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ABSTRACT

This report, which is the collaborative effort of the 23-member institutions of the consortium, proposes a financial aid structure that would provide access and a degree of choice in postsecondary education. Its overriding concern is with the structure of financial aid. The consortium recommends redirecting benefits under existing laws so that those resources can be more effectively used. The consortium's proposal addresses itself to the six key Title VI programs (The Basic Education Opportunity Grant Program, the Supplemental Educational Opportunity Grant Program, the State Student Incentive Grant Program, the College Work-Study Program, the National Direct Student Loan Program, and the Guaranteed Student Loan Program). In addition, there is a commentary that discusses goals, priorities, and costs. (Author/KE)

Federal Student Assistance:

A Review of Title IV

of the Higher Education Act

Consortium on Financing Higher Education

APRIL 1975

Consortium on Financing Higher Education

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A Synopsis of the Report

FEDERAL STUDENT ASSISTANCE: A REVIEW OF TITLE IV OF THE HIGHER EDUCATION ACT

INTRODUCTION

The 1975 Congressional review of the Higher Education Act provides an opportunity to create a more coherent, cost-effective financial aid structure, and the Consortium on Financing Higher Education has responded with the publication of the report Federal Student Assistance: A Review of Title IV of the Higher Education Act (April 1975). The following synopsis reviews the major recommendations of that report.

The report attempts to meet some high goals. Although it is the collaborative effort of the twenty-three member institutions of the Consortium, the report attempts to speak to the needs of all postsecondary education. It proposes a financial aid structure which would provide access and a degree of choice in postsecondary education; yet it is realistic in its demands on public resources. It is a detailed report; yet its overriding concern is the structure and architecture of financial aid. Most significantly, it recommends redirecting benefits under existing law in order that those resources can be devoted to more effective use. Perhaps in this last respect, the report is most unusual.

In this synopsis, the Consortium's proposals regarding the six key Title IV programs (The Basic Educational Opportunity Grant Program; the Supplemental Educational Opportunity Grant Program; the State Student Incentive Grant Program; the College Work-Study Program; the National Direct Student Loan Program; and the Guaranteed Student Loan Program) are covered in sequence. To aid the reader, brief summaries of both the present program and the proposed changes are presented at the head of each section, followed by a brief discussion of the proposals. For a complete understanding of the recommendations, the reader should refer to the full report, copies of which may be obtained from the Consortium at the above address.

BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAM

Present Program - The maximum basic grant is authorized at $1,400, an amount which is not based on any particular rationale. Actual awards are reduced by an expected family contribution based on income and assets. Individual awards may not exceed one half of actual total costs of attendance. Awards are based on appropriations in any given year, with ratable reductions in awards as necessary. At full funding, it is estimated that the program would aid 1.4 million students and cost $1.2 billion. Eligibility includes students from families with incomes up to approximately $11,000-$12,000.

COFHE Proposal - Maximum grant would be related to average non-instructional costs nationally ($2,100) less an average summer earnings expectation of the student ($500). The maximum award in 1975-76 would be approximately $1,600. Actual awards would be reduced by an expected family contribution based on income and assets. The one-half cost of attendance limitation would be eliminated. The program would be funded as a true entitlement. At full funding, it is estimated that the program would aid 1.6 million students and cost $1.6 billion. Eligibility would extend to students from families with incomes up to approximately $14,000.

With a few important but easily accomplished changes, the report recommends that BEOG be transformed into a clearly focused national access program. To accomplish this, it is recommended that the maximum BEOG grant be related not to total costs of attendance as is presently the case, but to the national average of noninstructional costs (board, room, books, transportation, and personal expenses) less a summer earnings expectation of the student. There are several reasons why enactment of such an approach has great merit.

1. Such an approach would make possible a clearer distinction between the purpose of BEOG and all other federal and state student aid programs. BEOG could be focused particularly on the problem of access to postsecondary education. State scholarship programs, institutional funds, and the college-based federal programs could then be focused more specifically on the problem of choice in American postsecondary education.

2. Such an approach would relate the BEOG entitlement to a national and objective standard in which the Congress can have confidence. Whereas tuition varies all the way from zero at certain public institutions to approximately $4,000 at certain private ones, noninstructional costs are by far the most uniform set of costs in higher education, averaging in 1975-76 very close to $2,100 at all types of institutions.

3. This approach also would simplify the long range problem of relating the BEOG entitlement to hard economic data. Because annual adjustments for inflation are reflected in noninstructional costs, the federal government would have a rational and consistent approach to funding, something which is lacking in the present program.

4. Such an approach would recognize that for some time educational institutions have found it necessary to use their financial aid resources to subsidize not only the instructional costs of needy applicants, but also their maintenance costs as well. By awarding BEOGs to eligible students based on noninstructional costs the federal government would free up institutional funds for more proper subsidization of educational costs.

5. Finally, tying BEOG to noninstructional costs would simplify the program from the standpoint of both applicants and institutions. Since awards would be based on average noninstructional costs nationally less the expected family contribution, institutions would no longer have to determine "actual costs of attendance" for each student or category of students before making preliminary and final calculations of BEOG entitlements.

The specific award formula recommended by the Consortium has the additional element of a student self-help requirement. Through an average summer earnings contribution, the student, in effect, must assume some of the more discretionary noninstructional costs, such as personal and travel expenses. Such an expectation also means that even the student attending a zero-tuition public institution must assume a significant degree of financial responsibility for his or her education. The effect of the proposal is that the federal government would be entering into a partnership with each student. Where family resources for student maintenance are insufficient, the federal government through the basic grant program would insure each student a threshold of support which, when combined with the student's own summer earnings, would permit access to zero-tuition public institutions.

The approach recommended is simply a logical measurement device for establishing award levels. It is not a restriction on how BEOG is to be used by an individual student. The award need not be applied just to noninstructional costs; it could be applied against any of a student's costs of attendance.

In the interest of fairness, and also to keep award calculations simple, the report recommends that the present stipulation that a BEOG may not exceed one half the actual cost of attendance at the institution in which the student enrolls be eliminated. This provision limits the size of awards for only one group - the lowest-income students who also happen to attend the lowest tuition public institutions. Retention of the provision not only defeats the purpose of BEOG as an access program, but complicates award calculations unnecessarily.

Finally, the report recommends that BEOG be made a true entitlement. Under the present program, even though there is a tendency to speak of a BEOG "entitlement," there is no such thing when a student's award is partially funded. Unlike veterans education benefits under the GI Bill or OASDI education benefits under the Social Security Act, a BEOG recipient has no "entitled" right to a given level of assistance under the Higher Education Act. Only if support under the basic grant program is made stable and predictable, which an entitlement would accomplish, is it possible for BEOG to become the basic program to which all other student aid programs can relate.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM

Present Program - Funds are made available to educational institutions to assist students with "exceptional need," which has been defined by USOE as those students whose family contribution does not exceed one half the cost of attendance. Individual awards may not exceed $1,500 or one-half the sum of the total amount of student financial aid provided to the recipient by the institution. (Included in this latter category are BEOG, NDSL, and Work-Study, as well as state, private and institutional grant resources). In 1975-76, an estimated 350,000 students will receive awards totaling $240 million.

COFHE Proposal - Supplemental grants would be related solely to tuition-related need, not to total costs of attendance. As in the case of BEOG, awards would be made directly to students, rather than funds being allocated to institutions for distribution at the

institution's discretion. Awards would equal the lesser of $1,500, or one half of the amount remaining after deducting from instructional costs (tuition and related fees): a) any parental contribution remaining after deducting therefrom an amount equal to the maximum BEOG entitlement ($1,600), and b) $1,000. The proposed program would aid almost 600,000 students at a cost of approximately $280 million.

Whereas the report recommends that BEOG be focused on non-instructional costs, it is recommended that SEOG be focused on instructional costs and the problem of choice, especially at moderate- and higher-priced institutions. In addition, it is argued that SEOG should supplement, rather than replace or come before, state and private scholarship resources and that federal supplemental grant funds should not be applied "back to back" to basic grant funds in meeting student need.

Under the proposed SEOG formula, supplemental grant aid would not be extended until the parental contribution had been completely used and $1,000 of resources other than federal grant funds had first been applied to tuition-related need. Where a student's family contribution equaled $1,600 or less (i.e., it was completely used for noninstructional support) after the first $1,000 of tuition was met by other resources available to the student, the proposed SEOG formula would cover 50 cents of every one dollar of tuition up to a maximum SEOG award of $1,500. Thus, at an institution with tuition of $2,000, the student whose parental contribution was used for non-instructional costs would be eligible for $500 of supplemental grant funds; at an institution with tuition of $3,000, the student would be eligible for $1,000 of SEOG funds. For every dollar by which the family contribution exceeded $1,600, and thus was available to partially meet tuition costs, SEOG eligibility would be reduced by 50 cents. As is presently the case, the maximum award could not exceed $1,500.

The major beneficiaries of the proposed BEOG entitlement, including elimination of the one-half cost of attendance limitation, would be students attending public institutions, who would receive above three quarters of the dollars under the BEOG proposal. Taking this into consideration, the supplemental grant program is aimed at the problems faced by low- and middle-income students who wish to attend moderate- and higher-priced institutions. It is this group of students, whether attending private institutions or out-of-state public institutions, which is particularly in need of tuition-related help, since they are neither subsidized by low tuitions nor aided adequately by state scholarship programs. In the face of public-private tuition differentials approaching $1,700 on average in 1975-76, it is especially this group which needs the SEOG program if a healthy

degree of choice in postsecondary education is to be maintained. Recognizing this fact, whereas students attending private institutions receive approximately 45% of the dollars under the present SEOG program, they would receive about three quarters of the dollars under the revised SEOG program.

Under the present program, SEOGs are awarded to students who quality based on need regardless of whether they have received a basic grant. The Consortium believes this approach should be retained. Most students from middle-income families will be ineligible for BEOG assistance because their parents are able to provide for their non-instructional costs. Yet such students, if they attend moderate- and higher-tuition institutions will have need for tuition-related assistance. Making SEOG eligibility dependent upon receipt of a BEOG would eliminate a sizable portion of middle-income students presently eligible for SEOG at higher-tuition institutions. It also would mean that receipt or non-receipt of a minimal BEOG award would determine eligibility for as much as $1,500 of supplemental grant help. Since it is recommended that the two programs should focus separately on the problems of access and choice, eligibility for one should not be dependent upon participation in the other.

STATE STUDENT INCENTIVE GRANT PROGRAM

Present Program - Provides grants not to exceed $1,500 to eligible students with "substantial financial need" by matching on a 50-50 basis new grant dollars expended by the states over a base year. Funds are allocated to the states that apply and are eligible based on the number of students in attendance at institutions of higher education in such states. An estimated 76,000 students received federal SSIG funds totaling $19 million in 1974-75.

COFHE Proposal - The program would remain a 50-50 matching grant program, but the proposal would require that SSIG grants be related solely to tuition-related need (since BEOG would be related to non-instructional costs). The proposal would modify the existing allocation formula to include only those students who are eligible to receive support under a state's grant program. Funding would be increased gradually on a basis that can be matched by the states. Also, several steps are recommended to encourage and, over time, gradually require portability of state grant funds.

In the area of developing new grant programs, the SSIG has been a distinct success. It is estimated that in the 1974-75 academic year, thirty-six states and certain of the territories will expend $457 million on grant programs. Nevertheless, state efforts vary widely and three states account for over half of the total state scholarship effort.

Because of its matching provisions, there are those who would dramatically expand SSIG from the appropriations level of $20 million for 1974-75. However, a large increase in SSIG funding raises some important questions. How would a major tuition-related SSIG effort relate to the college work-study and federal loan programs? Should a self-help expectation be required of students before they become eligible for tuition-related grants? What is an appropriate state allotment formula? The Consortium believes such questions need to be answered satisfactorily before there is a major expansion in the program, since the answers affect the disposition of SSIG funds, the funding of work-study and loan programs, and indirectly, the pricing policies of state institutions.

