation

The Study Group recommends that the Office of Education and/or State and private non-profit guarantee agencies sponsor programs of training for the staff of all participating lending institutions (regulated and non-regulated) who are assigned to administer the GSLP. Programs of training should be designed to insure expertise in the areas of loan origination, servicing, and collection.

Rationale

A full statement on training needs for all student financial aid programs will be included in the "Program Management and Integrity" section of the report.

I-D-10 Encouraging Increased State Participation

Recommendation

The Study Group recommends that the Office of Education increase its efforts to encourage additional States to participate in the Guaranteed

Student Loan Program. It further recommends that the Office of Education take the initiative to request the assistance of the National Council of Higher Education Loan Programs in this matter. Moreover, the Study Group recommends that the Office of Education call together the National Council of Higher Education Loan Programs, the National Governors Conference, the National Conference of State Legislators, and other appropriate groups or individuals to review means for further supporting and encouraging States to participate in the Guaranteed Student Loan Program.

Rationale

It is the clear intent of Congress to encourage the establishment of more State or private non-profit guarantee agencies, and the Study Group feels that the Commissioner has a responsibility to do all that he can to encourage the development of, and to foster the continued existence of, State or non-profit guarantee agencies.

Furthermore, even very recent experience has demonstrated that where a strong State guarantee agency existed, the loan programs operate with much greater success. Present information is that in such States lender participation is greater, the default rates are lower, students are better served, and the Federal interest is better protected.

This type of effort is supportive of the Federal thrust to place greater authority and responsibility at the State level and also is supportive of the traditional State leadership role in matters of education.

I-D-11 Models of Effective State Practices

Recommendation

The Study Group recommends that the Secretary, with the advice and cooperation of State and private non-profit guarantee agencies, determine the best methods of program administration and develop operational models for new States and the Office of Guaranteed Student Loans to follow where applicable.

Rationale

Evidence and statistics clearly support the fact that that State guarantee agencies have had more favorable experience in loan collections and maintaining lower default rates than the Federal Office of Guaranteed Student Loans. This is the result of more efficient program administra-

tion and management which if adopted by OGSL as well as new State agencies could result in substantially increased efficiency and significant other savings.

I-D-12 <u>Development of Regulations Pertaining to the Guaranteed Student Student Loan Program</u>

<u>Recommendation</u>

The Study Group recommends that regularly scheduled joint meetings of Federal, State and private non-profit agencies administering the Guaranteed Student Loan Program be convened to:

1. Facilitate the development and implementation of new regulations;

2. Promote common understanding and interpretation of program policy, law, and regualtions; and

3. Achieve uniform and consistent procedures for program administration and management to the fullest extent possible.

The Study Group further recommends that the Office of Guaranteed Student Loans invite representatives of organizations involved in the administration of the GSLP to form an advisory group to assist in the development of all regulations and other administrative matters pertaining to the program. (See I-D-10 and I-D-11).

<u>Rationale</u>

Throughout the history of the GSLP , the Office of Guaranteed Student Loans has been remiss in coordinating program information dissemination to State and private non-profit guarantee agencies or direct lenders on a timely and consistent basis. In addition, the Office of Guaranteed Student Loans has not provided sufficient and meaningful opportunities for GSL administrators, lenders, and educational institutions to become involved from the outset in assisting in the drafting of regulations and policy.

The establishment of a forum to include, for example, representatives of the National Council of Higher Education Loan Programs, the American Bankers Associations, the National Association of Student Financial Aid Administrators, and the National Association of College and University

Business Officers to encourage increased communication and cooperation among all factions involved in the Guaranteed Student Loan Program can only result in improved administration and management.

I-D-13 Reassessment of the Escrow System

Recommendation

After reviewing available information about the escrow system, the Study Group believes that alternatives have not been sufficiently explored, particularly in light of the new authorities granted by the Education Amendments of 1976.

The Study Group recommends that:

1. The escrow system not be implemented until after completion of a thorough review of all feasible alternatives,

2. If some sort of escrow system is desirable, the initial lender should be given the opportunity to make the multiple disbursement and retain use of the "float,"

3. This proposal be given a trial before moving to full implementation of single escrow agent concept now being pilot tested.

Rationale

Much concern has been evidenced in testimony to the Study Group on the subject of the proposed escrow agent. Though the Study Group applauds the Office of Education's desire to curb fraud and abuse in the GSLP, the Group believes that action to implement the escrow system has been hasty, and believes that less expensive, more acceptable alternatives to the escrow system should be explored and tested.

It is the Study Group's understanding that originating lenders have not been provided with sufficient opportunity to develop plans for multiple disbursement which would allow them, as opposed to the escrow agent, to utilize and benefit from the float of loan dollars which have been provided out of their own coffers. Insofar as the program depends upon the continued participation of commercial lenders, the Study Group believes these lenders should be given the first opportunity to serve as their own escrow agent.

I-D-14 Responsibilities of Educational Institutions which Do Not Participate as Lenders in the Guaranteed Student Loan Program

Recommendation

The Study Group recommends that the Office of Guaranteed Student Loans, together with State and private non-profit guarantee agencies, develop a clear and concise definition of the role and responsibilities of eligible educational institutions which are not Guaranteed Student Loan lenders. Specific areas of responsibility which require definition include but are not limited to:

1. Student counseling responsibilities;

2. Disclosure of student borrower information to lenders and guarantors;

3. Penalties for improper certification of student eligibility;

4. Timely notification of student termination and graduation;

5. Loan proceeds accounting and refund procedures in cases when

   a. Lenders transmit checks made payable to the student directly to the educational institution,

   b. Lenders make checks co-payable to the student and the educational institution and transmit a check to either the student or the educational institution,

   c. The loan check exceeds costs payable to the educational institution and a refund is due the student,

   d. A student terminates enrollment during the refund period or cancels prior to entry and is due a full or partial refund of loan proceeds.

These policies should be published by the Office of Education and distributed to financial aid administrators and business officers at all eligible educational institutions. In addition, the Study Group recommends that the Office of Education and the State and private non-profit guarantee agencies, together with regional or State divisions of National Association of Student Financial Aid Administrators (NASFAA) and National Association of College and University Business Officers (NACUBO), sponsor regular workshops and meetings to discuss and present information on the role and responsibilities of eligible educational institutions.

Rationale

Educational institutions which do not participate as GSL lenders, but whose students have access to Guaranteed Student Loans from other sources, benefit directly and indirectly from the GSL program. Therefore, they should be required to play an active role in ensuring proper program administration and management. Unfortunately, until the Education Amendments of 1976 were enacted, the role and responsibilities of eligible educational institutions were not well defined. The Study Group believes that regulations yet to be drafted can go a long way in defining the role and responsibilities of educational institutions in administering the GSLP.

I-D-15 Coordination of Program and Compliance Reviews

Recommendation

The Office of Education program and compliance reviews of educational institutions should include the Guaranteed Student Loan Program as well as other student financial aid programs.

Rationale

Such a change in the operation of this compliance activity would certainly result in some administrative cost savings and would most certainly cut down on the number of times the participating institution would have to be inconvenienced by a Federal inspection.

Under the new Bureau of Student Financial Assistance, comprehensive student aid program reviews will be more easily accomplished.

I-D-16 Certification and L, S, and T Processes--State Agencies

Recommendation

The authority delegated by the Commissioner to State and private non-profit guarantee agencies enabling them to review and certify lenders for participation in the GSLP (as opposed to the FISLP) and play a role in the limit, suspension, and termination of both lenders and schools for reasons of mismanagement, fraud and abuse should be more clearly defined by the Commissioner.

Rationale

It has come to the attention of the Study Group that neither the law, the regulations, nor published GSL policy clearly define the role and authority of State and private non-profit guarantee agencies in certifying and reviewing lenders and or in limiting, suspending and terminating schools and lenders. In order to facilitate the certification of lenders and clarify the role of State and private non-profit agencies in cases when mismanagement or fraud and abuse threatens its integrity, the Study Group believes the Commissioner should make clear the delegation of his authority to these agencies to certify lenders for participation and to initiate L, S and T provisions of the law.

I-D-17 Joint Site Visits By Office of Education and State Agencies

Recommendation

The Study Group recommends that the Office of Education explore the possibility of conducting joint site visits of postsecondary institutions and financial institutions for the purpose of reviewing their administration of the Federal Student Insured Loan Program.

Rationale

The purpose and methods of reviewing financial and educational institutions are essentially the same whether conducted by a State guarantee agency or by a Regional Office of Education. Joint visits made by representatives of these agencies would be complementary and efficient and serve to eliminate duplication of effort.

CHAPTER II

DELIVERY SYSTEMS: FINDINGS AND RECOMMENDATIONS

A. Introduction

The second of the three major areas of study undertaken by the Study Group concerns the delivery of Federal student financial assistance programs. Issues in delivery systems can be considered at three levels. First, are issues related to the distribution of funds to the States -- the allocation formulas, the distribution of discretionary funds, and the relationship between allocations to States and to institutions. Second, are issues which focus on the institutions -- the allocation of funds among participating institutions and the processes by which institutions apply for funds. Third, there are issues which focus on the student and his or her family -- the procedures under which students apply for funds, the availability of information needed by students and their families to make wise decisions, and the process by which funds are actually paid to students and institutions.

B. Allocation of Funds for Campus-Based Programs

BACKGROUND AND ISSUES

The State Allocation Process

The three campus-based programs (SEOG, CW-S, and NDSL) use an unusual process for allocation of funds to States. In the first step of the process, legislatively specified formulas allocate 90 percent of the available funds in the NDSL, CW-S, and SEOG - IY (Initial Year awards) program[1,2] among States. This step in the process ensures that all States will receive a share of the funds for each program based upon selected State demographic characteristics. The statute also specifies that the remaining 10 percent of the funds in each program must first be used to bring each State up to its 1972 level of funding.

The second step of the funding process consists of allocating funds both to States and within States on the basis of relative need. Institutional need is determined by Regional review panels which recommend the appropriate level of funding based on the statement of need in the institutional application for campus-based funds (Institutional Application to Participate in Federal Student Financial Aid Programs).

Any remaining funds after each State is assured of its 1972 level of funding are to be allotted among the States according to equitable criteria established by the Commissioner of Education. The criterion adopted by the Commissioner now in effect is to distribute these "discretionary" funds to those States whose statutory allocation of funds constitutes the lowest percentages of their panel-recommended funding to bring these States up to a uniform minimum percentage. Thus, the differing State needs, as

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[1] The CW-S program provides for up to 2 percent set aside for Guam, Puerto Rico, and the Virgin Islands, American Samoa, and the Trust Territories of the Pacific Islands and for students who live in the latter two jurisdictions but attend eligible institutions outside those jurisdictions. Ninety percent of the remaining funds are allocated by statutory formulas.

[2] The Commissioner of Education has statutory authority to allocate SEOG -CY (Continuing Year awards) funds in a manner which will best achieve the purpose of the program. The procedure established in regulation by the Commissioner is to divide the total amount available for SEOG - CY panel recommendations to determine a uniform national percentage of funding for all States. Thus, the method of assigning the SEOG - CY funds differs markedly from the procedures used to allocate the NDSL, CW-S, and SEOG - IY funds.

reflected in the panel-recommended levels of funding, enter the process for the first time with the assignment of the discretionary ten percent funds.[3]

Once the final level of State funding in each of the programs has been determined, each institution in a State receives the same percentage of the panel's recommended level of funding. Typically, however, there have been wide deviations in funding percentage between States. The final stage of the allocation process involves the distribution of funds to students based upon financial need.

It can be seen that the amount of assistance actually received by a student from the campus-based programs under this process does not depend solely upon his or her financial need. In addition to need, the funds available for a student's award also depend on the State in which he or she attends an institution of postsecondary education and upon the amount of the individual institution's total demonstrated need in relation to other institutions within the State.

As a prelude to discussion in the following sections, the processes for institutional applications and the allocation of funds in the three programs are portrayed in Figure 1. (See page 83)

Selected Concerns

The first major area of concern relates to the widely differing outcomes of the funding process in the SEOG, NDSL, and CW-S programs. For example, the NDSL awards to institutions for use in the 1976-1977 award period ranged from 39.5 percent of panel recommended levels for all institutions in 15 States to 100 percent of panel recommendations in 6 States. These wide disparities, which occur in each year's funding cycle, have been a source of concern for many years and have been at least partially responsible for the charge that the funding process is inequitable.

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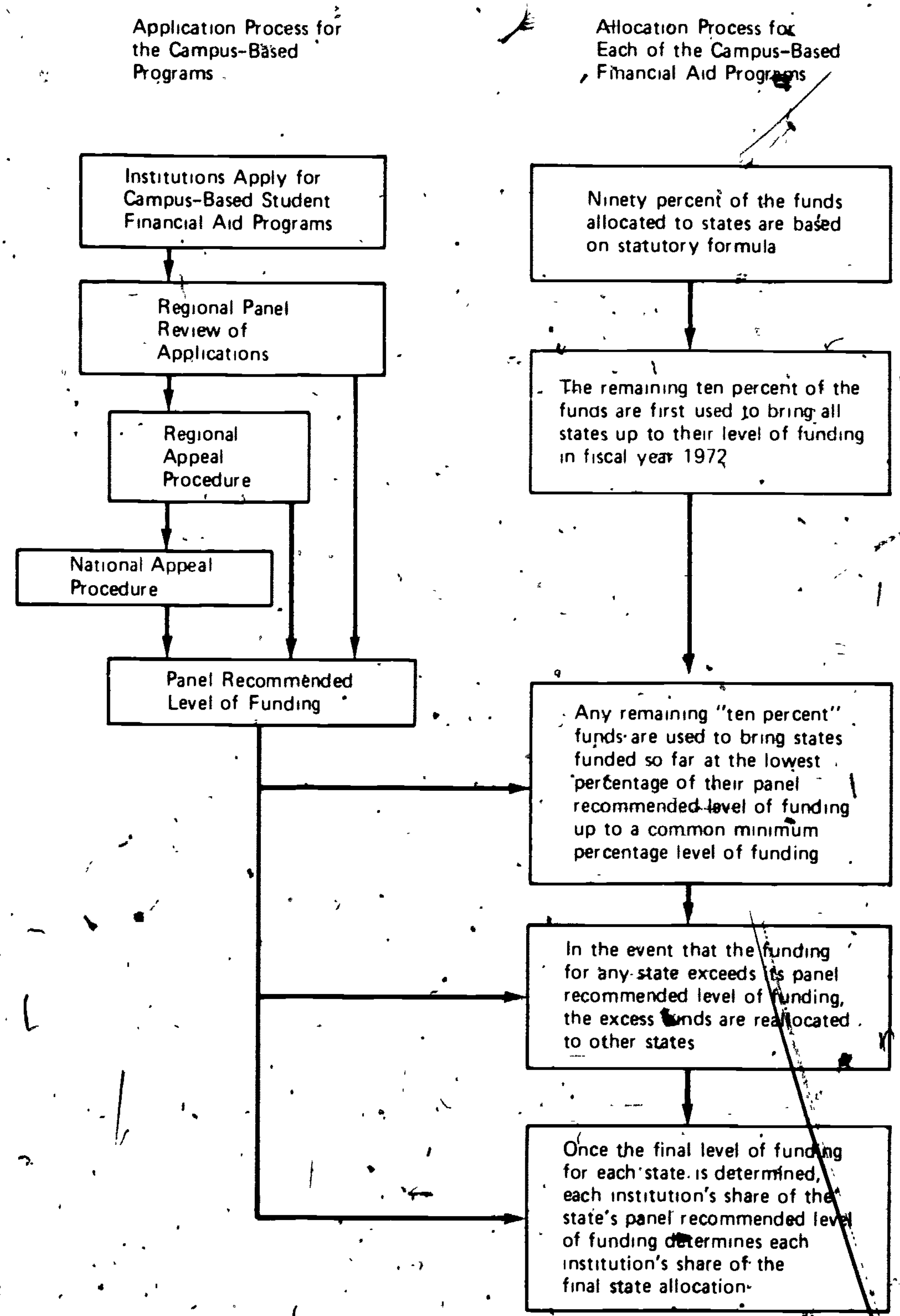
[3] Funds sometimes become available for reallotment among States. This can occur, for example, when the funds originally allocated by the statutory criteria (i.e., formulae and "hold harmless" provisions) exceed the level of panel recommendations for the State. Currently program regulations specify that any SEOG - IY or CW-S funds available for reallotment will be assigned in the same manner as the discretionary funds. In other words, reallotments are to be carried out so as to raise the uniform minimum percentage level of funding to a higher level. The reallotment of NDSL funds is covered by statute. The statute provides that NDSL funds available for reallotment shall be reallotted among the remaining States in such a manner that each State's proportionate share of the reallotted funds is equal to its proportionate share of the total national deficiency between the panel recommended funding level and the amounts previously allotted.

Figure 1

HIGHLIGHTS OF THE APPLICATION AND ALLOCATION PROCEDURES FOR FEDERAL CAMPUS-BASED FINANCIAL AID FUNDS



A second source of concern, related to the first, is that the institutional application and state allocation procedures are not complementary. Ninety percent of the allotment in the SEOG - IY (Initial Year awards), NDSL, and CW-S programs is allotted to each State according to demographic characteristics. These characteristics (such as enrollment) are not directly related to student financial need. Thus, although the campus-based programs are aimed toward meeting student need, the existing formulas which bring 90 percent of the funds to the States do not include any direct measurement of relative State need. The current methods of assigning the discretionary portion of the 10 percent funds and the reallocated funds attempt to mitigate some of the rigidities of the formulas by recognizing the differing needs of the States. However, there has been increasing concern that the current methods of assigning the discretionary 10 percent funds have further encouraged grantsmanship in the institutional application process.

A third concern is that the statutory elements which determine the State allocation process differ among the three programs in some important respects. Even though all three programs provide need-based assistance to students, only the CW-S formula includes a State poverty factor (i.e. the number of families with incomes less than $3,000). The NDSL and CW-S formulas consider only full-time enrollment, but the SEOG - IY considers both full-time and full-time equivalent part-time enrollments, in spite of the fact that only students who are at least half-time are eligible for all of the programs. Furthermore, although only undergraduates are eligible for SEOG funds, the SEOG - IY formula considers undergraduate and graduate students.

Proposals for Change

Since the inception of the NDSL Program in 1958, the State allocation formulas have been a topic for debate and disagreement. The first appropriation for the NDSL program covered an average of only 10 percent of the original institutional requests, but funding percentages varied from a low of 4.1 percent of the amount requested to a high of 35.9 percent.[4] These disparities in funding percentages led to proposals for either changing the allocation formulas by adding new variables (e.g. per capita income, actual State expenditures for student aid, etc.) or for eliminating the formulas altogether. However, the problems were somewhat alleviated by increasing NDSL appropriations and the addition of the CW-S and EOG programs in 1964 and 1965 respectively.

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[4] U.S. Congress, House, Subcommittees of the Committee on Education and Labor. Hearings on Several Titles Contained in the Defense Education Act of 1958. 86th Cong., 1st Sess., 1959, p. 25.

The following years saw a number of attempts to amend the legislation relating to the State allocation formulas. A bill introduced in 1968 proposed the elimination of the formulas and the introduction of a "national pool" funding concept where each institution in each State would receive a uniform percentage of the approved requests for funds in each of the programs. This proposal was supported in a 1968 report by The College Entrance Examination Board which concluded that the process for distributing funds to States was not equitable:

> The formula for determining the State allocation does not take into consideration two important factors. First, the number of students enrolled in high cost institutions varies radically from one State to another ... Second, the formula for determining the State allocation does not take into consideration the distribution of income among the States.[5]

In spite of widespread support for changing the allocation procedures in 1968, no changes were forthcoming.

There were further attempts to either eliminate the formulas or substantially change them in subsequent years. However, there was a growing sentiment in Congress that the elimination of the State formulas might create more problems than it would solve. The existing system did, after all, impose distribution of funds among the States. It was argued that State formula allocations were necessary to motivate panel members to judge each other's applications critically in order to share limited funds equitably. Thus, without individual State allocations, it might promote undesired movement toward an expanded Federal bureaucracy to allocate the funds equitably.

The allocation process for the campus-based programs was again the subject of close Congressional scrutiny when the programs were re-authorized in 1972. Some Congressional interests wanted to leave the formulas alone, others wanted to combine the three formulas, and still others wanted to abolish them. In its final compromise in the Education Amendments of 1972, Congress did modify the allocation process for the NDSL, SEOG - IY, and CW-S programs. It determined that 90 percent of appropriated funds would be allocated among the States by formula and the the remaining 10 percent would be discretionary for use by the Commissioner of Education. There was a provision, however, that discretionary funds first be used to assure that each State was brought up to its Fiscal Year 1972 level of funding.

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[5] Notes and Working Papers Concerning the Administration of Programs Authorized Under Student Financial Aid Statutes, College Entrance Examination Board, (Washington, D.C., 1968), p. 34.

Criticism of the allocation process continued after passage of the 1972 Amendments. A 1973 publication of the Brookings Institution noted that inequities could take place at several stages of the application and allocation process.[6]

A 1974 GAO report concluded that the "present process of allocating CW-S, SEOG, and NDSL funds to educational institutions is apparently not equitable."[7]

A 1974 publication of the CEEB agreed with the GAO report that the present system was "not equitable" since the result of the process is an "unfair and differing impact on like individuals in different States, a characteristic hardly in keeping with Federal programs intended to bring about nationwide equity."[8]

A National Work Conference, convened under the auspicies of five educational associations in 1974, also recommended review and evaluation of the State allotment formula and panel review process in relation to stated goals for the campus-based Federal student aid programs.[9]

A second National Work Conference, in 1975, specifically recommended that the same allotment formula be used for all the campus-based programs and that the procedure for distributing the Commissioner's 10 percent discretionary funds be changed over a two-year period so that it would be distributed on the same basis as the 90 percent funds. The latter recommendation was made due to the perceived inequities and the potential for grantsmanship created by the method of assigning the discretionary 10 percent funds.[10]

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[6] Alice M. Rivilin, et al. Setting National Priorities -- The 1964 Budget (Washington, D.C.: The Brookings Institute, 1973), pp. 150-51.

[7] United States General Accounting Office, Report to the Special Subcommittee on Education, House Committee on Education and Labor by the Comptroller General of the United States, Administration of the Office of Education's Student Financial Aid Programs, 4 April 1974, p. 33.

[8] Larry Gladieux and Lois Rice, Title IV of the Higher Education Act (Washington, D.C.: College Entrance Examination Board, 1974), p. 15.

[9] Final Recommendations of the National Work Conferences on Institutional -- State--Federal Partnership in Student Assistance, 30 September 1974. (Typewritten), p. 10.

[10] Second Year Institutional--State--Federal Partnership in Student Assistance, Interim Report/Final Report, 2 June 1975, p. 16.

There is evidence to support the concern that institutions do elevate requests so that their States qualify as a "floor State" and receive additional funding from the distribution of discretionary funds. For example, 10 States which received "substantial" amounts of "10 percent" funds in 1976 show a pattern of dramatically increased requests during the three-year period of fiscal 1974 through 1976. Large increases have not generally occurred in States which do not receive "10 percent" funds, but the median increase in institutional requests for campus-based program funds over the three-year period was over 80 percent in the 10 States which received substantial amounts of "ten percent" funds in fiscal year 1975-1976. By comparison, the median increase in requests in 33 States receiving little or no "10 percent" money was under 9 percent over the same three-year period.[11]

The panel recommended funding levels not only form the basis for distributing funds within States, but also determine whether the State will receive discretionary "10 percent" funds or reallocated funds. Therefore, the fairness of the present allocation process depends heavily on the extent to which regional review panels operate uniformly and consistently and are successful in detecting inflated institutional requests. Nevertheless, there have been substantial questions about panel decisions and their uniformity on a nationwide basis. The goal of achieving national consistency is severely hampered by vast differences in requests from institutions in various States. For example, the total 1976 requests for all campus-based program funds ranged from over $1000 per fulltime - equivalent student in one State to under $200 in another State. Given such a range of per capita requests, it is unreasonable to expect panels as presently constituted to make consistent and equitable decisions on a nationwide basis.[12]

In 1976, after completing a review of the allocation process, OE concluded that longstanding efforts to achieve uniformity in the panel review process had not been successful, and a new regulation was proposed, providing for distribution of discretionary 10 percent funds in accordance with the statutory formulas used for the 90 percent funds in each program. The change was to be phased in over a three-year period to minimize hardship to individual States. However, the proposed change was not adopted, and the procedure under which the 10 percent funds are distributed to "floor States" remains in effect.

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[11] Robert B. Holmes, An Examination and Analysis of Selected Aspects of the Allocation Procedures for the Campus-Based Federal Student Financial Aid Programs (Doctoral dissertation, The University of Michigan, 1977), pp. 162-168.

[12] Ibid., p. 173-76.

Summary

Proponents of the existing process can argue that the State allocation process provides some advantages. It helps to ration limited funds among the States, insuring that each will receive at least minimal funding. It also has been contended that the use of State formulas is an incentive for institutions to exercise restraint in their requests, because they are applying for funds available within their own States rather than against what may seem to be a very large national pool of funds. Evidence to the contrary notwithstanding, it has also been argued that the present means of allocating the 10 percent discretionary funds is an acceptable indicator of differing needs among the States. Nevertheless, the real and potential disadvantages in the present system far outweigh any purported advantages. It is inequitable in results, subject to abuse, and inefficient. First, there are wide disparities in award levels among States with similar characteristics and needs which result in maldistributions among institutions and students with substantially equivalent needs. Second, efforts to correct these inequities through use of the 10 percent discretionary fund allocation process have a) tended to exacerbate rather than correct these inequities; b) made the process subject to abuse; and c) led to administrative difficulties and inefficiencies.

RECOMMENDATIONS

Allocation of Funds for Campus-Based Programs

II-B-1 An Appropriate Conceptual Framework for the Institutional Application and State Allocation Procedures

II-B-2 Revising the Assignment of Discretionary 10 Percent Funds

II-B-3 Revising the State Allocation Formulas

II-B-1 An Appropriate Conceptual Framework for the Institutional Application and State Allocation Procedures

Recommendation

Since the application and allocation procedures are so closely intertwined, the Study Group recommends that the working committee established in Recommendation II-C-3 give priority to consideration of the incongruities between the procedures utilized to bring funds to States and those used to distribute funds within States. This process must include the testing of alternative allocation models and formulas for distributing not only to States but within States. This process also must include further definition of Congressional intent regarding Federal student assistance programs.

Rationale

At the present time, there is a dual conceptual framework which supports institutional application and State allocation processes. On the one hand, 90 percent of the funds are distributed to States based on formulas containing State demographic statistics. On the other hand, panel recommended financial need determines the distribution of funds within each State, as well as determining and the allocation of the discretionary portion of the 10 percent funds to States and the reallocation of funds.

The Study Group has identified inequities in both the institutional application process and the State allocation process. Therefore, the testing of alternative institutional application and State allocation models and formulas should be an essential activity of the working committee. However, Congressional intent regarding the overall purposes and interrelationships of the Federal financial aid programs is not well defined. This lack of definition and clear policy statements have hindered attempts to develop and analyze alternative institutional application and State allocation procedures. The College Entrance Examination Board noted this problem in a 1974 study of the Title IV programs:

> The omission of a clear statement of purpose for the student aid programs under Title IV may have been intentional, the result of legislative compromise and concessions. Still, a definitive statement of goals could have added to a better understanding of the programs, their interrelationships and target populations.

The Study Group believes that the working committee should seek further definition of Congressional intent regarding Federal student financial assistance programs. An essential part of this process must include the resolution of the interrelationships between Federal, State, and institutional financial aid programs, as well as the resolution of interrelationships between the various Federal programs.

II-B-2 Revising the Assignment of 10 Percent Discretionary Funds

Recommendation

The Study Group recommends that for a one-year interim period, the 10 percent discretionary funds be allocated in a manner consistent with the institutional funding process outlined in recommendations II-C-1 and II-C-2. These funds should be utilized to fund continuing institutions at approximately their current level and to accommodate the funding of new institutions.

The working committee which would be established in accord with Recommendation II-C-3 should be charged with the responsibility for identifying, testing, and recommending alternatives for allocating the 10 percent discretionary funds in the 1978-79 fiscal year and in future years.

Rationale

The assignment of the 10 percent discretionary funds should be changed immediately in order to accommodate the recommended change in the 1978-79 institutional funding process procedures (see Recommendation II-C-3) which would fund all institutions at a level which bears a reasonable relationship (with certain adjustments) to current levels. Regardless of the type of institutional funding process used in 1978-79, however, the Study Group believes that the assignment of 10 percent discretionary funds should be changed so that there will no longer be an incentive for elevated requests.

Without precluding other alternatives, the working committee should assess the relative advantages and disadvantages of alternatives such as the following:

1. Assignment of the discretionary 10 percent funds on the same basis as the ninety percent statutory funds;

2. Assignment of the discretionary 10 percent funds for the purpose of providing equity at the institutional level rather than the State level;

3. Not changing assignment of the discretionary 10 percent funds and relying upon the development of an institutional application utilizing verifiable, auditable data to reduce the potential for grantsmanship.

II-B-3 Revising the State Allocation Formulas

Recommendation

The Study Group recommends that the variables utilized in the State allocation formulas be changed to be consistent with the eligible populations being served by these programs. The working committee established by Recommendation II-C-3, which will be seeking to clarify the Congressional intent of the Federal student financial aid programs, will be in a unique position to provide leadership in this effort.

Rationale

1. The advent of the BEOG program has brought massive amounts of financial aid funds to students. Yet, the allocation formulas do not reflect the effects of the BEOG program even though it is the "foundation" of financial aid. Decisions are needed to place the campus-based programs in the proper context of other financial aid programs so that the formulas can reflect these relationships.

2. The variables used in the current allocation formulas have remained essentially unchanged since the inception of the programs (NDSL - 1958, CWSP - 1964, (S)EOG - 1965). However, the eligibility requirements of the programs have changed since the original enabling legislation. For example, the CW-S program is no longer limited to students from poverty level families, but one of the variables used to allocate funds is an index of relative State poverty.

3. The current allocation formulas contain some irrelevant variables. For example, the SEOG formula contains the full-time equivalent enrollment of part-time students even though only students who are enrolled half-time or more are eligible. Although half-time students are eligible for both CW-S and NDSL funds, only full-time students are included in these formulas. In spite of the fact that graduate students are not eligible for SEOG - IY funds, the allocation formula contains both undergraduate and graduate students. The number of high school graduates is included in the CW-S formula. Yet, the interstate migration patterns of high school graduates vary widely, limiting the usefulness of this variable as an index of the future need for funds.

C. The Institutional Funding Process for Campus Based Programs

BACKGROUND AND ISSUES

Campus-based student financial aid funds are assigned to participating institutions in each State by a complex process in which the overall financial need of students in attendance at one eligible institution is evaluated, and compared against the need of students attending other applicant institutions in that State. Although the current process has evolved over a decade of experience, the process has been widely criticized as inequitable, costly, and needlessly complex.

Aspects of the application process which have been reviewed by the Study Group include: The Tripart application,[13] the Tripart Workshops, the regional panel review process, the regional appeal procedure, the National appeal panel, the use of the Commissioner's 10 percent discretionary funds, the reallocation procedures, and the State formula system.

The Forms

When the first of the three present programs, NDSL (originally the National Defense Student Loan Program), was enacted in 1958, the process by which institutions applied to the Office of Education for funding was very simple and direct. Colleges (then about 1100) were sent a simple form on which they were asked to indicate the amount of funds for which they wished to apply. In the early years of the program, a small national review panel of college officials was convened in Washington each year to approve funding levels for the applicant institutions.

Before the Office of Education assumed the administration of the CW-S program in 1965-1966, the application for funds in that program involved submitting a separate application form. With the implementation of the EOG (Educational Opportunity Grant) program that same year, the first Tripart application was introduced.

Colleges were urged at this time to apply for all three programs on one six-page form. It was also at this time that regional review panels were first convened. Both the application form and the panel size grew from that year forward. As the process has evolved, there has been a trend toward requiring greater degrees of justification of each institution's need for funds.

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[13] The Institutional Application to Participate in Federal Student Financial Aid Programs.

The concept of institutional need analysis was introduced into the application process (Long Form) in 1970. The institution was required to categorize its needy students by parental income. By determining the parental contribution available to these students and combining that sum with aid available from outside sources and then subtracting the total amount from the total educational costs of the students, an unmet need was determined. An institution was then permitted to request a total amount of funds equal to this need; however, there was no means for independently validating the information submitted on the long form since projected information was used for funding decisions. Even though the form has undergone many revisions, the same intitutional needs-analysis concept is still used, with the exception that data is longer collected by parental income levels.

Over the years, changes have been made in the long form to increase internal validity and more accurately distribute available funds. However, these changes resulted in increased length and complexity of the application and validity did not seem to improve. For example, OE's Region X conducted a study to verify information submitted on 1976 applications by 44 institutions with a history of well received applications.[14] The results of the study raised serious questions about the accuracy of projected data used for funding process. Moreover, even historical information on the applications was questionable in many instances.