Because of the considerable educational diversity within the fifty states, and the numerous questions this raises for federal policy, the Consortium recommends a gradual and careful approach to the expansion of SSIG. With many state programs in their infancy, and not yet operational, the report questions whether massive increases in funding, new allocation formulas, and greater state license in the use of SSIG funds are desirable. In the longer term, it is recognized that a major federal/state tuition-related aid program may be the appropriate answer - but only if many difficult questions are answered satisfactorily in the interim.

COLLEGE-WORK STUDY PROGRAM

Present Program - Funds are allocated to states based on a complex allotment formula dating from 1964 when CW-S was part of the Economic Opportunity Act. The states in turn distribute the funds to educational institutions within the state based on USOE panel-approved requests. The funds are used to pay for up to 80% of the compensation of students employed in the work-study program, who must be those students with the "greatest financial need."

<u>COFHE Proposal</u> - Would retain CW-S as a need-based program, but would update the state allocation formula to bring it into line with the purpose of the program as part of the Higher Education Act. In addition, several steps are recommended to maximize the role of work-study in student aid and to increase the number of students assisted without substantially increasing the funding requirements of the program.

It is recommended that work opportunities be expanded and made as widely available to students as possible. Although the Consortium would retain CW-S as a need-based program, it is recommended that disincentives discouraging CW-S students (and all students receiving federal assistance) from earning additional non-CW-S earnings be removed. In addition, it is recommended that steps be taken to maximize the role of work study in student aid by:

- possible modification of the 80-20 cost-sharing arrangement;
- prohibition of subminimal wages;
- allowing greater flexibility to institutions in committing funds between fiscal years;
- increasing institutional flexibility in transferring funds among SEOG, NDSL, and CW-S; and
- funding the program more nearly in line with panel-approved requests nationally.

Since the CW-S program has long since been part of the financial aid structure of higher education and its purpose has been broadened to include middle-income families, the report recommends changing the formula by which funds are allocated to the states, which is the same as in 1964 when CW-S was part of the Economic Opportunity Act. The report also recommends that the CW-S state allotment formula be revised so that each participating institution receives the same percentage of panel-approved funding as every other, based on the ratio of federal appropriations to panel-approved requests nationally.

LOAN PROGRAMS

Present Programs - The United States Office of Education has two general purpose loan programs for postsecondary education. Under the National Direct Student Loan program, capital is provided by the federal government directly to institutions under a 90-10 matching arrangement to lend to students with "special financial need." Under the Guaranteed Student Loan program, loans are made by financial and, to a limited degree, educational institutions with the loans guaranteed by the federal government or state agencies. The terms of NDSL loans generally are more liberal than GSLP loans. The total cost of the two programs in interest subsidies, insurance payments, and capital appropriations is approximately $900 million in fiscal 1975.

COFHE Proposal - To create a more unified and cost effective federal loan structure, it is recommended that the terms of the two programs to the borrower be conformed and that much higher and uniform loan origination and collection standards be required of lenders and repayment standards of borrowers under both programs. In addition, there should be less reliance on student credit generally, and this can best be accomplished by greater funding of grant and work-study assistance. The combination of a simplified and less wasteful student loan structure, and less reliance on student credit generally, should produce significant savings over time.

With the Guaranteed Student Loan and National Direct Student Loan programs, for some time postsecondary education has had not one, but two general purpose loan programs. The Consortium believes the solution to many of the problems of student credit lies not in a narrow, programmatic approach to NDSL and GSLP, but in the creation of an integrated structure out of what have been separate and largely unrelated programs. For reasons of cost, simplicity and equity, it is recommended that the two programs be brought into much closer alignment:

- by increasing the NDSL interest rate from 3% to 7%;
- by eliminating all NDSL cancellation provisions except for death and disability;
- by conforming the repayment, grace, deferment and forebearance procedures of the two programs;

- by establishing combined borrowing limits under the two programs, limits which are realistic but moderate, and which make an important distinction between first-year undergraduates, returning undergraduates, and graduate and professional students; and

- by requiring origination and collection standards of NDSL lenders comparable to those now required of GSLP lenders.

The purpose of the recommendations is to conform the terms of the two programs to the point that there is no observable difference in the two programs to the student borrower. The only difference would be in the mechanism by which the federal government encourages the investment of capital in student loans. It is recommended that the dual system of guarantee programs and direct capital appropriations to educational institutions be maintained, although with some important modifications. As is presently the case, NDSL capital funds held by institutions will be needed to both compensate for fluctuations in private capital devoted to the GSLP and to provide some assurance of credit to those least able to obtain it on their own.

To resolve the role of educational institutions as lenders, the report recommends that the Congress affirm its support for individual institutions serving either as lenders under NDSL, or, assuming that specific and rigorous conditions are met (which are outlined in the full report) as lenders under the GSLP, but not as lenders under both programs simultaneously. This could reduce substantially the demand for NDSL capital appropriations, but only if institutions serving as lenders under FISL are assured access to student loan capital by having full use of the services of the Student Loan Marketing Association (Sallie Mae), a federally sponsored private corporation which provides a secondary market for guaranteed student loans.

Finally, the report recommends that educational institutions which do meet FISL eligible lender requirements, and which are given access to capital markets through Sallie Mae, be precluded from receiving further capital appropriations under the NDSL program, but that they be allowed to use their existing NDSL capital pools as working capital for FISL loans.

The effect of the recommendations would be that educational institutions making either NDSL or FISL loans to students would meet comparable and rigorous origination and collection standards. All institutions, as is the case at present, would be limited by the Commissioner of Education in the amount of annual loan commitments they can make. The recommendations recognize, however, the legitimate need of a relatively limited number of educational institutions, often with national student bodies and in many cases major emphasis upon graduate education, for greater access to loan capital than can be provided under NDSL or will be made available by local banking institutions under the GSLP. If this distinction is recognized, such institutions need not place further demands upon limited NDSL capital appropriations with the potential for significant savings to the federal government.

Certain of the recommendations, such as changing the NDSL interest rate from 3% to 7%, ending the cancellation provisions, turning over NDSL receivables at a greater rate (outlined in the full report), and precluding educational lenders that have access to capital through Sallie Mae from receiving NDSL appropriations as well - would produce substantial savings, immediately and over time. The effect of the proposals (and numerous others outlined in the full report) would be to create a unified and more cost effective general purpose loan program for postsecondary education. The proposed structure is one which, in all likelihood, would also permit the ultimate inclusion of the Health Professions Student Loan program (HPSL), with perhaps further significant savings in federal appropriations for loan capital. It also raises the possibility that those institutions presently serving as lenders under three programs - FISL, NDSL and HPSL, in the future might only have to administer one.

A DISCUSSION OF COSTS

The full report outlines in considerable detail the cost of the proposals based on various participation rates and other variables, and the reader interested in such detail should refer to the full report. However, presented in the table below is a summary of the estimated cost of Title IV programs based on the present law and based on the recommendations proposed herein. The fiscal year used in the comparison is that beginning October 1, 1976, on the assumption that if a new Title IV were enacted during calendar 1975, that the first fiscal year it would affect from an appropriations standpoint would be the new federal fiscal year 10/1/76 to 9/30/77. The participation rate used in the comparison for both BEOG and SEOG is 70%, which compares to a BEOG participation rate of 51% during the 1973-74 and 1974-75 academic years.

Cost Comparison - Title IV Programs
(Millions)

	FY 1977 (10/1/76 - 9/30/77)	
Program	Present Law	As Proposed
BEOG[a)]	$1,181	$1,630
SEOG[a)]	(	280
CW-S	(900[b)]	360
NDSL	(	200
SSIG[c)]	70	70
Total	$2,151[d)]	$2,540
Difference		$389

a) Assumes 70% participation rate and grants to four classes of students.

b) In fiscal 1975, appropriations under the SEOG, CW-S, and NDSL programs are $861 million (excluding an anti-recession emergency employment add-on to CW-S of $120 million). The $900 million figure is a conservative estimate of the cost of the three programs in FY 1977 assuming no change in the present law.

c) In both cases, assumes a gradual increase in SSIG funding.

d) This total differs from fiscal 1975 appropriations for the same five programs ($1,541 million) primarily because the fiscal 1975 BEOG appropriation of $660 million is designed to provide grants to only three undergraduate classes, after ratable reductions in awards.

The overall increase of $389 million is accounted for by increased funding of BEOG. The $200 million estimate for NDSL represents a $121 million reduction from the FY 1975 NDSL appropriation of $321 million and is based on the assumption that educational institutions which fulfill the FISL lender requirements will be given access to loan capital through Sallie Mae, in lieu of NDSL appropriations.

The proposals regarding loan programs are designed, however, to produce savings over and above those shown. Based on the present NDSL lending level of almost $500 million annually, from both repayments and new appropriations, the proposed interest rate change from 3% to 7% could produce interest savings approaching $100 million annually by the early 1980s, savings which should significantly reduce the need for new capital. Elimination of NDSL cancellation provisions also would produce substantial savings, but again over time.

The greatest potential savings from the proposals arise for other reasons. The table does not reflect outlays for the GSLP, which are estimated at approximately $580 million in fiscal 1975, about two thirds of which are for interest payments and one third for insurance payments. The Consortium firmly believes that higher performance requirements of lenders and borrowers, as outlined in the full report, as well as recent more rigorous federal regulations, can have a significant impact upon defaults and delinquency under both the GSLP and NDSL programs.

Of equal importance, greater funding of grant and work-study assistance should reduce the reliance on student credit, and borrowing should be less than otherwise would be the case. The savings in interest and default payments by greater emphasis upon grants and work-study could be substantial, and over time could largely offset the increased appropriations required to fund the BEOG program.

These savings obviously relate to the Title IV programs themselves. However, it may also be helpful to place the funding of these proposals in a larger perspective. The largest student aid program, in terms of funding, is not part of Title IV, but is the program of educational benefits for veterans known as the GI Bill. Benefit outlays for veterans in postsecondary education are peaking during the 1975-76 period at approximately $3.8 billion annually, and under the most conservative of assumptions by the 1977 fiscal year will be approximately $700 million below the peak level. Benefit obligations will continue to decrease through the remainder of the decade and beyond. Given this trend in GI Bill outlays, even with the enactment of the Title IV recommendations of the report, the overall pattern of federal student assistance outlays would be marked by relative stability through the remainder of this decade.

Beyond 1980 the number of Americans age 18 to 21, the traditional college-going age group, begins a long and substantial decline continuing until at least 1993. Although matriculation patterns are based on more than demographics, and although the need for federal student assistance is a function of numerous variables, nevertheless, it is possible that, in constant dollars, overall requirements for federal student assistance will be less demanding in the future than they are at present or have been in the recent past.

In the past, the cost of a rational student assistance structure has always seemed beyond reach, and it has seemed necessary to settle for a patchwork of partially funded programs. In view of the trends outlined above, the Consortium believes a rational structure is within reach if the perception exists to grasp it. The occasion of the 1975 amendments to the Higher Education Act provides that opportunity, and the Consortium hopes the report, Federal Student Assistance: A Review of Title IV of the Higher Education Act, provides the means to seize it.

The various proposals in the report are fundamentally conservative. They build on existing structures; they attempt to conserve resources wherever possible. They also are rooted in the firm belief that unlike most transfer payments within the society, public expenditures for well-designed financial aid programs are not simply a form of publicly sponsored current consumption, but one of the most necessary and productive long-term investments a society can make.

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FOREWORD

The following report on Title IV of the Higher Education Act represents the first effort by the Consortium on Financing Higher Education to play a role in the development of legislation that will affect all institutions of postsecondary education through the remainder of this decade and beyond. The Consortium, which was formed in 1974, usually focuses its efforts on a variety of financial and management problems common to its members, and the results of its work are generally shared only with those institutions. Any project involving Federal student assistance legislation, however, requires a broader range of concern and participation. This the report attempts to do. With the publication and wider distribution of this report, the Consortium has taken what we hope will be an important step in the development of a rational Federal student assistance policy for postsecondary education.