Even with the check lists and pages of instructions which accompany the application, some institutions are still unable to file a usable form. Concommitant with the growth and complexity of the application, there has been an increase in the number of participating institutions. Processing this massive amount data has become an increasing burden on OE staff. At the present time, Regional Office SFA staffs are primarily occupied with processing applications for about five months out of the year.

Varying Concepts Used to Evaluate Applications

Throughout the history of the institutional application process, varying concepts have been used to alleviate or cope with the deficiencies and problems encountered in it. Early application procedures were simple and functional, taking into account such factors as fund utilization, staffing patterns, etc. During this time there were several attempts to tie funding levels to a "normal growth" percentage in order to more easily approve a request which did not substantially exceed a previous funding level.

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[14] Hollis Adams and Duane Richardson, A Study of Alternative Funding Mechanisms for Student Financial Aid (Portland, Oregon: Northwest Regional Educational Laboratory, 1976), pp. A1-A6.

In subsequent years, the "institutional need analysis" concept was introduced. This was an attempt to identify the number of needy students and the aggregate financial need. Later, the concept was tied to utilization and normal growth rates, with the various factors gaining more or less emphasis from one year to another. Attrition of very needy students was for a time considered of utmost importance, particularly in the SEOG program. The normal growth concept became predominant in 1974, when colleges were permitted to file a "short form" as an alternative to the traditional "long form" application. The initiation of the short form was in response to criticisms of the long form by both the OMB and postsecondary institutions. If a college was willing to accept a funding level no greater than 110 percent of the previous year's panel approval, it had relative assurance of 110 percent funding. In days of relatively stable enrollment, many colleges (65% percent in fiscal year 1977) used the short form. It should be noted that introduction of the dual system (short or long forms) put panels in the questionable position of making decisions from two different conceptual points of view, institutional need or normal growth.

The Panel Process

Regional panels are responsible for reviewing institutional applications for campus-based funds and comparing the individual institution's request with requests from similar institutions. Among other factors, panel members are typically chosen on the basis of their familiarity with institutions within the region. As such, the panel has an understanding of pertinent facts not contained in the institutional application, including such important factors as administrative capability and financial stability. Therefore, panel recommended funding levels result from a consideration of information from both formal and informal information resources.

It is important to point out that funding levels recommended by the panel are seldom available to the institutions, since funds have not been available in recent years to fund fully panel approved requests. Furthermore, funds which are available are divided among States by formula in such a way that similar institutions in different States receive different percentages of panel recommendations. (See Appendix F) College A in one State may receive as much as 95 percent of its panel recommendation, while college B, a similar institution in a nearby State with equivalent actual needs, may receive as little as 32 percent. Since panelists are aware of these phenomena, their objectivity in reviewing institutional requests is affected. In a recent survey, 68 percent of 98 respondents who had participated on regional panels believed that many or most institutions inflated their requests.[15] In order to receive the dollars it actually needs, the applicant

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[15] Donald Mullen, "Final Report of the Panel Review Process" (Unpublished study, Office of Financial Aid, University of Montana, 1976), pp. 6-7.

institution may submit an inflated application to compensate for reductions necessitated by the State allocation formula. For example, the application of college B, intended to determine the actual dollars needed by the college, must somehow show a need for \$312.50 in order to receive an award of \$100.00 (312.50 x 32 percent) after the State formula applies. The fact that colleges have been able to prove need for \$312.50 when only \$100 is needed points to the weakness of the application, and to the dilemma faced by panelists under the current system.

An additional weakness in the present process is the inability of panels to properly consider the immense amount of data presented to them. Without computer or other analytical support, the process is plagued with inequitable and inconsistent decision-making, both within panels and between regional panels.

Pressures to change the institutional application process have increased in recent years. Included have been requests for a new application, elimination of the panel process, using only auditable information,[16] implication of the entire procedures, strengthening the panel process, transferring the responsibility for institutional allocations to State agencies, and using a formula distribution of funds to institutions.[17]

In summary, the application and funding process are complex, burdensome, and time consuming. They encourage grantmanship and speculation on the future. An alternative means for distributing funds must be found.

RECOMMENDATIONS

Institutional Funding Process for
Campus-Based Programs

II-C-1 Requirements of Any Institutional Funding Procedure

II-C-2 Developing a New Institutional Funding Procedure

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[16] United States, G.A.O., Administration of the Office of Education's Student Financial Aid Program, p. 34.

[17] United States, DHEW, Office of Education, Requirements Statement and System Proposal of the Task Force on Data Management of the Campus-Based Student Financial Aid Programs, 17 January 1977, pp. 70-80.

II-C-3. Establishment of a Working Group

II-C-4 Reallocation of Funds in NDSL, SEOG, CW-S

II-C-f Requirements of Any Institutional Funding Procedure

Recommendation

The Study Group recommends that any process designed to assign campus based funds to participating institutions must include the following:

1. General Criteria

   A. The funding process should carry out the program objectives as established by Congress. Further clarification of Congressional intent is necessary.

   B. Information on the planned method of fund distribution, review and appeal guidelines, and rules and regulations should be announced to institutions well in advance of the implementation of the system.

   C. The funding process should be readily understandable to the institution and governmental units administering the programs.

   D. The funding process should be as simple and straightforward as possible and should be designed to reduce administrative efforts in both institutions and the Office of Education.

   E. The funding process must be sequentially coordinated in order to accommodate the varying calendars of the institutions, the Office of Education, other aid programs, and the appropriations cycle.

   F. The standards, techniques, and procedures used in the funding process should be uniform and consistently applied from institution to institution, from State to State, and from region to region.

   G. Any funding process should be subjected to extensive testing before implementation.

   H. The appropriations process should precede the institutional application process so that the funding process can initially assign "actual" dollars rather than "panel recommended" dollars which are typically greater than the final allocation. In the event that the funding process continues to precede the appropriations process, initial notifications to institutions should provide realistic estimates of available funds, give projections of appropriations, and give the effects of the State allocation procedures.

2. Data Collection and Use

A. Ideally, the funding process should utilize only data that can be verified and audited. Authority to require such verifications should be included in regulations. This implies that, to the extent possible, all data represented must be actual, not estimated or projected.

B. No more than one data collection document should be used to collect necessary data for the funding allocation process as well as for the end-of-the-year reporting process.

C. The Office of Education should fully utilize the advan[illegible]of automatic data processing in the funding process.

3. Review and Appeal

The funding process should allow for a review and appeal mechanism. The mechanism for review and appeal should be a peer panel representative of constituent groups including the Regional Office of those institutions. The policies and procedures governing review and appeal must be clearly defined and published simultaneously with the document used by institutions to request funds. The justification for decisions made by the appeal panel should be carefully documented and permanently maintained as a matter of record.

Rationale

The current system has many disadvantages including the following:

1. The current application is difficult and time consuming to comp[illegible]e, edit, and evaluate.

2. [illegible] current application encourages grantmanship.

3. The application speculates on the future, in that decisions are based on projected figures that are difficult to estimate and impossible to validate until two years later.

4. Institutions report that they spend an inordinate amount of time gathering and verifying the data.

5. The application is burdensome to process. The logistics in Region V for Fiscal Year 1976 are cited as an example. Seven hundred forty (740) application were received. Most contained 14 pages, each having 5 copies, resulting in 52,000 pieces of paper which must be received, sorted, logged and checked for completeness. Similarly, the immense amount of data is difficult, if not impossible, for the panels to consider properly.

6. The unevenness of the processing workload from one region to another another tends to foster inequity. The average panel review time varies from under one-half hour in one region to almost and hour in several other regions.

Because the Study Group believes that the strengths of the application procedures are so far outweighted by its weaknesses, it believes that an alternative means of distributing funds to institutions must be developed.

II-C-2 <u>Developing a New Institutional Funding Procedure</u>

<u>Recommendation</u>

The Study Group recommends that a new method of fund allocation be developed and fully operational for use in 1979-80 (Fall, 1978). The development of changes in the 1978-79 funding process should be "transitional" in the sense that these changes should be consistent with the method to be utilized in 1979-80.

The Study Group further recommends that the 1978-79 funding process should:

1. Fund all institutions which have participated in the programs for two years or more at a level which bears a reasonable relationship to current levels.

2. Attempt to correct gross inequities in current levels of institutional funding.

3. Be flexible to accommodate new institutions, as well as relatively new institutions, whose current levels of funding may not reflect their actual needs.

<u>Rationale</u>

The Study Group believes that there is insufficient time to design and test adequately an ideal process for fund allocation for 1978-79 (Fall, 1977). It, therefore, recommends a continuing effort toward achieving that objective. Such an effort should first establish the goals it wishes to achieve by elaborating on the criteria listed in II-C-1. Having established a framework of achievable goals, it should test various methods of fund allocation against these goals.

It is expected that the development of a new funding process will be difficult and time consuming in that it must not jeopardize the educational plans of individual students or the fiscal position of participating institutions.

II-C-3 Establishment of A Working Group

Recommendation

The Study Group recommends that the Secretary immediately direct the Commissioner of Education to establish a working group to assist in the development of new approaches to the funding process.

The Study Group further recommends that the working group be charged with providing guidance and advice with respect to the development of regulations, technical amendments, forms and other materials attendant to the funding process including:

1. The testing of alternate allocation models and formulas (including allocations to institutions from funds available to each State, as well as State allocations);
2. The review of data needed for a revised funding process;
3. Clarifying the role and function of the Regional Offices;
4. Clarifying and revising the role and function of the review panels if they are required.

The Study Group recommends that the working group be organized immediately in order to develop a calendar for identifying, testing, and implementing changes in the funding process.

The Study Group also recommends that the working group, in its development of a new funding process, should explore and attempt to resolve the incongruities inherent in the relationship between the institutional funding process and the State allocation procedures. (See Recommendations II-B-1, 2, & 3) Furthermore, the Study Group believes that an essential part of this process must include the resolution of the interrelationships among Federal, State and institutional financial aid programs, as well as the resolution of the interrelationships among the various Federal programs.

The working group's role should continue until a new permanent fund allocation system is in place and operational by February 28, 1979 for use in the 1979-80 fiscal year.

Rationale

The development of any new process to allocate funds to institutions will necessarily impinge upon many facets of Federal, State and institutional operations. Therefore, to assure the development of a funding process which is workable and equitable, input from a wide variety of sources is mandatory. Because of the inherent diversity of State and institutional programs, the Office of Education is in a unique position to provide leadership for this effort.

II-C-4 Reallocation of Funds in NDSL, SEOG, And CW-S

Recommendation

1. The Study Group recommends that beginning in the 1977-78 school year, Regional Offices be given final authority for reallocation of regionally deobligated funds in the SEOG and CW-S programs, in order to permit timely use of these funds.

2. Such regional authority should extend to the NDSL Program by making statuatory changes.

3. Such regional authority for reallocation should be extended from one State to another within a region if there is no declared need for that funding within the State from which it was deobligated.

Rationale

In order to provide maximum flexibility in assisting students, it is necessary to change the present procedures for assigning deobligated funds. By increasing regional authority, the funds can be delivered to the institutions at a time when they can make use of them. Freed from the necessity to keep funds within one State, overestimates and underestimates can be ameliorated over regional areas, eliminating significant differences between bordering States. It has not been possible, in the past, to reallocate badly needed funds.

D. Student Application and Awards: Financial Aid Programs

BACKGROUND AND ISSUES

If Federal student financial aid programs are sometimes confusing and difficult for those who manage them, they present much greater problems for the student and his or her parents. One has only casually to examine the student financial aid application and award process to realize that the student applicant faces a veritable maze of differing sources and types of financial aid, each with its own forms, deadlines, and procedures. For example, a student may file separate financial aid applications with each institution to which admission is sought, as well as for financial aid with a State agency, for a Basic Educational Opportunity Grant (BEOG), and for a Guaranteed Student Loan (GSL). The student may also complete applications for scholarships from local, union, company, or philanthropic groups.

In addition to the numerous financial aid applications to be completed, the student is frequently confronted with the more complicated task of completing several need analysis statements. Institutions may choose among several possibilities: the College Scholarship Service, the American College Testing Program, or the income tax method, or they may adopt the BEOG analysis. Thus, a student submitting applications to two or more institutions may be requested to submit information to meet the requirements of two or more different need analysis systems. Some State agencies utilize still another system. Private sources of financial aid may request financial information from the family in yet another form. It is more than possible, then, that a student will be required to complete up to seven different documents, each requiring similar information, just to apply for financial aid at just one institution.

The application process for students is further complicated by three key considerations:

1. The definitions of some of the requested data on the applications are not always consistent among the national need analysis services, States, the BEOG program, and the GSL program.

2. The timing of the distribution and processing of applications differs among private, State, and Federal systems and, thus, creates confusion for students and complicates the institutional packaging process.

3. The varying use among private, State, and Federal systems of estimated or actual family income results in the possibility of inconsistent treatment from program to program.

The net result of this vast array of paperwork is often confusion and uncertainty for the student and the student's family. Out of confusion, lack of information, and amount of effort involved, some students and parents fail to apply to receive the benefits of programs intended to assist them. At the least, students and their parents spend many unnecessary hours providing repetitive information for the many different organizations and agencies in the aid-awarding process. There is little question that the multiplicity of forms, uncoordinated application dates, and inconsistent definitions cause some missed opportunities and, thus, hinder attainment of the goals of access and choice which underlie the Federal student financial aid programs.

In 1975, the National Task Force on Student Aid Problems called for the adoption of a common financial aid application, common definitions, and common application processing dates in order to simplify the financial aid delivery process for students and their families. Since 1975, the continuation of the Task Force activities has been carried on by the Coalition for the Coordination of Student Financial Aid. The Coalition has provided substantial leadership for efforts directed toward simplifying the delivery of financial aid funds to students. Nevertheless, the current process by which students apply for financial aid funds is confusing, complex, duplicative, and inefficient. It is no wonder that many students and their families fail to comprehend the totality of the system. Major changes are, therefore, needed in the current patchwork process in order to prevent the system from literally being buried in duplicative paperwork and in order to make the system more easily understandable.

RECOMMENDATIONS

Student Application and Awards Process

II-D-1	Simplication of the Student Application Process
II-D-2	Base Year Family Financial Data
II-D-3	Data Validation
II-D-4	Identification of Common Data Elements and Establishment of Common Definitions
II-D-5	BEOG Award as Foundation for Total SFA Award Package
II-D-6	The Basic Educational Opportunity Grant Appropriations Procedures

II-D-7 Basic Educational Opportunity Grant Application Deadline

II-D-8 Validation of Information With Income Tax Records

II-D-9 Use of GSL Funds to Substitute for Parental Contribution

II-D-10 Coordination of SFA and Public Assistance Programs

II-D-1 - Simplication of the Student Application Process

Recommendation

The Study Group recommends the adoption of a student application system which would make it possible for a student to supply family financial data only once a year in order to have family financial strength analyzed.[18] Under such a system, data elements needed to determine student eligibility for a BEOG would be included on the forms of participating private need analysis systems and State scholarship and grant agencies. The participating private systems and State agencies would transmit these data to the BEOG processor who, in turn, would inform the student directly of his or her eligibility without the need of an additional application.

Rationale

The concept of a common financial aid data collection (CFADC) system will reduce the number of applications for financial aid to be completed by a student and his or her family. It will also facilitate the synchronization of the delivery of institutional, State, and Federal financial aid and implement the use of a common calendar as well as an application containing common data elements and common definitions. The common data collection system will thus eliminate the need for separate applications to the BEOG Program and the institution's need analysis processor. The initial data recipient or processor can, if it chooses, estimate the BEOG Student Eligibility Index, determine its own expected family contribution, and, where appropriate, package the various sources of aid under its control with the probable BEOG award.

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[18] The revised student application system has been referred to as the "Multiple Data Entry System," the "Common Data Collection System," and "The Tape Exchange System." This report employs the label of the "Common Financial Aid Data Collection (CFADC) System" to describe the system.

Other than the fact that student data may be received from participating private need analysis processors and State agencies, the processing of BEOG applications will remain the same: the applicant's data, from whatever source(s), will be processed by the BEOG processor and the Student Eligibility Report will be produced and mailed to the student. In addition, the BEOG processor will handle changes in student data and control for duplicate applications. Furthermore, care will be taken to insure that students who wish to apply only for a BEOG, may still continue to do so with no change.

II-D-2 Base Year Family Financial Data

Recommendation

The Study Group recommends that only verifiable year-end data on the family financial situation be used for the final assignment of Federal funds. The distribution schedule of student applications by the BEOG program, State agencies, and private need analysis processors should be consistent with the use of year-end data. However, special efforts on the part of colleges that wish to advise families of the student's probable financial aid eligibility in connection with an early admissions process would not be inconsistent with the established application availability date as long as only completed year data are used for the final assignment of Federal funds. This recommendation applies to the annual application process and does not preclude use of current-year data in special circumstances (death, divorce, etc.).

Rationale

A common financial aid data collection (CFADC) system requires the use of a common base-year which will be utilized to determine family financial strength. As presently conceived, the CFADC system will collect full calendar-year information from families since applications will not be available for completion or processing until near the end of each calendar year. The application utilized by the CFADC system should permit a reference, by the family, to information reported to the Internal Revenue Service rather than leaving the requested information open to interpretation and possible misrepresentation, whether intentional or otherwise. Recent studies suggest that financial aid forms filled out after the year has been concluded have a higher validity rate than those completed before the close of the calendar year. An even higher rate of item validity is attained after the Federal tax return has been completed. In terms of fraud and abuse, it is apparent that the use of prior year data is preferrable since it would be difficult if not impossible to prosecute successfully someone for an incorrect estimate of future income.

Both advantages and disadvantages accrue from either an early application availability date, such as September or October, or a later one, such as January. An early date would allow students the opportunity to finalize their postsecondary plans at an earlier date. However, an early application availability date implies that students would be submitting estimated rather than actual year-end data. Although it would be possible to address the problem of estimated data by strengthened verification procedures, the point remains that substantial repackaging and reprocessing could be the end result of an early application availability date. It is questionable whether the administrative effort involved in this repackaging and reprocessing effort, or the possible student confusion, would be offset by the fact that awards could be made at a slightly earlier date.

The adoption of an application system which utilizes only actual year-end data will not be without problems for institutions which have traditionally provided early admissions and financial aid decisions for students. However, it is likely that a simplified application form and service could be developed by the private need analysis processors which would provide an approximation of the family ability to pay for those students and institutions wishing to have earlier information. Such a service would enable institutions to make tentative financial aid offers at an early date which would be reviewed subsequent to the submission of actual data at the end of the calendar year.

II-D-3 Data Validation

Recommendation

The Study Group recommends that a common financial aid data collection (CFADC) system include a coordinated data validation component.

Rationale

Coordinated data validation efforts will improve program integrity and reduce fraud and abuse. The CFADC concept would provide a mechanism for coordination and possible expansion of the often duplicative data validation efforts currently underway in institutions, State agencies, and private need analysis processors. Therefore, the results of data validation efforts by a participant in the CFADC system should be shared, if appropriate, with other participants in the CFADC system. Participants not currently conducting data validation efforts should be encouraged to initiate such procedures and similarly to share the results, as appropriate, with other participants in the CFADC system.

Furthermore, under the CFADC system, it is possible that original data on a student could be received by the BEOG processor from two or more sources. This would provide an opportunity to compare the data according to preestablished parameters and to conduct follow-up activities with the applicant as needed.

In summation, the Study Group believes that data validation efforts directed at correcting intentional or unintentional differences in data are a vital component of the CFADC concept.

II-D-4 Identification of Common Data Elements and Establishment of Common Definitions

Recommendation

The Study Group recommends that the Office of Education, the private need analysis services, and the State scholarship and grant agencies proceed with all practical speed to identify the common data elements and definitions which would permit the CFADC system to operate and to develop the procedures necessary to assure timely and accurate transmission of data to the BEOG processor. It is practical to seek full implementation of this system for academic year 1978-79.

Rationale

Each organization which awards financial aid to students -- whether a Federal, State, institution, or private source — has the right to require that students provide the financial information the organization needs to make decisions under its own criteria. However, because each aid system has been developed independently and historically has operated autonomously, there is little consistency in the data elements they request from students and their families. Also different organizations may use different terminology or definitions to refer to what are essentially the same kinds of information. Some of these differences in data elements and definitions are only incidental and do not reflect real differences in the needs of the organizations. The CFADC system provides the potential for a major simplification of the student application process without sacrificing the needs of aid-giving organizations.

The revision of student application forms to achieve common data elements and standard definitions, as far as this can be achieved, and the development of procedures to transmit data to the BEOG processor should be joint efforts of the Federal, State, and private organizations concerned with need analysis. It is the view of the Study Group that it is possible to incorporate all of the data elements necessary to compute the BEOG Student Eligibility Index into the application forms of State agencies or private processors.

II-D-5 BEOG Award as Foundation for Total SFA Award Package

Recommendation

The study Group recommends that consideration of a potential award of a BEOG be required in all cases before any other need-based award of Federal funds is authorized for an eligible student. States should be encouraged to do likewise.

Rationale

Since the BEOG program is the foundation of undergraduate financial aid programs, it is appropriate that all eligible students be encouraged to complete BEOG applications. This recommendation is compatible with the objective to collect common data information for multiple eligibility determination (see Recommendation II-D-1). Likewise short-term efforts to accommodate students who have not completed the BEOG award process prior to receiving need-based aid funds are not inconsistent with this recommendation. Several States have already implemented such a procedure. If State student financial assistance continued at the same level after this action, the additional funds available could be extended to assist more students and/or in greater amounts.

II-D-6 The Basic Educational Opportunity Grant Appropriations Procedures

Recommendation

The appropriation procedures for the Basic Educational Opportunity Grant Program should be changed to remove the existing uncertainties in the amount of awards that can be expected. Any new appropriation procedure should either 1) fix the dollar amount of the appropriation on the basis of the best projection of needed funds, or 2) approve a given payment schedule.

Rationale

The payment schedule enabling financial aid administrators to calculate BEOG awards has typically not been available until May or June. The inability to determine the actual amount of the BEOG award at the same time other sources of aid are packaged has led to considerable inefficiencies in financial aid offices (e.g., awards must be repackaged if the actual BEOG differs from the estimated BEOG). Furthermore, the late date at which actual BEOG awards can be calculated complicates educational decision-making for many students.

In the early days of the BEOG program, the lateness of the payment schedule was due to uncertainties related to Congressional permission to carry over under-expenditures in one year for use in the subsequent year. More recently, the problem has been quite the opposite, and the question has been whether the amounts drawn down or borrowed against future appropriations would be restored by a supplemental appropriation from Congress. Since such appropriations have been late in coming, BEOG program officials have not known whether the pool of funds available for the subsequent year would be the total original appropriation or the appropriation less that which had been "borrowed" to meet current year expenditures.

A third source of uncertainity occurred during the 1975-1976 academic year when permission to borrow against future appropriations was not received until after funds were totally expended. About 20 percent of the Nation's educational institutions were without the funds to honor student awards for approximately three months.

The Study Group believes that the detrimental effects of the current calendar of student award level notification must be corrected. This could be accomplished in either one of two ways:

1. The dollar amount of appropriations could be established for the fiscal year based on the best projections of participation rates and levels of student awards. Requests for supplemental funds would not be entertained if projections were later found to be in error. This fixed appropriation approach implies a first-come, first-served philosophy.

2. A given payment schedule could be approved based upon the best projections of participation rates and levels of student awards. The payment schedule approach implies that the BEOG programs is a true entitlement program and, thus, an "such funds as may be required" appropriation would be required to support the payment schedule.

The adoption of either of the approaches would make possible the early dissemination of the payment schedules as well as eliminate the threat of readjustment of the student's calculated award later in the academic year.

II-D-7 The Basic Educational Opportunity Grant Application Deadline

Recommendation

The calendar relating to student application deadlines for the Basic Educational Opportunity Grant Program should be carefully reviewed and adjusted to insure that students who choose to attend institutions with non-

traditional academic calendars will have the opportunity to receive their full entitlement of funds. Specifically, the Study Group recommends extension of the current March 15 application deadline to a later point in the program year.

Rationale

Students making a decision to attend a postsecondary institution after the March 15 BEOG deadline may lose up to 50 percent of their entitlement by virtue of the time of year the decision is made. For example, a student may decide on March 22 to attend institution "A" starting April 1. (Most vocational schools have courses beginning monthly.) If the student had not previously completed a BEOG application, he or she would lose three months of entitlement (April, May, and June) before being eligible for a grant covering only the portion of training that remains after June 30. If the course in question were six months in length, it is evident that one-half of the BEOG award would be forfeited. Although BEOG publicity states that March 15 is the deadline for submission of a BEOG application rather than for enrollment, many institutions with non-traditional academic years are characterized by students who make educational decisions and plans simultaneously with enrollment.

Therefore, the existence of the March 15th cut-off may cause distortions in student enrollment patterns since less affluent students may not be able to afford to enroll in April, May, and June. This is further compounded by the tendency of many institutions to utilize a "first-come, first-served" philosophy in other financial aid programs, leaving them with no funds late in the award year.

The BEOG system already has an overlap of several months in which computer systems for both application years are in process. The expansion of this overlap period should not create a hardship. How to accomodate corrections to Student Eligibility Reports appears to be a more troublesome issue. Therefore, limits may have to be placed on students who apply after March 15 and who make errors on their applications. However, penalizing this limited group of applicants appears preferable to penalizing all who make postsecondary educational decisions late in the award period.

II-D-8 Validation Of Information With Income Tax Records

Recommendation

The Study Group recommends that OE require States and institutions to verify and validate the financial information submitted by parents and students in applying for financial aid. Comparisons should be made with Income Tax records to the greatest extent possible.

Rationale

Increased efforts to verify information on student financial aid applications will enhance the integrity of the submitted data and hence reduce fraud and abuse.

The Study Group feels that it is incumbent upon need analysis services, States, and/or institutions to compare financial information obtained from application sources and, if possible, to verify the financial information with Income Tax records. Studies to date indicate that approximately 15 percent of Basic Grant Applicants[19] tend to underestimate income and approximately 6 percent overestimate.

II-D-9 Use of GSL Funds to Substitute for Parental Contribution

Recommendation

The Study Group recommends that any need analysis system approved by the Commissioner for determining parental contribution for campus-based programs be allowable for use in recommending subsidized GSL's for dependent students.

Rationale

The Study Group recognizes that in determining student awards under the campus-based programs, financial aid administrators are able to consider subsidized GSL's as a substitute for part or all of the expected parental contribution. Amounts in excess of the parental contribution are considered a student resource.

Currently, there are provisions in regulations for campus-based programs which allow students to borrow from the GSL program an amount not to exceed family contributions. The Commissioner must designate each year those need analysis systems that can be used to determine family contribution which, in turn, determines the need for campus-based funds. However, not all the systems approved by the Commissioner for determining family contribution and need can be used for recommending GSL amounts.

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[19] See Sylvia I. Diegnau, "Stretching Your Financial Aid Dollars: Another Look at Income Verification," The Journal of Student Financial Aid, November, 1975; and James L. Bowman, Accuracy of Parents' Taxable Income Reports for the 1972-73 Processing Year, Educational Testing Service, August, 1974, quoted in Validation of Student and Parent Reported Data on the Basic Grant Application Form, Final Report, Volume VI, Applied Management Sciences, 23 November 1976, p. 8.

II-D-10 Coordination of SFA and Public Assistance Programs

Recommendation

The Study Group recommends that the Secretary direct agencies within HEW to formulate policies and procedures for the coordination of benefits available to students and their families from both student financial aid and public support programs. The Study Group further recommends that the Secretary seek a similar coordinated effort with agencies external to HEW.

The objective of this recommendation is to: 1) prevent the duplication of funds for the student's maintenance, and 2) prevent the curtailment of funds provided for the student's maintenance from public support programs when financial aid funds are awarded to meet direct educational expenses (tuition, fees, books, transportation, and child care).

Rationale

Direct educational costs may include tuition, fees, books, transportation to and from the educational institution, and child care while attending the educational institution. The Study Group is aware that duplication of Federal aid and public support dollars has occurred because of imprecise policies within and without HEW. The Group also is aware that aid recipients' maintenance payments from other sources have been reduced when only direct educational expenses were met by student financial aid program sources. In instances whereby maintenance payments do not meet room and board costs at an educational institution, the student should have the option of relinquishing the public support program eligibility and seeking a total financial aid package based upon need.

E. Information Needs of Students and Parents

BACKGROUND AND ISSUES

Efficient and equitable delivery of financial aid requires adequate dissemination of information to students and their parents. Information must be timely, factually accurate, and comprehensible to students and their parents. Information is needed to help ensure: 1) that prospective students and their parents are aware of the sources of possible aid and are in a position to take advantage of the benefits offered by the various student financial aid programs; 2) that students can make wise choices among educational institutions without major financial constraints; 3) that students are more likely to select a beneficial educational program; and 4) that students receive adequate consumer protection.

Current Efforts

Many different Federal, State and local government agencies and private organizations are involved in trying to meet the need for information about Federal student financial aid programs. Each of the Federal financial aid programs has provided for some dissemination activity. The best example of this activity occurs in the BEOG program which trains both Central and Regional Office staff; prepares and distributes handbooks, student guides, and lists of eligible schools; develops policy communications to institutions; and provides annual training of high school counselors, student financial aid administrators and fiscal officers.

OE Regional Offices are responsible for providing information and advice to educational consumers and for the dissemination of information about student financial aid as well as other programs.

There are various State agencies actively involved in providing information to students concerning both educational alternatives and sources of student aid. A good example is the Oregon Career Information System which is directed toward non-school publics as well as current students, and also to school and social agency personnel. The computer-stored data base contains a great deal of information about financial aid programs.

Evidence of Unmet Needs

Despite these and many other efforts, there is clear evidence that lack of information about student financial aid stands as a serious barrier to postsecondary education. Many potential students are not aware of Federal student financial assistance programs or other sources of aid which might

enable them to undertake postsecondary education. A report by the Student Advisory Committee of the College Scholarship Service concluded that "those students who have the greatest need are least likely to learn about the system, and least able to overcome the hurdles of forms, annual financial aid need analysis and repeated trips to the financial aid office."[20]

The National Longitudinal Study of the High School Class of 1972[21] revealed that approximately one-third of 1972 high school graduates who did not enter an institution of postsecondary education within 1 and 1/2 years after graduation gave as the reason: "needed to earn money before could pay for further education." An even greater percentage of respondents in low socioeconomic groups and minority respondents gave this reason.

Apparently, many students are not only uniformed but misinformed about the types of aid available and the basis on which it is awarded. The same study showed that of students planning to continue education, but not expecting to receive financial aid, 40% expressed a wish not to go into debt (apparently assuming that aid consisted only of loans). Fifty percent responded that they did not expect to qualify for aid because of their grades or test scores (apparently not realizing that significant amounts of aid were available based only on financial need).

In 1974, a New Jersey[22] survey revealed that one-quarter of the currently enrolled students from families with incomes below $6,000 (students who would probably demonstrate need) failed to apply for financial aid. More than 40 percent of the students from families with incomes between $6,000 and $12,000 did not apply for aid.

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[20] "What 250 Students Say About Financial Aid Problems." CSS Student Advisory Committee Report, College Board Review, No. 100, Summer 1976, New York: College Entrance Examination Board, p. 16.

[21] United States DHEW, National Center for Educational Statistics, National Longitudinal Study of high School Class of 1972, (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 13, 18, 28.

[22] The Needs and Resources of Undergraduate Students in Postsecondary Education in the State of New Jersey, 1974-75 (Princeton, N.J.: New Jersey Commission on Financing Postsecondary Education, 1976) as cited in Making It Count: A Report on a Project to Provide Better Financial Aid Information to Students, (New York: College Scholarship Service of the College Entrance Examination Board, May 1977), p. 11.

Not only are students often unaware and misinformed about financial aid, but they tend to greatly underestimate the actual costs of postsecondary education. This is shown in 1975 surveys of high school seniors in Iowa and Pennsylvania.[23,24] Furthermore, another national survey[25] shows that students are inadequately informed about sources of possible financial aid and are generally unaware of the "net" costs of attending private institutions (total cost minus financial aid). Consequently, many of them have begun to "trade off" what they perceive to be desirable characteristics of private colleges in favor of what they perceive to be the lower costs of the public institutions.

Compounding the problem is evidence that students have been victimized by some unscrupulous educational institutions. Consequently, strong interest has developed in the Congress and Federal agencies in protecting student consumers against incomplete or misleading information.