Since the Federal Government's first response to the needs of students in postsecondary education in 1958, when it created the NDSL program, much has been accomplished in student assistance that is of unquestioned value to American society. Even the most grateful and enthusiastic supporters of Federal student aid programs will acknowledge, however, that the programs have developed segmentally, usually in response to immediate and specialized needs, and often without coherence or a clear pattern of priorities. When new experiments or initiatives were called for, they seldom fit logically with those that came before or helped form a rational student assistance structure. Differences of view among institutions of higher education alone would have made that an unlikely, if not unreasonable, expectation.

In the view of the members of the Consortium on Financing Higher Education, the experience with the several Title IV programs has now been sufficient, however, so that revisions can and should be made at the earliest opportunity to provide a more coherent student assistance structure. The 1975 Congressional review of the Higher Education Act provides just such an opportunity, and the Consortium welcomes the occasion. We believe that effective programs of student assistance are a critical need that must be met if the

society is not to suffer irreparable loss. This report cannot claim to provide a final answer to that need. It does represent, however, a carefully studied and fully debated effort to provide a blueprint for a student aid structure that takes into account the problems and needs of all types of students in all kinds of postsecondary institutions.

The major responsibility for the report has been assumed by Richard J. Ramsden, Executive Director of the Consortium. Numerous individuals, however, have contributed time and thought to its recommendations, including the presidents and many senior officers at all of the twenty-three institutions. Particular thanks are due to William Ihlanfeldt, Clark R. Cahow, Robert J. Cooper, Alfred B. Fitt, R. Jerrold Gibson, D. Bruce Johnstone, Amy J. Nychis, Donald McM. Routh, Carl W. Schafer, and Guy Solie, who together under the leadership of Mr. Ihlanfeldt provided direction to the project. In addition, we have greatly appreciated the thoughtful help and advice of Dr. Robert W. Hartman of The Brookings Institution, Dr. Peter P. Muirhead of the ERIC Clearinghouse on Higher Education, and, especially, Lois D. Rice of the College Entrance Examination Board and her colleagues in the Board's Washington office.

On the enterprise of higher education, public and private, much of the future of the country depends. To that enterprise an effective and coherent Federal program of student assistance is indispensable. This report is presented in the confident expectation that it can contribute significantly to the achievement of that goal.

David B. Truman
President, Mount Holyoke College
Chairman, Consortium on Financing Higher Education

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INTRODUCTION

During the course of the past year, the House Subcommittee on Postsecondary Education has engaged in an extensive examination of the federal government's student financial assistance programs under the Higher Education Act of 1965.[1] The purpose of this effort has been to develop a new Title IV, and, in the words of Chairman James G. O'Hara, "early enough to avoid confusion and delay when existing law expires."[2]

An observer of the Congressional hearings and the debate regarding Title IV can only be struck by the great diversity of opinions proffered by the participants in the debate, opinions and views all too frequently at odds with one another. The consistency in the demand for change is only exceeded by the inconsistency of the remedies suggested.

If this makes the legislative task uncommonly complex, it is, however, hardly surprising. The six financial aid programs which are contained in Title IV of the Higher Education Act[3] have evolved since 1958 to meet a variety of student needs in American postsecondary education. The result has been not a coherent whole but a mosaic of loosely connected programs with

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1. The Senate Subcommittee on Education also has held hearings, most notably on defaults under the Guaranteed Student Loan Program.

2. The Act was originally scheduled to expire June 30, 1975. In the absence of new legislation, PL 93-380 automatically extends the Higher Education Act one year to June 30, 1976.

3. The Basic Educational Opportunity Grant Program; the Supplemental Educational Opportunity Grant Program; the College Work-Study Program; the National Direct Student Loan Program; the State Student Incentive Grant Program; and the Guaranteed Student Loan Program.

varying purposes, constituencies, delivery systems, and appropriations support. Collectively, these programs today involve students, their families, educational institutions of all descriptions, organizations engaged in needs analysis, credit institutions of all kinds, state governments and their agencies, and various branches of the federal government.

There has been much useful analysis of Title IV by public and private groups over the past year. The report of the DHEW/OE Task Force on Management of Student Assistance Programs, the National Work Conferences on State-Federal and Institutional-Federal Partnerships in Student Assistance, the work of the Keppel Task Force, the various policy studies of the College Entrance Examination Board,[4] the work of the Policy Analysis Service of ACE, the 1973 Issue Paper on the Guaranteed Student Loan Program by the National Council of Higher Education Loan Programs, the report Paying for College by the Sloan Study Consortium, and most notably the extensive testimony resulting from the Congressional hearings themselves - all have elucidated various problems associated with the Title IV programs. However, as valuable as these separate contributions have been, what is now required, more than anything else, is a synthesis of the diversity of views which have been expressed. What is needed is definition of those areas of agreement rather than further reiteration of differences. Hopefully this document is sensitive to that need.

This paper reflects the views of the membership of the Consortium on Financing Higher Education - twenty-three private

4. Most notably, Who Benefits From BEOGs? An Analysis of the Impact of the Basic Educational Opportunity Grants Program on Discrete Subsets of Enrolled Students, June, 1974; Title IV of the Higher Education Act, A Technical Analysis of Six Student Financial Aid Programs, August, 1974; and a private analysis by Lois D. Rice, Vice President of the CEEB, entitled Federal Student Assistance: Title IV Revisited, presented as a position paper at the annual meeting of the American Council on Education, October, 1974.

institutions of higher education.[5] All serve national student bodies, all have extensive experience with the various financial aid programs of Title IV of the Higher Education Act.[6] All are committed to assuring access and improving choice within American higher education and expend substantial private institutional resources toward that end.[7]

The overriding goal of the recommendations presented herein is the development of a more coherent and rational federal student assistance policy, one which draws on the considerable experience developed since 1958 in federal student assistance and yet meets the needs of students in postsecondary education in the years ahead.

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5. Amherst College, Brown University, Bryn Mawr College, Columbia University, Cornell University, Dartmouth College, Duke University, Harvard University, Mount Holyoke College, Northwestern University, Princeton University, Radcliffe College, Smith College, Stanford University, Swarthmore College, Trinity College, The University of Chicago, University of Pennsylvania, The University of Rochester, Wellesley College, Wesleyan University, Williams College, Yale University.

6. All participate in the Supplemental Educational Opportunity Grant, College Work-Study, National Direct Student Loan, and Basic Educational Opportunity Grant programs. All are eligible institutions under the Guaranteed Student Loan Program. Almost all are eligible lenders under the Federal Insured Student Loan Program and stockholders of the Student Loan Marketing Association (Sallie Mae).

7. The extent of the commitment is best indicated by data from the 1973 Sloan Study in which several Consortium members participated. That study showed that at the eleven participating institutions, annual undergraduate scholarship expenditures from college resources tripled from $6 million to $18 million in the decade ending in June, 1972. In the academic year 1971-72, scholarship funds from the EOG program, state scholarship programs, and the National Merit Program at these same institutions amounted to less than $3 million, or one sixth of the resources provided by the schools themselves.

To meet that goal, this paper attempts:

- to better define specific goals for the various federal student assistance efforts;

- to recommend ways of simplifying and coordinating the various programs; and

- above all, to suggest changes whereby federal student assistance programs will serve their function with the clarity and accountability necessary if they are to obtain the requisite support during the period ahead.

PART I - GRANT PROGRAMS

THE BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAM

The single most notable initiative of the 1972 Educational Amendments was the enactment of the Basic Educational Opportunity Grant Program (BEOG). Seen as the foundation upon which all other federal, state, and private student assistance programs would be based, this program was designed to provide an undergraduate student with an entitlement of $1,400 less an expected family contribution based on income and assets.[1] As such, the program promised greater uniformity in student aid and greater emphasis upon the needs of low-income students. It also marked a departure whereby federal grant aid was being provided as an entitlement directly to the student for use at the institution of choice, rather than being allocated to an institution for distribution, at the institution's discretion, to its students.

Reflecting divergent views within the Congress and within the higher education community regarding the relative priority of the new program, a compromise was reached whereby, in Section 411 b) 4) of the Act, funding of the BEOG program was made contingent upon prior funding at prescribed levels of the three, older "campus-based" programs[2] - the National Direct Student Loan Program (NDSL), the College Work-Study Program (CW-S), and the Supplemental Educational Opportunity Grant Program (SEOG). As a result, funding of the BEOG program to date has been partial and incremental with one additional class assisted each year as indicated on the following page.

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1. It was further provided that the grant could not exceed half the actual cost of attendance (tuition, fees, room and board, books, and miscellaneous expenses) at the institution in which the student enrolled.

2. So-named because the program funds are distributed to educational institutions, which in turn award them to eligible students according to regulations established by the Office of Education. In fact, BEOG, in one sense, is also "campus-based" since, although actual awards are calculated by means of a centralized federal needs analysis system, funds are distributed by educational institutions for USOE.

BEOG Funding[a)]

Year Ended June 30	Amounts Appropriated (000,000)	Grant Awards (000,000)	Students Eligible	Est. # of Recipients	Est. Average Grant
1973	$122	--	--	--	
1974	475	$ 62	Freshmen	280,000	$275
1975	660	400	Freshmen, Sophomores	530,000	750
1976		795	Freshmen, Sophomores, Juniors	950,000	835

a) The BEOG program is forward funded with the amounts appropriated made available in the following academic year. In academic year 1973-74, $60 million of the $122 million appropriated was unspent at 6/30/74 and was carried forward to the 1974-75 academic year, resulting in BEOG funds available of $535 million. It now appears that $135 million of the $535 million will be unspent at 6/30/75. If carried forward to the 1975-76 academic year, there will be $795 million available for BEOG awards. The participation rate as a percent of those eligible has been approximately 51% during the first two years of the program. The estimates assume a 56% participation rate in 1975-76.

During the first two years of BEOG, there have been various criticisms of the program, specifically:

- that it remains unclear what the relationship of BEOG is, or should be, to other federal, state, and private student assistance programs;

- that the amount of maximum entitlement, $1,400 is not based on any particular economic rationale or program goal, and as such provides no basis for determining whether the objectives of the program are being met;

- that the family contribution schedule unduly restricts access to the program. (This criticism resulted in various changes to the family contribution schedule for both the 1974-75 and 1975-76 academic years);

- that the somewhat complex application procedures discourage students from participating;

- that the ratable methods for reducing grants when the program is less than fully funded tend to discriminate against the most needy students.

In spite of these concerns, many of which relate to the level of funding, the BEOG program has widespread support within the Congress, the Executive Branch and the higher education community because of the important role it has begun to fill. During a period of rapid inflation in the price structure of postsecondary education, it is recognized that the older student assistance programs by themselves have been unable to increase the participation rate in higher education of students from lower-income families. Today, as in 1965 when the Higher Education Act was passed, the college-going rate of such student remains much lower than that of their middle- and upper-income peers, with lower-income students, especially, concentrated at low tuition institutions. College-going rates at various family income levels are indicated in the data below. Although the table suggests a simple relationship (when in fact it is complex) and fails to indicate the correlation between family income and academic ability, nevertheless it does suggest what is of concern - that high ability children from low-income families simply do not attend colleges and universities with anywhere near the frequency of students from higher-income families.

Participation Rate
Persons of Age 18-24 by Family Income, 1972[a)]

Family Income	Participation Rate
$ 0- 3,000	15%
3,000- 5,000	19%
5,000- 7,500	26%
7,500-10,000	32%
10,000-15,000	41%
Over 15,000	56%

a) Source: National Commission on the Financing of Postsecondary Education, Financing Postsecondary Education in the United States (USGPO, Washington, 1973), p. 27.