A 1975 report of the Federal Interagency Committee on Education (FICE) Subcommittee on Educational Consumer Protection summarized the situation as follows:

> The general picture shows that Federal efforts in protecting the student consumer are under way, but have yet to achieve a fully developed thrust. Policies are largely reactive. Information provided to the student is inadequate. Safeguards against outright fraud and simple abuse are weak. Few agencies have systematic procedures for handling complaints from students and parents, or for redressing valid claims. Coordination between Federal agencies is at an embryonic stage, and the educational community itself has not activated consumer protection concepts or mechanisms where consumer problems exist. Among the Federal departments and agencies, the response to educational consumer problems varies considerably.[26]

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[23] A Survey of Plans for Education and Careers: A View of What the Iowa High School Senior Class of 1975 Plans to Do Following Graduation and Why (Evanston, Illinois: College Entrance Examination Board, Midwest Regional Office, 1975) as cited in Making It Count, p. 11.

[24] Student Resources Survey Number (Harrisburg, Pennsylvania: Pennsylvania Higher Education Assistance Agency, 1976) as cited in Making It Count, p. 11.

[25] Davis, J.S., and W.D. Van Dusen, A Survey of Student Values and Choices (Atlanta, Georgia: College Entrance Examination Board, Southern Regional Office, 1975) as cited in Making It Count, p. 11.

26 United States DHEW, Office of the Assistant Secretary for Education, Toward a Federal Strategy for Protection of the Consumer of Education, (Washington, D.C., July, 1975), p. 1.

Provisions of the Education Amendments of 1976

In response to the problems of consumer access to adequate and accurate information, Congress included several major consumer-oriented provisions in the Education Amendments of 1976. The Administrative allowance for the campus-based programs was increased to four percent and the institutional ceiling on such payments was increased to $325,000. In addition, the 1976 Amendments authorized $10 payments to institutions for each BEOG and GSL recipient enrolled (although this provision has not yet been funded). This increased funding must first be used by institutions to meet the new requirements for student consumer information.

The 1976 Amendments also included a new section (493A) on student consumer information which requires institutions to provide information about what student assistance is available, how it is distributed, the means of applying for assistance, rights and responsibilities of recipients, cost of attendance, refund policy, academic program of the institution, data regarding student retention and, when available, student completion rates and the name of the individual designated to provide information. Institutions must be in compliance with these provisions by July 1, 1977.

Section 493B of the 1976 Amendments requires the U.S. Commissioner of Education to survey institutional practices in providing students with complete and accurate information; to meet with appropriate parties; to report to the Congress by October 1, 1977 on the use of work-study students as financial aid counselors; and, whenever possible, to include student peer counselors in OE-sponsored training programs.

The 1976 Amendments also expanded the so-called TRIO programs (Upward Bound, Talent Search, Special Services for Disadvantaged Students, and the more recent Educational Opportunities Centers) to provide improved information to current and prospective disadvantaged postsecondary students. Section 418A provides new authorities for Service Learning Centers at postsecondary institutions serving substantial numbers of disadvantaged students and provides for grants to States to establish Educational Information Centers which would provide guidance, counseling, and referral services directed at the disadvantaged. Section 335 authorized the Office of Education to provide information on current and future career options and trends, as well as information on career education activities, to students and school personnel.

The 1976 Amendments, however, do not address themselves ~~to~~ all of the existing problems in student information about Federal student financial aid programs. There is also reason to believe that unless a forceful effort is made to coordinate the various consumer information provisions of the 1976 Amendments, both in planning and implementation, the results will be fragmented and duplicative. While the Amendments require educational institutions to provide information to enrolled and prospective students, the definition of prospective students is narrowly construed to include only students who make inquiry to the institution. In fact, many of the neediest students probably will not even consider making contact with a postsecondary institution unless they have prior information which leads them to believe that there are opportunities for them at that institution. The Amendments do not address many of the concerns of the State agencies or the need to coordinate information programs. There is currently no central office where comprehensive, current information can be obtained about Federal student financial aid programs, and the Amendments do not require that such an information office be established.

It must also be recognized that there is considerable reluctance on the part of some institutions and others to provide full, accurate, and complete information. A recent report prepared for the Fund for the Improvement of Postsecondary Education (FIPSE) states: "In the course of this project, it has become apparent that many of the communication processes in institutions are unclear, obtuse, and incompetent."[27] The report goes on to affirm some of the strategic, policy or procedural reasons that institutions withhold information from students: "Some believe that 'The truth about costs will scare them away.' and that 'It's too complicated financial aid policy to be truthfully communicated.'. Others sense that 'We could not handle any more students than we have now.' and 'Our policies are so unclear that we would be attacked if we described them publicly.' Each of these objections was encountered by one or more of the FIPSE project participants as they attempted to develop information about costs and aid."[28]

While there is widespread agreement that students need more, better and more timely information, it is not clear just what information is needed and how it should be provided. Many well-intended attempts to provide information are often difficult to understand, incomplete, and not addressed to the appropriate audiences. Additionally, some of the popular sources of information are often inaccurate and unintentionally misleading. Much remains to be done to develop a system which will deliver useful information families.

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[27] Making It Count: p. 13.

[28] Ibid.

RECOMMENDATIONS

Information Needs for Student and Parents

II-E-1 Coordination of Efforts

Recommendation

The Study Group recommends that the Secretary establish a clearinghouse for all student information programs. This clearinghouse would serve as a focal point for all major student assistance information activities, be they Federal, State, institutional, or community-based. Established under a multi-year contract, it would be authorized to collect, develop and disseminate information; encourage and coordinate existing information programs, and conduct outreach efforts.

Rationale

Immediate attention should be given to ensure that regulations now being written in response to the various provisions of the Education Amendments of 1976 are coordinated with each other and with relevant existing regulations. Unless a conscious and forceful effort is made to coordinate the various authorizations, both in the planning and the administration of their implementation, the results will be fragmented and duplicative.

There is now no coherent plan or responsibility for the dissemination of information to students and their families. Each of the Federal student aid programs, both within HEW and outside, has its individual information acitivity. In addition, there are other Federal information efforts intended to help students make wiser choices among learning programs, schools, and occupations or careers. There are also several activities, both within and outside HEW, designed to help protect the student as a consumer.

These activities would be more likely to complement and reinforce each other with the oversight of a clearinghouse or other focal point to coordinate them. One example of this point of view was given in testimony to the Study Group at the March meeting:

> I further understand that, while the Federal Government has been doing a laudable job of coordinating its programmatic activities with those of State scholarship agencies, for example, as in the case of the State Student Incentive Grant Program, there has been no such coordination when it comes to providing matching financial support for informational outreach activities."[29]

Such a focal point could be used to implement and coordinate many of the recommendations made in this section. Particular attention would be given to improved and better coordinated information dissemination between financial aid programs at all levels (Federal, State and institutional) and the student special services activities of social agencies and community groups (including manpower planning, career education, etc.) as well as those funded through TRIO.

The Clearinghouse also would be responsible for:

1. Developing and disseminating a compendium of financial and other aid sources on a State-by-State basis;
2. Publishing a newsletter;
3. Developing materials for use in media campaigns;
4. Responding to letter and phone inquiries;
5. Designing brochures and other literature suitable for the various audiences described in recommendation II-E-5.

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[29] Toward Improved Access to State and Federal Financial Aid Benefits, Joyce Clark, Coordinator, Higher Education Guidance Program, Chicago Public Schools, p. 3.

II-E-2 State Agency Programs

Recommendation

HEW should plan a program of cooperative activities with the States and provide incentives to improve and expand State initiated information programs. Specifically HEW should:

1. Identify exemplary State programs and disseminate information about those programs to the other States;

2. Make additional incentive grants to States to encourage development of State-wide efforts to improve information dissemination -- especially to out-of-school persons -- to augment the Department of Labor's (DOL) Occupational Information Systems Grants Program.

Rationale

Each of the many scholarship, loan, and other postsecondary agencies of the States have had some successful and unsuccessful experience that should be shared. Federal efforts to disseminate these experiences will speed up the diffusion process to the benefit of all. All fifty States now have a State scholarship or grant office, often developed in response to the funding provided through the SSIG program. SSIG could form the basis for the sharing of information.

Another way for improving coordination among States is to expand upon the Department of Labor's activities. For example, through a program of grants to eight States, the Department of Labor is encouraging the development and extension of systems to provide occupational information to persons who are in the process of career exploration and decision-making. The systems being developed by the eight grantees are based in part on concepts tested by the Oregon Career Information System (CIS).

Specific program activities which could be conducted in conjunction with financial aid information programs are:

1. Establishment of an information system staff within the State receiving grants;

2. Establishment of a policy-making board or consortium made up of representatives of key institutions representing both the users and producers of information;

3. Compilation and appraisal of existing information from a wide variety of sources for a wide range of potential users;

4. Adoption of a delivery system to disseminate information to persons in the process of career exploration and decision making;

5. Provision of services to schools, manpower agencies, and other organizations using the system;

6. Provision of adequate training for the staffs of both the information system and user agency.

After the first year of developmental activity, the Federal share of costs could gradually decline as the program beomes self-supporting. State and local governments and the user agencies themselves would be expected to make arrangements to bear information delivery or hardware costs from the outset. HEW cooperation with and augmentation of this effort will insure that SFA concerns are adequately considered in the eight States with DOL grants and increase the number of States that can be involved.

II-E-3 Institutional Initiatives

Recommendation

HEW must make additional efforts to promote and encourage institutional initiatives. For example HEW should:

1. Further develop and refine the materials developed by constitutent groups, and

2. Provide technical assistance and training seminars to assist more institutions in developing better dissemination of information based on the identified exemplary materials.

Rationale

To be consistent with the intent expressed by the financial investment in students, government agencies must not merely establish and enforce minimum standards. They also must provide leadership and incentives to institutions to provide prospective students with guidance that will make well-informed decisions more likely.

The National Task Force for Better Information for Student Choice has developed a preliminary draft of a form to be used by institutions to provide a common set of information items. The latest proposed regulations do not prescribe a form or format. A common form that would enhance consistency and comparability of information should be encouraged.

Eleven institutions funded by The Fund for the Improvement of Postsecondary Education (FIPSE) have served as demonstration institutions in developing prospectuses for their individual campuses. The resulting exemplary materials should be used as a basis for a greatly expanded program of prospectus development.

II-E-4 Scope of Information Content

Recommendation

Concerted efforts are required to provide a balanced and comprehensive body of information to meet the needs of prospective students. Information dissemination programs must incorporate the totality of goals implied in the various aid programs. Timely and coordinated efforts must be directed toward improving student access, choice, retention and student protection.

Rationale

To make the most of each investment of public resources, information for students should be a primary goal. This goal is consistent with the basic intent of financial-aid programs: to help provide postsecondary education to all who can benefit. It would be inimical to this basic intent to focus on one aspect of student information. For example, an emphasis on information to improve access without a corresponding emphasis on information to improve student choice (of education institution, academic program, and career) can only lead to frustration and, consequently, less than optimum use of public funds. Moreover, the frustration resulting from improperly balanced information emphases can and often does lead to student dropout and non-payment of loans.

Some recognition of the need to provide prospective students with more than access information is evident in existing and proposed regulations. For example, the Rules and Regulations for the Guaranteed Student Loan Program state:

> In the case of an institution having a course or courses of study, the purpose of which is to prepare students for a particular vocation, trade or career field, such statement shall include information regarding the employment of students enrolled in such courses, in such vocation, trade or career field. Such information shall include data regarding the average starting salary for previously enrolled students entering positions of employment for which the courses of study offered by the institution are intended as preparation and the percentage of such students who obtained employment in such positions.[30]

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[30] "Federal, State, and Private Programs of Low Interest Loans to Students in Institutions of Higher Learning", Federal Register (Volume 40, No. 35), p. 7596.

The importance of this concern becomes especially evident when taking into account: 1) estimates by the Bureau of Labor Statistics that by 1980 there will be an oversupply of 180,000 college graduates annually; 2) the recent report by the National Assessment of Educational Progress Study which shows that a) 44 percent of American 17-year-olds wanted professional careers -- approximately double the portion of professional and managerial jobs currently available -- and that b) prospective students from impoverished communities, blacks, and people whose parents had little education were most lacking in "career and occupational development" information.[31]

Obviously, more remains to be done to encourage wiser use of student financial aid funds.

II-E-5 Information Dissemination Audiences

Recommendation

The efforts of HEW to disseminate information must be increased to fill needs that are not covered by proposed regulations. Specifically, HEW must provide information about all Government student financial aid programs. A more intensive effort must be made to obtain the cooperation of the mass media, education and student associations, and industry to reach potential beneficiaries. Such efforts often can best be made in conjunction with current efforts to develop career awareness and opportunities. The information that is provided should be:

1. Tailored for prospective students who may not make inquiry at a post-secondary institution;
2. Addressed to different academic levels (including first-year high school students) and to non-traditional students (those who wish to restart formal education);
3. Understandable by people of various socioeconomic backgrounds;
4. Targeted not only toward students but toward those in a position to influence student decisions such as admissions counselors, high school counselors, community referral services, and parents.

[31] The First National Assessment of Career and Occupational Development: An Overview, (Denver Colorado: National Assessment of Educational Progress, November, 1976), pp. xv-xvi.

Rationale

In accordance with the Education Amendments of 1976, proposed regulations require that institutions receiving administrative cost allowances (for participating in BEOG, GSL or a campus-based program) provide information about themselves and about financial aid programs available to a student. Specifically, the proposed regulations state:

> The information to be prepared and disseminated to students includes:
>
> A. A description of all student financial aid programs able to students who enroll at that institution, including the procedures and forms for applying for such aid, the student eligibility requirements, the criteria for selecting recipients from the group of eligible applicants, and the criteria for determining the amount of a student's award;
>
> B. A statement of the rights and responsibilities of students receiving financial aid under the Basic Educational Opportunity Grant, Supplemental Educational Opportunity Grants, College Work-Study, National Direct Student Loan, or Guaranteed Student Loan Programs. This information shall include:
>
> 1. Criteria for continued eligibility for each program, including the financial conditions which must be met;
>
> 2. Criteria for determining that a student is in good standing and maintaining satisfactory progress in his or her course of study, as required by Section 497(e) (1) of the Act for the purposes of receiving financial aid payments, and the criteria by which a student who has failed to maintain satisfactory progress or good standing may re-establish his or her eligibility for payment;
>
> 3. The means by which payment of awards will be made to students and the frequency of such payments;
>
> 4. The terms of and expected schedules for repayment of any loan received by a student as part of his or her student financial aid; and

5. The general conditions and terms applicable to any employment provided to a student as part of this financial aid;

C. The cost of attending the institution, including tuition and fees, books and supplies, estimates of typical room and board and transportation costs for students living on-campus, off-campus, or at home, and any additional cost of the program in which the student is enrolled or expresses a specific interest;

D. The refund policy of the institution for the return of unearned tuition and fees or other refundable portion of cost paid to that institution as described in paragraph (C) of this section;

E. The academic program of the institutions, including the current degree program and other educational and training programs, the institutional, laboratory, and other physical facilities which relate to the academic program; and the faculty and other instructional personnel;

F. Data regarding student retention at the institution, including, for each of three most recent academic years, the number of students who enrolled and were still enrolled at the end of that year or who graduated from the institution, and the percentage that such students represent of the total enrolled;

G. The number and percentage of students completing the program in which a student is enrolled or expressed interest, if such data are available at the institution.[32]

While these regulations are comprehensive so far as institutions are concerned, they do not address the need to communicate with non-student groups and to students at different academic levels and from various socioeconomic backgrounds. This need was well stated by Joyce Clark, the Coordinator of the Higher Education Guidance Program in the Chicago Public Schools, in recent testimony to the Study Group. Mrs. Clark said:

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[32] "Education Amendments of 1976: Postsecondary Education; Intent to Issue Regulations", Federal Register (Volume 41, No. 230), p. 52423.

...information concerning the availability of these resources, and assistance in completing the often-complex application procedures, are a major deterrent to most of the low-income populations who readily qualify for financial aid. It is not easy to promote higher education opportunities in poverty communities, where the problems of day-to-day survival take precedence over the long-range promise of a better life beyond the receipt of a bachelor's degree, or a certificate of training. Even an extensive media campaign of the type which heralded the advent of the Basic Grant Program in 1973 was largely lost upon those who qualified for that program and who tended not to read the kind of magazines or watch the kinds of television shows which broadcasted information about the program.[33]

A coordinated effort to obtain the cooperation of the mass media, education and student associations, and industry can go a long way in helping remove the information gap. One part of this effort should include a coordination of effort in time as well as in content; i.e., "a student financial aid week" could be declared and an intensive effort made by all parties simultaneously. The parties involved in such a combined effort should include:

1. Federal agencies (including those with career counseling responsibilities),
2. State scholarship and loan agencies,
3. Secondary schools,
4. Community agencies (including unemployment offices, welfare agencies, libraries, labor unions, businesses, educational opportunity centers, Women's Services, etc.),
5. Lending institutions,
6. Education associations and institutions,
7. Television, radio, magazines, and newspapers.

II-E-6 Lender Assistance In Dissemination of Student Financial Aid Information

Recommendation

The Study Group recommends that OE and State and private non-profit guarantee agencies coordinate the establishment of a student information resource system with all lenders to insure that all students are directed to investigate their eligibility for various sources of grant or lower-cost loan aid prior to processing a Guaranteed Student Loan.

[33] Clark, p. 2.

In this regard, the Office of Education and/or State and private non-profit guarantee agencies should provide each student load officer with information regarding the availability of and eligibility requirements for various other sources of student financial aid.

Rationale

To assist the student in seeking SFA that best fits his or her financial need and educational goals, it is recommended that lenders be a source of information on SFA programs. This information should be provided by OE or the guarantee agency and be in a ready and convenient form for use by the lender. It could take the form of a pamphlet or fact sheet listing SFA programs and locations for obtaining additional information.

Although many efforts have been initiated to inform parents and students of the availability of student financial aid, it seems that much more still needs to be done. Lenders could assist this process if up-to-date, useable information were available. This could be used by lenders in the same way that bank loan officers advise customers about other sources of credit when the bank is unable to meet their need at that time.

II-E-7 Listing of Active GSLP Lenders

Recommendation

The Study Group recommends that OE develop annually an updated list of active GSLP lenders to be provided to student financial aid administrators and guarantee agencies and to others upon request.

Rationale

Currently, there are approximately 19,000 eligible lenders under the GSL program. However, only about 1/6 of them are actively participating. The result is that parents and students must expend considerable time and effort in contacting a large number of banks on the eligible list, only to learn that they have not made loans for some time.

Since OE maintains yearly lists of lender disbursements, the production of a list of participants would not be difficult. This information would not only be useful for those with immediate need for a loan, but would also aid in planning for future needs. For example, if several years prior to their son's or daughter's anticipated college enrollment, parents noted that their bank was not listed as "participating," they might wish to move their accounts to another local lending institution which did provide a full range of services, including guaranteed student loans. The pressure brought to bear by such a disclosure might have the desirable effect of increasing bankers' awareness of the importance of making GSL available to their customers.

II-E-8 Student Borrower Counseling

Recommendation

The Study Group recommends all students receiving a loan should experience a mandatory counseling session with a lending officer to discuss the nature of the student obligation and repayment responsibilities.

Rationale

One of the consistent thrusts of the Study Group has been to recommend, where possible, preventive action to address fraud or abuse. Here is another point at which such is the case. Too often abuse of federal SFA funds occurs because of a misunderstanding or lack of concise and direct information. For example, many student borrowers have complained that they were unaware of the financial obligations that they undertook when accepting a Guaranteed Student Loan, and other students assumed Guaranteed Student Loans without intending to repay. Both of these types of situations could have been effectively addressed if the students had been required to participate in a counseling session with the loan officer. During such a session the loan officer could have impressed upon the student the nature of his obligation and the consequences for the failure to meet this obligation.

F. Federal Student Financial Aid Payment Processes

BACKGROUND AND ISSUES

2

The Process

Several means are currently used to make payment of Federal funds to students, educational institutions, and lending institutions.

Payments to students under the BEOG program are, with relatively, few exceptions, made through the student's educational institution, which receives its payments by means of the Departmental Federal Assistance Financing System (DFAFS). However, BEOG also makes payments directly to approximately 8,000 students attending some 750 institutions through the Alternative Disbursement System (ADS).

Payments to institutions under the campus-based programs are also made through DFAFS, except for NDSL "207" loans from the Federal Government (needed for the one-ninth NDSL matching funds). These loan funds are paid directly to ~~institutions~~ through the Office of Education Finance Division.

The final step in the administration of Federal SFA programs is the actual payment of funds to the individuals and organizations who have qualified to receive them. These payments must be made in a manner which is both timely and provides an auditable control of funds.

Four organizations are involved in the DFAFS process: 1) The program office (BEOG, CW-S, SEOG, NDSL) which determines and authorizes the amount of funds to be awarded and paid to its institutional recipients; 2) the OE Finance Division which verifies the existence of unobligated appropriated funds against which to charge the authorized awards and, in effect, approves the authorization; 3) the Federal Assistance Financing Branch (DFAFS unit), the Office of Finance, which acts as the paying agent; and 4) the Treasury Department which prepares and mails checks to schools.

Departmental Federal Assistance Financing System (DFAFS)

Most institutions paid through DFAFS participate in two or more HEW programs and have multiple grants. Approximately 3,000 schools receive total payments (for all awards) in excess of $250,000 annually and are allowed to draw funds as needed to meet impending expenditures under a Letter of Credit arrangement through their commercial bank via their Federal Reserve Bank. Many institutions make weekly draws, larger institutions make them more frequently.

Institutions which receive less than $250,000 in annual payments are paid monthly, by Treasury check, upon submission of a monthly payment request to Federal Assistance Financing Branch (DFAFS unit). The DFAFS unit provides all institutions with a quarterly report listing each open grant and the amount awarded (payments authorized). The institution is required to return the quarterly report showing the total cash received and the cash balance as of the end of the quarter. Upon receipt, the DFAFS unit forwards a copy of the report to the OE Finance Division and the program offices for their information and use.

A serious concern with the DFAFS process is that it rarely verifies whether the expenditure information submitted in the quarterly report is accurate except as it is advised by an institutional audit or by program personnel. Such input is virtually nonexistent. Discrepancies, and even fraud, in management of the funds can develop and go undetected for long periods.

The DFAFS unit often encounters delays in being notified of current awards by OE, especially at the beginning of a semester when updated information is required. It is not uncommon for an educational institution to receive notification of an award in May or June from OE while the DFAFS unit does not receive notification until August or September. Thus, some institution's requests are denied payment because the DFAFS unit has received no authority to make them. This also results in the time-consuming need to make special payments outside the system's routine. Additionally, payments have sometimes been made to ineligible institutions and overpayments to those previously eligible because effective oversight of educational institutions and communication between program officials and the DFAFS unit are lacking.

Alternative Disbursement System

While the great majority of funds under the Federal student financial assistance programs are disbursed to institutions through the DFAFS process, approximately 8,000 students receive payments directly from the BEOG program. Students receiving these direct payments attend institutions which have declined to compute and disburse BEOG awards. Most such institutions are hospital-associated, with the balance made up of proprietary and vocational technology schools and a few major institutions such as Brigham Young University.

To receive payment under the BEOG alternative disbursement system, a student submits his or her student eligibility report (SER) together with a certification that he or she is enrolled and attending class (Form 304) to the BEOG application processing contractor. The contractor verifies the student's eligibility, computes the amount of the BEOG award, and forwards the

information to the Office of Education which initiates payment directly to the student. The major shortcoming of the direct payment system is its vulnerability to abuse by students who drop out of school after submitting their certification of attendance. Virtually complete reliance must be placed on the integrity of the student to notify OE of his or her dropping out and to refund the unearned payment. From the student's perspective, a second shortcoming of the alternate disbursement system is the lateness of the payment. Delays may occur under the best of circumstances, and delays often occur as a result of errors in data on the submitted certification (304 forms).

In summary, the overall payment process is complex; subject to serious delays, fraud and abuse; and needs substantial improvement.

RECOMMENDATIONS

Payment Processes

II-F-1 Control of Payment of Funds

II-F-2 Cash Utilization Verification

II-F-3 BEOG Alternative Disbursement System

II-F-4 Payments to Students by Institutions (BEOG and SEOG Programs)

II-F-1 Control of Payment of Funds

Recommendation

A. Controls should be established immediately within OE to assure that improper payments for campus-based and BEOG programs are not made through the DFAFS system and that unused authorizations are deobligated in a timely manner.

B. Controls should be established to assure that the cash draw and cash balances of educational institutions as reported by the DFAFS are reconciled by OE to the authorizations approved on its records and the unobligated balances reported by the institutions to OE. Differences should be investigated and corrected promptly.

Rationale

Payments to schools under the BEOG and campus-based programs are made through the DFAFS. Numerous instances have been identified where payment authorizations were not furnished to the DFAFS in a timely manner and where OE cited an incorrect institutional code number, resulting in delays and neces-

sitating payment outside the automated system. Other instances have been identified where OE made awards to institutions after they closed or became ineligible and where payments were made to those institutions. It is uncommon for the DFAFS to learn of a closure only through the return of its mailed quarterly reports. Quarterly cash payment reports are furnished OE by the DFAFS, but these reports are not verified against reports submitted by the institutions to OE or against OE's records. It has been reported that unused authorizations are not deobligated by OE. The HEW Audit Agency attributes these conditions to 1) low priority given to the close-out and de-obligation of funds process; 2) ineffective coordination between the Central and Regional Office regarding institutional closings and loss of eligibility; 3) interface problems between OE's accounting system and the DFAFS; and 4) lack of clear guidelines for determining when loss of eligibility becomes effective.

Suggestions for Implementation

The OE should streamline its processing of award-payment authorizations to the DFAFS to:

1. Assure that unused payment authorizations are deobligated promptly, for example, within 60 days, after the close of the fiscal year for which the funds were appropriated.

2. Assure that award notices are routinely routed to the DFAFS in sufficient time to honor payment requests from institutions within the system rather than through a special, inefficient, manual process.

3. Incorporate, and exercise greater diligence and edit checks to prevent documents containing erroneous coding information flowing to the DFAFS.

4. Exercise greater diligence in its oversight of institutions in order to anticipate and/or identify closings.

5. Establish a procedure to notify routinely the DFAFS of closures immediately upon their becoming known.

6. Review and reconcile Fiscal Operations Reports and final BEOG progress reports with the DFAFS quarterly report of June 30 to verify reported institutional expenditures.

7. Make a careful and immediate review of total program activites in relation to the amount of funds drawn down.

II-F-2 Cash Utilization Verification

Recommendation

The Study Group recommends that OE include verification of Cash Utilization Reports submitted by institutions to the DFAFS and OE against the accounting records of institutions as a normal part of on-site reviews.

Rationale

There is no practical way to verify the reported need for and use made of cash draws by institutions except through periodic examination of their books of record. Bienniel audits are now required of institutions by Education Amendments of 1976 and an on-site verification of their cash balances should be included as one step in the total audit (also see recommendation I-D-6).

II-F-3 BEOG Alternative Disbursement System

Recommendation

A. The need for the BEOG alternative disbursement system (ADS) should be reassessed. The reassessment should include consideration of the timely phase-out of the procedure.

B. If the Alternative Disbursement System is retained, requirements which have no real usefulness or purpose should be dropped and requirements which will give greater accountability of funds should be instituted.

C. All institutions not under ADS should be compensated for their costs in processing BEOG records.

Rationale

The ADS was developed to make direct payments to students whose educational institutions would not consent to act as paying agent on behalf of BEOG. Direct payments are currently being made to approximately 8,000 students attending 750 schools, the preponderance of which are run by hospitals or are proprietary. The BEOG student population of the individual institution is small. Hence there should be less burden on them than there is on other institutions which act as paying agents. It is not unreasonable then, that they act as paying agents as a condition of eligibility. Short of such requirement, these institutions should be required to certify the class attendance and good standing of BEOG students either through endorsement of student payment checks or periodic (for example, monthly or quarterly) formal reports. Requirements such as the making of checks to an address other than that of the of the institution are not effective deterrents to fraud or abuse and should be rescinded. The lack of an administrative expense allowance may be a factor in encouraging the use of the Alternative Disbursement System. Recommendations relating to administrative expense allowances are contained in recommendation III-C-16.

The current ADS is not a satisfactory alternative in many cases and does not adequately serve the student. It contains built-in delays and sources of frustration. Because of the problems in the system, OE has been reluctant to implement it even in cases of institutional fraud and abuse since the student will not be served properly.

II-F-4 Payments to Students by Institutions (BEOG and SEOG Programs)

Recommendation

Payments of aid to students should reasonably relate to their expenses over the period of attendance, and be conditioned upon their continued good standing (satisfactory progress). Cash draw downs by institutions from the DFAFS System should reflect the actual student payments.

Rationale

Periodic payments to students conditioned on actual need and satisfactory progress during the academic term will provide one more deterrent to student abuse of student financial aid without the imposition of an unreasonable burden either upon students or their educational institutions. It will also allow better control of Federal funds and defer the payment of Federal cash outlays until actually needed by the student/institution.

Chapter III

PROGRAM MANAGEMENT AND INTEGRITY

A. Introduction

The third and final major area of study undertaken by the Study Group concerns OE's management of the Federal student assistance programs and the nature and quality of the management support which OE gives to the other parties in the process. The integrity of the programs ultimately depends upon how soundly they are managed.

The management of these programs has been difficult for many of the reasons discussed earlier in this report including rapid growth, changing congressional requirements and expectations, and chronic understaffing. Unfortunately, this has resulted in managerial problems which have contributed to inefficiencies, inequities, abuse, and fraud. Chapter III addresses these problems in four major sections:

The first (Section B) concerns a group of issues relating to organization and staffing of the offices which administer the programs. These issues include organizational structure, staffing levels and qualifications, and the division of responsibilities between the OE Central Office and Regional Offices.

The second (Section C) includes issues relating to OE's management of the programs, including management information, computer utilization, personnel management, financial and program reporting, and the timely issuance of program manuals and regulations.

The third (Section D) discusses issues relating to the training required by school and lender personnel in student financial aid statutes, regulations and procedures.

Finally, (Section E) addresses issues that are specifically aimed at assuring the operational integrity of the student financial aid programs: on-site reviews of school and lender operations; implementation of procedures to limit, suspend and terminate institutions; and the collection of defaulted loans.

B. Organization and Staffing

BACKGROUND AND ISSUES

Central Washington Office

In a period of slightly less than two decades since the enactment of the NDSL program in 1958, OE has undergone repeated changes in its organizational structure. These changes were designed to accommodate the enactment of new student financial assistance programs and changes in existing programs, and to respond to emerging problems in program management.

The most recent change occurred on March 9, 1977, when HEW Secretary Joseph A. Califano announced a major reorganization of the Department. A new administrative unit, the Bureau of Student Financial Assistance, was created within OE. The new Bureau has responsibility for the GSL program formerly administered in the OE Office of Management as well as for the five programs (BEOG, SEOG, NDSL, CW-S, and SSIG) previously administered in the OE Bureau of Postsecondary Education. In addition, responsibility for the new Health Professions Guaranteed Student Loan Program (Federal Program of Insured Loans to Graduate Students in Health Professions Schools) was reassigned from the Health Resources Administration of the Public Health Service to the new Bureau. Therefore, seven major HEW student financial assistance programs are now consolidated and elevated to bureau rank.

One of the Secretary's major reasons for this action was to increase efficiency and strengthen the Department's efforts to combat fraud and abuse in the programs. But, the reorganization also recognizes the magnitude of the Federal Government's commitment to student financial assistance for postsecondary education.

The March 9, 1977, reorganization took a major step in addressing the problem of divided responsibility. The Secretary's action establishing the Bureau of Student Financial Assistance was entirely consistent with the findings of the Study Group that the division of responsibility had contributed to some of the administrative problems in the programs. However, the Study Group also believes that the March 9 reorganization will not be sufficient to strengthen the administration of the student financial aid programs and that significant changes from past organizational structures and management practices must be made in organizing the new Bureau.

Of equal importance to placing all student aid programs in one new bureau is the proposed functional approach which the Study Group believes should be used in managing the programs. Under the former and current organizations, each individual program was and is structurally autonomous. Each has its own staff of analysts, computer systems specialists, audit resolution personnel, etc. Issues in student financial aid usually are viewed autonomously from the perspective of individual programs and seldom from the perspective of how well the programs interact with one another and are meeting national need. The compartmental organizational approach fosters the growth of different program regulation definitions, the duplication of program effort, the lack of flexibility in meeting peak workloads, higher than necessary staff costs, and complicates the sharing of hardware and human resources, and the coordination of program or legislative strategy.

The administrative separation of the various programs has impacted most significantly on the financial aid administrator at educational institutions and on the student consumers of these programs. The student aid administrator is required to submit periodic reports to each of the separate administrative units, receives audits initiated separately by each of the units, and receives separate, and sometimes conflicting, regulations, guidelines, and policy announcements from each of the separate programs. Students are required to contend with unnecessary inconsistencies in eligibility requirements and with overlapping requests for information.

These problems will not be overcome if the internal organization of the new Bureau continues the present pattern of separate offices administering each program. The Study Group believes that the organization of the student financial aid programs along functional lines will itself significantly improve the present situation and will permit the introduction of better controls and checks in the day-to-day operation of the programs.

Regional Roles

The Regional Offices and Central Office do not work now as a coordinated whole. Each appears to have little confidence in the other. Central Office staff contend that the Regional Offices set their own priorities and that those priorities are not those of the Central Office. The Regional Offices, on the other hand, assert that the Central Office does not appreciate the constraints and sometimes conflicting needs of the field and that the policies it issues are too often outdated or non-applicable. The Regional Offices further state that the Central Office is either unresponsive or slow in answering when guidance is sought. They complain they cannot carry out their mission properly because they lack authority to truly control the work required by their mission. Both positions undoubtedly have some validity. However, the fundamental problem is the void created by the absence of a clear, viable, specific policy on the roles and authorities of each.

The role of the Regional Offices is described in three recent documents. However, they are sufficiently ambiguous as to raise serious questions in the minds of Regional and Central Office staff as to who is really responsible for what.

The Study Group is aware that a study of the Regional Offices is currently underway at HEW. It anticipates that this study could lead to changes in the number of Regional Offices, their geographical location, and their overall role in the administration of HEW programs. Any of these matters could significantly influence decisions on the specific SFA functions which the Regional Offices might best be suited to carry out. However, regardless of the role, the Study Group strongly believes that ambiguity about roles must be removed and that clear heirarchial lines must be established.[1]

Staffing

Recent increases in staffing for the student financial aid programs have occurred in the BEOG program, the GSL program, and the campus-based programs. Despite some recent increases, the level of staffing in the SFA programs has continually lagged behind the growth in workload.

The Bureau of Postsecondary Education has long contended that the staffing provided for the student financial aid programs has been inadequate to the job. This contention may be true, especially in the GSL program. However, OE's use of staff has been at least debatable. Organization of the staff along program lines has led to duplication in essentially common work activities. The need to establish internal coordinating groups has ~~fur~~ther strained already overloaded managers. Furthermore, from the evidence available to the Study Group, the coordinating groups have been largely ineffective. OE's failure to think out and clearly define the respective roles of its Central Office and Regional staff and explicitly set out the authorities and responsibilities of each has had an obvious impact on productivity and the effective use of staff time. Large amounts of staff effort are being devoted to performing work of questionable benefit.

One example of an activity requiring an extraordinary amount of staff effort is the panel review process described in the previous chapter. Central Office staff, Regional staff, and institutional representatives

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[1] "A General Description of the Mission of the Regional Offices," signed by the Commissioner of Education on June 1, 1975; a memorandum on "Reporting Relationships Among Headquarters and Regional Office Staff," signed by the Commissioner on June 2, 1975; and an organizational statement published in the Federal Register on August 27, 1976.

spend an inordinate amount of time preparing for and serving on review panels. There is, and has been, widespread agreement that the process is not only ineffective in accomplishing its purpose (i.e., the equitable allotment of available funds to schools based on need), but that it has been troubled by extreme grantsmanship. The BEOG progress report and student validation report processes also consume inordinate staff time. In general, the processes are not effective and are plagued with errors and delays.

OE's projection of staffing needs is predicated on each of its programs functioning independently of the other. Thus both the Division of Basic and State Student Grants and the Division of Student Financial Aid requested separate staffs to process audit reports received on institutions even though both Divisions deal with essentially the same institutions and even though the audit findings on any given institution will most likely apply equally to both. Similarly, they have each requested staff (as have the Regional Offices) to provide training and to conduct more adequate compliance reviews. In like manner, a separate staff has been requested for collecting defaulted NDSL loans without seriously exploring whether this important activity could be more efficiently carried out through the regional network being set up by the Office of Guaranteed Student Loans.

The student financial aid programs are largely process-oriented operations with much similarity and commonality. Accordingly, it should be relatively easy to measure work output and to set down and monitor realistic performance standards. The Office of GSL has begun to set standards for its Regional claims collectors and to require status reports from them. Aside from this noteworthy start, however, little of substance has been accomplished. Without standards and the means of measuring performance against them, projections of true staffing needs is a highly subjective, undisciplined exercise not subject to verification. As a result, higher level management is precluded from making rational judgments on priorities and alternatives.

The similarity of activities among the SFA programs would lead one to anticipate a high degree of commonality in job descriptions and grade structure across the programs and across Regions. That is not the case. Part of the dissimilarity results no doubt from the different organizational structures of the Division of Basic and State Student Grants, the Division of Student Financial Aid, and the Office of Guaranteed Student Loans. Even so, the job descriptions and the grade structure of these areas, individually and in comparison with each other, appear to be illogical.

In spite of OE's many statements on the understaffing of the BSFA, vacant positions have not been filled in a timely manner. Indeed, as of December 31, 1976, BEOG had filled none of the 107 new positions authorized for FY 1977. While the exact reasons for the delay in filling vacancies was beyond the capability of the Study Group to determine, it appears that a lack of coordination and cooperation between the SFA program offices, the Bureau of Postsecondary Education, and OE's Personnel and Training Division was a major factor.

RECOMMENDATIONS

Organization and Staffing

III-B-1 Organization Structure

III-B-2 Combining the Health Professions Guaranteed Student Loan Program and the Guaranteed Student Loan Program

III-B-3 Personnel Management

III-B-1 Organization Structure

Recommendation

A. Central Washington Office

1. All six student financial aid programs should be consolidated into a single administrative unit.

2. The single administrative unit for SFA programs, because of its size and responsibility, should be placed in the hierarchy of the Office of Education at an appropriate level to facilitate its operation. Under the current OE organizational structure, this requires placement at the Bureau level.

3. The administrative unit should be organized along functional lines rather than along program lines as described in the following Section: "Suggestions for Implementation of the Functional Organization." The functional divisions should provide for such areas as policies and procedures, management, evaluation and planning, certification and compliance, program operations, and data systems and management. The functional divisions should be established to serve common responsibilities across program lines to avoid duplication of efforts, to enhance efficiency of operations, and to prevent the need for major reorganization in the future in the event of a change in Federal support for these programs.

4. Separate units should be established within an Operations Division to perform the operations activities 1) of the loan programs and 2) of the grant and College Work-Study programs.

5. The Division of Eligibility and Agency Evaluation should remain apart from the SFA organization. This Division should continue to be responsible for approving accrediting agencies and for determining the basic eligibility of educational institutions. However, a separate certification division should be established within the Bureau of SFA to authorize an institution's participation in the SFA programs.

B. Regional Offices

1. The organizational structure of the Regional Offices should be compatible with the Central Office to facilitate and promote student financial assistance activities in those areas where they have delegated authority or have been assigned administrative responsibilities.

2. The delegated authorities and responsibilities of the Regional Offices and the Central Office must be clearly set forth. The organizational structure of the Regional Offices must reflect and support those activities and responsibilities.

3. Standard policies and procedures must be established for Regional Office operations to insure consistent and uniform practices between the various Regional offices.

C. Staffing

1. Numbers of employees

Staffing patterns need to be adequate to assure proper control throughout the process, to provide support for operating programs in accordance with legislative intent, and to service those individuals and institutions which are participants in the programs.

2. Qualifications

The operation of these programs requires meeting heavy management and fiscal responsibilities. Position (job) descriptions must clearly be related to these types of responsibilities; e.g., audits, technical assistance, and site review. Background as an educator is not the only qualification for filling these positions.

Rationale

The current organizational structure of the SFA programs is a major contributor to duplication and to the lack of managerial oversight and control. Little reform is possible without the reorganization of these programs along functional lines.

Because of the special nature of this recommendation, the following specific suggestions for implementation are made.

Suggestions for Implementation of the Functional Organization

The functional divisions recommended above should provide for such areas as development and dissemination of policies and procedures, certification and compliance, program operations, data systems management, and management evaluation and planning.

An organization chart (Figure 1. See Page 142) depicts the Study Group's recommendation for a functional organization. A description of the functions shown on the chart and organizational alternative which seem viable to the Study Group follow:

Eligibility Unit -- Basic eligibility can be defined as the process through which an educational institution is determined to be academically qualified to participate in Federal programs. Responsibility for basic eligibility decisions (i.e., accrediting agency approvals and institutional approvals) currently rests with the Division of Eligibility and Agency Evaluation (DEAE) in the Bureau of Higher and Continuing Education (BHCE). The Study Group believes that this function could remain with the BHCE in recognition of the fact that determinations made by DEAE have been utilized by HEW's principal operating components and other Federal departments and agencies in making eligibility decisions for programs other than SFA.

Certification and Compliance Unit -- The certification and compliance functions can be defined as the process through which an eligible school or lender is determined to possess certain stipulated financial and management prerequisites

PROPOSED FUNCTIONAL ORGANIZATION OF THE BUREAU OF STUDENT FINANCIAL ASSISTANCE

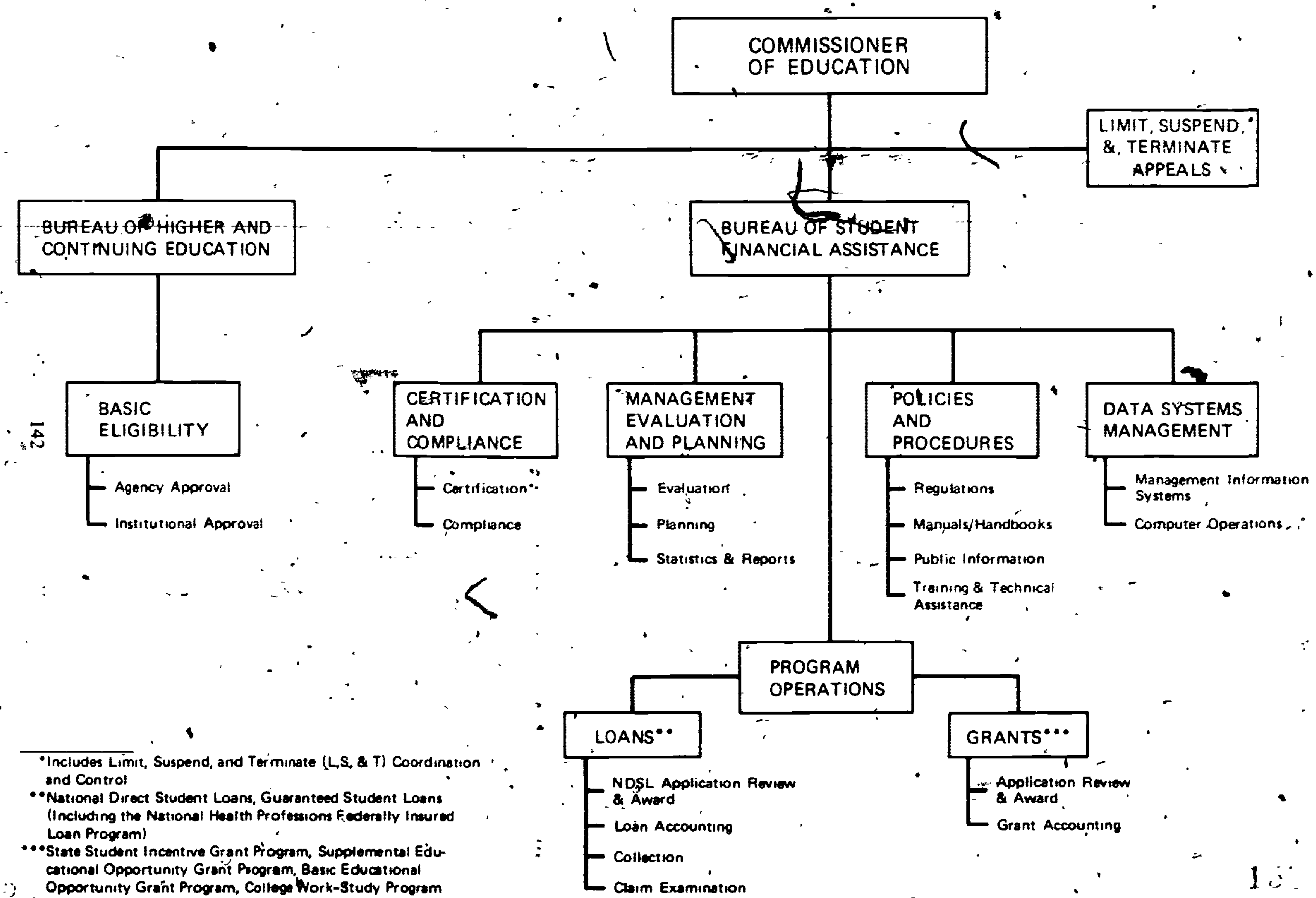

Figure 1

*Includes Limit, Suspend, and Terminate (L,S, & T) Coordination and Control

**National Direct Student Loans, Guaranteed Student Loans (Including the National Health Professions Federally Insured Loan Program)

***State Student Incentive Grant Program, Supplemental Educational Opportunity Grant Program, Basic Educational Opportunity Grant Program, College Work-Study Program

and is thus certified or authorized to participate and continue to participate in student aid programs. This function, like the eligibility function, might be located outside the BSFA since its determinations will probably also be used by HEW and other Federal programs besides SFA. However, the Study Group strongly believes that it should be part of the BSFA. The certification function requires decisionmaking on the financial and managerial capabilities of educational institutions as opposed to their academic capabilities. It also covers lenders and educational institutions participating as lenders. DEAE staff are not qualified to make such assessments. Although qualified staff could be assigned to the Division, the Study Group believes such staff could be more effectively utilized as part of BSFA. Additionally, the Study Group believes separation of the two functions would provide a needed organizational check and balance. Finally, the certification function is critical to protection against institutional mismanagement, abuse, and fraud. Accordingly, it should be organizationally placed so that 1) its actions can be closely monitored, 2) its decisions can be made with dispatch, and 3) it can be highly responsive to the needs of the other segments of the BSFA.

The Study Group suggests that the organization responsible for the certification and compliance function consist of two units. The certification unit would be responsible for decisions on whether a school or lender is authorized to participate in SFA programs; it should also be the focal point for suspend, limit, and termination actions. The compliance or investigation unit would be responsible for the direction and coordination of the on-site review of schools and lenders to assure their compliance with program policies and regulations and to assess their financial and management operations.

The resolution of audit findings is closely related to the certification and compliance function. The Study

Group recommends that responsibility for direction of this activity be placed in the compliance unit in the Central Office. The actual processing and resolution of audit reports could be peformed either at the Central Office or in the Regional Offices.

The former would provide another check and balance over regional activities, the latter would allow some economies in staffing and perhaps closer surveillance of educational institutions and lenders as they move to correct deficiencies identified as a result of an audit. The activity might also be placed in a separate organization apart from the certification and compliance unit thus giving it even greater independence.

Management Evaluation and Planning Unit -- Evaluation is the process through which program effectiveness is assessed and alternatives developed for the consideration of management. It includes long-range program assessments, major policy issue analyses, impact studies, comparative studies, research, etc. The evaluation function might well be performed outside the BSFA within the Office of Planning, or it might be performed by an organization within BSFA. Setting the function outside and independent of BSFA might give greater credibility to its studies and conclusions. Setting it within BSFA would probably result in greater emphasis on, or at least a more direct approach to, SFA programs.

Planning is the process through which resource needs and strategies for organization and program changes are determined and presented to management. Planning also encompasses determining the data required for managing, the means and frequency of collecting it, the means and frequency of presenting it at the appropriate level of management, etc.

The Study Group recommends that the planning function be performed by the BSFA. Should HEW

choose to locate the evaluation function within BSFA, we suggest that it and the planning function be in the same unit.

Policies and Procedures Unit --

The process through which program rules are established includes the formulation, clearance, and distribution of regulations, policies, and procedures. These are directed at two groups: 1) educational institutions, lenders and other organizations, and 2) internal operational units within HEW-OE. This function also encompasses the formulation and publication of booklets, brochures, manuals, handbooks, "Dear Colleague" letters, and other publications supplementing or intended to represent official HEW-OE policies and procedures.

The failure of the Bureau of Postsecondary Education to issue timely, comprehensive, and clear regualtions and policies is a major reason for the program's past administrative problems.

It is critical that the policies and procedure unit function efficiently, therefore, the Study Group recommends that this function be centralized under the immediate direction of the head of the BSFA and that priority be given to adequately staffing it with highly competent personnel. (See III-C-9)

The problem in issuing timely and comprehensive regulations and policies occurs, apparently not only in BSFA, but throughout OE. HEW may therefore want to consider whether the regulation and policy function for SFA and all other OE programs should be centralized in an organization reporting directly to the Commissioner.

Training, technical assistance, and public information are key aspects of the policies and procedures function. Training should be made available to HEW-OE personnel, student financial aid administrators and business officers at postsecondary institutions, high school counselors, lenders and State officials concerned with student aid, etc.

Technical assistance is the rendering of expert counsel or aid to schools and lenders in preventing or correcting an institutional deficiency or improving an institutional practice or process. Technical assistance has many facets ranging from instructions about providing appropriate packaging of available student aid funds to fit the particular needs of a student or group of students, to the design of a student financial aid office, and to the improvement of a grant or loan accounting system.

Public information is the process through which the public, particularly students, parents, and high school counselors, are made knowledgeable about the availability of student aid and the procedures for obtaining it. The Study Group recommends that training, technical assistance and public information functions should be assigned to the unit responsible for the development and dissemination of policies and procedures. Most training is aimed at the dissemination and clarification of rules and procedures; hence, there is much to favor the over~~sight or presenta~~tion of training programs by the office responsible for and, presumably, most knowledgeable about such rules and regulations. There is a second important advantage: those who make rules and regulations will gain firsthand knowledge of the effects of their products on educational institutions, lenders, and States.

The Study Group envisions a major role for the Regional Offices in presenting the training sessions, and a coordinating role in the development and scheduling of training activities. The varied nature of the counsel and assistance which might be provided educational institutions and lenders under the rubric of technical assistance will require them to draw upon the expertise of various units of the BSFA from both the Central Office and the Regional Offices.

Data Systems Management Unit --

Literally millions of documents ranging from application forms, awards notices, payment notices, etc., are received and issued annually by BSFA. Therefore, the coordinated, effective use of ADP is critical to the management of the SFA programs.

Currently the GSL, BEOG, SSIG, and campus-based programs design and operate their own ADP systems independently of each-other, with little if any coordination or monitoring.

The Study Group believes the importance of ADP to the SFA system demands organizational oversights and recommends an organizational unit be established within BSFA to coordinate the ADP operations and the design of management information systems.

Operations Unit -- The operations function includes the processes through which the delivery of student financial aid are accomplished and might include the collection of data required for evaluation and planning. For the GSL program, the process includes the identification of lending institutions and their borrowers, the recording and verification of loans, payment of interest and subsidies, payment of default claims, collection of defaulted loans from borrowers, development of lender-borrower histories, recommendations to limit, suspend, and terminate, etc. The NDSL program includes some of the above tasks as well as the allotment and reallotment of funds and notification of awards.

For the SEOG and CW-S programs the operations process includes receipt and review of institutional applications; notification of awards, allotment and reallocation of funds; and the reconciliation of cash and award reports. The BEOG program includes the receipt of student applications and frequent correspondence with institutions, as well as the reconciliation of cash and award reports.

The Study Group believes the GSL and NDSL programs have common processes even though they typically do not deal with the same lenders. Similarily, the processes for the BEOG and campus-based programs have (or should have) common elements and need to be better coordinated. Accordingly, the Study Group recommends that a

single loan operations unit be established for the GSL and NDSL programs and a single grant operations unit be established for the BEOG, SEOG, SSIG, and CW-S programs. Certain activities of the operations function may best be performed at the Central Office and others at the Regional Offices.

The Role of the Regional Offices — The Study Group has recommended that the responsibility and authority of the Regional Offices be clarified.

The Study Group believes that the following activities might well be performed by the Regional Offices:

1. Conducting on-site reviews of participating institutional, financial, and program reviews supplemental to the bienniel audits required by the Education Amendments of 1976 and the audits scheduled by the Office of the Inspector General (OIG) (See Chapter III, Section E). To the extent that supplemental reviews are necessary they could be performed by Regional staff in accordance with review guides established by the BSFA and OIG.

2. Scheduling on-site reviews, with educational institutions, lenders, and State agencies.

3. Processing and resolving audit reports.

4. Conducting training sessions for institutional personnel.

5. Providing expanded input into the regulations and policy development process.

6. Providing a communication link with Federal and State agencies.

7. Acting as liaison with institutional and SFA associations.

8. Serving as a primary local resource of information, and assistance for communication with students, schools, and lenders.

III-B-2 Combining the Federal Program of Insured Loans to Graduate Students in Health Professions Schools and the Guaranteed Student Loan Program

Recommendation

The Study Group recommends that the Federal program of Insured Loans to Graduate Students in Health Professions be integrated into and administered by the single Bureau level administrative unit recommended in III-B-1.

Rationale

The National Health Professions Federally Insured Loan Program is similar in many important respects to the Guaranteed Student Loan Program. It is both desirable and logical that the program be administered by the same organizational entity. The functional structure recommended by the Study Group makes integration fully feasible.

III-B-3 Personnel Management

Recommendation

The Study Group recommends that:

(1) The job descriptions of the SFA staff at the Central Office and in the Regional Offices be revised to describe more accurately the duties actually performed and that common job descriptions be written for like duties regardless of where organizationally those duties are performed.

(2) That the grade structure of the SFA organization be made compatible with the responsibilities of the position and the work performed in that position regardless of where organizationally the work is performed.

(3) Work standards or criteria be established to assess the performance of SFA staff and for use in determining staffing requirements.

(4) OE expedite the staffing of the Bureau of Student Financial Assistance.

Rationale

There is much similarity in many of the activities performed under the SFA programs, and the work of those performing them. The current job

descriptions and grade structure do not reflect that similarity. Authorized job vacancies have not been filled despite OE's contention that it lacks adequate staffing in the SFA programs. Part of the reason appears to be a failure of communication and cooperation between OE personnel and SFA offices.

C. Management

BACKGROUND AND ISSUES

In a broad sense this entire report concerns the management of the student financial aid programs. However, this section specifically considers the internal operations of the Office of Education and the operations of other organizations involved in SFA, especially the educational institutions.

Internal Controls and Separation of Duties

The quality of management is largely determined by both the extent and manner of how duties are separated and how controls are established. A system of management checks and balances is a particularly important aspect of the separation of duties and internal controls. Management controls are the means through which work can be processed in an orderly fashion, bottlenecks and low performance can be quickly identified and resolved, and the work performance of an organization can be routinely monitored and kept on schedule. Appropriate controls encourage positive competition and cooperation among involved organizations.

The internal controls of the student financial aid programs are seriously flawed or nonexistent. The Study Group believes that the Office of Education appears to have failed to recognize these problems and has responded inadequately even when specific instances are broght to its attention by the General Accounting Office (GAO)[2] or the HEW Audit Agency (HEW-AA). When such problems are identified, OE tends to deal only with the specific problem and fails to address those that affect other parts of the system. For example, HEW-AA cited the GSL collection program for lack of rudimentary controls in almost every region in 1975. Recently, the Study Group found essentially the same deficiencies in the current operation of the NDSL programs by the Central Office.

Management Information and Data Collection

Effective management is predicted on the availability of up-to-date reports and information which not only outline current activities but also project events. Several reports on activities in the student financial aid

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[2]U.S. G.A.O. Report to the Congress by the Comptroller General of the U.S. Examination of Financial Operations for Fiscal Year 1975. February 10, 1977.

programs are current available to officials in the Bureau of Student Financial Assistance, and to managers at other levels of the Office of Education and the Department of Health, Education, and Welfare. However, the Study Group believes that these reports are generally inadequate as a basis for informed decisionmaking. The available information and reporting systems have developed on an ad hoc, uncoordinated basis without a comprehensive consideration of what information is actually needed by decisionmakers at various organizational levels within HEW. The Study Group believes that OE needs to assess carefully its information needs, considering the differential needs of managers with various responsibilities, and then to design a system which meets those needs.

The Group is also concerned with the uncoordinated data collection practices of the SFA programs and the burden such practices impose on educational institutions and lenders. Each SFA program requires institutions to compile and submit separately comparable information. Additionally, much of the data collected are not used by the Office of Education or are of questionable quality. For example, both the BEOG and the campus-based program collect essentially the same student-population data. The campus-based, tripartite application requires submission of 15 pages of data most of which are unverifiable and some of which are of questionable validity. Although institutions should continue to be required to collect data which serve a valid Federal need, they should not be asked to continue to provide data which serve no useful purpose or are duplicative where accuracy is questionable, and the data are not validated.

Utilization and Procurement of ADP

ADP is vital to how well the student financial aid programs can be administered. Resource and time constraints precluded the Study Group from delving into this area to the depth which would be desirable. Nevertheless, the Group is deeply concerned about, and urges HEW to undertake a fullscale review of all student financial aid ADP operations.

The Study Group is also concerned over the continued propriety of the long-term contracting for major ADP systems. Contractor services are obtained for virtually all ADP services used by the student financial aid programs. The systems are comprehensive and the dollar values of the contracts are large. Without question, contracting was the only realistic course of action open to OE officials initially. Also Federal policy on computer utilization in OMB Circular A-76 greatly encourages developing in-house ADP system capabilities. Still, the facilities, staffing, and

expertise which have been developed by the current contractors as a consequence of their initial selection, is so great as to present the danger of foreclosing the possibility of competitive proposals from other potential contractors for future procurements.

The Study Group has a related concern about the integrity of the procurement process for ADP services. The Group's concern is best reflected in the findings of an HEW study on the GSL successor system issued in January 1977.[3] The study concluded that the "management control techniques used in the contracted effort were not sufficient to protect the department." In addition, it noted the lack of "alternative means of lowering the cost of operating the computer hardware for the system.... documented management and financial controls, a task-oriented work structure associated with specific end-products, audit trails within the contractor's accounting system, and assurances of the transportability of systems developed by contractors."

The HEW study recommended that "no future effort of this scale should be undertaken without specific recognition and implementation of management and fiscal controls. Based on the findings cited, the Study Group believes that extraordinary controls are justified to assure the integrity of the contracting for major ADP support systems.

Information for Institutional Administrators

The management of Federal student financial aid programs at the institutional level has been hindered by irregular and infrequent issuance of interpretive materials--rules, regulations, and handbooks; by failure of the Office of Education to guide the institutional administrators in performing their roles; and by infrequent HEW program audits. In addition, the programs suffer from inconsistency and lack of accountability. Improved management in these areas would result in more efficient delivery of funds to students, and also would serve as a deterrent to fraud and abuse.

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[3]U.S. Department of Health, Education, and Welfare. Office of the Assistant Secretary for Management and Administration. "Report on the Status of the Guaranteed Student Loan Program Successor System." January, 1977. (Typewritten)

A clear statement of the national purposes to be served by Federal financial aid programs and the delineation of specific goals and purposes to be achieved by these programs are essential to good management practices at the local level.

It is important that rules and regulations are explicit and consistent within each program and also compatible with other Federal programs. At present each program office may develop its own rules and regulations. This decentralization of authority to develop and promulgate regulations has resulted in conflicting terminology and incongruent demands being placed upon the financial aid administrator.

Furthermore, in the day to day operations of the SFA programs, there too often is a lack of clear policy, conflicting policies, or conflicting interpretations of policy. Institutional administrators, as well as Regional Office personnel, can search for a Central Office opinion which most closely approximates their desired course of action.

Payment of Allowance to Schools for Administrative Costs

The ability and the willingness of educational institutions to prudently manage Federal programs are critical ingredients. The Office of Education expects institutions to exercise diligence and discretion in monitoring the SFA programs and to devote such resources as are necessary to the task. The Study Group has been persuaded that the preponderance of schools accept the responsibility thrust upon them. But it is abundantly clear that the exercise of these responsibilities generates costs, in many instances sizable costs.

The National Institute for Financial Aid Administration (NIFAA) conducted a study in the fall of 1975 to determine the cost being incurred by postsecondary educational institutions related to the conduct of Federal student aid programs: 512 institutions were queried; 197 submitted useable responses. The average reported expenditure per student was $103. The costs, by type of institution, in the NIFAA's study were:

Type of Institution	Per Student Recipient Costs
4-year public institution	$ 97.00
4-year private institution	106.00
2-year public institution	104.00
2-year private institution	111.00
2-year proprietary or Voc/Ed	103.00

The National Association of State Universities and Land Grant Colleges (NASULGC) estimated the costs per student at its member institutions to range between $40 and $50. The cost differences shown in the NIFAA's study and the NASULGC's estimate may be attributed to at least two factors: economies of scale and the methods used by these organizations in determining institutional costs of SFA programs.

The Office of Education has traditionally shared in these costs, and the Congress further recognizes this need in the Education Amendments of 1976. These amendments liberalized the amount of payments to educational institutions. The law increased the administrative allowance under the CW-S and SEOG programs from 3 percent to 4 percent of the award made to an institution, with a ceiling of $325,000 per institution. It authorized an additional $10 payment to institutions for each BEOG and GSL recipient, with the caveat that payments must first be used to fund a student-consumer information program. The balance can be used for other administrative expenses. Although the 4-percent allowance for the campus-based programs has been put into effect, funds have not been appropriated for the BEOG and GSL allowances.

The Study Group believes that neither the campus-based formula nor the BEOG/GSL capitation approach reflect good public policy. They both result in uneven treatment of institutions with the potential of windfalls to some and serious underrecoveries to others. To the extent that expenditures generated by Federal programs are not reimbursed by the Federal Government, regardless of the rationale for nonreimbursement, they must be recovered from other sources ultimately from the student through increased tuition and fees. The Study Group is therefore concerned about the establishment of public policy without benefit of reliable data on the costs incurred by institutions in administering SFA programs.

The Study Group believes that, given such reimbursement, institutions should be expected to administer SFA programs in a responsible manner.

Revising Current Program Policies

In the course of its examination of SFA programs, the Study Group identified several inconsistencies and features of the legislation and regulations for SFA programs that have caused confusion and problems, and where legislative changes or modifications in regulations would be appropriate. Most of the legislative changes which the Study Group

suggests are relatively minor technical amendments. Some of these recommendations for legislative changes have been presented elsewhere in this report. However, recommendations for changes in the legislation covering the BEOG, SEOG, CW-S, and NDSL programs which specifically relate to the improved management of the programs are presented in this section. In addition to those specific instances where recommendations were made for changes in policies, many problems were identified which need extensive study. Some of the needed studies are addressed by the Study Group in the following recommendations.

RECOMMENDATIONS

Management

Operating Procedures

III-C-1 Internal Management Information and Reports

III-C-2 Collection of Data

III-C-3 Computer Utilization

III-C-4 Control over ADP Procurement

III-C-5 Consolidation of Financial Reports

III-C-6 Reassessment of BEOG Report

III-C-7 Coordination With Other Federally Supported SFA Programs

Policies and Guides

III-C-8 Statement of Intent and Purpose

III-C-9 Streamlining the Regulation Process

III-C-10 Development & Dissemination of Program Manuals

III-C-11 Establishment of Regional Support Centers

III-C-12 Policy Changes -- NDSL

III-C-13 Policy Changes -- BEOG

III-C-14 Policy Changes -- Campus-Based Programs

III-C-15 Policy Changes -- CW-S -- Student earnings

III-C-16 Payment of Administrative Allowance to Educational Institutions

III-C-17 Clarifying Responsibilities of Institutions

III-C-18 Financial Aid Transcript

Miscellaneous

III-C-19 Payment of Permanent and Total Disability Claims

III-C-20 Access to Central Student Loan Records

III-C-21 Reassessment of SFA Programs

III-C-1 Internal Management Information and Reports

Recommendations

The type and frequency of Bureau of Student Financial Assistance reports presently provided to various levels of OE management are inadequate.

The Bureau of Student Financial Assistance should provide its own managers and that of OE and HEW with periodic status reports on its various operations. The reports should be issued with such frequency and contain such information as is necessary to make the addressee appropriately knowledgeable about SFA operations.

Rationale

Managers cannot manage effectively without current information and in sufficient detail to give accurate insight into what is happening, what is not happening, and what is expected to happen in their organization. Such fundamental information as the following is not now provided:

1. Listing of lenders in the GSL and NDSL programs ranked by dollars loaned, ~~GSL~~ default claims lodged, etc.,
2. Listing of schools and lenders entering and dropping out of programs;
3. Listing of problem lenders and schools designated by L, S, and T status;
4. Reports on audit and fiscal compliance reviews;
5. Reports on regional collection activities;
6. Workload reports;
7. Personnel action status reports; and

8. Comprehensive projections of problems and necessary actions (Early Warning System).

III-C-2 Collection of Data

Recommendation

The Study Group recommends that:

1. The data collection activities of the various SFA programs be coordinated and, when possible, consolidated across program lines.

2. The data currently collected be scrutinized for purpose and use. Data not meaningfully used should no longer be requested from institutions.

3. Careful consideration be given to the type of data which needs to be collected routinely as opposed to that which might best be collected through surveys using statistical sampling techniques.

Rationale

At the present time, data collection and analysis efforts reflect the fragmented nature of the student assistance programs. Moreover, much of the data collected are not used and are of questionable value.