Given the relatively modest level at which they have been funded, it is not surprising that the three older federal programs, NDSL, SEOG and CW-S, have had no noticable impact upon participation rates in higher education.[3] To their credit, however, in a period of rising costs, these programs have undoubtedly been instrumental in maintaining participation rates at present levels. What is encouraging is that the BEOG program, in conception if not yet in funding, is particularly designed to improve access in postsecondary education. Whereas approximately 3,000 institutions participate in the older NDSL, SEOG and CW-S programs, about twice that number of institutions are eligible to enroll BEOG recipients. And whereas a student must apply and be admitted to a participating postsecondary institution to determine if aid will be available under the older programs, under BEOG a student can determine his or her likely entitlement before the decision to apply is actually made. Thus, as valuable as the older programs are, BEOG, through its entitlement approach, in particular would appear to have the capacity to improve access and encourage students to pursue postsecondary education.

In spite of its promise, however, in large measure the key questions for BEOG remain the same today as they were at the time of enactment in 1972. Is this to be the <u>basic</u> student assistance program to which all other efforts must ultimately relate? Should this program have as its particular goal <u>access</u> to postsecondary education, and can awards be related to some national, objective standard in which the Congress can have confidence? These questions remain unanswered, but we believe the answers can and should be yes.

Lois D. Rice, Vice President of the College Entrance Examination Board, in a paper presented at the American Council on Education annual meeting in October, 1974, suggested an approach with regard to the BEOG program which, in the way it deals with

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3. In fiscal 1974 appropriations for NDSL, CW-S and SEOG were $293, $270, and $210 million, respectively. States receive funds under the three programs based on statutory formulas, and in turn the funds are allocated to institutions within states by regional panels. Institutional financial aid offices in turn disperse the funds to needy students according to USOE regulations for the three programs.

these questions, holds considerable promise. As she pointed out:

> Historically, grant programs--like other forms of student aid--consider both instructional and non-instructional costs as components of "cost-of attendance." The programs then try to help needy students meet some or all of these costs. But the effort to meet both types of costs may dilute the impact that student aid programs (and grant programs, in particular) have on the behavior of students. Further, the effort may obscure the purposes of the programs and the relationship among them.
>
> A better approach would be to design grant programs for specific purposes and for specific categories of costs. For example, grant programs designed to improve access by inducing new enrollments could focus on the noninstructional costs that all students face, whatever the type of institution. Inability to meet these costs, even at zero-tuition institutions, may well be the major deterrent to the enrollment and retention of needy students in post-secondary education. Conversely, grant programs designed to provide choice and maintain a desired institutional diversity might focus primarily on instructional costs.[4]

We believe an approach whereby Basic Educational Opportunity Grants are related not to total costs of attendance, but to non-instructional costs has much to commend it - for a number of reasons:

1. Most importantly, such an approach would make possible a clearer distinction between the purpose of BEOG and that of the three institution-based programs. BEOG could be focused particularly on the problem of access to postsecondary education, in a sense equalizing the opportunity of students from less well off economic backgrounds to attend zero-tuition public institutions. State scholarship programs, institutional funds, and the college-based federal programs could then be focused more specifically on the problem of choice in American postsecondary education.

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4. Federal Student Assistance: Title IV Revisited, a position paper submitted to the American Council on Education annual meeting, October 11, 1974. Quoted with the permission of the American Council on Education.

2. Such an approach would relate the BEOG entitlement to a national and objective standard in which the Congress can have confidence. Whereas tuition varies all the way from zero at certain public institutions to approximately $4,000 at selective private ones, noninstructional costs are by far the most uniform set of costs in higher education, as is indicated below:

Average Noninstructional Costs
(Room and Board, Transportation, Books, Etc.)
of College Attendance

(Preliminary Data - Academic Year 1975-76)

Type of Institution	Resident Costs	Commuter Costs
Public 2-year	$2,110	$1,757
Private 2-year	2,038	1,769
Public 4-year	2,101	1,688
Private 4-year	2,151	1,710
Proprietary	2,195	1,755

Source: College Scholarship Service, College Entrance Examination Board, Student Expenses at Post-secondary Institutions, 1975-76.

At all institutions, public or private, national university or community college, housing and food services are customarily priced at cost - costs which are largely determined not only by institutional choice, as in the case of instruction, but by external and national factors beyond the institution's control. This is not the case with instructional costs which vary widely based on the purpose, approach, and programmatic commitments of the institution. In the noninstructional area, efficiency and productivity are well understood and uniformly sought; in the instructional area, productivity has broad qualitative implications with little definitional agreement from institution to institution. Given these circumstances, if the federal government were to relate BEOG to noninstructional costs, it would assume for the program a simpler and, we think, more appropriate role, one which would remove the program from tuition pricing policy, an area which has traditionally been the province of each of the state governments and institutions themselves.

3. This approach also would greatly simplify the long range problem of relating the BEOG entitlement to hard economic data. By reflecting annual inflation in noninstructional costs, the federal government would have a rational and consistent approach to funding, something which is lacking in the present program.

4. Such an approach would recognize that for some time educational institutions have found it necessary to use their financial aid resources to subsidize not simply the instructional costs of needy applicants, but also the maintenance (room and board) costs as well. By awarding BEOGs to eligible students based on these costs, the federal government would be relieving institutions of an important burden and would free up institutional funds for more proper subsidization of the educational costs of needy students.

5. Finally, tying BEOG to noninstructional costs would simplify the program. As Mrs. Rice has pointed out:

> The suggested changes would make for greater simplicity, from the standpoint of both applicants and institutions. When average noninstructional costs are used to establish the maximum grant, BEOGs can begin to function as a voucher system. Since entitlements are simply average costs minus family contribution, eligible students applying for the program would receive promptly a certified chit indicating their grant amounts. Upon enrollment, they would simply present these chits to the institutions for payment or credit against institutional charges.
>
> The voucher system would also simplify the program for institutions in that they would no longer have to determine "actual costs of attendance" for each individual student or category of students before making preliminary and final calculations of BEOG entitlements.[5]

As promising as the Rice approach is, and in spite of its advantages, to some observers it still seems to fall short of a completely satisfactory system for determining the maximum BEOG

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5. Federal Student Assistance: Title IV Revisited.

entitlement. It has been correctly pointed out that noninstructional costs include some nondiscretionary costs (room, board and books), as well as some costs which are discretionary (transportation and personal expenses, etc.) and which are primarily a function of institutional choice and personal life style. Whereas board and room costs are fairly uniform nationally, these more personal non-tuition costs are not. An entitlement which might prove sufficient for the student attending a local institution could be very inadequate for one attending a distant school.

It also has been pointed out that relating a BEOG entitlement to total noninstructional costs would mean that a student attending a zero-tuition public institution theoretically would not have to assume any responsibility for his or her education with a job or loan. As unlikely as this circumstance may be (there are few zero-tuition institutions and it would require full funding of total noninstructional costs), the criticism reflects a legitimate concern which should be answered.

Finally, since BEOG is but one of several critical federal student aid programs, some observers understandably question whether full funding of a BEOG entitlement related to total non-instructional costs ($2,100-$2,200 in 1975-76) is realistic in light of existing funding levels, or desirable in view of the legitimate funding needs of other Title IV programs.

Given these various considerations, we would recommend adoption of a noninstructional approach, but with an important modification. Instead of relating the maximum BEOG entitlement to total noninstructional costs, we would recommend that it be related to noninstructional costs <u>less</u> an amount which a typical student can earn through summer employment. At most institutions this amount is presently assumed to be $500 to $600. Thus, in 1975-76 the maximum entitlement would be approximately $1,600, or $2,100 of average noninstructional costs nationally less a $500 summer earnings expectation. The $1,600 figure also corresponds very closely to average costs for students nationally of room, board and books. Whether the Congress should choose to relate the entitlement to total noninstructional costs less a reasonable summer earnings expectation, or to room, board and book costs directly, leaving the more discretionary expenses to the student, in either case Congress would arrive at the same place - a figure in which it can have confidence and one that can be adjusted on an objective, even audited, basis over time. Of great importance, however, the Congress would be making clear its intention to establish the BEOG program as <u>the</u> program for access. Where family resources for student maintenance are insufficient, the federal government would

be entering into a partnership with each student to insure a threshold of support to permit access to zero-tuition public institutions.

It should be made clear that the approach described above is a logical measurement device for establishing award levels, rather than a restriction on how a BEOG is to be used by an individual student. Because the maximum award is related to specific and common costs, costs which fall within a narrow range for all students, the approach has a rational basis as an access program; because of its simplicity, the calculation and award procedures would be easier to administer. It is important to understand that the BEOG need not be applied just to noninstructional costs. In fact, it could be applied against any and all of a student's total costs of attendance. Thus, a student with a maximum $1,600 BEOG award (assuming zero family contribution) need not consume food, buy books, or contract for lodging equal to $1,600. If the recipient were able to get by with less, or live at home,[6] he or she could apply the entitlement to other costs of attendance.

If BEOG is to be a program for true access, and if the determination of an award is to be kept simple, a further step needs to be taken. The present stipulation, that a BEOG may not exceed one half the actual cost of attendance (tuition, fees, room and board, books and miscelleous expenses) at the institution in which the student enrolls, should be eliminated. The effect of the provision is to limit the size of awards for one particular group - the lowest income students who also happen to attend the lowest tuition public institutions.[7] Retention of the provision would

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6. Noninstructional costs of commuters are only moderately less ($300-$400) than resident students according to the College Entrance Examination Board. Whereas commuters spend less on board and room, they spend considerably more on transportation. Because noninstructional costs of commuters in any case are more than the proposed maximum BEOG entitlement ($1,600), we would not make any distinction between resident students and commuters in making such awards.

7. Under the present program with a maximum BEOG award of $1,400, the one-half cost limitation does not reduce awards to students attending institutions with total costs of attendance of $2,800 or more. Likewise, it does not reduce awards to students with some degree of parental support, since their BEOG would typically be less than one-half cost in any case. It does, however, affect the poorest students attending the least expensive institutions.

not only defeat the purpose of BEOG as a true access program, but, by complicating award calculations unnecessarily, would prevent adoption of a simple voucher mechanism.

A final important step needs to be taken with the BEOG program. Since the program's authorization in 1972, BEOG has not been fully funded and awards have been reduced by complex ratable reduction formulas contained in the present law. Thus, even though there is a tendency to speak of a BEOG "entitlement," there is no such thing when a student's award is partially funded. Unlike veterans education benefits under the GI bill or OASDI education benefits under the Social Security Act, a BEOG recipient has no "entitled" right to a given level of assistance under the Higher Education Act. Instead, awards are a function of the funds appropriated for the program in any given year.

We argue that the BEOG program should be made a true entitlement with individual awards sufficient to assure access. This step is necessary if BEOG is to serve as the basic grant program to which all other student assistance efforts will relate; it is also necessary if BEOG is to serve as a true access program. But it is also necessary if a degree of balance between grants, jobs and loans is to be incorporated into the student assistance efforts of the United States Office of Education - a degree of balance which, as will be seen, has been lacking in the past few years.

It is apparent in retrospect that during the late 1960s, as enrollments and need for student assistance grew enormously, the federal response to that need was not a balanced one. Instead, the response was heavily weighted toward loans. Because the Guaranteed Student Loan Program relied on private capital, because it was highly elastic, and because, at least at the beginning, it required relatively modest federal appropriations, the major federal contribution to the burgeoning demand for student assistance was credit through the GSLP. The result was not a balanced and measured approach to federal student assistance, with grants, work-study, and loans growing in a carefully related way, but a student assistance policy heavily weighted toward student credit. The extent to which the federal government fostered, until relatively recently, the growth of loan assistance to the relative exclusion of scholarship (or work-study) assistance is indicated in the table on the following page. In 1972 when loan assistance under the GSLP and NDSL totaled approximately $1.7 billion, total grant assistance provided under the Educational Opportunity Grant program was about one tenth of that figure, or $168 million.

Estimated Amounts of Student Assistance
Provided by Various Federal Programs[a)]
(000,000)

Academic Year	BEOG[b)]	SEOG	SSIG	Total Grants	Work-Study	NDSL[d)]	GSLP[e)]	Total Loans
1970-71	$ --	$165	$ --	$165	$200	$365	$1,044	$1,409
1971-72	--	168	--	168	280	412	1,302	1,714
1972-73	--	210	--	210	326	431	1,199	1,630
1973-74	62	210	--	272	325	465	1,141	1,606
1974-75	400	210	38[c)]	648	325	471	1,140	1,611

a) Includes nonfederal portions. Data from Factbook, BHE, 1973, and Analysis of Student Borrower and Loan Characteristics; Federally Insured Student Loan Program, Systems Group, Inc., January 1974.

b) $60 million of the $122 million appropriated for 1973-74 was carried forward to 1974-75 year; an estimated $135 million of the $535 million available for 1974-75 is expected to be unspent at 6/30/75 and will be available to be carried forward to 1975-76.

c) Includes 50% state match.

d) Includes loans made from repayments, as well as new federal capital appropriations.

e) Represents loan insurance commitment volume of both the federal and state agency programs. From the start of the FISL program through 1973, 86% of the FISL commitment volume was actually disbursed as loans. Disbursement data is not available on state agency loans.

There have been numerous ancillary effects of this relative imbalance in student assistance, including great demand for loans, growing student debt burdens, and in particular growing default rates. It also has become clear that in the absence of sufficient grant and work-study resources, students from lower-income families find it necessary to borrow to a considerable degree to pursue an education. The relationship between expected borrowing rates and income levels is indicated on the following page.[8]

8. The borrowing rates are for freshmen in higher education. If data were available to indicate borrowing rates of students in vocational and proprietary schools, the reliance on borrowing by students from such families would be even more realistic.

Percent 1973 First-Time, Full-Time Freshmen
Expecting to Borrow from Federally Sponsored Loan Programs[a)]

1972 Parental Income % Borrowing	Public			Private		
	University	4-Year	2-Year	University	4-Year	2-Year
$ 0- 3,000	26.8%	29.1%	12.3%	43.2%	35.3%	31.6%
3,000- 5,999	29.6	27.9	13.0	50.9	43.4	33.7
6,000- 9,999	26.2	24.0	7.1	51.7	44.1	32.3
10,000-14,999	17.1	17.7	9.2	43.4	36.6	21.2
15,000-24,999	8.1	11.7	6.4	27.3	21.1	15.3
25,000 & Over	2.8	6.3	3.7	6.5	5.9	5.3
TOTAL	11.8%	15.7%	8.2%	26.2%	26.8%	20.9%

a) From Policy Briefs, vol. 1, no. 2, 1974, of the American Council on Education. Data was derived from a survey sample of 189,733 actual students in 360 institutions, weighted to represent national summary data for all first-time, full-time freshmen in institutions of higher education in the fall of 1973.

As the data indicates, the lower the parental income the more likely that the student will have to borrow to finance the first year of college, and at private colleges and universities roughly one of every two low-income students (below $10,000) expects to borrow. Whether Congress in fact intended it, in the absence of sufficient grant aid funds, lower-income students especially at private institutions, have been forced to borrow to pursue an education to a degree unforeseen a few years ago. It would appear to make sense to recognize this fact and accelerate the effort to redress the balance between grant and loan aid, preferably by making BEOG into a true entitlement program.

Redressing the balance is critical at this time for another reason. In response to the rapid inflation in the economy over the past two years, the College Scholarship Service, one of the two major national organizations providing needs analysis services, in August,1974 announced significant changes in its needs assessment formulas, changes which will affect students and their families in the 1975-76 academic year. Recognizing the effects of inflation upon family budgets, the College Scholarship Service sharply reduced its

estimates of the amounts families could be expected to contribute toward their children's educations. Although the changes have the laudatory goal of easing the strain on families with children in higher education, it is not clear from what source the incremental financial aid resources will come.

Sidney P. Marland, Jr., President of the College Entrance Examination Board, has estimated that because of inflation and its effect upon expected family contributions, the incremental need for financial aid resources will rise as much as $1.5 billion in 1975-76 over the prior year.[9] With educational institutions incurring cost increases in all areas, they have little capacity to further increase grant aid from their own resources. As a result, much more will be asked of students themselves through self-help (work and loans), and the demand for existing state and federal scholarship funds will become even more acute. Almost without exception, more will be expected of families than needs analysis systems suggest is appropriate. In the absence of full funding of BEOG, preferably through an entitlement approach, two things in particular, however, are likely to happen - the reliance on loans by students from lower-income families will continue to increase, with all the long-term problems associated with such an increase, and in many cases, students will simply not matriculate.

There is a final reason for increased grant aid, which should not be left unsaid. Until recent years, the financing of postsecondary education has traditionally been the responsibility of the older generation, either directly through tuition and maintenance payments, or indirectly through taxes to make possible low tuition. Over the past decade, however, as traditional financial aid resources have failed to keep pace with demand, an increasing portion of the cost has been transferred to the student generation through federal (GSLP and NDSL) and private loan programs. As Carol Van Alstyne has observed:

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9. The Chronicle of Higher Education, IV, No. 7 (November 4, 1974), p. 5. Subsequent analysis by the CEEB indicated increased need in 1975-76 of approximately $1.2 billion, one third of which can be attributed to price increases in higher education and approximately two thirds to changes in the College Scholarship Service's assessment of the ability of families to pay for postsecondary education due to the effect of inflation on real after-tax incomes between February 1973, when the tables were last revised, and December 1974.

> Now, just at the time in history when we are making serious attempts to broaden access to low-income students, we change the rules of the game. We propose to shift a larger share of educational costs from the parental generation to the student generation: the students must bear these costs either now or later, from future income.[10]

In truth, this transfer of a growing share of educational costs has been accepted by the student generation with considerable grace. More students today are providing a significant portion of their educational costs through summer and term-time employment than ever before,[11] and many believe that the willingness to borrow is more an indication of a desire by young people to reduce the educational cost burden faced by their parents than it is easy acceptance of a debt obligation which they have minimal concern about meeting.

If this growing transfer of responsibility has been accepted with little question by students, it nevertheless should be asked whether access (but not unlimited choice) to postsecondary education is truly the responsibility of the older generation. In a period of scarce financial aid resources, loans undoubtedly have a critical role to play in providing choice among institutions and certainly in financing graduate and professional education. Whether loans should be relied upon to provide basic access, especially for students from

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10. "Tuition: Analysis of Recent Policy Recommendations" by Carol Van Alstyne, Chief Economist, Policy Analysis Service, the American Council on Education; dated 7/24/74, p. 26.

11. "The American Freshman: National Norms for Fall 1974" published by the ACE and UCLA, indicates that approximately four out of five freshmen expect to hold full- or part-time jobs during 1974-75. Layton Olson, Education Director of the National Student Lobby, estimates that 5 million students presently earn $5 billion annually from term-time and summer employment and that about 50% of all students are working at the present time versus approximately 30% in the 1950s and 40% in the 1960s. (Testimony before the Special Subcommittee on Education, House of Representatives, May 7, 1974.)

lower-income families, is doubtful. Making the Basic Educational Opportunity Grant program into a true entitlement with the maximum award related to noninstructional costs would be a clear and welcome indication of the determination of the Congress to make that important distinction.

Recommendations

It is recommended

1. That the BEOG program be given the specific and unique goal of assuring access to postsecondary education;

2. That the maximum grant under the BEOG program be related to average noninstructional costs of students in postsecondary education, with the specific maximum entitlement calculated based on either

- average noninstructional costs nationally, less a summer earnings expectation, or

- average costs nationally of room, board and books in postsecondary education.

In either case, we would recommend a maximum award of $1,600 for the 1975-76 academic year;

3. That the maximum award be adjusted annually to reflect actual, audited changes in average noninstructional costs used in the above calculations;

4. That the present provision stipulating that BEOG awards may not exceed one-half of a student's total cost of attendance be eliminated; and

5. That the BEOG program be authorized as a true entitlement program.

THE SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM

Over the years there have been numerous milestones in the effort to stimulate demand and expand supply in American higher education, from the Morrill Act to the GI bill to the community college movement. Another signal step in the long effort to improve educational opportunity could well be recognition by the federal government of the dual nature of the problem of access, with its maintenance as well as instructional components. The recommendations regarding the BEOG program are designed to recognize that important distinction. However, a BEOG program which is designed to assure access to zero-tuition public institutions and which deals with the relatively uniform problem of maintenance leaves unaddressed the more complex problem of instructional costs in American postsecondary education.

The subsidization of instructional costs has not been and cannot be regarded as the sole responsibility of the federal government. Traditionally, the primary responsibility in tuition pricing policy has resided with the states and educational institutions themselves. In fact, in the magnitude of its commitment, the historic public policy of low tuitions in state colleges and universities has done more to extend educational opportunity than any federal or private effort, however commendable. Nevertheless, private as well as federal financial aid efforts have played a critical role in expanding educational opportunity.

The federal part in this effort has been made possible through three "campus-based" programs, the National Direct Student Loan program, the College Work-Study program, and the Supplemental Educational Opportunity Grant program, dating from 1958, 1964 and 1965, respectively, as well as through the Guaranteed Student Loan Program. For several years in a row, however, incumbent administrations have requested no new appropriations for SEOG and NDSL, and all three "campus-based" programs have suffered from the absence

of a clear perception of objectives.[1]

This lack of a clearly defined role has been perhaps most true of the SEOG program. Whereas the College Work-Study and NDSL programs have represented unique forms of federal assistance in the work and loan areas, with no real state or private counterparts, SEOG in its basic purpose has not been notably different from numerous state and private scholarship efforts. This lack of a clear identity has, if anything, become more acute with the advent of the BEOG program.

Although the statement of purpose of Title IV is not particularly helpful with regard to the goals of the SEOG program,[2] the inference has long been that all three programs, in their various ways, are to aid equality of opportunity in postsecondary education by supplementing other public and private student assistance resources. This inference of a supplemental and somewhat limited scope is reinforced in many ways - from the title Supplemental Educational Opportunity Grant program to the requirement under all three programs that the funds be used in conjunction

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1. Because of Congressional support for the programs, funding has been as follows over the past four years:

	Appropriations[a)]		
Fiscal Year	SEOG	CW-S	NDSL[b)]
1972	$210	$272	$293
1973	210	270	293
1974	210	270	293
1975	240	300	329

a) From 1973 Factbook, BHE, USOE. All three programs are forward funded, with appropriations being expended in the following fiscal-academic year. The CW-S appropriation for 1975 does not reflect an additional $120 million recently voted by the House which, if ultimately enacted, would provide an additional $60 million in fiscal 1975 and 1976 as an emergency employment measure.

b) In each year, all but approximately $7 million represents additional capital for loan funds.

2. The statement of purpose is essentially a table of contents. See Title IV, Part A, Section 401 (a).

with student assistance from other sources.[3]

We would argue strongly that there is a continuing need for the older federal student assistance programs, including SEOG, even in a supplemental role. The capacity of state and private resources to provide reasonable choice in postsecondary education varies widely. Approximately forty states have state scholarship programs, but they vary markedly in resources and approach. Some are based purely on need, others on a combination of ability and need. Some help students at both public and private institutions, others restrict aid to one group or another. Few define postsecondary education in the same way; few make grants to residents attending out-of-state institutions.

Although awards of institutional scholarship funds are almost always based on need, such resources vary widely from institution to institution. Over the past half dozen years, as colleges and universities have made concerted efforts to recruit more students from economically disadvantaged backgrounds, many institutions have gone far beyond the use of traditional endowed scholarship funds and have devoted sizable and growing portions of their unrestricted revenues to financial aid for both lower- and middle-income students. This tendency has been reinforced as endowment resources, including those for scholarships, have been depleted by the adverse securities markets of the 1970s. Use of unrestricted revenues to fund financial aid budgets has had the effect of raising tuitions, especially in the private sector, higher than they otherwise would be, in turn creating an even greater need for financial aid. For many institutions struggling with rapid cost increases in energy, books, food, and personnel, an admission policy based solely on academic and personal promise and not on financial capacity has been a contributing factor in chronic operating deficits. Increasingly, private institutions especially find themselves necessarily compromising their commitment to equal access without regard to means, to assist in achieving financial stability.