Efforts such as that of the Data Management Task Force which examined the data processing needs of the campus-based programs should be supported. However, as previously indicated, such efforts should be expanded to include other programs as well. In the final analysis, management information systems should be evaluated in terms of their adequacy 1) in generating information relevant to comprehensive policy analysis of all of the Federal student aid programs, and 2) in providing coordinated information which would assist in the early identification of "problem" institutions. Implementation of this recommendation would be a step in the transition toward a central information depository.

III-C-3 Computer Utilization

Recommendation

The Study Group recommends that HEW arrange an independent full-scale review of all SFA computer operations. The study should cover:

(1) An assessment of the continued propriety as public policy of long-term major system contracting for ADP services in light of the practical constraints against competitive bidding. The assessment should include cost-benefit analysis of in-house vs. contractor-provided services and major system vs. segmented system contracting.

(2) An assessment of the adequacy of the systems under development, particularly the GSL successor systems, to the needs of the SFA programs and their potential for becoming operational. The assessment should be made by ADP systems experts independent of SFA staff.

(3) Whether the separate and largely uncoordinated systems of the various SFA programs constitute an efficient use of ADP technology and capabilities.

Rationale

ADP is essential to SFA operations and the management of the SFA programs. The Study Group was not able to examine this area in detail but has deep concern about the public policy issues of major contracting and the program consequences of a system failure.

III-C-4 Control Over Automatic Data Processing Procurement for SFA Programs

Recommendation

The Study Group recommends that OE and HEW exercise stringent control over procurement of Automatic Data Processing (ADP) and in the selection of lenders and the award of contracts for hardware, software, and processing.

Rationale

Because of the technical complexities often inherent in ADP procurements, and the time constraints that frequently surround them, the normal safeguards built into the procurement process can be avoided with relative ease by those wishing to do so unless special care is taken to prevent it. The opportunity for favoritism and abuse can be curtailed by the following practices, among others:

1. Establishing a functional management system division as recommended by the Study Group, thus providing the means of monitoring/coordinating as an integral part of the management process. HEW might well consider an even broader based unit at the level of the Commissioner, the Assistant Secretary for Education, or the Assistant Secretary for Management and Budget.

2. Structuring technical review panels to prevent favoritism in the evaluation of contractor proposals. Panels should include a sufficient number of knowledgeable individuals who are truly independent of the Bureau of Student Financial Assistance to insure integrity in the selection process.

3. Handling feasibility studies and implementation services as separate transactions.

4. Breaking down large systems projects into tasks and end products separately priced out and with stipulated delivery schedules.

5. Avoiding the use of proprietary software in the design of ADP systems. Where proprietary software is necessary, provide in the contract for the use of the software as long as required by the Government at a reasonable cost.

6. Specifying clear time and expenditure limits, in feasibility and other procurements which are uncertain in outcome, beyond which work cannot proceed without a positive formal determination by OE that additional efforts would be fruitful.

III-C-5 Consolidation of Financial Reports

Recommendation

The Study Group recommends that:

A. Financial reports required of the various Federal SFA programs be consolidated to the maximum degree possible.

B. The consolidated report should be designed and timed to interrelate with DFAFS cash reports and should be used to compare cash drawdowns with reported program activities.

C. In consolidating these reports, the statistical data on the income characteristics of the student population receiving campus-based awards currently required on the fiscal operations report should be reduced or eliminated.

Rationale

Separate expenditure reports are currently required from institutions for the BEOG and the campus-based programs. These reports could be readily combined thereby reducing paperwork and processing effort. Additionally, the BEOG reports are a means of continually relating an educational institution's reported program activity to its cash requests. Hence, they should be designed to include information compatible with that contained in DFAFS quarterly reports and scheduled to coincide with those reports.

III-C-6 Reassessment of BEOG Program Report

Recommendation

The Study Group recommends that the BEOG procedure for processing institutional progress reports and for making adjustments to institutional payment authorizations should be reassessed in light of the high error rates being experienced in the data submitted, delays resulting from those errors, the additional workload that educational institutions cause by submitting "ad hoc" reports, and the recent requirement for biennial institutional audits.

Rationale

The BEOG progress report is meant to verify the propriety of institutions' claims, i.e., that monies are requested only for eligible enrolled students and that payments to students conform with the payment schedule. The system, however, is not working well. BEOG staff advises that it is experiencing a 40-percent error rate in data submitted in the report. There is some evidence that as a result of processing delays, educational institutions are submitting second reports, further increasing staff workload and increasing the potential for duplicate payments. Additionally, the system is of questionable protection against educational institutions which would seek to abuse the program. A considerable amount of staff effort and contract funds are being devoted to the process which could be used more productively in other ways.

The HEW Audit Agency noted serious defects in the BEOG processes and has made several recommendations about them, e.g., limitations should be placed on the future authorizations of educational institutions that fail to submit a Student Validation Roster (SVR) or progress reports without supportive Student Eligibility Reports. However, the Study Group believes the processes are so seriously problem-ridden as to require a full reassessment.

III-C-7 Coordination With Other Federally Supported SFA Programs

Recommendation

In establishing policies and procedures, data collection, accountability requirements, etc, efforts should be made to provide closer coordination and interaction between the SFA programs administered by the Office of Education and other Federal programs that provide financial assistance to students.

Rationale

The SFA programs administered by the Office of Education are but a few of many student aid programs funded by the Federal Government. The best use of public monies demands that all such programs be administered in concert with each other to effectively utilize the available funds.

III-C-8 Statement of Intent and Purpose

Recommendation

The Office of Education should clearly set out the purpose of the SFA programs. Furthermore, the purpose of each of the programs, individually and in their relation to each other, should be clearly stated in language common to all programs. Such statements should include the Federal Government's intent for the use of Federal funds in relation to non-Federal student aid funds.

Rationale

The lack of clearly stated national policy on the role of the OE SFA programs in the overall scheme of student financial aid has created a variety of problems in disseminating information about the programs and has created uncertainty in the implementation of the programs at both the regional and institutional levels. OE must provide greater direction regarding the most appropriate use of OE's student financial aid funds.

III-C-9 Streamlining the Regulation Process

Recommendation

1. The Study Group recommends that the Office of Education streamline the process for writing regulations to facilitate their distribution on a more timely basis. To insure the implementation and applicability of a

given regulation, representatives of the constituent groups to be affected by that regulation should be invited to participate in its development. A single organizational unit with its own legal staff within the Bureau of Student Financial Assistance should be responsible for the development and publication of all regulations to assure their compatibility and consistency.

2. Under the functional organization proposed by the Study Group the Office of Education should consolidate the development of student financial aid regulations.

Rationale

The goals and objectives of the individual student financial aid programs must be implemented by rules and regulations that are both internally explicit and consistent within each program and externally compatible with other Federal programs. The present system allows each program office to develop its own rules and regulations. The decentralization of the authority to develop and promulgate regulations has resulted in conflicting terminology and incongruent demands being placed upon the institutional financial aid administrator.

Furthermore, the process itself is time consuming and ponderous and cannot be used to react with any measure of dispatch, no matter what the situation might be. Finally, the rules and regulations promulgated are put forth are often prepared with no early input from those who must interpret and administer the final product.

III-C-10 Development & Dissemination of Program Manuals

Recommendation

The Office of Education should give immediate attention to the development and dissemination of an integrated set of guidelines or manuals governing all financial aid programs administered by the Bureau of SFA. These guidelines should be organized so as to provide direction in the general management of all Federal programs as well as specific instructions regarding the peculiarities of administering each program.

The Secretary of HEW should instruct the Commissioner of Education to appoint a committee composed of a cross-section of institutional representatives holding responsibilities for all aspects of SFA programs, from the OE Regional Offices, and representatives of the Bureau to assist in the development of such a set of comprehensive guidelines. The input

from such a committee would be particularly useful in developing recommendations for institutional management systems, in determining the appropriate author(s) for writing various sections of the guidelines, and in establishing an appropriate timetable for implementation. In any case, management guidelines should be available for used by the 1979-80 program year.

The preparation of these guidelines should not await the promulgation of regulations but should be prepared, to the extent possible, in conjunction with them.

Rationale

In the past, rules and regulations governing particular programs have been translated into procedural guidelines and manuals to provide direction to the management of the programs at the institutional level. However, publication of these management guidelines has not kept pace with the promulgation of new rules and regulations. Thus, institutional financial aid administrators have been left to their own devices in interpreting the regulations and in developing management procedures to insure programmatic intent. This failure to develop and publish current guidelines has made it difficult for OE to hold institutions accountable for their administration of the programs.

Additional confusion has been created through the development of guidelines along programmatic lines which resulted in the use of conflicting terminology and in the recommention of management practices that were incongruent between programs. Overall management recommendations, applicable to all programs, were not advanced because this did not fit into the scheme of administration by program. Furthermore, administrative procedures have been recommended by OE which are sometimes inconsistent with normal institutional management practices. This illustrates the need for institutional input into the development of management guidelines to be used at the local level.

Topics to be included in such guidelines include the following:

1. General Program Descriptions (including a discussion of the philosophy of Federal SFA programs) geared to those who are tangentially and officially concerned with student financial aid administration, e.g., presidents of institutions.

2. Eligibility Information pertaining to institutions, programs and students.

3. Student Budgets and Family Contributions including research to develop reasonable institutional budgets, appropriate adjustments to standards budgets, the need system's impact on student budgets, the computational formula for family contributions, calculations, review of the need system output, verification of data, and adjustments to need documents.

4. Packaging Philosophies

5. Office Management including forms design and review and sample forms; financial aid advisory committees; available training, professional associations, newsletters, etc,; design internal controls for effective management; and the coordination of aid programs, overawards, and recovery of overawards.

6. Specific Program Descriptions including SEOG, NDSL, CW-S, BEOG, GSL, and other aid programs including Health Professions and LEEP.

Topics to be covered in the program descriptions would include:

a. Institutional, program, and student eligibility;
b. Minimum and maximum awards (annual and cumulative);
c. Student application process;
d. Required documentation;
e. Disbursement; and
f. Records maintenance.

7. Fiscal Recordkeeping

8. Reporting Requirements for DFAFS, Tripart and BEOG.

9. Billing and Collections

10. Evaluation of Financial Aid Operations including self-evaluation, program reviews, and audits.

11. A Directory of Regional and Central Office Staff including their designated areas of responsibility and glossaries of terms used in financial aid programs.

12. A Calendar of Financial Aid Events

13. A Discussion of Financial Aid and the Law including a discussion of the impact of various legislation (e.g., the Buckley Amendments and affirmative action requirements) on the operations of the financial aid office.

III-C-11 Establishment of Regional Support Centers

Recommendation

The Study Group recommends that:

a) The Regional Offices be utilized as support centers for the rendering of technical assistance and training to schools, lenders, and students.

b) OE's Central Office provide consistent policy direction to the Regional Offices so that a uniform interpretation of rules, regulations, and program management directives is achieved.

c) The Regional Offices be staffed in a fashion which would allow an adequate level of support services.

Rationale

There is no clearly defined source of program support services. Without such fixed responsibilities there is no accountability; moreover, there is often inaction. Institutional financial aid administrators, as well as Regional Office personnel, can therefore "shop" for a Central Office opinion which most closely approximates their desired course of action.

The support services which have existed are carried out on a "time available" basis. They have been squeezed in among a host of other responsibilities due to lack of personnel.

III-C-12 Policy Changes--NDSL

Recommendation

The Study Group recommends that:

1. OE issue instructions on when a loan is to be considered in default.

2. OE issue instructions on the handling of defaulted loans by educational institutions.

3. The cancellation provisions for teaching, Head Start, and military service be dropped from future loans.

4. The grace period and loan payment amounts be flexible between student and educational institutions within limits established by OE.

5. Increased efforts be made to devise a method whereby students having two or more loans in repayments status can consolidate their loans and payments.

6. The "207" provision, allowing educational institutions to borrow their matching portion of the loan fund from the Federal Government at a favored rate of interest, be eliminated.

Rationale

The current rules under which the NDSL program is administered create a variety of management problems for educational institutions. Several of these rules are unnecessarily restrictive (such as the provision that allows the write-off of loans with principal and interest balances of "not more than $2"); others have outlived their purpose (e.g., the cancellation provision for teachers). They do not contribute to a better accountability of Federal funds, but they are burdensome and costly to the schools.

The Study Group believes the "207" provision has outlasted its usefulness and is inconsistent with the concept of the NDSL program a shared venture between the Government and an educational institution, each contributing from its own resources. Further, educational institutions which borrow under "207" are given preferential treatment, by virtue of the low interest rate charged such borrowers, over the educational institutions that secure their funds on the open market.

III-C-13 Policy Changes - BEOG

Recommendation

The Study Group recommends that:

1. The Payment Schedule development be timed in a way to allow its distribution at approximately the same time as the BEOG applications to which it will relate.

2. Average costs be used for students on campus room and board rather than actual cost.

3. The computation procedures used for summer awards be clarified and published well in advance.

4. Institutional student financial aid administrators be given discretionary authority to deny or limit the payment of a BEOG for a prior academic period(s) if such a disbursement of funds results in an aggregate award that exceeds the student's financial aid package.

Rationale

1. The Payment Schedule is a table which indicates the amount of a student's BEOG award given the student's eligibility index and cost of attendance. The table reflects the level of awards which can be paid given the amount of funds available for a particular year. Using this

annually issued table, an institution can determine the minimum amount a student can receive if the student enrolls on a full-time basis for a full academic year. These Payment Schedules are issued too late in the year. Normally, they have appeared in May, after many institutions begin the awarding process. The process of developing payment schedules should be accelerated so that they can be issued when BEOG applications are issued.

2. The cost of education used on the payment schedule is unnecessarily complex. The detailed computations pose serious problems for many institutions, especially items relating to living expenses. The formula calls for "actual cost," but many institutions have a wide variety of room and board plans. The particular plan a student will select is often indeterminate when awards are sent, and are commonly changed during the year, etc. Even the determination of the room and board plan selected by the student poses management problems in many institutions. It would be desirable to allow institutions to use average rather than actual costs for room and board expenses.

3. The process for determining summer awards to educational institutions must be clarified and published prior to the summer award period. Publishing after that time causes institutions to make unnecessary adjustments.

4. The current BEOG application may be submitted any time prior to March 15 of the academic year. The Student Eligibility Report which is generated and subsequently submitted to the institution, may be used to provide a BEOG for current and subsequent academic periods, and for periods already completed. Such a practice can cause significant management problems.

III-C-14 Policy Changes Campus-Based Programs

Recommendation

The Study Group recommends that OE;

1. Seek a change in its appropriations legislation to delete the distinction between SEOG Initial-Year and SEOG Continuing-Year Funds.

2. Seek legislative authority to allow schools greater flexibility in the transfer of funds between the GW-S and SEOG programs.

3. Define the term "supplemental" in relation to financial aid packages.

4. Eliminate the SEOG "matching" requirement.

Rationale

Prior to the Higher Education Amendments of 1972, there was clear priority given to continuing-year (then called renewal-year) students in both the tripart application review and awarding process. The Commissioner determined that the amount available for initial year funds was to be calculated by subtracting the total amount recommended by the panel for renewal students from the total dollars available. At the institutional level, educational institutions were obligated to take care of their eligible continuing studnets first, even if it meant utilizing their initial year authorization to do so. (An initial-year award is the first SEOG awarded to a student. Awards for subsequent academic years are deemed to be continuing-year awards.)

In conference debate on the Higher Education Amendments of 1972, there was strong sentiment that too much preference had been afforded the continuing-year student. Therefore, separate appropriations were mandated so that the Congress could make certain that some minimum amount of money was reserved for initial-year students regardless of the need for renewal or continuing-year funds.

The appropriation language has not, however, been consistent with the authorizing language in carrying out this intent. Annually, a request is sent by the appropriations committee to OE, asking the agency to suggest the most appropriate division of these funds. The rationale behind OE's current dollar division, or even the formula used to derive it, is unclear. Therefore, the control that the Congress desired has not been exercised.

Providing a single SEOG authorization to institutions will promote equity in meeting the needs of students and will eliminate the burdensome and unnecessary complications of the current system.

The Group also believes that due to fluctuations in both the levels of appropriations for the campus-based programs and in the demand for the funds, it is necessary to provide institutions increased authority to transfer funds between the programs in order to alleviate shortages or excesses which may occur in specific programs. The Study Group is particularly concerned about the flunctuations in funding which may be available to institutions from year to year--fluctuations which may result in significant yearly variations in institutional packaging philosophies. These yearly changes in packaging are difficult administratively, to say nothing of the difficulties in explaining deviations from normal financial aid packages to students.

The SEOG program requires that Federal funds be "matched" with another type of aid. With the advent of BEOG, the matching requirement was eliminated. This step diminished administrative requirements significantly in the areas of recordkeeping, monitoring and auditing.

III-C-15 Policy Changes CW-S Student Earnings

Recommendation

The Study Group recommends that:

1. Institutions be allowed to transfer students who have earned the full amount of their CW-S award to the college payroll without penalty of overawarding.

2. Students not be able to use the loss of CW-S employment as a basis for filing claims for unemployment compensation or similar programs designed to assist those who lose regular employment.

Rationale

The College Work-Study program requires more administrative effort by institutions than any other SFA program. A major part of the effort is spent monitoring the aggregate amount of wages paid to each CW-S student whether from CW-S or other employment. This limitation requires close and extensive monitoring of all monies paid to a student whether from Federal or non-Federal sources.

It is most difficult to project student earnings, and students are often forced to terminate their employment midway through the academic period because their need is met. To cause students willing to work to cease their employment because of an artificial limit on earnings seems counterproductive.

Finally, the Study Group believes the use of CW-S employment as a basis for unemployment claims is a violation of the spirit, if not the letter, of the law. Such claims against the employment compensation program should not be permitted.

III-C-16 Payment of Administrative Allowance to Schools

Recommendation

The Study Group recommends that:

1. Educational institutions be paid an appropriate allowance for the costs

incurred in administering the SFA programs.

2. The amount of the administrative allowance be established through a representative sample survey undertaken to identify the costs involved in the administration of student aid programs and the appropriate means of reimbursement. The survey should identify:

   a. The type of services and administrative activities involved in the administration of student financial aid programs, both Federal and non-Federal;

   b. The costs related to those services and activities;

   c. The extent, if any, to which OE SFA programs required more or less administrative effort on the part of educational institutions than other student aid programs; and

   d. A simple methodology for determining those costs at individual schools or computing an aggregate formula, rate, or amount that will reasonably approximate such costs and which can be used as a basis for reimbursing all educational institutions.

3. Given such reimbursement educational institutions should be expected to administer SFA programs diligently and with a responsible attitude.

Rationale

There are costs involved in administering OE student-aid programs, and revenues must be generated to cover those costs. It is proper that the Federal Government compensate educational institutions for their costs related to Federal programs. It is especially proper since educational institutions will likely be expected to exercise greater discretion and oversight in administering SFA funds in the future than they have in the past. Failure of the Federal Government to reimburse institutions for their costs results, in the ultimate shifting of the costs to all students in the form of tuition and fee increases. The present formulas, however, are not adequate. They contain the potential for underreimbursing some educational institutions while providing windfalls to others. For example, the cost of administering a $1,000 grant to a student should not be much different from the cost of administering a $500 grant. Yet, the campus-based programs would reimburse twice as much for administering the $1,000 grant as for the $500. The $10 per student fee proposed for the BEOG program is also flawed.

III-C-17 Clarifying Responsibilities of Institutions

Recommendation

The Study Group recommends that responsibility for the administration of student financial aid programs including the BEOG be precisely defined. The definition should include a description of the responsibilities for verifying student-provided information on income, reporting known or suspected discrepancies in such data, and recovering overpayments.

Rationale

There is confusion among institutional officials, particularly in regard to the BEOG program, about institutional responsibility for the accuracy of data, the amount of validation expected of the educational institution, the requirement to pursue a student for repayment of an overaward, etc. The BEOG staff has found it difficult to be demanding because of its inability to supply the educational institutions with an administrative allowance. At the same time, it is becoming clearer that only at the institutional level can such monitoring and control be effective. The Study Group urges that a clear statement of institutional responsibility become a part of the regulations.

III-C-18 Financial Aid Transcript

Recommendation

The Study Group recommends that the Office of Education assist in developing a standard financial aid transcript for use by schools in monitoring students' financial aid.

Rationale

In order to make certain that cumulative award limits for the Federal programs are not violated, financial aid administrators must document the financial aid award(s) received for each student who has previously attended a postsecondary institution. Currently some institutions use individualized letters or forms to request such data. Others use the Financial Aid transcript developed by NASFAA. Each varies in content and the format of the information required.

The efficiencies accompanying a standardized form are evident. Familiarity with the form will result in more expeditious completion by the receiving institution. Secondly, a once an institution has completed the financial aid transcript for a student, a copy of the form may be used to satisfy all further informational requests concerning that individual.

III-C-19 Payment of Permanent and Total Disability Claims

Recommendation

The Study Group recommends prompt processing of permanent and total disability claims of Federal student borrowers by the Office of Education.

Rationale

Medical reviews of permanent and total disability claims are made by Social Security Administration (SSA) physicians. The time it takes to process the claims through SSA is unreasonably long; 1 year is not uncommon. The Group believes there should be alternatives to the use of SSA doctors; e.g., a certification by two physicians other than the claimant's physician.

III-C-20 Access to Central Student Loan Records

Recommendation

The Study Group recommends that the Office of Education develop the "on-line" capability to obtain access to the student loan records in the Office of Education's student loan central files and provide low or no-cost terminals to the State guaranteed loan agencies in order to provide them access to the central loan records. However, proper controls over the use of the data should be developed.

Rationale

The Study Group is aware of the extremely difficult record keeping problems associated with the Guaranteed Student Loan program and the even greater difficulty in establishing a record keeping structure that provides ready access. It is the Group's belief that the lack of an easily accesible record system inhibits the communication of an individual

borrower's total guaranteed (Federal and State) loan experience. Clearly there is sufficient need to merit the expense of developing the "on-line" capability to obtain access to all the student loan records and to extend that access to the State guarantee agencies. In such an arrangement, immediate access to these records will eliminate the problems of students receiving loans in excess of the allowable aggregate maximums, or of students who have defaulted on previous accounts insured by one guarantor receiving new loans through a second guarantor. With such a capability the student loan records could be verified, updated, and reconciled with State records in a timely and efficient manner.

III-C-21 Reassessment of SFA Programs

Recommendation

The Study Group recommends that:

A. A major study of the SFA programs be undertaken to determine:

1. Whether they are fulfilling their intended purpose, (e.g., to determine the degree that all potential student pupulations - such as those living in rural areas - are being adequately served).

2. Actual and perceived barriers to the equitable distribution of aid in the programs.

3. The ramifications of expected changes in the size of the eligible populations, likely changes in social security, veteran's benefits, other entitlement programs, State aid programs, new enrollment patterns, the newly authorized health professions loan program, etc,

4. The extent to which the SFA programs encourage the shifting of conventional State and institutional funding responsibilities to the Federal Government.

5. Whether the financial characteristics of GSL borrowers have shifted with the establishment of new upper limits of parental income and the effect such shift is likely to have on the availability of loans for lower income families and on the need for additional grants and work-study funds.

6. The fiscal and social implications of the growing numbers of "independent" students and part-time students applying and qualifying for financial aid.

7. The needs and problems of the urban commuter, nontraditional student who is typically independent, older, and a member of a minority group.

8. The general attitude of students, parents, educational institutions, lenders, and the taxpaying public toward the various types of financial aid programs and the availability of aid funds to students.

9. The reasons for the failure of students who apply for and are eligible to receive BEOG funds subsequently to attend a postsecondary school.

B. That studies be undertaken to identify the alternatives to the current programs, including:

1. Consolidating some of the Federal student aid programs, including entitlement programs, or

2. The establishment of a single Federal entitlement program for all students pursuingan education for gainful employment.

Rationale

Student financial aid has grown from relative insignificance to one of the dominant forces affecting postsecondary education today. For example, in the space of only 4 years, the Basic Educational Opportunity Grant program has grown from \$122 million to approximately \$2 billion. State scholarship and grant programs, virtually non-existent 20 years ago, awarded almost \$200 million annually by 1970 and grew to \$645 million by 1975-76. Federal payment under the GSL program for subsidies, interest, and loan defaults is at the \$500 million level. Total aid benefiting students from all Federal programs is now estimated to be in excess of \$7.9 billion annually.

In addition to these visible costs, a massive bureaucracy is being created within the Federal and State governments, educational institutions, and lending institutions to administer the programs. The programs grow ever more complex in sincere attempts to treat all students and institutions fairly, while curbing abuse. The Group believes it is time to reexamine the extent to which, and how, financial aid should be provided and to define the respective responsibilities of the Federal Government, State governments, institutions, and students and their parents for sharing the costs of education and training.

D. Training Institutional Financial Aid Administrators

BACKGROUND AND ISSUES

HEW relies heavily upon non-Federal officials in carrying out the three campus-based programs (CW-S, NDSL, and SEOG). Most of the administrative responsibilities for these programs are carried out by financial aid administrators, fiscal officers, and other persons in educational institution administrative structures. For example, it is an educational official or an institution, not a Federal employee, who determines the amount of Federal aid funds which a given student will receive and who approves federally guaranteed loans, and it is at the level of the educational institution that source records are kept. Hence, the development of a cadre of competent student aid administrators is a matter of concern to the Study Group as well as to the postsecondary education community. The training of such a body of competent administrators will greatly assist OE in the goal of eliminating fraud in and the abuse of student financial aid programs.

In addition to student aid administrators at postsecondary institutions, there are other groups involved in student aid at lending institutions and State agencies. Their influence is pervasive; their impact on the policies, goals, and outcomes of postsecondary education is significant. It is important, therefore, that the professional development and training of financial aid administrators outside the institutional setting go hand-in-hand with that of those within it.

There is a need for a comprehensive training program or a series of coordinated short-term programs through which financial aid administrators can develop and sharpen their skills. Unfortunately no such program(s) are widely available today.

Before a successful program can be effectively designed, there needs to be a better understanding of, and agreement on, the kinds of talents which financial aid administrators ought to bring to their positions. Once agreement on the knowledge and skills required has been reached, the training programs necessary to help administrators acquire and maintain that expertise can be readily developed.

The Study Group believes both these undertakings are beyond the capabilities of OE or any other single organizational entity. Rather, the Study Group envisions, and wishes to encourage a cooperative venture by OE, with State student aid organizations, public interest groups, and professional associations concerned with SFA.

The need for training has already been recognized by the Congress, in the Education Amendments of 1976, in its authorization of $280,000 in matching grants to States to design and develop "Programs to Increase the Proficiency of Institutional and State Financial Aid Administrators in all Aspects of Student Financial Aid." It remains now for OE and other interested organizations to capitalize on that authority.

RECOMMENDATIONS

Training

III-D-1 Training

Recommendation

The Study Group recommends that OE give incentive and guidance to the development of a comprehensive training program directed toward those involved in the management of SFA programs, including, in addition to financial aid administrators, chief administrative officers, business officers, and non-institutional aid personnel.

The training program should utilize a variety of management specialists, educational environments, and training materials to maximize its effectiveness. Before a successful program can effectively be designed to train student aid administrators, there must exist a better understanding of their roles and functions.

Rationale

Although much has been written on the basic skills and abilities common to successful administration of aid, little or no effort has been made to determine the level of expertise required of each of these skill levels.

There is also a necessity to educate and inform the chief administrative officers to whom the financial aid administrator reports. It was clear to the members of the Study Group that there is a lack of information and understanding about student financial assistance at many institutions. This situation has led to inadequate staffing, underbudgeting, and limited

resources at the institutional level, which has led in turn to the high turnover rate of financial aid administrators and, in some cases, ineffective program management. Through special training efforts presidents, vice presidents, deans of students, admissions directors, and others must be made aware of the complexities and basic management requirements for the proper and adequate performance of operational responsibilities for student financial assistance programs at the institutional level.

Once an appropriate body of knowledge and level of skills has been identified, the curriculum course materials, teaching methodologies, educational settings, and teacher training requirements will follow in logical sequence. An outline of each of these areas follows:

Methodologies and Educational Settings

1. Master's Degree Programs -- academic year
2. Institute Programs -- 1 week to 3 month curriculum.
3. Internships -- cooperative programs, including practical experience augmented by classroom study, with or without graduate credit.
4. Work-Shop Experience -- efforts to address specific needs and techniques, e.g., need analysis, fiscal procedures, interpretation of new laws and regulations, etc.
5. Professional Meetings -- regular updating of aid administrators at State, regional, and national professional meetings.
6. Program Reviews and Site Visits -- a one-to-one analysis of an institution's financial aid operation by an expert or team of experts.

Sources of Trainers

1. College and university teaching staff.
2. Expert members of the student financial aid profession.
3. Representatives of service agencies such as CSS, ACT, billing services (Wachovia, American National Bank).
4. Office of Education staff.

5. Experts from Federal agencies who have overlapping responsibilities, i.e., NIH, HEW Audit Agency, HEW Office of General Counsel, HEW Office of Investigation, etc.

6. State scholarship and loan agency staff.

7. Experts from related professional organizations (NACUBO, AICPA, AHE, NASPA, and NASFA).

Just as there is no one type of training environment or any one group of experts most suitable to offer instruction in all facets of student financial aid programming and management, no one set of training materials will satisfy all of these experiences. However sound an approach may be, it cannot be effective until it is comprehensively defined, fully refined and disseminated for the use of others.

Training Materials Needed

1. A Text Book on Financial Aid Administration -- such a textbook would reference various disciplines, the fundamentals of which are requisite to the trained financial aid administrator. Although a number of graduate and postdoctoral candidates have eyed such an effort, adequate financial sponsorship would assure its completion.

2. Procedural Manuals -- regulations on how to establish and maintain a financial aid office must be developed, constantly updated, and made readily available for training efforts. Presently, program manuals on Governmental, and other programs are, for the most part, outdated and unavailable. While model manuals are important tools of a comprehensive training program, it must be recognized at the outset that that procedural manuals will vary significantly among institutions according to a combination of administrative structural factors, size and type of institution, and other distinguishing characteristics.

Manuals which encourage use of standardized techniques are particularly useful during interim periods when formal training is unavailable.

E. Program Integrity

BACKGROUND AND ISSUES

With an undertaking the size and breath of the student financial aid programs (5,000 schools, 18,000 lenders, and millions of students), there is no single action or remedy which can adequately deal with the problems of mismanagement, abuse, and fraud. However, these problems can be minimized through an integrated management system designed to prevent them or to detect and correct them where they already exist. Many of the components of such a system have already been recommended in previous sections of this report: 1) an organizational structure with an unambiguous line of authority, 2) adequate staffing, 3) clear and timely regulations, 4) an adequate management information system, and 5) timely handbooks, guidelines, and training programs.

This section is specifically concerned with:

1. Systematic on-site reviews;
2. The implementation of limit, suspend, and terminate procedures;
3. The vigorous pursuit of delinquent and defaulted loans.

On-Site Reviews of Institutional and Lender Operations

There is no substitute for on-site reviews of institutional and lender operations as a preventer and detector of mismanagement, abuse, and fraud. But HEW has never had sufficient staff to perform such on-site reviews in the number and depth which might ideally be desired, nor is it every likely to. For example, during the period July 1, 1975, to September 30, 1976, only about 100 of the 5,000 schools and 18,000 other lenders in the program were audited by the HEW Audit Agency. Although OE has attempted to fill the gap by encouraging the institutions to have special audits of their administration of the student financial aid program conducted by their independent accountants (at the institution's expense), it felt it lacked authority to require such audits. To their credit, many institutions have had audits performed by independent accountants or State auditors, some 1,450 for the period just cited. But even this total is inadequate. However, with the passage of the Education Amendments of 1976, OE now has clear legislative authority to require such reviews and a clear reading from Congress that such authority should be exercised. OE now has the opportunity to make use of this authority as an integral part of its management reporting system, relying primarily on independent professional auditors and the staff of the HEW Inspector General for the conduct of such reviews.

Limit, Suspend, and Terminate

If management, abuse, and fraud are to be controlled, educational institutions and other lenders must understand that violations of department regulations and policies will result in the timely imposition of sanctions appropriate to the seriousness of the violation. But they must also be assured of protection against arbitrary and capricious actions by OE. These objectives can be accomplished through the implementation of a formal appeals procedure tied into the certification and compliance process. Such a procedure needs to apply to all student financial aid programs and to provide for school/lender appeals, on the record, to an administrative law judge or an appeal board independent of BSFA and reporting direclty to the Commissioner of Education or the Assistant Secretary for Education. The procedure, however, should not act to inhibit an action of BSFA where such action is necessary to protect the interest of the Government.

The Congress has already vested the Commissioner of Education with the authority to take such actions. The Higher Education Amendments of 1972 give him authority to "Limit, Suspend, or Terminate" the eligibility of an institution participating in the Guaranteed Student Loan Program whenever the Commissioner determines, after affording the institution an opportunity for a hearing, that the institution has "violated or failed to carry out any regulation prescribed under this part." The Education Amendments of 1976 extend that authority to the campus-based and BEOG programs which the study group was directed to review. The 1976 amendments also contain two provisions not included in the 1972 amendments:

1. A hearing on the record is required, and

2. The period of suspension is limited to 60 days unless limitation or termination proceedings are initiated within that time or the Commissioner and the institution agrees to an extension.