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3. NDSL requires a 1/9th capital match by the institution; CW-S requires a 20% participation by the employer; and SEOG limits the grant amount to one half of the total amount of student financial aid provided to the recipient by the institution.

Some would argue that while access is an absolute goal, choice is a highly relative one. In a real world of limited resources, that is unquestionably true. Nevertheless, with private institutions typically over extended (or at least unable to keep pace with demand for student assistance) and state scholarship resources unevenly distributed, a continued federal supplemental grant commitment focused on instructional costs and the problem of choice is absolutely essential. But how can such funds be better focused? What are some of the problems of the present SEOG program? What should its relationship be to the BEOG program, especially if the BEOG were reconstituted along the lines recommended herein?

From the point of view of both public policy and the student, the current SEOG program presents several problems:

1. An institution must participate in the program if its otherwise eligible students are to receive assistance. In fiscal 1973, 2,872 institutions participated in SEOG, whereas an estimated 6,000 institutions were eligible. (This discrepancy was due largely to the addition of accredited proprietary schools as a result of the 1972 Education Amendments.)

2. The statutory allotment formula[4] produces widely

4. Under the SEOG formula, 90% of the appropriated funds are distributed to the states on the basis of full-time enrollment and the full-time equivalent of part-time enrollment in institutions of higher education in each state. The remaining 10% is apportioned by the Commissioner of Education to raise each state to at least the level of its original allotment, prior to reallotment, for initial year funds for fiscal year 1972 under the former EOG program, if its allotment from the 90% portion is less than that level. It is interesting that even though SEOG grants may only be awarded to undergraduates carrying at least a half-time course load, the state allocation formula is based on total enrollments (graduate as well as undergraduate) for part-time (not just half-time) as well as full-time students. In addition, although accredited proprietary institutions can participate in the program, only enrollments in higher education are taken into account in the state allocation formula.

differing institutional funding patterns state by state. (For example, in 1973-74 the percentage of panel-approved requests received by states varied from a low of 42.6% for twenty-three states to 100% for one - Hawaii.)[5] Even though the state allotments are based on full- and part-time enrollments in each state, this has little to do with student need, which is a function of the incidence of needy students and mix of high- and low-priced institutions within each state. Thus, whereas the panel-approved institutional requests may be a reasonably good indication of student need, the funding allocation system ignores the requests in making allocations between states. In effect, the panel-approved requests are simply in-state allocation systems.

3. The law states that SEOG awards are to go to individuals with "exceptional financial need,"[6] with the further requirement that the award shall not exceed $1,500 or one half the sum of the total amount of student financial aid provided to such student by the institution. (Included in this latter category are BEOG, NDSL, and CW-S resources as well as state, private and institutional grant resources.) With the growing funding of BEOG, not to mention state scholarship funds, under the present formula a student could receive all aid in grant form, including possibly just federal grant funds (BEOG and SEOG).

The combined effect of these various conditions and regulations of the program is that three high-need students, identical in terms of parental contribution and attending institutions with the same cost of attendance but in different states, could have entirely different experiences under the program. One could have the misfortune of selecting an institution that is not a participant in the program and receive nothing. A second could select a school whose state allotment is modest in relation to panel-approved need, and thus receive modest help. The third,

5. For each state's percentage of panel-approved requests in each of the three institutional based programs, SEOG, NDSL, and CW-S, for the year 1973-74, see Appendix A.

6. USOE has defined this to mean the condition of a student whose expected family contribution does not exceed one half the cost of attendance at the institution in which the student is enrolled.

however, could receive a maximum SEOG by having the good fortune to matriculate at a participating school located in a state where the allocation corresponds closely to the panel-approved requests under the program. Given these various possible outcomes, it is not surprising that the system has been termed "not equitable" by the Comptroller General of the United States.[7]

Even if financial aid need and resources were stable from year to year, the SEOG allocation system should be changed. However, change is even more imperative with the growth of BEOG and state scholarship programs. It is in recognition of the growing importance of these latter two resources that we urge that any reformation of SEOG try to meet certain objectives, namely:

- the SEOG program should complement the BEOG program and not address itself to the same definition of need. Whereas we would focus BEOG on noninstructional costs, we believe SEOG should focus on instructional costs and the problem of choice, especially at moderate- and higher-priced institutions;

- it should <u>supplement</u>, rather than replace or come before, state and private scholarship resources. Federal supplemental grant funds should not be applied "back to back" to basic grant funds in meeting student need.

- finally, regardless of the state in which a student matriculates, students who are alike in terms of resources and need should be treated equitably.

Our recommended approach is a relatively simple one - we would incorporate SEOG into a BEOG entitlement system. Just as a student can apply directly for a BEOG grant, we recommend that the same be true for SEOG. In fact, we would propose that the

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7. <u>Administration of the Office of Education's Student Financial Aid Programs</u>, GAO, April 4, 1974.

application for a SEOG grant be part of the BEOG application. We also would make student and institutional eligibility the same under both programs, i.e., full- and half-time undergraduates in institutions of higher education and accredited proprietary schools.

But who should receive a supplemental grant, especially if there were a basic grant entitlement related to noninstructional costs? In making that determination we would recommend two concepts, one already a part of the present SEOG program, and one which is not. Under the present program, SEOGs are awarded to students who qualify based on need regardless of whether they have received a basic grant. We believe this approach should be retained. Students from middle-income families will, for the most part, be ineligible for BEOG assistance because their parents are able to provide for their noninstructional costs. Yet such students, if they attend higher tuition public or private institutions, will have great need for tuition-related assistance. Making SEOG eligibility dependent upon receipt of a BEOG would eliminate a sizable portion of middle-income students presently eligible for SEOG at higher tuition institutions. It also would mean that receipt or non-receipt of a minimal BEOG award would determine eligibility for as much as $1,500 of supplemental grant help. Since we believe the two programs should focus separately on the problems of access and choice, we would not make eligibility for one dependent upon participation in the other.

A new and important concept we would introduce would require that other resources available to a family be used in funding instructional costs before SEOG funds became available. This idea of a funding "gap" before SEOG resources would be used is central to our view of the role of SEOG as a program for enhancing choice. At present we have the anomaly that at many higher-priced institutions, a financial aid applicant must assume a sizable self-help responsibility[8] before any institutional grant funds are

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8. At the member institutions of the Consortium on Financing Higher Education, a financial aid applicant is typically expected to earn $500-$600 from summer employment toward his or her educational expenses and to assume an additional self-help expectation during the academic year of as much as $1,500, to be met by loans and campus employment. Thus, much is expected of the financial aid student before any institutional grant funds are awarded.

awarded, including SEOG, whereas at lower-priced institutions the applicant can often receive primarily grant assistance. The major beneficiaries of the proposed BEOG entitlement, including elimination of the one-half cost of attendance limitation, would be students attending public institutions.[9] Lower-income students attending low tuition public institutions would receive much more under the proposed BEOG entitlement than presently. Taking this into consideration, we believe supplemental grants should be aimed at the problems faced by low- and middle-income students who wish to attend moderate- and higher-priced institutions. It is this group of students, whether attending private institutions or out-of-state public institutions,[10] which is particularly in need of tuition-related help. They are neither subsidized by low tuitions nor aided adequately by state scholarship programs. In the face of public-private tuition differentials,[11] it is especially this group which needs the SEOG program if a healthy degree of choice in postsecondary education is to be maintained.

In recognition of the above, and to ration supplemental grant funds effectively, we recommend the following allocation formula:

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9. Under the present program, even though the maximum entitlement is $1,400, a student with a zero parental contribution would receive a maximum grant of $1,000 at an institution with costs of attendance of $2,000. Under the revised approach, the student would be entitled to the maximum grant.

10. Based on data of the National Center for Educational Statistics, USOE, between 300,000 and 400,000 undergraduate students annually attend out-of-state public colleges and universities. As nonresidents, they are typically charged tuition rates comparable to those charged by private colleges and universities. See Residence and Migration of College Students, Fall 1968, Analytic Report, National Center for Educational Statistics, USOE.

11. According to The College Scholarship Service, in 1975-76 average tuition and fees at four-year private institutions will be $2,240; at four-year public institutions it will be $578.

The amount of SEOG award to which a student shall be entitled shall equal the lesser of $1,500, or one half the amount remaining after deducting from instructional costs (tuition and related fees):

- any parental contribution remaining after deducting therefrom an amount equal to the maximum BEOG entitlement (recommended at $1,600 for 1975-76), and

- $1,000.[12]

Thus, the proposed SEOG formula would be related to instructional costs and, as presently, the formula would cover only one half of a student's need up to a $1,500 maximum award. But most importantly, it would not take effect until all available parental contribution had been used and $1,000 of resources other than federal grant funds had first been applied to tuition-related need. For example, where a student's family contribution equaled $1,600 or less (i.e., it was completely used for non-instructional support) after the first $1,000 of tuition was met by other resources available to the student, the proposed SEOG formula would cover 50 cents of every one dollar of tuition up to a maximum SEOG award of $1,500. Thus, in this example at an institution with tuition of $2,000, the student would be eligible for $500 of supplemental grant funds; at an institution with tuition of $3,000, the student would be eligible for $1,000 of SEOG funds. For every dollar by which the family contribution exceeded $1,600, and thus was available to partially meet tuition costs, SEOG eligibility would be reduced by 50 cents.

The $1,000 exclusion, or funding gap, would mean that the first $1,000 of tuition remaining after the application of the parental contribution would have to be met by work-study, loans, and state and institutional scholarship funds before supplemental federal grant assistance would come into play. Although there is nothing magical about the $1,000 figure, it is an amount which students should be able to finance through work, loans and non-federal scholarships. It also is an amount which both limits the cost of the program and yet would provide well-focused aid for over 600,000 students. The way in which financial aid applicants met the first $1,000 would obviously depend upon the availability of state and institutional resources and the judgments of individual

12. For examples of award calculations, see Appendix D.

financial aid officers in tailoring aid to specific needs. Supplemental federal grant funds, however, would be used in a uniform and consistent way. Students attending institutions with tuitions of $1,000 or less would not be eligible for supplemental grant support. However, it should be emphasized that they would be the major beneficiaries of a revised basic grant program with the one-half cost of attendance provision eliminated.

It has already been pointed out that relating basic grants to average noninstructional costs nationally would permit calculation of grant amounts without reference to the cost of attendance. In effect, a recipient could be issued an award letter to be used at the institution of choice. Using the same application system, and based on the same parental contribution calculation, it would be possible to indicate in the same award letter the variable amount (if any) based on tuition of supplemental grant help to which the recipient was also entitled. Thus, in one award letter the applicant could be informed of the fixed (basic) and variable (supplemental) portions of the award.[13]

Recommendations

It is recommended

1. That the SEOG program be related solely to instructional costs;

2. That it be a program for choice focused on the needs of both low-income students (who might also be eligible for BEOG), and very importantly, middle-income students attending moderate- and higher-priced institutions, whether public or private;

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13. Institutions could manage the disbursement of awards for both programs in a manner similar to that presently used for BEOG. For examples of awards at various parental contribution and tuition levels under the recommended BEOG and SEOG programs, see Appendix D. By providing state scholarship agencies with copies of award letters, states would have the requisite information to make state grants without risk of excessive combined federal and state awards to individual students.

3. That for reasons of equity and ease of administration, the SEOG program be incorporated into a BEOG entitlement system with basic individual and institutional eligibility made the same under the two programs;

4. That SEOG funds only be used to supplement state, private and family resources, and that this be accomplished by limiting an SEOG award to the lesser of $1,500, or one half of the amount remaining after deducting from instructional costs (tuition and related fees):

- any parental contribution remaining after deducting therefrom an amount equal to the maximum BEOG entitlement (recommended at $1,600 for 1975-76), and

- $1,000.