The Suspension Procedure applies in situations in which fraud or major mismanagement or abuse is brought to light which, if allowed to continue, will result in unreasonable risk of substantial loss of Federal funds. On the other hand, the entire Limit, Suspend and Terminate Procedure applies in three eventualities:

1. Situations in which an institution, with respect to its academic qualifications, is deemed eligible to be a lender, but in which it lacks other prescribed prerequisites such as fiscal stability, reliable record-keeping, or qualified student financial aid personnel.

2. Situations in which fraud or serious mismanagement or abuse is brought to light, but in which suspension is not warranted, or in which suspension action is taken, and the school or lender is amenable to corrective measures.

3. Situations in which fraud or serious mismanagement or abuse is brought to light, and the institution is unwilling or unable to institute corrective action; or BSFA has no confidence that corrective actions will be taken.

OE has recently published proposed regulations toward implementing the Commissioner's legislated authority in each of these eventualities. With certain important modifications outlined in the following recommendations, those regulations should adequately serve their purpose.

GSL Collection Activities

Student defaults not only tax the treasury and thus the taxpaying public but, if left unchecked, soon insidiously erode the basic integrity of the Federal loan programs. Students who understand that their loan repayments will not be pursued will be likely to lose any sense of responsibility to repay. Similarly, those students who do repay when others are not required to do so ill rightly resent the fact and lose confidence in their Government's ability to deal fairly with all.

In the first few years of OE's loan programs, little administrative attention was given to the matter of student default. However, as an increasingly large volume of loans became due for repayment, the seriousness of the default problem became more and more apparent.

The seriousness of the default problem in the GSL program has been cited in previous reports to and by OE and is well known to OE and HEW management. The GAO has just recently completed a review of GSL's collection activities and has issued a draft report which notes the significant steps OE has taken in this area but which also notes that the "collection efforts are not keeping pace with the growing inventory of defaulting student loans." [4]

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[4] U.S. General Accounting Office, Collection Efforts are Not in Pace with the Growing Inventory of Defaulted Student Loans. Draft, no date, page i.

GAO has made several recommendations which the Study Group endorses:

1. That collections offices require debtors to submit financial statements as a means of better determining their ability to pay.

2. That OE make greater efforts to compromise claims where a debtor's ability to pay in full is in fact impaired and that guidelines on compromise settlements be revised to encourage, rather than discourage, the use of this collection techniques.

3. That guidelines be developed for collections personnel on procedures for collecting through offset or payroll deduction when the individuals in default are Federal employees or former Federal employees.

4. That OE ensure that every Regional collections staff effectively participate in the program for Regional level referral of the defaulted loans to the U.S. attorneys.

5. That a system be established for monitoring Regional Office collection activity. The system should be capable of assessing whether defaulted loans are processed to completion (collection, referral for legal action, or termination) rather than returned to the inventory, including any defaulted loan cases processed by a contractor. It should also provide the information necessary to assess the adequacy of collection efforts in each Region in light of existing and anticipated inventories of defaulted loans.

NDSL Collection Activities

The same sense of urgency and expertise which OE is directing toward GSL defaults is lacking in the NDSL program. Unlike the GSL program, the Federal Government has no liability to NDSL lenders for loan default. But since 90 percent of the NDSL funds are initially provided to the lenders (educational institutions) by the Government, OE has, or should have, a major interest in the extent to which the resources it provides are diluted by students' failure to repay.

The default and delinquency rates in the NDSL program are high. Educational institutions are not banks and often do not have the expertise of banks to administer loans. Nevertheless, as participants in the NDSL program, the institutions are stewards of public funds and must exercise (and be helped to exercise) the diligence and professionalism inherent in such a role.

The training of school administrators would improve the situation, and the Study Group has made recommendations for training in Section III-D. The Study Group has also noted, in the management section, deficiencies in OE's administration of the NDSL program, and has made recommendations in this area. But in addition, there is a need for providing educational institutions the flexibility necessary to trace students and collect and settle loans.

Student Bankruptcies

The Federal Bankruptcy Law was enacted to give relief to individuals who had become indebted to the point that their ability to repay, based on their likely future income, was remote. The purpose of the law is to relieve honest debtors of the crushing burden of heavy debt in order that they might live a future productive life unencumbered by their past mistakes. That law, however, is being abused by student borrowers who use it to avoid legally their loan repayment obligations. Recently the rate of bankruptcies has been increasing rapidly.

In response to this abuse, Congress enacted Section 439A in the Education Amendments of 1976, precluding a student loan discharge by bankruptcy until 5 years from the due date of the first payment unless a court determines such preclusion would impose an "undue hardship on the debtor or his dependents." More recently, however, Congress has been considering H.R. 6, a uniform bankruptcy law. Section 436 of that bill would, if enacted, repeal the GSL bankruptcy provision. To nullify the 5-year nondischargeability of GSL loans would lead to substantial loss of Federal funds and encourage even greater abuse of the GSL program.

RECOMMENDATIONS

Integrity

III-E-1 School/Lender Fiscal and Program Reviews

III-E-2 Legislative Amendments -- L, S, and T

III-E-3 L, S, and T -- Basic Eligibility and Compliance Actions and Staffing

III-E-4 L, S, and T Regulations

III-E-5 Collection of Defaulted Loans -- Intra-Governmental Cooperation

III-E-6 Assistance in Locating Student Borrowers

III-E-7 Preventing Program Abuse Through Misuse of Bankruptcy

III-E-8 Writeoff of Uncollectable Defaulted GSL Loans

III-E-9 NDSL -- Student's Obligation to Repay

III-E-10 Writeoff of Uncollectable Defaulted NDSL Loans

III-E-11 Prosecuting Perpetrators of Fraud

III-E-1 School/Lender Fiscal and Program Reviews

Recommendation

The Study Group recommends that:

A. OE work jointly with State Guarantee Agencies, the Office of the Inspector General (OIG), and in coordination with the AICPA to develop audit guides and instructions for use in on-site reviews by independent auditors, OIG, and SFA staff. Such guides should cover all phases of the review, including financial condition, management systems, and collection activities, as well as student eligibility, packaging, and other program compliance areas.

B. OE, the Regional Offices, and the State Guarantee Agencies coordinate the on-site reviews of educational institutions and lenders to prevent multiple and duplicative visits to the same institution.

C. Required biennial audits of institutions and lenders be the foundation upon which on-site reviews are scheduled. Maximum reliance should be placed upon independent auditors, State auditors, and the OIG for the conduct of reviews.

D. BSFA staff concentrate on performing priority reviews in accordance with prescribed guidelines in (A) above, performing special reviews as deemed necessary and providing support services to institutions.

E. Procedures be established whereby those institutions which are known to be potential high risks can be assigned priority reviews.

Rationale

Separate reviews of individual SFA programs are wasteful of resources and a burden upon institutions. Hence, all programs should be reviewed concurrently. The legislative requirement for biennial audits presents an excellent opportunity for systematic and thorough reviews of school and lender administration of SFA programs by professionally qualified people without the need for a massive staff build-up by OE. In addition, the extent that State auditors would be willing and able to participate should

be investigated. But professional quality instructions must be developed which reflect the purpose and scope of such reviews for used by those performing audits for both school and non-school lenders. The guide should provide for a simultaneous review of all HEW student financial aid programs conducted by a school or lender. It should cover all aspects of those programs, including student eligibility, packaging, accounting systems, cash management, accuracy of report submitted to OE and DFAFS, loan practices, and collection procedures. Separate guides should be developed for schools and non-school lenders.

III-E-2 Legislative Amendments -- L, S, and T

Recommendation

The Study Group recommends that the Congress amend the authority it has given the Commissioner of Education to suspend institutions from program eligibility by providing that:

1. An institution's eligibility may be immediately suspended for a period of up to 60 days when there is evidence that an institution is in violation of applicable law, regulations, agreements, or limitations, and when the likelihood of loss through continued abuse outweighs the importance of following customary due process procedures.

2. Suspended institutions be given opportunity to appeal but suspension remain in effect for the prescribed period unless reversed as the result of such appeal or otherwise resolved.

Rationale

Congress has provided specific authority to OE to limit, suspend, or terminate those institutions which do not comply with its regulations and rules. This authority is an important instrument in preventing abuse and mismanagement and should be put into effect immediately.

The Education Amendment of 1976, however, permit such action only after an institution has received due notice and a hearing. While this restriction is fully appropriate in most situtations it does not recognize the need of OE to be able to take immediate emergency actions in those situations where failure to act promptly exposes the Government to substantial risk of loss of funds.

III-E-3 L, S, and T Basic Eligibility and Compliance Actions and Staffing

Recommendation

The Study Group recommends that the Office of Education regulations on

Limit, Suspend and Terminate recognize those activities related to the responsibilities of the Division of Eligibility and Agency Evaluation which differ from the responsibilities of BSFA.

The Secretary of HEW and OMB should review carefully OE's capability to implement new regulations on L, S, T actions. Appropriate actions should be taken to make certain that sufficient staff and other resources are available to meet the need for effective and timely action.

Provision should be made whereby State Guarantee Agencies may be delegated authority to initiate compliance action in the GSLP where appropriate.

Rationale

The Study Group is proposing that there be a two-step eligibility process, one step concerning the basic eligibility of educational institutions and accredinting agencies, the second concerning the financial condition and management of educational institutions and other lenders. It is important that the distinction be made explicit in the regulations and that the process give recognition to the different organizations responsible for such actions.

The implementation of the legislative mandate for L, S and T actions may require a realignment of resources in OE. This may suggest the need to reallocate existing positions and seek increases in budget requests and commensurate appropriations.

There has been a tendency in the past to legislate remedies to curb fraud and abuses in programs without taking into consideration the need for sufficient appropriations for the administrative costs of such programs. In an effort to avert some of the unfortunate circumstances that have occurred in the past, this recommendation highlights the need to balance program authority with the program's administrative costs so that effective control can be maintained in the management of complex programs.

III-E-4 L, S and T Regulations

Recommendation

The Study Group recommends that OE amend its proposed regulations implementing its legislstive authority in Limit, Suspend, or Terminate procedures with respect to schools and lenders participating in the student financial aid programs to:

1. Identify the Deputy Commissioner of BSFA as the official responsible for making Limit, Suspend and Terminate decisions.

2. Provide separately for limit, suspend, and terminate proceedings. For example, it should be possible to pursue limitations without having to go through termination proceedings as presently required in the proposed regulations. The Deputy Commissioner of BSFA or his designee should be able to initiate proceedings under each of these provisions in the order deemed necessary rather than as currently specified in the proposed regulation.

3. Define "suspend" to include emergency action.

4. Require that where suspension is recommended by a responsible source such as Regional Office or a State guarantee agency, the Deputy Commissioner for SFA must act on that request within 15 days.

5. Eliminate ambiguous terms and language with unclear meanings. Terms such as "reliable information" and "substantial loss of income" should not be used without more precise definition.

6. Institute a procedure to assure that actions pending or taken under the L, S and T process are communicated in a timely fashion to those agencies and offices whose programs are affected by those actions.

7. Publish and maintain a current listing of certified institutions.

Rationale

The importance and sensitivity of the Limit, Suspend and Terminate process demands that the implementing regulations be abundantly clear in their usage of language and explicit about the procedures which OE and the institutions need to follow, seriousness of L, S and T actions demands that the decisionmakers be responsible officials ~~in the~~ top echelons of OE. Language such as "reliable information" or "substantial loss of funds" are so imprecise as to invite contention. Consequently, there is a need to have a clearer definition of terms so that both OE staff and the institutions fully understand their rights and obligations. Additionally, while the procedures for processing limit, suspend, and terminate actions may be identical, they are separate actions and should be dealt with separately in the regulations. The draft regulations avail-able to the Study Group did not distinguish between limitation and ter-mination proceedings. Instead, limitation actions arose as one of the consequences of a termination proceeding.

Finally, actions taken by OE in its student financial aid programs could have important impact upon other Federal and State programs or significance to the relationship with an institution of Federal and State

offices. Hence, it is important that in those instances where an institution's administration of an SFA program is so deficient as to warrant an L,S and T action that other concerned parties be appropriately notified. Similarly, those organizations and others would find a current listing of certified institutions helpful, and it should be available to them.

III-E-5 Collection of Defaulted Loans -- Intra-Governmental Cooperation

Recommendation

The Study Group recommends that the Secretary seek the full cooperation of all governmental agencies in attempting to recover amounts due on delinquent and defaulted student loans. Furthermore, the feasibility and legality of "offsetting" delinquent and defaulted loan amounts against payments due to the debtor from any governmental agency should be investigated. Examples of such payments that might be used for "offsetting" should include Federal income tax refunds, other OE student aid programs, VA benefits, Social Security student benefits, and wages from Federal, State, or local governments.

Rationale

Since enactment of the Guaranteed Student Loan program, 4 million student loans amounting to $4.5 billion have been guaranteed through September 1976. During this time, $280 million have been paid to lending institutions for the 282,000 (one out of six) defaulted loans. So far, only $25.1 million of this has been recovered by OE.[5] The number of defaulting loans is growing at an increasing rate, and many of the loans are approaching the time when the statute of limitations will bar court action. Greater intragovernmental cooperation would help alleviate this problem, but new procedures and policies are needed. One such policy is that debts owed to the Government can be offset by Federal payments due the debtor.

The OE collection mandate is the Federal Claims Collection Act of 1966. The regulations implementing this Act require that if collection efforts are unsuccessful, a decision must be made either to terminate collection efforts or to refer the defaulted loans to GAO or the Department of Justice for further collection action. The regulations ("Joint Standards")

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5 *Ibid.*

also provide for collection action against those debtors who are receiving pay or benefits from the Federal Government. These Joint Standards enjoin Federal agencies to cooperate in these efforts to offset debts against salary or retirement benefits of Federal employees.

Aside from Federal employees, the right of offset is sometimes restricted by law or administrative regulations. These barriers should be further examined to see to what extent it is feasible to change the current rules. For example, an offset against an IRS refund is legally possible,[6] but the conditions are in some cases difficult to meet (e.g., joint returns). However, an advantage of this procedure is that it is not limited by the statute of limitations (if a judgment has been obtained, and due process procedures have been followed).

III-E-6 Assistance in Locating Student Borrowers

Recommendation

The Study Group recommends that OE take the necessary steps to reestablish an effective locating procedure through cooperative arrangements with the Internal Revenue Service and the Social Security Administration.

Rationale

One of the most serious obstacles to collecting student loans is the lack of current addresses for borrowers. Students are likely to relocate after leaving school, without notifying the lender of a change of address. Then by the time the loan is due for repayment, it becomes a painstaking process to locate the borrower. Many such borrowers are never located, and the loan goes into default.

There are two other Federal sources of more current addresses of borrowers which might be used in the collection effort. If the individual has filed a Federal income tax return, IRS would have a recent address. If the individual works in employment covered by the Social Security system, SSA would have the name and address of the individual's most recent employer.

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[6]The U.S. Court of Claims, in Cherry Cotton Mills, Inc. vs. United States. 59 F. Supp. 122 (Ct. Cl. 1945), upheld a Government set off of a tax refund against a large past due indebtedness that resulted from a defaulted loan. The court, on page 126 of the opinion said that the taxpayer, "...had no right to collect money from the U.S. when it owed a past due debt of the United States..."

Intermittently, OE has been able to assist lending institutions in locating missing borrowers through cooperative efforts with IRS. These procedures have been only marginally helpful because of recurring questions of the legality of the procedures, because of time lags, and because of conflicting directions on how to use this service. One of the conflicts to be resolved is the question of authorization for the release of data. GSL form 1154 contains a blanket release statement, while IRS wants a specific year release. A resolution of this difference is being discussed. The Study Group, recognizing the inherent difficulties, urges OE to renew efforts to resolve all of the problems which impede the development of such a joint OE-IRS process.

Because of the difficulties encountered in locating students through IRS, and to provide an alternative method to fill in and back up the data gathering process, the Study Group is also recommending that a cooperative arrangement be developed for data collection with the Social Security Administration. Data from SSA can be used where IRS data is not available or the SSA data is more current. Through the maximum use of both these data sources, it would be possible for OE to develop a more effective system for locating borrowers.

III-E-7 Preventing Program Abuse Through Misuse of Bankruptcy

Recommendation

The Study Group recommends that HEW take a position opposing the enactment of Section 436 of H.R. 6, "A Bill to Establish a Uniform Law on the Subject of Bankruptcies," which would repeal Section 439 of the Higher Education Amendments of 1976, which provides for the 5-year nondischargeability of certain student loan debts.

Rationale

There has been a growing problem in the GSL program in recent years of student borrowers filing for bankruptcy soon after completing school, and thereby securing cancellation of their GSL loan obligation. More than 30,000 claims to date, amounting to over $35 million, are attributable to students filing for bankruptcy, and the rate of bankruptcies have been increasing rapidly.

In response to this problem, Congress enacted a new Section 439A of the Higher Education Amendments of 1976. This section provides that a student loan cannot be discharged by bankruptcy for a period of 5 years. More recently, however, Congress has been considering Section 436 of H.R. 6, a uniform bankruptcy law which would, if enacted, repeal the GSL bankruptcy provision. To nullify the 5-year nondischargeability of GSL loans would lead to substantial loss of Federal funds and encourage even greater abuse of the GSL program. The Study Group strongly end[illegible] need for this provision in the GSL probram in order to protect the [illegible]n against unwarranted losses through bankruptcies, and it encourages HEW and OE to oppose Section 436 of H.R. 6 in its present form.

III-E-8 Writeoff of Uncollectable Defaulted GSL Loans

Recommendation

The Study Group recommends that OE take actions to implement its authority to writeoff uncollectable defaulted GSL loans after all administrative and legal actions have been exhausted. Controls should be established to prevent any individual borrower whose loan has been written off under this provision from receiving any form of OE student financial aid in the future, unless restitution has been made by the borrower.

Rationale

Although OE has had the authority to writeoff uncollectable defaulted GSL loans, it has failed to use this authority. OE's process for acting on defaulted loans has been to make an initial attempt to collect and then to s[illegible]pile the loan files of all those who did not respond to initial c[illegible]tion attempts. Second and third steps in the procedure to exhaust all methods of collection have not been taken. Lack of follow-through in collection efforts is a contributing factor in the continuation of abuse of the GSL program. Once the methods available have been exhausted without success, however, there is no point in carrying the loan on the inventory, and it should be written off.

If OE must write off a loan as uncollectable, the Study Group believes that OE should take steps to try to prevent that individual from receiving any further benefits under its other student financial aid programs. One such step might be to publish a list of the individuals whose loans have been written off and circulate this list to the BEOG processor and

educational institutions which adminster the campus-based programs. Another would be to include information about written off loans on a student's financial aid transcript.

III-E-9 NDSL -- Student's Obligation to Repay

Recommendation

The Study Group recommends that OE should insist that institutions design all documents given to the student borrower to reflect the student's repayment obligation to the Federal Government as well as to the institution from which he has borrowed. The promissory note, the payout note, and the repayment schedule as well as all billing communications should make it clear that the Federal Government has an interest in the transaction.

Rationale

NDSL monies awarded the institutions are given them in trust, conditioned upon their willingness to collect loans and insure the revolving capability of the loan fund. At such time as uncollectable notes are assigned to OE the borrower becomes obligated to the Federal Government. If the borrowers understand that the law enforcement agencies of Government can take action against them, is assumed that they will take their obligation more seriously and be less likely to default.

III-E-10 Writeoff of Uncollectable Defaulted NDSL Loans

Recommendation

The Study Group recommends that OE promulgate regulations prescribing procedures for participating institutions to reclassify delinquent loans as uncollectable, thereby relieving institutions of responsibility for further collection efforts.

The Study Group further recommends that institutions be allowed to write off loans after diligent efforts to collect have failed. Institutions should be given greater discretion as to what constitutes due diligence. The cost of collection in relation to the amount collectible should be a factor in write off decisions.

Rationale

Currently, there are no usable guidelines for institutions to use in writing off uncollectable NDSL loans. The OE possesses authority to issue such guidance by means of regulations. The magnitude of the default problem is masked when no distinction is made between loans for which active collection efforts are being made and those which have been determined to be uncollectable.

The tremendous backlog of uncollectable loans represents an intolerable burden to the institutions and is not conducive to the kind of thorough and precise resolution of defaulted loans which might result in their reduction. The institution's determination that a loan is uncollectable does not mean, however, that the file could not be reactivated if the borrower later offers to repay, for example, as a condition of readmission to the institution.

III-E-11 Prosecuting Perpetrators of Fraud

Recommendation

The Study Group recommends that OE make an effort to prosecute individuals through the courts, based on the provisions of the Education Amendments of 1976.

Rationale

A program which can be violated with impunity by a few will ultimately be violated by many. Individuals who receive Federal aid or who administer the aid available to others are the bearers of a public trust, and they should clearly understand the nature and extent of this responsibility. Those that abuse that trust should suffer the legal consequences of their actions. A few successful prosecutions would do much to eliminate fraud and abuse.

APPENDICES

APPENDIX A

LISTING OF STUDY GROUP RECOMMENDATIONS BY ACTION REQUIRED: LEGISLATIVE, REGULATIVE, OR ADMINISTRATIVE*

Legislative Action	Regulative Action	Administrative Action
I-B-4-Phase out of 3 letter Procedure I-B-5-Single Set of Eligibility Requirements	I-B-1-Two Step Eligibility I-B-3-Certification and Compliance I-B-6-Approval of State Agencies I-B-9-Contracting with Non-eligible Institutions	I-B-2-Determination of Basic Eligibility I-B-7-Strengthen State Participation I-B-8-Information Networks on Eligibility
I-C-1-Common Student Eligibility Criteria I-C-2-Common Definition of need. I-C-8-Duration and Funding Limitations for CW-S	I-C-3-Establishment of Student Budgets I-C-3(2)-Budgets made Consistent with Publications I-C-4-Definition of Independent Students I-C-5-Use of Need Analysis System for Independent Students I-C-7-Progress Requirement I-C-10-Correspondence Students	I-C-6-Equitable Packaging Procedures I-C-9-Part-time Student

*These categorizations were made without benefit of consultation with legal counsel.

Legislative Action	Regulative Action	Administrative Action
	I-D-1-Unregulated lender Requirements I-D-2-Lender Certification I-D-3-Agreement Provisions I-D-8-Good Lender Portfolio Management Practice I-D-9-Training for Lenders I-D-13-Implementation of Escrow System I-D-14-Responsibilities of Educational Institutions Which do not Participate as Lenders in GSLP I-D-16-Certification and LST Processes - State Agencies	I-D-4-Reporting and Control System I-D-5-HEW Audit Guidelines I-D-6-Lender On-Site Compliance Review I-D-7-Improving Communication I-D-10-Encouraging Increased State Participation I-D-11-Models of Effective State Practices I-D-12-Development of Regulations Pertaining to GSLP I-D-15-Review GSLP Participation of Non-Lenders I-D-17-Joint OE and State Agency Site Visits
II-B-1-Conceptual Framework for State Allocation and Institutional Application Procedures	II-B-2-Revising the 10% Discretionary Funding	II-B-3-Revising the State Allocation Formulas

Legislative Action	Regulative Action	Administrative Action
II-C-4-Reallocation of Funds in NDSL, SEOG and CW-S (2, 3)	II-C-2-Developing a New Institutional Funding Process	II-C-1-Requirements of Any Funding Process II-C-3-Establishment of Working Group
II-D-6-BEOG Appropriations Procedures	II-D-2-Base Year Family Financial Data II-D-5-BEOG as a Foundation II-D-7-BEOG Application Deadline II-D-8-Validation of Information with Income Tax Records II-D-9-Use of GSL Funds to Substitute for Parental Contributions II-D-10-Coordination of SFA and Public Assistance	II-D-1-Simplification of Student Application Process II-D-3-Data Validation II-D-4-Identification of Common Data Elements
	II-E-8-Student Borrower Counseling	II-E-1-Coordination of Information Efforts II-E-2-State Agency Information Efforts II-E-3-Institutional Information Efforts II-E-4-Scope of Information Content II-E-5-Information Dissemination Audiences

Legislative Action	Regulative Action	Administrative Action
		II-E-6-Lender Assistance in Dissemination of Information II-E-7-Listing of Active Lenders
	II-F-3-Alternate Disbursement System II-F-4-Payments by Institutions to Students	II-F-1-Control of Payment of Funds II-F-2-Verification of Cash Utilization Reports
	III-B-1-Organization and Staffing	III-B-2-Combining NHPFILP and GSLP III-B-3-Personnel Management
III-C-12-Policy Changes-NDSL (3, 6, 7) III-C-13-Policy Changes BEOG (2) III-C-14-Policy Changes - Campus-based Programs III-C-15-Policy Changes CW-S Student Earnings III-C-16-Payment of Adm. Allowance to Schools - Appropriation Needed	III-C-8-Statement of Intent and Purpose III-C-13-Policy Changes BEOG (1, 3, 4,) III-C-17-Clarifying Responsibilities of Schools	III-C-1-Internal Management Information Reports III-C-2-Collection of Data III-C-3-Computer Use III-C-4-Control Over ADP Procurement III-C-5-Consolidation of Financial Reports III-C-6-Reassessment of BEOG Program III-C-7-Coordination With Others Federally Supported SFA Programs III-C-9-Streamlining the Regulation Process III-C-10-Development of Program Manuals

Legislative Action	Regulative Action	Administrative Action
		III-C-11-Establishment of Support Centers III-C-18-Financial Aid Transcript III-C-19-Payment of Disability Claims III-C-20-Access to Student Loan Records III-C-21-Reassessment of SFA Programs
		III-D-1-Training
III-E-1 and III-E-2-L, S, and T Amendment III-E-7-Preventing Program Abuse Through Misuse of Bankruptcy III-E-8-Write-off of Uncollectable GSL	III-E-3-Basic Eligibility and Compliance Actions III-E-4-L, S, T Regulations III-E-10-Write-off of Uncollectible Defaulted GSL Loans	III-E-5-Collection of Defaulted Loan-Intra-Governmental Cooperation III-E-6-Assistance in Locating Student Borrowers III-E-9-NDSL Students Oblication to Repay III-E-11-Prosecuting Perpetrators of Fraud

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APPENDIX B

TOPICAL LISTING OF STUDY GROUP RECOMMENDATIONS

In reviewing the Study Group's recommendations for solutions to the urgent problems faced in the administration of Student Financial Aid programs, several categories of recommendations emerge. Throughout the major sections of the report there is a persistent call for reduction of fraud and abuse, standardization, simplication, coordination, and communication between programs, between regions, between guarantors, between data processors, etc. There are many recommendations which impact on States some which impact on Regional Office activity, and some calling for further study. Based on these and other recurring categories, the following topical abstracts of the relevant portions of recommendations has been prepared.

I-B-1	Establish a two-step institutional eligibility process.
I-B-3	Include an institution's ability to manage SFA programs and assume fiscal responsibility and accountability for Federal funds as a factor in granting certification. An annual review for the renewal of certification should be made.
I-B-8	Establish an information network on eligibility.
I-B-9	Control the educational services that are contracted between an eligible and non-eligible institution.
I-C-3	Develop a common methodology for developing student expense budgets.
I-C-5	Eliminate possibility of twice including living allowances in determining need for self-supporting students.
I-D-1	Establish requirements for non-regulated lenders.
I-D-2	Establish standards for certifying educational institutions as lenders.
I-D-3	Design a formal agreement or contract with lenders which outlines the obligations, limitations and sanctions on lender activity.
I-D-4	Establish a reporting and control system to measure performance of non-regulated lenders.
I-D-5	Develop HEW audit guidelines.
I-D-6	Establish regular on-site compliance reviews of lenders.
I-D-8	Encourage good lender portifolio management practices.
I-D-16	Clearly define authority of States in the L, S, and T process.

II-B-2	Revise assignment of 10 percent discretionary funds.
II-D-2	Use only verifiable year-end family financial data in determining awards.
II-D-3	Establish coordinated data validation as part of the CFADC.
II-D-8	Require State and institutional validation of financial information with Income Tax records.
II-E-8	Provide student borrower counseling.
II-F-1	Establish controls to insure that improper payments are not made through the DFAFS system and that payment authorizations are deobligated in a timely manner.
II-F-2	Verify Cash Utilization Reports to school accounting records.
III-C-1	Issue internal management reports suitable to alert managers to potential and existing problems.
III-C-6	Reassess and improve BEOG program reporting so as to make it suitable for preventing abuse.
III-C-10	Develop and disseminate a set of intergrated guidelines or manuals governing all OE, SFA programs.
III-C-11	Establish Regional Support Centers.
III-C-12-1	Define a defaulted NDSL loan and issue institutions on handling of defaulted NDSL loans.
III-C-12-2	Establish flexible limits on the NDSL grace period and loan payments amounts.
III-C-12-5	Permit institutions to write-off certain NDSL loans after diligent collection efforts have failed.

III-C-13	Give institutional student financial aid administrators discretionary authority to deny or limit the payment of a BEOG for a prior academic period(s) if such a disbursement of funds results in an aggregate award that exceeds the students financial aid package.
III-C-17	Define responsibilities of educational institutions to include verification of student-provided information on income, and recovering overpayments.
III-C-18	Encourage use of Financial Aid Transcripts.
III-C-20	Allow easy access to central loan records.
III-D-1	Give incentives and guidance to encourage development of a comprehensive training program.
III-E-1	Conduct concurrent school and lender fiscal and program reviews of all HEW, SFA programs.
III-E-2	Amend legislation to authorizing the Commissioner to immediately suspend an institutions' eligibility up to 60 days, under certain conditions.
III-E-3	Balance program authority with program administrative costs to allow effective controls.
III-E-4	Amend proposed L, S, and T regulations.
III-E-5	Obtain intra-governmental cooperation in the collection of defaulted loans.
III-E-6	Obtain IRS and Social Security Administration assistance in establishing effective procedures for obtaining current addresses of student borrowers.
III-E-7	Oppose any attempt to repeal current authority to prevent for five years discharge of loan debts, through bankruptcy proceedings.

Paperwork Reduction

I-C-2	Establish common definitions of Student Eligibility. Define "need" to mean the same thing in SEOG that it means in BEOG.
II-D-1	Establish a student appliction process which requires a student supply financial data only once a year.
II-F-3	Consider phase out of BEOG - ADS.
III-C-1	Shorten the institutional applications.
III-B-1	Consolidate alternate Disbursement System into a single administrative unit.
III-B-2	Combine the National Health Professions Guaranteed Student Loan Program and the GSLP administrative units.
III-C-2	Coordinate and consolidate data collection and use sampling techniques.
III-C-5	Consolidate Financial Reports and reduce the amount of statistical data requested.
III-C-6	Reassess value of the BEOG Progress Report.
III-C-9(2)	Consolidate the SFA regulations.
III-C-12(1)	Eliminate cancellation provisions in the NDSL.
III-C-12(6)	Devise methods whereby loans of students having more loans in repayment status could be consolidated. Such consolidation would eliminate duplicated notes, repayment schedules, etc.
III-C-14	Eliminate the SEOG matching requirement.

Communication and Exchange of Information

I-B-8	Establish an information network on Eligibility.
I-D-7	Improve communications between guarantors and participating lending institutions.
I-D-12	Schedule joint meetings of Federal State and private non-profit agencies administering GSLP.
II-E-1	Establish a clearinghouse for all student aid information activities for Federal, State, institutional and community-based programs.
II-E-2	Plan a program of cooperative activities with the States and provide incentives to improve and expand State initiated information programs.
II-E-3	Make additional efforts to promote and encourage institutional initiatives for better information dissemination programs.
II-E-4	Establish a network to assure updated communications on actions pending or taken under the L, S, and T process to those agencies and offices whose programs are affected.
II-E-6	Obtain lender assistance in dissemination of student financial aid information.
II-E-7	Develop and provide a current list of active GSLP lenders.
II-E-8	Counsel student borrowers.
III-C-10	Develop and disseminate a set of integrated guidelines or manuals governing all OE-SFA programs.

I-B-2	In the determination of Basic Eligibility, place continued reliance on the partnership between Federal agencies, State agencies, and approved voluntary accrediting agencies. Consider State chartering and licensure criteria.
I-B-4	Continue the procedure by which the Commissioner recognizes State accrediting agencies which approve "quality of training in Nursing Education and in Public Postsecondary Vocational Schools.
I-B-6 and I-B-7	Recognize and utilize State accrediting, licensing and charter agencies as supportative resources in the same manner as are private accrediting agencies. Furthermore, strengthen the role of these State agencies.
I-B-8	Establish a formal national information exchange network relating to basic eligibility issues including State accrediting licensing and charter agencies.
I-D-3	Design formal agreements or contracts with lenders annually outlining obligations, limitations and sanctions on lender activity.
I-D-4	Establish a reporting and control system to measure the performance of lenders.
I-D-7	Improve communications with lending institutions.
I-D-8	Encourage good lender portfolio management.