STATE STUDENT INCENTIVE GRANT PROGRAM

In addition to BEOG, a second new federal grant program was authorized by the Education Amendments of 1972 - the State Student Incentive Grant program (SSIG). The purpose of the SSIG program was to provide grants to eligible students with "substantial financial need" by matching on a 50-50 basis, new grant dollars expended by the states. This was to be accomplished by encouraging the states to expand eligibility, to improve the level of awards, and, in the absence of prior state efforts, to develop new grant programs.

Although the SSIG initiative has been overshadowed by the larger and more dramatic BEOG program,[1] in the area of developing new grant programs, the SSIG has been a distinct success. Before the SSIG was authorized in fiscal year 1971-72, twenty-three states had grant programs. Five additional states launched operating scholarship programs in the 1973 and 1974 fiscal years. However, in response to the catalyst of the SSIG program, twelve additional states and territories established programs prior to June 30, 1974, to become operable in the 1975 year. Another eleven indicated that they expected to establish programs eligible to participate in the SSIG by March 31, 1975. According to USOE, as of May 1974, out of fifty-seven eligible jurisdictions only six - Alabama, Alaska, Arizona, the District of Columbia, Guam and Hawaii - had failed to respond to the SSIG initiative, and in at least one of those instances, Alaska, a grant program exists, although not based on financial need.

This remarkable response underscores the sizable and growing commitment of the states to financial aid programs for students in higher education. It has been estimated that in the

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1. Appropriations for SSIG were $20 million in both FY 1974 and FY 1975. Under a 5% impoundment authority conferred by the 1974 Appropriations Act, the Executive Branch reduced 1974 funding to $19 million. This compares to BEOG appropriations of $475 million in 1974 and $660 million in 1975. In academic year 1974-75, an estimated 76,000 students are receiving SSIG awards averaging about $500 (including the state portion). According to the National Association of State Scholarship Programs, 53% of the funds are being used to attend public institutions, and 47% to attend private institutions.

1974-75 academic year thirty-six states and certain of the territories will expend $457 million on scholarship programs, up 25% from $364 million in the 1973-74 year.[2] Approximately 800,000 students will receive an average award of $573. State scholarship assistance in the current academic year now represents over 4% of the approximately $11 billion of state appropriations for higher education.

As promising as this is, the student financial aid efforts of the states vary widely and the over-all data reflect exceptional programs in a few jurisdictions. Three states account for over half of the total state scholarship effort, whereas the same three states account for under 20% of national enrollments in higher education.

State	Est. Awards 1974-75 (000,000)	As % of Total
New York	$108.5	23.7%
Pennsylvania	73.2	16.0
Illinois	63.2	13.8
California	41.1	9.0
New Jersey	27.6	6.0
Michigan	18.6	4.1
Ohio	17.5	3.8
Wisconsin	13.7	3.0
Indiana	11.8	2.6
Massachusetts	11.2	2.5
All Others	70.5	15.5
TOTAL	$456.9	100.0%

Varying degrees of support, however, are just one area of difference. State programs differ in numerous ways. Not all states permit the use of awards at both public and private institutions. Students who attend proprietary institutions, students who attend institutions outside their home state, and students who attend on less than a full-time basis, for the most part, are excluded from

2. The Chronicle of Higher Education, IV, No. 9 (November 18, 1974), p. 1.

state scholarship programs.[3]

Although the immediate goal of encouraging the formation of grant programs in all the states has been largely met, the more critical problem of defining what the federal/state partnership in grant aid should be remains unresolved. With need defined in a myriad of ways under the state programs and with federal SSIG funds accounting for only about 4% of a state commitment approaching $500 million, it remains unclear what the SSIG is trying to accomplish in terms of student support, what it will cost, and what the state and federal shares should be.

Certainly it is possible to propose some further goals for SSIG. As has been pointed out, large numbers of students are effectively excluded from the state programs, especially those who attend proprietary schools or institutions outside their home states. Just as SSIG funds to date have been used to encourage expansion of existing state programs and the establishment of new ones, future funds could be used to encourage states to expand eligibility to those groups of students presently excluded, especially those attending out-of-state institutions. Otherwise, state scholarship programs could become educational tariff walls discouraging the mobility of students in attending institutions which best serve their needs.

The lack of a clear course for SSIG reflects a larger dilemma. The expansion of federal grant efforts, through BEOG and SEOG, and state grant programs, makes federal/state student aid coordination a growing imperative. Although such cooperation may not have been critical until now, without it in the future there will be public frustration, duplication of effort, and perhaps wasteful use of public resources through excessive awards.

There are two ways of avoiding these problems. If federal and state programs continue to address the same definition of need

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3. The fifth annual report of the National Association of State Scholarship Programs, covering the 1973-74 academic year reported on 49 separate programs in 28 states. Of the 49 programs only 9 aided students attending out-of-state institutions and only 8 provided aid to part-time students. Joseph D. Boyd, National Association of State Scholarship Programs: Fifth Annual Survey, Deerfield, Illinois. Illinois State Scholarship Commission, October 1973.

on the part of the student, then there is great need for federal/ state coordination. Award calculations must be done sequentially, and states must know the amount of BEOG a student is to receive before a state scholarship award can be calculated. While such coordination is one answer, a better approach would be a federal/ state student aid strategy in which the federal government with BEOG, and state governments with state grant programs each addressed separate components of student need.

It has already been suggested that the BEOG program be related solely to noninstructional costs, insuring access to zero-tuition institutions. If BEOG were a true entitlement, meeting the problem of access, there would be some assurance that a student's noninstructional costs would be met by a combination of parental support, the basic grant program, and the student's summer earnings. It would then be possible for the states to relate their own grant efforts to the problem of choice by focusing solely on tuition-related need. This strategy would help to avoid duplication and excess awards which could result under the present arrangement, whereby the BEOG and state scholarship programs, in many cases, are both attempting to fill the same demonstrated need. Thus, if as proposed herein, BEOG entitlements are related to noninstructional costs, we would recommend that the SSIG program be limited to aid for instructional costs, as is presently true of most state grant programs.

There are those who would dramatically expand the SSIG program because of its matching provisions and its success in encouraging new and expanded state grant efforts. Both the Carnegie Council on Policy Studies in Higher Education and Congressman James G. O'Hara of Michigan have suggested a much larger role for SSIG on the basis of its brief history. Mr. O'Hara has recommended federal funding of SSIG at $200 million annually; the Carnegie Council has recommended federal funding of $730 million as part of a sizable tuition grant program.[4] As attractive as both proposals appear, they present certain problems, especially

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4. The Carnegie proposal is for federal/state matching tuition grants for low- and middle-income students up to a maximum of $1,500, the total cost of which would be $1,460 million in 1974 dollars ($730 million federal, $730 million state funds). The proposal also would reallocate $240 million of SEOG funds to SSIG.

in the short run. A vast increase in federal SSIG funding will require equally large increases in state appropriations for student grant assistance. For example, a $180 million increase in federal SSIG support, from $20 million to $200 million, would require an equal increase in state support. Nationally it would represent approximately a 40% one-year increase in state grant appropriations. While such increases may be possible in a few states, it is highly questionable whether most states could match such an increase in the short run. Yet unless all of the major states that account for the bulk of state scholarship dollars responded, there is no way in which such an increase in SSIG funds could be matched with new state funds. There is, it is true, the alternative of giving states credit for existing state scholarship expenditures. However, such an approach would obviously forfeit one of the key reasons for increased federal SSIG funding - a corresponding increase in state support.

A large increase in SSIG funding raises some other important questions. How would a major tuition-related SSIG effort relate to the college work-study and federal loan programs? Should a self-help expectation be required of students before they become eligible for tuition-related grants? If not, is it the intention that students attending public institutions, where the average tuition is $500-$600, be awarded just grant support? On the other hand, if a prior self-help expectation is to be required, is it intended that tuition grant support be available primarily for students attending higher-priced, and usually private institutions? Such questions are basic and need to be answered satisfactorily since the answers affect the disposition of SSIG funds, the funding of work-study and loan programs, and indirectly, the pricing policies of state institutions.

A large increase in SSIG funding also raises the question of what is an appropriate state allotment formula. The present SSIG program allocates funds to the states based on the number of students in attendance at institutions of higher education in each state. At current funding levels the formula is not critical; at the levels suggested by the Carnegie Council and Congressman O'Hara, it becomes highly critical. Yet determining what is equitable is not at all clear because of the great differences between states in their mix of institutions and approaches to the funding of higher education. As is well known, some states have strong private educational sectors; in others the institutions of

higher education are predominantly publicly controlled. Some states adhere to a low-tuition policy at public institutions; others do not. Some have significant need-based grant programs; others have competitive scholarship programs, or nothing at all. Some enroll far more than their share of postsecondary students; others far less. In the face of such diversity, designing an allocation formula is not easy. Even complex, effort-based formulas produce widely varying and often highly debatable results.

Because of the considerable educational diversity within the fifty states, and the numerous questions this raises for federal policy, we believe a much more gradual and careful approach to the expansion of SSIG is appropriate. With many state programs in their infancy, and not yet operational, we question whether massive increases in funding, new allocation formulas, and greater state license in the use of SSIG funds is desirable. In the longer term, a major federal/state tuition-related aid program may be the appropriate answer - if many difficult questions are answered satisfactorily in the interim. Until that happens, we believe a federal supplemental grant program with clear national standards along the lines presented herein is far preferable to a sudden and heavy reliance on SSIG.

Recommendations

It is recommended:

1. That if the BEOG program is authorized as an entitlement related solely to noninstructional costs, the SSIG program be related solely to tuition and fees;

2. That funding for the program be authorized to increase gradually on a basis that can be matched by the states and which represents achievable increases in relation to existing state scholarship expenditures. Such an increase might be as follows:

Fiscal Year	
1975	$ 20 million (appropriations)
1976	45
1977	70
1978	95
1979	120

If matched by the states and funded as authorized, this would produce an additional $200 million in SSIG funds by 1979 which would represent a 44% increase over the estimated total of $457 million expected to be expended in 1975. It would also enable the states to plan their programs over the period and coordinate them with federal BEOG and SEOG efforts;

3. That the existing allocation formula be modified, albeit slightly, so that it is based on only those enrollments in each state that are eligible for SSIG funds under the state grant program;

4. That portability of SSIG funds be encouraged and, if necessary, gradually required through one or more of several steps:

- that any reallotments of unused funds under the program be awarded to those states which allow portability of state grants to out-of-state institutions;

- that in any fiscal year in which a state's federal SSIG allocation exceeds 40% of the total state grant and scholarship funds expended by a state, as a condition of receipt of SSIG funds, portability shall be required;

- that all states be required to allow portability, as a condition of receipt of SSIG funds by a given date, perhaps July 1, 1978, assuming that in the interim national standards are developed to provide some consistency in award amounts at given need levels under the various state programs;[5]

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5. In only two states with need-based grant programs, Massachusetts and Vermont, are residents allowed to use their awards to attend either public or private institutions out of state. In five states with competitive scholarship programs (Connecticut, New Jersey, Pennsylvania, Rhode Island and Vermont) the award may be used by in-state residents to attend public or private institutions out of state. None of the other major state grant and scholarship programs (New York, Illinois, California, Michigan, Ohio, and Wisconsin) allow portability to out-of-state institutions. With federal SSIG funds representing a small portion of the total grant expenditures in the major states, it is questionable if the federal government can or should require immediate portability. Over a three-year period, during which additional federal SSIG funds would become available, this may be a reasonable requirement. See State Financial Measures Involving The Private Sector of Higher Education, a Report to the National Council of Independent Colleges and Universities, Fall 1974, Appendix B.

5. That SSIG funds continue to be authorized solely for student grants and not for state work-study and zero-tuition programs.[6]

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6. With many states just beginning their grant programs, we question whether it is desirable to change the rules to allow other state student assistance programs, such as work-study, to be financed with SSIG funds. If the federal government wants more work-study assistance, we would recommend that it do so under the present federal program, and not encourage the creation of both federal and state work-study programs for institutions to administer on campus. Also, although we support low public tuitions, we do not believe that allowing states to use federal funds for further zero-tuition state educational capacity is appropriate.