I-D-9	Sponsor a required program of training for the staff of all participating lenders.
I-D-10	Increase efforts to encourage additional States to participate in the GSLP.
I-D-11	Determine best methods of State program administration for new States to follow.
I-D-12	Conduct joint meetings of Federal, State, and private non-profit agencies in GSLP to facilitate the development and implementation of new regulations.
I-D-14	Assist in the development of a clear definition of the responsibilities of educational institutions which are not lenders.
I-D-16	More clearly define the authority of the State in the L, S, and T Process.
I-D-17	Explore the possibility of conducting joint site visits with State agencies.
II-B-1	Give priority consideration to the incongruities between procedures utilized to bring funds to States and those used to distribute funds within States.
II-B-2	Allocate the ten percent discretionary funds in a manner consistent with the institutional funding process outlined in II-C-1 and II-C-2.
II-B-3	Revise the State Allocation Formulas.
II-C-4	Extend authority to permit regional offices to reallocate funds in the NDSL, SEOG, and CW-S programs to permit movement of funds outside of a State, within the region if there is no need for that funding within the State from which it was deobligated.
II-D-1	Adopt a student application system which requires a student to supply family financial data only once a year for participation in State agency and other aid programs.

II-E-4	Identify the common data elements which would permit the implementation of the CFADC for academic year 1978 - 79.
II-D-5	Consider a potential award of BEOG in all cases before any need based award of Federal funds is authorized for an eligible student.
II-E-1	Establish a clearinghouse for all student information programs including Federal, State, institutional and community based.
II-E-2	Plan a program of cooperative activities with the States and provide incentives to improve and expand State initiated information programs.
III-E-3	Allow State Guarantee Agencies to initiate compliance action in the GSLP where appropriate.
III-E-1	Develop audit guides and instructions for use in on-site reviews by independent auditors the OIG and SFA staff.

Simplification

II-B-3	Revise State allocation formulas.
II-C-1	Design an Institutional Funding Process simple and straightforward.
II-C-4	Give Regional Office final authority to reallocate regionally deobligated funds in the campus-based programs.
II-D-1	Simplify the student application process.
II-D-6	Change the BEOG appropriation procedures.
III-C-2	Reduce data required from institutions.
III-C-5	Consolidate financial reports now required of SFA programs and reduce the statistical data on the Fiscal Operations Report.
III-C-6	Reasses BEOG reporting procedures.
III-C-9	Streamline the regulation process.
III-C-13-2	Permit the use of average costs rather than actual costs for campus room and board.
III-C-14	Eliminate the distinction between SEOG Initial Year and SEOG Continuing Year.

I-C-9	Study the long-range impact of part-time students on postsecondary education and clarify definitions, the necessity for a separate set of student expense budgets and need analysis system, as well as explore the educational opportunities available to this group of students.
II-F-3	Reassess the BEOG alternative disbursement system.
III-C-3	Conduct a full scale review of all SFA computer operations.
III-C-6	Reassess the BEOG Progress Report.
III-C-16	Establish appropriate administrative allowances to schools through a representative sample survey to identify the costs involved.
III-C-21	Conduct a major study to reassess SFA Programs (eg. to determine whether they are fulfilling their intended purposes for various populations; the ramifications of expected changes in the size of the eligible populations; the extent to which the SFA programs are abetting the shifting of conventional State and institutional funding responsibilities to the Federal Government; and alternatives to the current SFA programs).
III-E-5	Study feasibility and legality of "offsetting delinquent and defaulted loan amounts against payments due to the debtor from any governmental agency.

I-B-3	Perform the on-site compliance review functions.
I-D-7	Consult regularly with representatives of lending institutions.
I-D-17	Arrange joint program reviews with State agencies.
II-C-4(1)	Give Regional Offices final authority for the reallocation of funds.
III-B-1-b	Develop a clear statement of authorities and responsibilities for the structure and activities of the Regional Offices.
III-C-11	Use the Regional Offices support centers, to give technical assistance and training to schools, lenders, and students under consistent policy direction.
III-D-1	Provide training for, Regional Program Officers.
III-E-1	Participate in on-site reviews of educational institutions and lenders.

I-B-5	Standardize institutional certification requirements.
I-C-1	Establish consistent criteria for Student Eligibility.
I-C-2	Determine a common or at least more percise definition of need for the various programs.
I-C-3	Develop a common methodology for Student Expense Budgets.
I-D-12	Promote a common interpretation of policy in the GSLP.
II-C-1	Establish uniform standards, techniques and procedures used in the funding process.
II-D-3 & 4	Establish a common financial aid data collection system.
III-B-1	Establish standard policies and procedures for Regional Office operations.
III-B-3	Develop common job descriptions for SFA staff at Headquarters and in the regions.
II[illegible]-8	Clearly state the purpose of each of the programs in language common to all programs.
III-C-11	Give consistent policy direction to the Regional Offices so that uniform interpretation of rules, regulations and program management directives is achieved.
III-C-18	Encourage the development and use of a standardized financial aid transcript.

Budgetary Implications

I-C-3	Establish standardized Student Expense Budget Standards.
I-C-4	Redefine the "independent" student.
I-D-13	Implement the Escrow System.
II-D-6	Change the appropriateions procedures for the BEOG Program.
II-F-3	Reassess the BEOG alternative disbursement system.
III-C-12	Drop the cancellation provisions in the NDSL Program.
III-C-13	Time the development of BEOG payment schedule to allow for its distribution at approximately the same time as the related BEOG application.
III-C-15	Allow institutions to carry over unused CW-S funds from one award period to another.
III-C-16	Pay institutions an allowance for costs incurred in administering SFA programs.

Training

I-C-3	Support the development and publication of a manual of budget construction which includes information on training student financial aid officers.
I-D-7	Provide additional training on the management and administration of student loan portfolios.
I-D-9	Sponsor a required program for the staff of all participating lending institutions.
I-D-14	Sponsor regular workshops to present information on the responsibilities of eligible educational institutions.
II-E-3	Make additional efforts and conduct training seminars to assist institutions to develop better information materials.
III-C-10	Give immediate attention to the development and dissemination of an integrated set of manuals governing all financial aid programs administered by the Bureau of Student Financial Assistance.

Coordination

I-D-17	Conduct coordinated visits to lenders.
II-C-1	Sequentially coordinate the funding process to accommodate varying calendars.
II-D-3	Establish coordinated data validation as part of the common financial aid data collection system (CFADC).
II-D-10	Coordinate the delivery of student Financial assistance awards with Public Assistance Programs.
II-E-5	Provide a coordinated picture of all SFA programs.
III-B-1	Administer all SFA programs through a single administrative unit.
III-B-2	Combine the administration of the GSLP and National Health Professions Loan Program.
III-C-5	Consolidate annual progress reports in the campus-based and BEOG programs.
III-C-7	Coordinate the Office of Education Student Assistance Programs with other Federally supported SFA programs.
III-C-9	Coordinate regulations now being written for the Education Amendments of 1976 with each other as well as with existing regulations.
III-C-10	Develop and disseminate an integrated set of guidelines or manuals governing all SFA programs.
III-C-12	Consolidate loans in repayment status to reduce multiple payments.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

APPENDIX C

CHARTER

Student Financial Assistance Study Group

PURPOSE

The Secretary is responsible for the administration of the various student financial assistance programs mandated by statute, as codified at 20 USC 1070a; 20 USC 1070b et seq.; 20 USC 1070c et seq.; 20 USC 1087c; 20 USC 1087aa; and 42 USC 2751 et seq. These are the Basic Educational Opportunity Grants programs, the Supplemental Educational Opportunity Grants program, the Grants to States for State Student Incentives program, the Grants and Contracts for Training and Research program, the Direct Loans to Students in Institutions of Higher Education program, and the Work-Study Programs. The complexities of these programs and the resulting difficulties in their administration require the review and recommendations of a special study group.

AUTHORITY

20 USC 1233a.

This study group is governed by the provisions of the Federal Advisory Committee Act (Public Law 92-463), 5 USC App. I, which sets forth standards for the formation and use of advisory committees.

FUNCTION

The Student Financial Assistance Study Group shall advise the Secretary, the Assistant Secretary for Education, and the Commissioner of Education, concerning the issues involved in providing financial assistance to students. The Study Group will review the implementation and current status of the programs involved; analyze substantive organizational and managerial problems, including the relative roles of the Federal Government, State governments, and the private sector; and develop recommendations to correct these problems.

In order to achieve maximum sensitivity to the concerns of provider institutions, the financial community, students, other interest groups, and the general public, the Student Financial Assistance Study Group shall hold public hearings at various geographical locations prior to the preparation of its recommendations.

STRUCTURE

The Student Financial Assistance Study Group shall be composed of not less than seven nor more than twelve members, all of whom shall be designated by the Secretary, including the chairperson. Members shall be selected from persons of outstanding expertise in the fields of higher education, large-scale student financing systems, management of public financial institutions, and the application of data processing systems to public financial management operations.

Members shall be invited to serve for a term not to exceed one year.

Upon request of the chairperson, the executive secretary may arrange for the appointment of the Study Group of one or more consultants who have specialized technical knowledge relating to the administration of these programs, e.g., a university student financial-aid officer. Such consultants shall not serve as members of the Study Group but shall be available for consultation upon request of the chairperson with the advance approval of a Government official.

The Secretary shall designate a staff director and an executive secretary, who shall be responsible for support services.

MEETINGS

In addition to public hearings, meetings shall be held approximately three times each month at the call of the chairperson, with the advance approval of a Government official who shall also approve the agenda. A Government official shall be present at all meetings.

Meetings shall be open to the public except as determined otherwise by the Secretary; notice of all meetings shall be given to the public.

Meetings shall be conducted, and records of the proceedings kept, as required by applicable laws and Departmental regulations.

COMPENSATION

Members who are not full-time Federal employees shall be paid at the rate of $100.00 per day, plus per diem and travel expenses in accordance with Standard Government Travel Regulations.

ANNUAL COST ESTIMATE

Estimated annual cost for operating the Study Group, including compensation and travel expenses for members but excluding staff support, is $169,408. Estimated annual person years of staff support required is 3.5, at an estimated annual cost of $79,374.

REPORTS

The Study Group shall advise the Secretary, the Assistant Secretary for Education and the Commissioner of Education. Such advice shall be submitted through periodic progress reports, a final report submitted six months after the Study Group meets for the first time, and such other reports as requested by the Secretary.

The final report shall contain, as a minimum, a list of members and their addresses, the Study Group's functions, dates and places of meetings, and a summary of Study Group activities, findings and recommendations. A copy of the report shall be provided to the Department Committee Management Officer, and the Office of the Secretary Committee Management Officer.

TERMINATION DATE

Unless renewed by appropriate action prior to its expiration, the Student Financial Assistance Study Group will terminate not later than one year from the date this charter is approved.

Aug. 27, 1976 /s/ David Mathews
Secretary

APPENDIX D

SCHEDULE OF MEETINGS AND HEARINGS			
DATE OF THE MEETING	LOCATION	PURPOSE OF THE MEETING	SUBJECT OF PUBLIC HEARING
October 28-29, 1976	Washington, D.C.	The Federal perspective on current student aid problems.	No hearing held.
November 11-13, 1976	Washington, D.C.	Discussion of an organization and concept for the study.	Overview of student aid problems .
December 8-9, 1976	Washington, D.C.	Review issue papers on eligibility and begin framing recommendations.	No hearing held.
January 6-7-8, 1977	San Francisco, California	Review issue papers on the Delivery System and firm-up eligibility recommendations.	Eligibility
February 3-4-5, 1977	Dallas, Texas	Review issue papers on Management and Integrity, frame recommendations on Delivery Systems and reach tenative conclusions on eligibility.	Delivery Systems
March 3-4-5, 1977	Chicago, Illinois	Complete review of management and integrity, firm-up recommendations on Delivery Systems, and begin framing recommendations on management.	Program Management
April 4-5-6, 1977	Atlanta, Georgia	Revise Eligibility and Delivery System recommendations as necessary, reach conclusions on management recommendations.	Eligibility and Delivery System Recommendations
April 28-29-30, 1977	Boston, Massachusetts	Revise Delivery System and Management recommendations as necessary. Approval of outlines for the Final Report.	Delivery Systems and Program Management Recommendations
May 26-27-28, 1977	Washington, D.C.	Review a Draft of the Final Report. Make final changes in the recommendations.	Final Recommendations on All Areas.

APPENDIX E

PROGRAM DESCRIPTIONS

The six Federal student aid programs which are the subject of this report are authorized under various sections of Title IV of the Higher Education Act of 1965, as amended. Each program has been subtantially revised by Congress over the years since its initial enactment. The legislative history of each of the programs is summarized in the introduction to this report. These changes have reflected administrative experience, growth and change in the composition of student populations, and evolving national policy on student aid.

Brief descriptions of each of the programs follow as background for the discussion of issues and recommendations in the body of the report. Each program will be discussed in terms of its legislative authority and purpose, its funding process, and the numbers and characteristics of students which it serves.

Basic Educational Opportunity Grant program. The BEOG program is authorized by Part A, Subpart 1 of Title IV of the Higher Education Act, first enacted were made to first year students for the 1973-74 academic year. Each succeeding year an additional class become eligible. The BEOG program is intended to provide a "floor" of Federal assistance to the neediest students. It provides basic access to postsecondary education, and is the foundation of all other Federal student assistance programs. BEOG grants may be applied across the entire spectrum of postsecondary education, but only up to the level of baccalaureate degree. Eligibility is limited to four years of study, but may be extended for a fifth year under special circumstances. To be eligible, students must be enrolled half-timeor more. The BEOG program does not assist students at the graduate or professional level.

BEOG grants may be awarded in amounts not to exceed $1,400, raised to $1,800 for the 1978-79 school year. The actual amount of a student's entitlement may not exceed the difference between expected family contribution and the actual cost of attendance at the institution, and may not exceed 50 percent of the actual cost of attendance. The amount of the expected family contribution is determined by a schedule developed each year by the Office of Education and approved by Congress. The law provides that grants may be reduced proportionally if appropriations are not sufficient to meet the full cost of student's entitlements. This authority was used only in the first two years of the program.

The BEOG program is the only one of the six student aid programs administered directly by the Federal Government. Prospective students initiate the process by submitting an application providing basic family financial data. These applications are processed by a central facility under contract to the Office of Education, and the student receives an official notification of eligibility. The student then submits this notification to the schools which he or she is considering attending, and the school calculates the exact amount of the grant based upon the cost of attendance at that school. The institution may credit the amount of the grant against student's charges or disburse the funds directly to the student at least once each school term. The institution then is reimbursed by the Federal government for the amount of funds paid to its students. Institutions are now authorized to receive $10 per BEOG enrollee to compensate them for their administrative costs, but no funds have yet been appropriated for this purpose. If the institution does not qualify to administer BEOG funds, the Federal Government will disburse the funds directly to the student. A flow chart of the BEOG funding process appears as Figure E-1. Participation in the BEOG program has risen rapidly since its inception. Table E-1 portrays this growth in the BEOG program.

The BEOG program mostly serves students at the lowest levels of family income. The most recent data available, for the 1974-75 academic year, showed that 58% of dependent students who qualified for BEOG grants came from families with annual incomes of $7,500 or below. In 197576, about 65.5% attended public institutions, and 25% attended private nonprofit institutions, and about 9% attended proprietary institutions. More than half of those qualifying for BEOG grants were females, and nearly half were members of minority groups -- percentages much higher than the representation of these groups in the total postsecondary population.

National Direct Student Loan program. The NDSL program is authorized by Part E of Title IV of the Higher Education Act. The present NDSL program is the successor to the original National Defense Student Loan program first enacted in 1958. The NDSL program provides long-term, low-intrest loans to needy students. To be eligible, students must be enrolled at least half-time at a participating institutions. A student may receive loans up to: (1) $2,500 if enrolled in a vocational program, or if in the first two years of an undergraduate programs; (2) a total of $5,000 for the second two years of undergraduate study; or (3) $10,000 for undergraduate and graduate study combined. Loans are repayable at 3% interest beginning 9 months after the student leaves school normally over a ten-year period. The borrower's repayment period may be deferred not to exceed three years for service in the military, VISTA, or the Peace Corps. There also are provisions for partial cancellation of the loan for students who enter specific teaching fields or for military service in areas of hostility.

NDSL is one of the three "campus-based" student aid programs. A revolving loan fund is established at participating institutions with 90% Federal funds and 10% institutional funds. Institutions can apply for Federal loans to meet their share of the fund. Institutions apply for additional Federal capital funding each year as part of their "Tripart" application which also covers SEOG and CW-S. The appropriated funds are divided among States by a statutory allotment formula based on enrollments of full-time students in postsecondary education through the graduate level. Each institution's allocation is then determined as its prorata share of NDSL need within that State established by regional review panels. Loan awards are made by the institution's student financial aid officer or business officer as all or part of the aid package developed for eligible students, and institutions are responsible for collections. Funds repaid by students are returned to the institution's NDSL loan fund. A flow chart of the NDSL funding process appears as Figure E2.

Participation in the NDSL program by both institutions and students has increased consistently over the life of the program. Basic NDSL program data are presented for a few selected years in Table E-2. The estimated average loan per student in Fiscal Years 1975 and 1976 was $690.00.

The Higher Education Act of 1965, Sections 120(a) and 491(b), defines "institutions" including schools nursing and proprety schools. While NDSL serves a predominantly low income population, its beneficiaries are not generally so needy as BEOG, CW-S, and SEOG recipients. The most recent data available, for the academic year 1974-75, showed that 30.8% of NDSL borrowers were dependent students from families with annual incomes of $7,500 or below. About 2.8% NDSL parti- cipants were enrolled in proprietary or public vocational schools. OE program data shows a national potential default rate of 14.7% and a delignuency rate of 10.2% as of June 30, 1974.

College Work-Study program. The CW-S program is authorized by Part C of Title IV of the Higher Education Act. The CW-S assists financially needy students to finance a portion of their education through part-time employment that preferably is related to their educational goals. To be eligible, students must be enrolled at least half-time at a participating institution as an undergraduate, graduate, or vocational student. Depending upon need and time available, the student may be employed for as much as 40 hours per week during vacation times although a work week of not more than 20 hours is permitted while school is in session. The Federal funds support 80% of wages paid to students in work-study jobs at the institution itself or at public or private nonprofit organizations under contract to the institution.

CW-S is another of the campus-based programs. Institutions apply for Federal funding each year on the Tripart application. Like NDSL, the appropriate CW-S funds are divided among States by a statutory formula. However, the CW-S formula is based on differing criteria: number of full-time higher education students, number of high school graduates, and the number of families below the $3,000 of family income. Each institution's allocation is then determined as its pro rata share of established CW-S need within that State. CW-S job eligibility determinations are made by the institution's student financial aid officer as part of the aid package developed for eligible students. A flow chart of the CW-S funding process appears as Figure E-3.

Participation in the CW-S program by both institutions and students has increased consistently over the life of the program. Basic CW-S program data are presented in Table E-3. In the 1975-76 academic year, the program assisted about 895,000 students whose earnings averaged $525. About 18% of CW-S funds help finance off-campus jobs.

The CW-S program also mostly serves students whose family incomes are so low that the BEOG entitlement will not cover educational costs. It serves a somewhat more middle class student population than does BEOG. The most recent data available, for the 1974-75 academic year showed that 38.5% of dependent undergraduate CW-S participants come from families with incomes of $7,000 or below.

It is estimated by the CW-S staff that, during Academic Year 1975-76, CW-S funds were distributed to institutions as follows: public universities, 11%; other four-year public, 5%; public two-year, 23%; private universities, 12%; other four-year private, 23%; private two-year, 8%; public vocational, 6%; and proprietary, 12%. Ninety-four percent of the funds went to undergraduates while 6% was awarded to students at the post-baccalaureate level. More than half of CW-S participants are females and one-third are members of minority groups. While these percentages exceed the percentages of female and minority students in the general postsecondary student population, the percentage of minority students served by CWS is marked lower than the percentage of minorities assisted by BEOG.

Supplemental Educational Opportunity Grant program. The SEOG program is authorized by Part A, Subpart 2 of Title IV of the Higher Education Act. The SEOG program, which is enacted in 1972, is the successor to the Educational Opportunity Grant program first enacted in 1965. The SEOG program provides grants to students of "exceptional" financial need. To be eligible, students must be enrolled at least half-time at a participating institution as an undergraduate or vocational student and must be financially unable to attend that institution without the SEOG grant. Graduate or professional students are not eligible. Depend-ing upon need, the non-repayable SEOG grant range between $200 and $1,500 per year, up to a maximum of $4,000 for four years' study (or $5,000 in the case of five-year courses of study). Students who receive an SEOG grant must also be receiving at least an equivalent amount of aid from other sources.

SEOG is also a "campus-based" student assistance program. Institutions apply for Federal funding each year on the "Tripart" application. Like NDSL and CW-S, the appropriated SEOG funds are divided among States by a statutory formula. The SEOG apportionment is based on full-time and full-time equivalent postsecondary enrollments. Each institution's allocation is then determined as its pro rata share of established SEOG need within that State. SEOG awards are made by the institution's student financial aid officer as part of the aid package developed for eligible students. A flow chart of the SEOG funding process appears as Figure E-4.

Participation in the SEOG program by both institutions and students has increased gradually over the years. Basic SEOG program data are presented in Table E-4. In the 1975-76 academic year, the program assisted about 445,000 students with an average grant of $524.

The SEOG program serves students from extremely low-income families or students with somewhat higher family incomes who attend highercost institutions. The most recent data available, for the 1975 academic year, showed that 54% of dependent SEOG recipients come from families with an annual incomeof $7,500 or below. Well over half of SEOG reci-pients are females and nearly half are members of minority groups.

State Student Incentive Grant program. The SSIG program is authorized by Part A, Subpart 3 of Title IV of the Higher Education Act, enacted in 1972. SSIG is substantially different in nature from any of the other Federal student aid programs. The SSIG program provides incentive matching grants to States for the purpose of encouraging them to estab-lish their own aid programs for students with substantial financial need. The Federal law leaves substantial autonomy to the States in designing their own programs, so long as need is the primary basis for grant awards. Both low income and middle income students may receive SSIG aided grants depending on the criteria in individual States. Eligible students must be enrolled at least half-time at the undergraduate level. The maximum annual grant for a full-time student is $1,500, of which at least half of the funds must be provided by the State.

All States now have established programs which qualify for Federal matching under SSIG. The appropriated SSIG funds are divided among States by a statutory formula based on higher education enrollments. Each State must designate an agency to administer the program, and its criteria for awarding grants must be approved annually by the U.S. Commissioner of Education. The State agencies disburse funds to the postsecondary institutions on behalf of students. Each State may deter-mine the types of institutions which may participate and the types of student costs toward which the grant may be applied. In order to qualify for SSIG funding, States must maintain the base level of State aid which existed prior to SSIG. A flow chart of the SSIG process appears as Figure E-5 and basic SSIG program data are presented in Table E-5.

The most recent data available, for the 1974-75 academic year, showed that 43% of SSIG recipients come from families with annual incomes of $6,000 or below, but 9% were from families with incomes of $15,000 or more. Awards for students at public institutions accounted for 63% of the recipients but only 48% of the funds. Awards for students at pri-vate colleges and universities accounted for 34% of the reeipients but 50% of the funds. Proprietary schools were eligible only in 22 States and accounted for 2% of the recipients and about 1 and 1/2% of the funds.

Guaranteed Student Loan program. The GSL program is authorized by Part B of Title IV of the Higher Education Act enacted in 1965. The GSL program is intended to make available Federally guaranteed loans for postsecondary education. Loans are made from private capital. Lenders may be either State (e.g., Texas and Wisconsin), commercial financial institutions, commercial banks, mutual savings banks, savings and loan associations, credit unions, insurance companies, pension funds or schools which have been authorized to serve as lenders for their own students. The Federal involvement occurs in four ways: subsidization of interest for borrowers under certain conditions; special allowances paid to lenders when the HEW Secretary determines that the interest limit which may be charged to borrowers is not competitive with the market; repayment of the principal for borrowers who die, go bankrupt, or become disabled; and partial indemnification of lenders for losses due to borrower default. The GSL program contains two major adminis-trative options, which result in two quite different components of the program.

First, States and nonprofit institutions are encouraged to establish programs to insure loans made to students in eligible postsecondary institutions. Lenders are required to exercise "due diligence" in granting loans and to attempt to obtain repayment; but if a default occurs, the State agency fulfills its guarantee and assumes the account. The Federal Government then reinsures the State agency for 80% of the loss. This option of the law has been chosen by 22 States who have established qualifying State guarantee agencies.

Second, for those States where no guarantee agency exists, the Federal Government directly insures loans. If a default occurs, the Federal Government indemnifies the lender and assumes the account. This option of the program is known as the Federally Insured Student Loan Program (FISLP). The FISLP option has been chosen by 28 States.

Loans insured under the GSL program may be made to students enrolled at least half-time in an eligible college or university, school of nursing, or vocational, technical, trade, or business school at either the under-

graduate or graduate levels. Undergraduate-level students may borrow up to $2,500 per year to a total of $7,500. Graduate and professional students may borrow up to $5,000 per year. Total undergraduate and graduate loans under GSL may not exceed $15,000. The interest rate paid by borrowers may not be more than 7 percent. For students with adjusted family incomes of less than $25,000, the Federal Government will pay the interest while the student is enrolled. Repayment begins from 9 to 12 months after the student completes or leaves school; but the repayment obligation may be deferred for up to three years if the individual enters military service, VISTA, or the Peace Corps. The repayment period may extend up to 10 years. Flow charts of the GSL funding process for the State guarantee agency and FISLIP options appears as Figure E-6.

Ever since its establishment, the GSL program has been one of the major sources of aid for eligible students. Basic GSL program data are presented in Tables E-6 and E-7.

Health Professions Guaranteed Student Loan Program

The HPGSLP is authorized by the Health Professions Educational Assistance Act of 1976, Section (401)(a) of P.L. 94-484. It provides for federally-insured loans to students engaged in study in the health professions, including osteopathy, podiatry, public health, denistry, veterinary medicine, optometry, and pharmacy. Responsibility for this program was assigned to the Office of Education in March 1977 in the HEW reorganization which created the Bureau of Student Financial Assistance. Loans up to $10,000 a year -- for a combined total of $50,000 -- will be insurable for all but pharmacy students who will be limited to $7,500 a year for a combined total of $37,500. The funds may be used only for education expenses. Unlike the GSLP, there are no interest subsidies in this pro-gram. Therefore, from the time the loan is made, students will pay interest compounded semi-annually at a rate not to exceed 10 percent of the unpaid balance of the loan. Cancellation of both principal and interest to a maximum of $10,000 a year is allowable for borrowers who serve in the National Health Service Corps and for those who practice their professions in an area where there is a shortage of health manpower. The law provides stiff penalties for failure to comply with a cancellation agreement.

FLOW CHART OF THE BASIC EDUCATIONAL OPPORTUNITY GRANT (BEOG) PROGRAM*

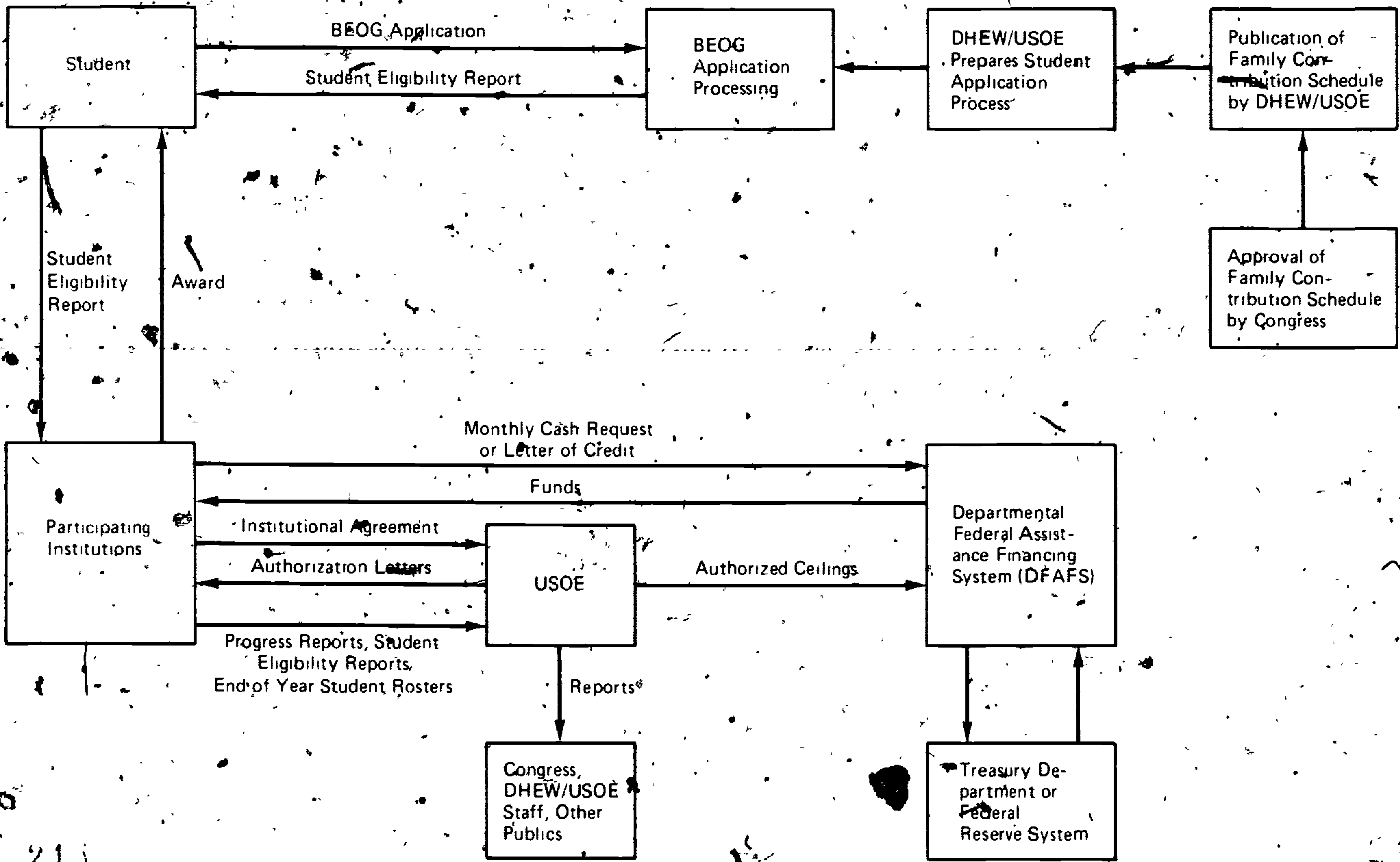


Figure E-1

FUNDING HISTORY OF TITLE IV-A, SECTION 411 BASIC EDUCATIONAL OPPORTUNITY GRANTS

Funding and Output Measures	Fiscal Year			
	1974	1975	1976	1977*
Appropriation ($ in thousands)	122,100	475,000	660,000	1,506,000
Number of Eligible Institutions	5,374	5,801	5,949	6,270
Number of Applicants	482,331	1,114,000	2,450,000	3,502,000
Percent of Applicants Qualifying	55.7	61.1	65.6	66.0
Number of Recipients	177,162	573,403	1,268,000	1,931,000
Percent of Qualifying Applicants Receiving Awards	69.0	84.1	84.0	83.6
Average Award Per Recipient	$ 271	$ 618	$ 800	$ 790
Maximum Award	$ 452	$ 1,050	$ 1,400	$ 1,400
Minimum Award	$ 50	$ 50	$ 200	$ 200

*Estimated

FLOW CHART OF THE NATIONAL DIRECT STUDENT LOAN (NDSL) PROGRAM

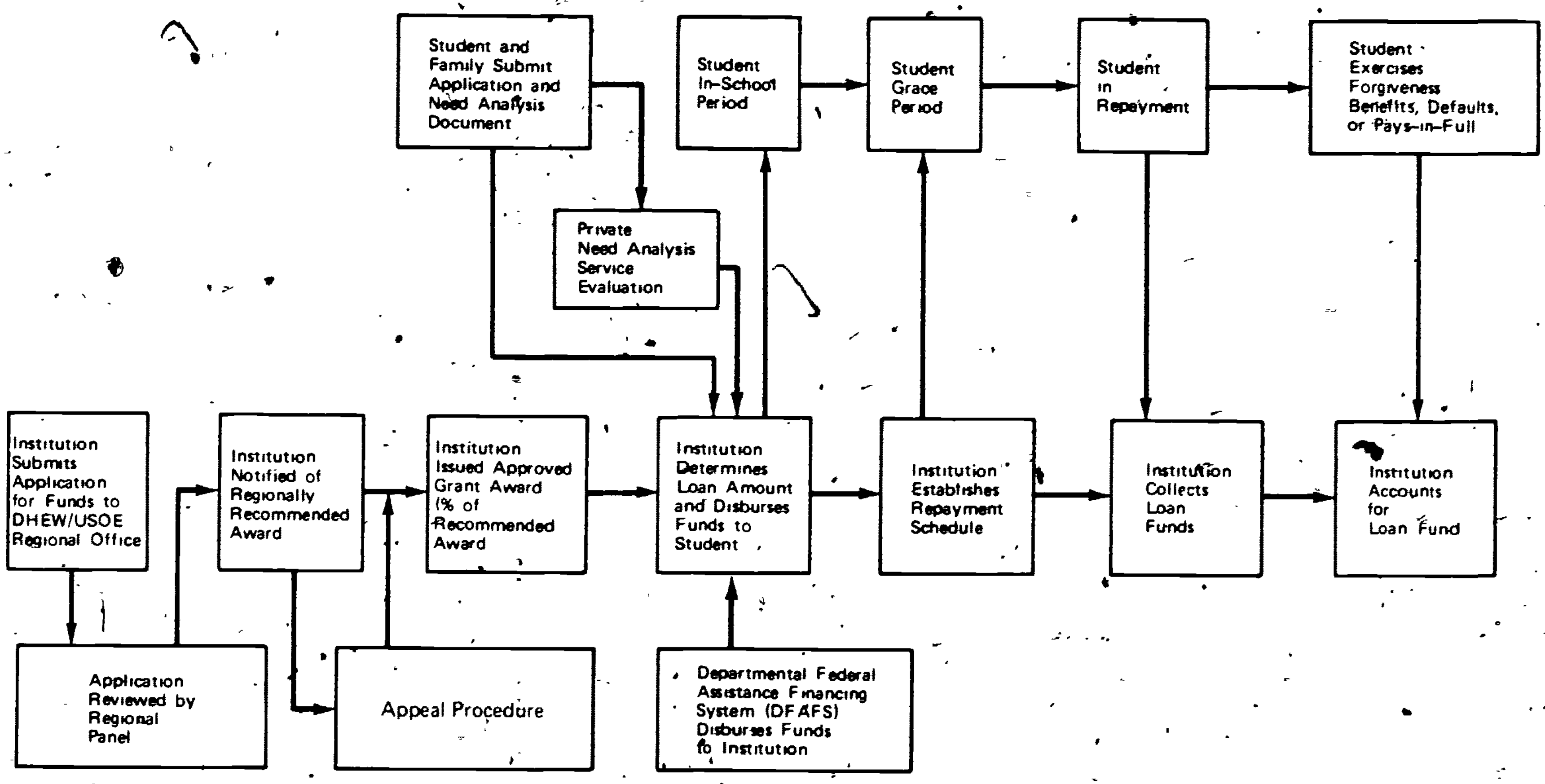


Figure E-2

FUNDING HISTORY OF NATIONAL DIRECT STUDENT LOAN PROGRAM FOR SELECTED YEARS

NDSL Funding and Output Measures		Fiscal Year 1959	1962	1965	1968	1971	1974	1975	1976
Appropriation ($ in thousands)		31,000	75,175	146,700	193,400	243,000	298,000	329,440	331,960
Number of Institutions Participating		1,196	1,470	1,616	1,738	2,092	2,643	2,985	3,167
Number of Students Aided	Total	24,831	186,465	319,974	429,000	547,307	667,097*	682,000*	799,000*
	New	(24,831)	(125,371)	(193,744)	(210,000)	(310,520)	(400,258)	(425,000)	(535,000)
	Continuing	0	(61,094)	(126,230)	(219,000)	(236,787)	(266,839)	(257,000)	(264,000)
Amount of Average Loan (Based on Total Loan Fund)		$ 383	$ 478	$ 522	$ 521	$ 570	$ 650*	$ 690*	$ 690*
Estimated Funds Available for Student Loans (in millions)		$ 33.9	$ 83.3	$ 153.9	$ 233.7	$ 312.3	$ 433.1*	$ 470.7*	$ 551.3*
Number of Section 207 Loans to Institutions		44	85	85	84	60	101	90	72

*Estimated
Source Bureau of Postsecondary Education, Fact Book - Summary of Program Information through Fiscal Year 1976

Table E-2

FLOW CHART OF THE COLLEGE WORK-STUDY (CW-S) PROGRAM

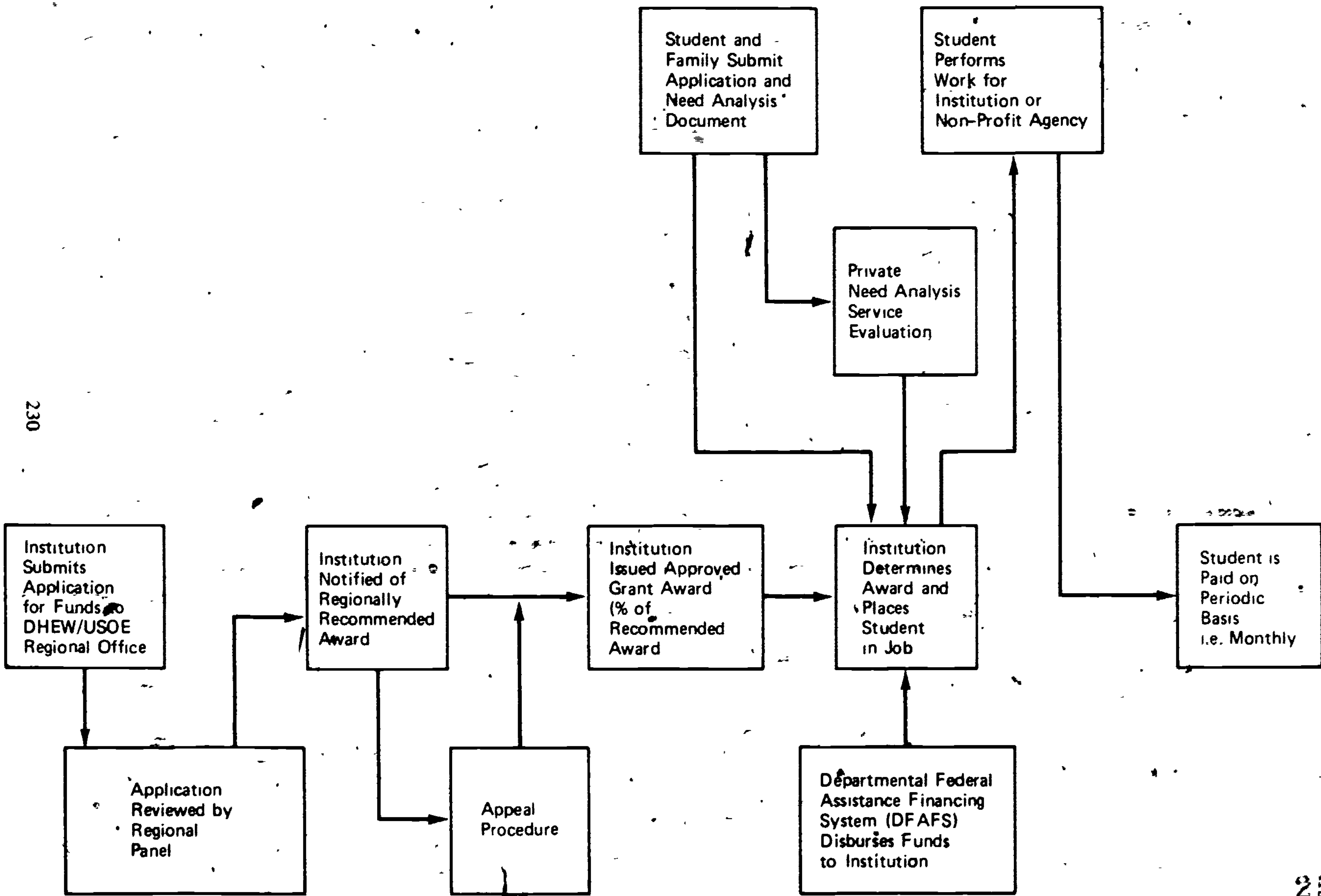


Figure E-3

Table E-3

FUNDING HISTORY OF THE COLLEGE WORK-STUDY PROGRAM FOR SELECTED YEARS

Funding and Output Measures	Program Calendar Year				Fiscal Year			
	1965	1966	1967	1970	1973	1974	1975	1976
Appropriation (in thousands)	55,710	99,123	134,100	152,460	270,200	270,200	420,000	390,000
Number of Institutions Participating	1,095	1,534	1,700	2,386	2,696	2,992	3,154	3,215
Number of Students Aided (unduplicated)	115,000	275,000	300,000	425,000	567,000	570,000	575,000*	973,000*
Amount of Average Annual Student Wages (including matching share)	$ 290	$ 380	$ 425	$ 470	$ 500	$ 520	$ 520*	$ 520*
Gross Compensation to Students (in thousands) (including matching share)	$ 33,350	$ 104,500	$ 127,500	$ 200,300	$ 288,400	$ 295,000	$ 300,000*	$ 506,024*

*Estimated

Source Bureau of Postsecondary Education, Fact Book - Summary of Program Information through Fiscal Year 1976

FLOW CHART OF THE SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) PROGRAM

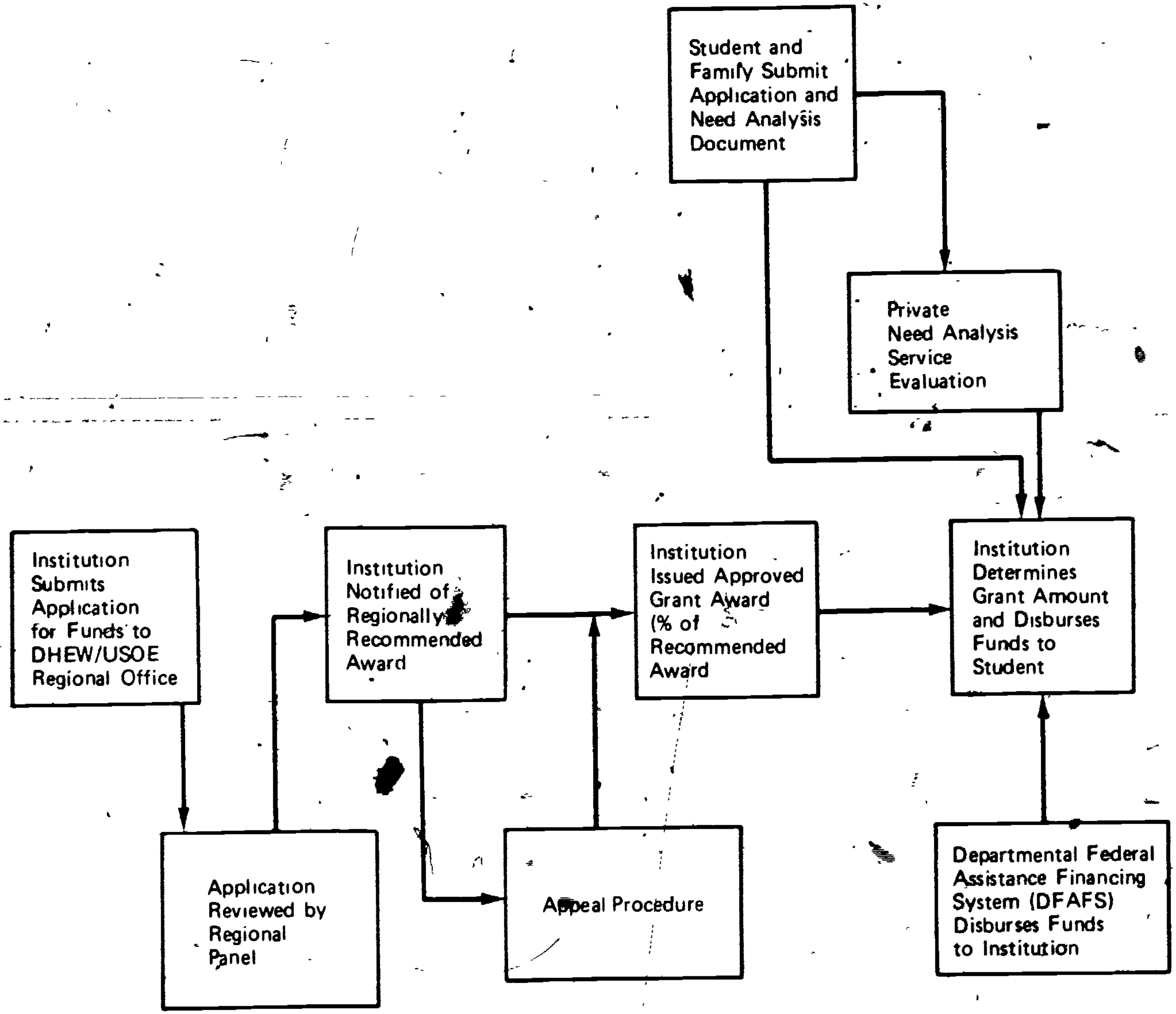


Table E-4

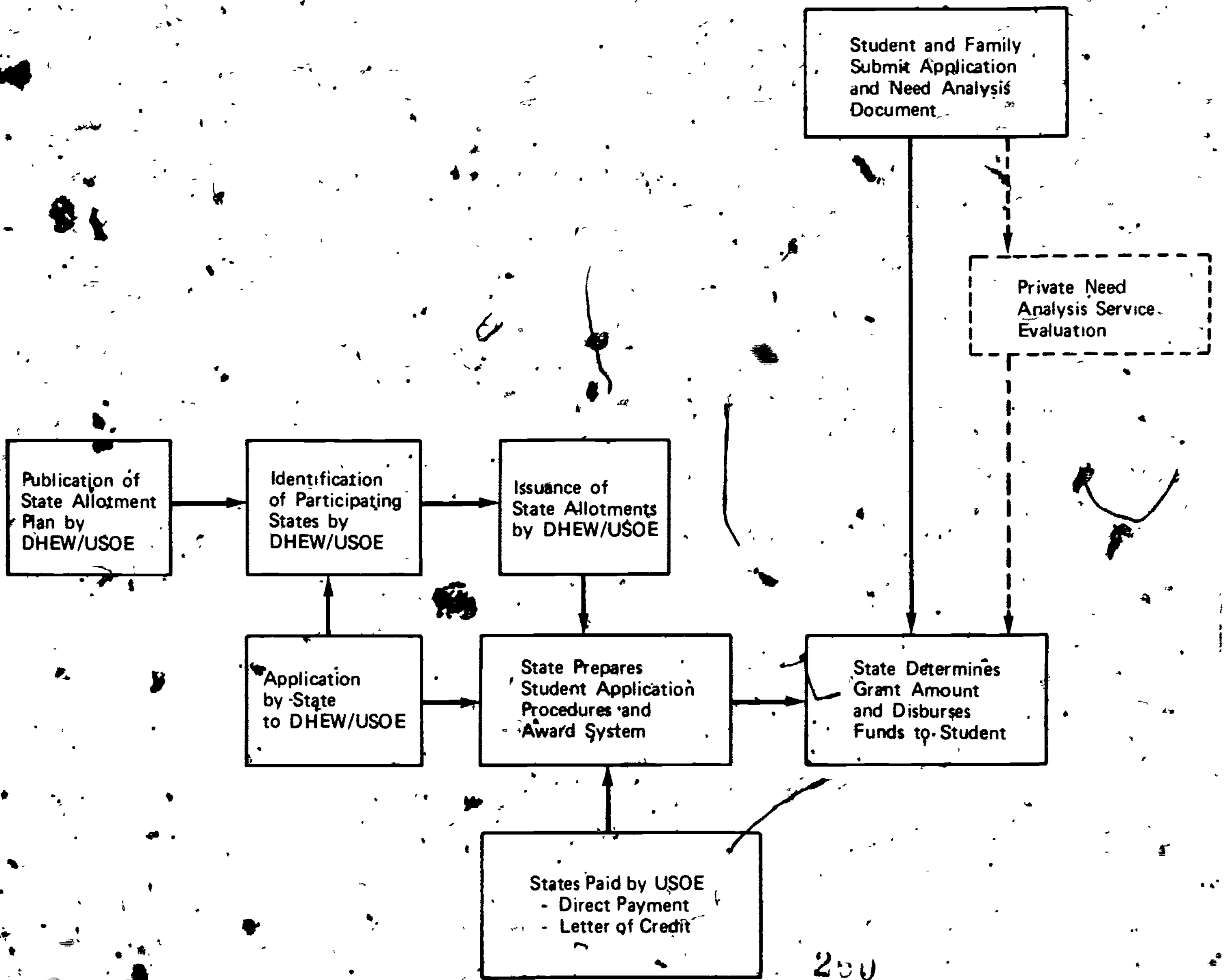
FUNDING HISTORY OF THE SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM FOR SELECTED YEARS

Funding and Output Measures	Fiscal Year					
	1967	1969	1971	1973	1975	1976
Appropriation (in thousands)	112,000	124,600	167,700	210,300	240,300	240,093
Number of Institutions Participating	1,383	1,780	2,100	2,302	3,258	3,406
Number of Students Aided – Total	123,165	258,175	297,335	331,541	400,000	447,000*
Initial Year Awards	(123,165)	(146,858)	(155,895)	(161,772)	(190,000)	(243,000)*
Renewal Year Awards	None	(111,317)	(141,440)	(169,769)	(210,000)	(204,000)*
Amount of Average Initial Year Award per Student	$ 380	$ 422	$ 478	$ 507	$ 670	$ 500*
Amount of Average Renewal Year Award per Student	N/A	$ 463	$ 556	$ 610	$ 670	$ 550*

*Estimated

Source Bureau of Postsecondary Education, Fact Book – Summary of Program Information Through Fiscal Year 1976

FLOW CHART OF THE STATE STUDENT INCENTIVE GRANT (SSIG) PROGRAM



UNDING HISTORY OF THE STATE STUDENT INCENTIVE GRANT PROGRAM

Funding and Output Measures	Fiscal Year 1974	1975	1976
Appropriation (in thousands)	$ 20,000	$ 20,000	$ 44,000
Number of States and Territories Participating	41	48	55
Average State Allotment	$ 380,000	$ 400,000	$ 500,000
Number of Student Awards	76,000	80,000	176,000
Average Amount Per Student Award (Federal Share)	$ 250	$ 250	$ 250
ercent of Recipients by Type f Institution	*	**	***
Total	100.0	100.0	
Public	63.3	59.9	
4-Year	(39.8)	(49.0)	
2-Year	(23.5)	(10.9)	
Private	33.6	38.6	
4-Year	(32.7)	(37.0)	
2-Year	(.9)	(1.6)	
Proprietary	2.3	1.1	
Other	.9	.4	

ta is based on reports from participating States and Territories which made student awards with SSIG.
ta for 1975-76 school year.
ta for 1976-77 school year are not available

FLOW CHART OF THE GUARANTEED STUDENT LOAN PROGRAM (FEDERALLY INSURED)

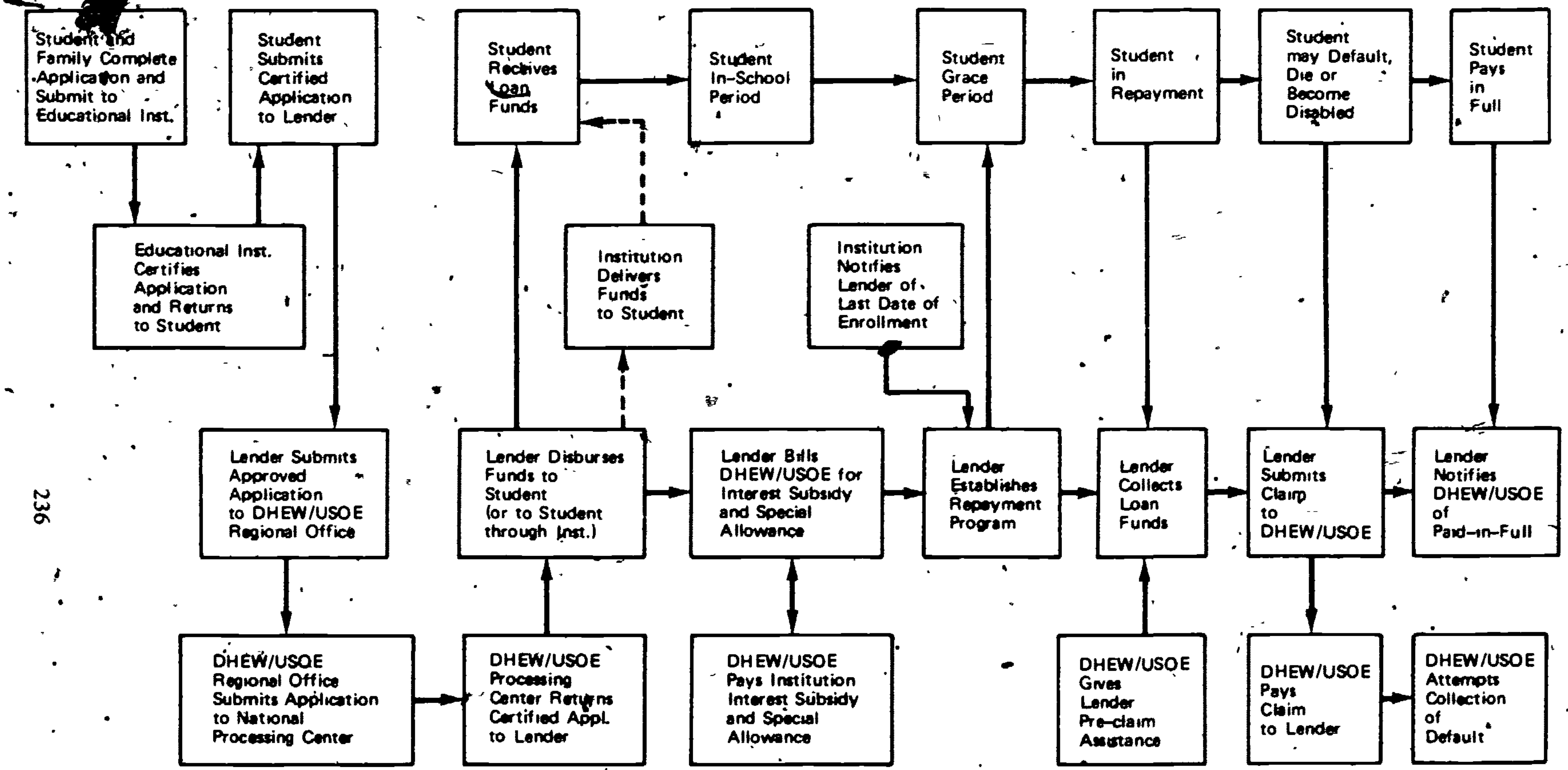


Figure E-6

FUNDING HISTORY OF THE GUARANTEED STUDENT LOAN PROGRAM (FISL COMPONENT)

Fiscal Year	Number of Loans	Total (000)	Average Loan
1968-69	331,040	$ 284,162	$ 858
1970	365,387	353,788	968
1971	481,691	484,015	1,005
1972	691,874	708,164	1,024
1973	599,085	654,616	1,093
1974	506,854	611,657	1,207
1975	504,726	661,292	1,310
1976 (15 mos.)*	522,153	739,884	1,417

*Estimated
Source Informal Communication with GSLP Staff

FUNDING HISTORY OF THE GUARANTEED STUDENT LOAN PROGRAM (STATE AGENCY COMPONE

Fiscal Year	Number of Loans	Total Loans (000)	Average Loan
1966–69	1,350,296	$1,164,349	$ 862
1970	556,509	685,878	873
1971	594,157	560,035	948
1972	566,597	594,084	1,048
1973	489,201	543,907	1,111
1974	430,673	527,776	1,225
1975	485,606	637,156	1,312
1976 (15 mos.)*	782,354	1,097,120	1,402

*Estimated
Source Informal Communication with GSLP Office

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APPENDIX F

Program Allocation Charts

This Appendix contains Tables that display the way the funds available for each of the college-based programs were divided among the States in FY 77, and the different percentages of panel recommendations received by institutions in various States.

Table F-1

ALLOCATIONS OF COLLEGE WORK - STUDY (CW-S) FUNDS FOR USE IN FISCAL YEAR 1977 (1976-77 AWARD PERIOD)

	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
Totals	$389,300,000	56.73
Alabama	7,722,107	48.25
Alaska	537,462	56.54
Arizona	3,889,254	72.37
Arkansas	3,967,807	75.47
California	34,933,004	46.87
Colorado	5,709,636	46.87
Connecticut	4,258,713	60.83
Delaware	974,703	92.16
District of Columbia	2,465,858	46.87
Florida	11,005,861	83.09
Georgia	8,719,392	92.58
Hawaii	1,327,051	69.91
Idaho	1,456,087	46.87
Illinois	16,830,230	46.87
Indiana	7,632,199	67.95
Iowa	4,499,172	47.13
Kansas	3,797,225	64.79
Kentucky	6,603,606	78.97
Louisiana	8,781,005	98.68
Maine	4,844,774	46.87
Maryland	5,927,448	55.19
Massachusetts	19,193,506	46.87
Michigan	13,403,204	57.10
Minnesota	8,878,137	46.87
Mississippi	6,200,577	63.66
Missouri	7,439,451	59.12
Montana	2,390,623	46.87
(Continued)		
Nebraska	$ 2,487,659	75.65
Nevada	717,013	62.67
New Hampshire	3,300,684	46.87
New Jersey	8,862,874	87.11
New Mexico	3,642,121	46.87
New York	28,518,520	54.76
North Carolina	9,704,148	57.34
North Dakota	2,098,723	46.87
Ohio	15,497,008	81.36
Oklahoma	4,787,842	54.24
Oregon	9,038,392	46.87
Pennsylvania	16,772,365	62.82
Rhode Island	2,118,368	46.87
South Carolina	5,846,099	78.94
South Dakota	2,888,067	46.87
Tennessee	7,657,103	72.75
Texas	20,637,024	77.36
Utah	2,246,576	56.10
Vermont	3,608,528	46.87
Virginia	7,760,613	83.09
Washington	8,130,004	46.87
West Virginia	3,480,745	66.89
Wisconsin	8,182,183	46.87
Wyoming	755,407	46.87
Pacific Islands, Puerto Rico, Virgin Islands	7,173,842	100.00

*2 decimal places.

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ALLOCATIONS OF NATIONAL DIRECT STUDENT LOANS (NDSL) FUNDS FOR USE IN FISCAL YEAR 1977 (1976-77 AWARD PERIOD)

Table F-2

	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
Totals	$321,000,000	50.97
Alabama	4,702,253	47.42
Alaska	368,054	39.47
Arizona	4,041,558	45.58
Arkansas	1,825,944	100.00
California	34,783,253	41.31
Colorado	6,561,420	39.47
Connecticut	3,915,452	47.53
Delaware	956,312	53.18
District of Columbia	2,222,821	41.07
Florida	8,346,820	61.65
Georgia	5,595,390	95.48
Hawaii	1,295,201	94.73
Idaho	1,227,425	76.34
Illinois	14,557,303	46.21
Indiana	7,653,625	45.65
Iowa	5,139,284	58.26
Kansas	4,153,849	71.95
Kentucky	4,161,596	62.17
Louisiana	4,874,962	88.03
Maine	3,688,883	39.47
Maryland	4,767,223	39.47
Massachusetts	16,790,028	39.47
Michigan	12,932,029	51.85
Minnesota	6,868,376	43.41
Mississippi	3,320,706	66.75
Missouri	6,713,433	81.12
Montana	1,002,249	100.00
(Continued)		
Nebraska	$ 2,726,996	86.34
Nevada	708,337	82.65
New Hampshire	2,751,949	39.47
New Jersey	7,055,598	79.98
New Mexico	2,835,149	39.47
New York	25,922,751	51.85
North Carolina	7,443,543	60.42
North Dakota	1,666,407	39.47
Ohio	13,833,629	50.48
Oklahoma	4,505,264	83.57
Oregon	6,974,559	39.47
Pennsylvania	14,518,620	52.76
Rhode Island	1,894,862	39.47
South Carolina	3,393,641	100.00
South Dakota	1,877,449	39.47
Tennessee	5,474,817	57.20
Texas	12,967,082	100.00
Utah	1,649,304	100.00
Vermont	1,959,673	39.47
Virginia	5,643,417	71.07
Washington	7,083,360	39.47
West Virginia	2,715,017	70.46
Wisconsin	9,356,612	39.47
Wyoming	584,422	63.35
Puerto Rico	2,970,801	39.47
Virgin Islands	21,292	100.00

*2 decimal places.

Table F-3

ALLOCATIONS OF SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) FUNDS FOR USE IN FISCAL YEAR 1977 (1976-77 AWARD PERIOD)

Initial Year SEOG Program	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
Totals	$124,832,000	33.66
Alabama	1,762,163	30.42
Alaska	173,093	26.99
Arizona	1,580,555	30.62
Arkansas	671,332	76.68
California	15,184,767	29.12
Colorado	2,081,212	26.99
Connecticut	1,519,624	39.10
Delaware	380,607	83.76
District of Columbia	861,551	26.99
Florida	3,268,707	45.74
Georgia	2,108,283	62.57
Hawaii	483,461	57.35
Idaho	401,945	43.20
Illinois	5,576,944	26.99
Indiana	2,597,752	37.99
Iowa	1,543,764	26.99
Kansas	1,301,644	47.23
Kentucky	1,433,798	42.80
Louisiana	1,732,283	65.13
Maine	1,716,442	26.99
Maryland	1,825,33[illegible]	27.31
Massachusetts	4,620,021	26.99
Michigan	4,604,635	29.34
Minnesota	3,690,637	26.99
Mississippi	1,102,895	26.99
Missouri	2,172,434	43.72
Montana	385,322	34.34

Continuing Year SEOG Program	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
Totals	$115,261,000	50.83
Alabama	1,784,481	"
Alaska	179,738	"
Arizona	1,252,250	"
Arkansas	563,827	"
California	11,649,859	"
Colorado	1,654,217	"
Connecticut	1,514,166	"
Delaware	204,972	"
District of Columbia	859,489	"
Florida	2,429,501	"
Georgia	1,410,388	"
Hawaii	340,684	"
Idaho	309,450	"
Illinois	5,374,564	"
Indiana	2,693,702	"
Iowa	2,002,530	"
Kansas	1,258,174	"
Kentucky	1,111,662	"
Louisiana	1,289,227	"
Maine	2,766,370	"
Maryland	2,403,479	"
Massachusetts	5,425,268	"
Michigan	6,420,123	"
Minnesota	3,431,535	"
Mississippi	1,669,093	"
Missouri	2,084,235	"
Montana	357,752	"

*2 decimal places.

Table F-3 (continued)

ALLOCATIONS OF SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) FUNDS FOR USE IN FISCAL YEAR 1977 (1976-77 AWARD PERIOD) (Continued)

Initial Year SEOG Program	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
(Continued)		
Nebraska	$ 838,337	61.[illegible]0
Nevada	284,084	41.08
New Hampshire	930,161	26.99
New Jersey	2,853,613	50.45
New Mexico	844,704	26.99
New York	9,981,639	38.87
North Carolina	2,690,596	40.27
North Dakota	699,921	26.99
Ohio	4,622,270	32.25
Oklahoma	1,575,921	54.85
Oregon	2,887,594	26.99
Pennsylvania	5,209,878	40.89
Rhode Island	605,107	29.66
South Carolina	1,293,171	43.40
South Dakota	711,400	26.99
Tennessee	1,996,066	40.19
Texas	6,053,846	51.43
Utah	954,473	57.61
Vermont	1,249,820	26.99
Virginia	2,226,023	49.61
Washington	3,814,816	26.99
West Virginia	800,388	32.49
Wisconsin	4,804,651	26.99
Wyoming	189,677	32.84
Pacific Islands	43,768	81.72
Puerto Rico	1,875,390	26.99
Virgin Islands	13,4[illegible]	52.36

Continuing Year SEOG Program	Final State Allocation	Final Allocation as a Percentage of Panel Recommendation*
(Continued)		
Nebraska	$ 675,746	50.83
Nevada	152,910	"
New Hampshire	983,217	"
New Jersey	2,051,016	"
New Mexico	1,369,303	"
New York	8,542,934	"
North Carolina	2,506,447	"
North Dakota	1,211,634	"
Ohio	4,723,668	"
Oklahoma	885,437	"
Oregon	2,060,996	"
Pennsylvania	4,784,550	"
Rhode Island	743,535	"
South Carolina	1,084,233	"
South Dakota	918,178	"
Tennessee	1,871,347	"
Texas	3,981,506	"
Utah	739,265	"
Vermont	1,391,574	"
Virginia	1,561,510	"
Washington	2,684,622	"
West Virginia	1,026,392	"
Wisconsin	4,685,553	"
Wyoming	217,046	"
Pacific Islands	3,224	"
Puerto Rico	1,956,575	"
Virgin Islands	7,854	"

*2 decimal places.

APPENDIX G

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Executive Secretary
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APPENDIX H

BIBLIOGRAPHY

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