PART II - WORK STUDY

THE COLLEGE WORK-STUDY PROGRAM

The College Work-Study program (CW-S) was enacted in 1964 as Title I, Part C of the Economic Opportunity Act. Originally the program was administered by USOE under a delegation of authority from the Director of OEO. Formal authority for the program was transferred to the Commissioner of Education with the passage of the Higher Education Act in 1965, and the Education Amendments of 1968 reconsistituted the program as part of Title IV of the Higher Education Act.

As befitted CW-S's origin as part of the poverty program, participation was originally limited to students from low-income families. In 1965 the Higher Education Act broadened eligibility to include all students with need, with preference given to students from low-income families. Finally in 1972, the Education Amendments continued the evolution of the program by eliminating the statutory preference for students from low-income families and replacing it with the requirement that CW-S assistance was to go to students with the "greatest financial need." In the words of John D. Phillips, Associate Commissioner of Education, "This amendment was made with the avowed intention of improving access to the program for students from middle-income circumstances and, more particularly, middle-income students enrolled in high-cost postsecondary educational programs."[1]

USOE has estimated that in 1974-75, 560,000 sutdents at approximately 3,300 institutions will participate in the program, and that student earnings will average $580 (including the 20% nonfederal portion).[2] For a number of reasons, CW-S has been an exceptionally popular program. Colleges, universities and nonprofit agencies have valued the program because the federal government's 80% wage subsidy has made work-study employees very inexpensive

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1. See Student Financial Assistance, Hearings before the Special Subcommittee on Education, House of Representatives, 93rd Congress (USGPO, Washington, 1974), p. 95.

2. Estimates presented in DHEW/USOE Task Force Report on Management of Student Assistance Programs (December 28, 1973), p. 23.

labor. Students appreciate the program because institutions typically provide employment themselves or obtain jobs for students from outside nonprofit agencies. Because of its genuine appeal to the work ethic, the program has been understandably popular with the Congress. The executive branch also has supported the program, with CW-S having the distinction of being the only college-based program for which administrations have sought funding in recent years.

Demand for the program has grown rapidly, especially since adoption of the Education Amendments of 1972, which expanded eligibility for institutions and students (from just full-time to at least half-time students) and which redefined the definition of need. Whereas approximately 2,500 institutions were eligible to receive CW-S funds in the 1972 academic year, an estimated 3,300 are expected to receive work-study funds in the current academic year. Panel-approved requests, which were $306 million for 1971-72, totaled $529 million for 1974-75. However, because of level appropriations over this period, the average award per institution has dropped from an estimated $100,000 in 1973 to $82,000 in the current academic year.[3]

Given the growth in demand for the program, the formula by which funds are allocated to the states for distribution to institutions within each state becomes extremely important. One anachronism of CW-S is that although the program has long since been part of the financial aid structure of higher education and although its purpose has been broadened over the years to include middle-income families, the formula by which funds are allocated to the states remains the same as in 1964, when CW-S was part of the Economic Opportunity Act.

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3. See Student Financial Assistance, Hearings before the Special Subcommittee on Education, House of Representatives, 93rd Congress (USGPO, Washington, 1974), p. 100. The above figures are based on appropriations of $270 million in fiscal years 1972 through 1974. The 1975 appropriation, to be made available to institutions in the 1975-76 academic year, is $300 million.

Although the CW-S allotment formula[4] is understandable historically, it is not well-designed to accomplish the broadened purpose of the program as set forth in the 1972 Education Amendments. The USOE panel-approved requests of institutions are based on peer group judgments of real student need for the program. The allocation formula ignores such judgments, however, and as a result the panel-approved requests are used simply to distribute funds among institutions within each state. Because allotments are based largely upon the number of high school graduates and the incidence of children from low-income families, many states which educate more than their share of the nation's students lose out, while those which educate less than their share do comparatively well. In 1973-74, the percentage of the panel-approved requested amounts of each state which were actually funded ranged from a low of 45.2% to a high of 78.9%.[5] Among the states with low percentages were California, Colorado, Massachusetts, and New York, which educate more than their share of high school graduates; among those with high percentages were Arkansas, Georgia, and New Jersey, about which the opposite is true. The result is that the opportunity to receive work-study aid is greatly dependent upon the state in which the student matriculates. A more equitable approach, which would also be easier and less time-consuming for USOE to administer, would be to drop the state allotment system and use the panel-approved requests nationally as the basis for distribution of CW-S funds. Regardless of its location, each eligible institution would receive the same percentage of its panel-approved amount as the CW-S appropriations was to the total of panel-approved requests nationally (in 1974 about 55%).

The charge of inequity has been leveled at another aspect of the CW-S program: its rigid treatment of work-study as financial

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4. Under CW-S, 90% of the funds are allocated to the states in the following manner: one third based on the number of full-time students enrolled in higher education in each state, one third based on the number of high school graduates in each state, and one third based on the number of children under 18 years of age from impoverished families (income below $3,000) in each state. The remaining 10% is allocated to the states by the Commissioner of Education to bring individual state allotments up to at least the level of the fiscal 1972 year.

5. See Appendix A.

aid. Work-study is typically packaged with grant and loans to meet the difference between the cost of attendance and what the family can contribute. The regulations covering CW-S, however, have taken this "work is aid" definition to an unfortunate extreme.

The maximum amount, after taxes, which a student may earn under CW-S is the difference between the amount of calculated financial need and the amount of other financial aid (loans and grants) made available. This appears defensible, if for no other reason than that it provides a means of allocating scarce work-study funds to those with greatest need. What is indefensible is that CW-S recipients are also precluded from earning additional amounts from non-CW-S related work without such incremental earnings directly offsetting the amount of calculated need for financial aid. Thus we have the peculiar circumstance that non-CW-S students, those with the least need, may earn as much as they can, while CW-S recipients, typically low-income students with great need, are restricted from doing so.[6] This is the case even where the CW-S employer has continuing need for the student and is willing to assume the full-wage cost. As Patricia Keegan, Director of Financial Aid at Simmons College, has observed:

> We are saying to the needy student, you may do this and no more, while we are saying to the more affluent student, the world is open to you, you can earn as much as you want. You can help Dad. You can buy a second coat this week.[7]

We recommend that such disincentives be removed and that the only restrictions upon the amount of a student's non-CW-S earnings be the limits of his or her energy and ingenuity. To those who express concern that CW-S students might preempt all the jobs,

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6. This anomaly also creates administrative distortions. If a CW-S student earns additional amounts from on-campus employment, earnings which can be monitored, the financial aid officer must justify the additional earnings by adjusting the student's need (i.e., indicating that summer earnings were less than expected), by changing the package (issuing less loan), or by providing some other justification.

7. See Student Financial Assistance, Hearings before the Special Subcommittee on Education, House of Representatives, 93rd Congress (USGPO, Washington, 1974), p. 93.

CW-S or not, we would simply point out that institutions should be able to allocate available job opportunities equitably without the crutch of federal regulation.

There have been suggestions that CW-S should no longer be authorized as a need based financial aid program and instead, that it be open to all students, not just those with greatest need. We disagree. We would retain CW-S as a need-related program for several reasons. If the program is not based on need, it is not clear on what basis institutions would make requests for funds, or on what basis available CW-S appropriations would be allocated to institutions. As a non-need based employment program, the requests for funds could be almost without limit. Of equal importance, if CW-S employment is not to be considered financial aid, then institutions would have to replace $360 million of CW-S earnings with other forms of aid. The only likely source is loans, an alternative which would inflate student debt unnecessarily. It is more probable that institutions would continue to require that financial aid students meet part of their need for aid through employment. In that event, CW-S would remain a de facto financial aid program, in spite of legislative intent to the contrary.

Although we would retain CW-S as a need-based financial aid program, nevertheless, we agree that work opportunities should be expanded and made as available to students as possible. Removing the current restrictions on non-CW-S earnings of financial aid students would be one step in that direction. A second step might be to place some limit on the amount of a student's CW-S earnings.

The CW-S program, unlike the Title IV grant and loan programs, has no annual limit. While this is understandable, it does raise the possibility that individual students could use the program to an excessive degree. As has been pointed out, USOE estimates that 560,000 students will earn an average of $580 (including the nonfederal portion) under the program in 1974-75. One possible suggestion would be to limit the federal portion of a student's CW-S earnings in any twelve-month period - perhaps to $1,200. Depending upon whether the nonfederal portion were 20% of the student's earnings, or a higher figure, a federal ceiling at the $1,200 level would permit CW-S earnings of $1,500, or more, which should provide ample opportunity for students to use the program, for both term-time and summer employment if necessary.

During the past half-dozen years, more and more colleges and universities have found it necessary to build sizable student self-help expectations into their financial aid structures as a means of stretching limited scholarship funds. One of the resulting problems is that whereas the loan component of self-

help has been fairly elastic, the job component has not. Limited by job availability, appropriations, wage rates, and the hours which a student can realistically work, student earnings have not kept pace with the cost of attendance, and loans have assumed a larger and larger role. With the growing concern about student debt burdens, more attention is properly being focused on the role of work and how it can be expanded. During the course of the House Subcommittee on Postsecondary Education hearings on work-study, various proposals designed to build greater elasticity into the work component of student aid were discussed. Among these proposals were the following:

1. Modify the 80%-20% cost-sharing arrangement under CW-S by increasing the nonfederal share. Proponents point out that this would increase the leverage of federal dollars thus creating more work-study opportunities. It also would encourage educational institutions and outside nonprofit agencies to give greater consideration to the productive use of work-study employees, since the employers' stake in the program would be greater. Finally, proponents point out that many institutions are already operating the program on a 75%-25% or 70%-30% basis without employer resistance. We would argue that some modification of the 80%-20% sharing relationship may be appropriate. We would also argue that expansion of work-study opportunities will require additional federal as well as nonfederal resources and that federal appropriations for the program should more nearly meet panel-approved requests nationally. To the extent that students are willing and able to work more and borrow less to finance their educations, they should be encouraged to do so.

2. Encourage higher wage rates through disallowance of subminimum wages[8] in the CW-S program, and by raising the $3.50 per hour ceiling, which may be unfair to students with special skills. We would argue that allowing an employer to pay a subminimum wage in a program which already provides an 80% incentive is an unnecessary surfeit of subsidies. We would also point out that since the number of hours a student can work is finite, wages must rise if work-study earnings are to keep pace with inflation in costs of attendance. The only alternative is increased reliance on debt.

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8. The federal wage under the Fair Labor Standards Act was raised to $2.10 per hour on January 1, 1975, and will rise to $2.30 per hour on January 1, 1976.

3. Allow institutions to carry forward up to 10% of their CW-S allocation to the succeeding fiscal year, or overspend their current year allocation by 10% to be charged to the succeeding fiscal year. Monitoring individual student payrolls to ensure that each student earns only the alloted amount and seeing that the institutional fiscal year allotment is not exceeded are complicated procedures, and they are made even more so by the fact that the beginning of the fiscal year (July 1) comes after commitments must be made to students for summer jobs both on and off campus. Failure to estimate correctly can result in either a surplus which the institutions and students then lose, or a short-fall in which case students beginning off-campus summer jobs in June must be paid from institutional funds, or delay the beginning of work until July 1. This could become an even greater problem in 1976 when the federal fiscal year is changed to begin on October 1, or almost a month after the beginning of fall semester. We believe that giving institutions greater flexibility in administering the program in the above manner would be a worthwhile change.

4. Encourage flexibility among the college-based programs by continuing to permit transfer of funds between SEOG and CW-S,[9] and by expanding the transfer right to include NDSL. It has already been argued in the prior section that the inequities of the SEOG program can best be rectified by changing the delivery system to a national entitlement approach incorporated into BEOG. In the absence of such a development we would support an expanded transfer ability between SEOG and CW-S. We would also recommend extending the transfer right to include NDSL, although we recognize that it raises a different set of questions, namely the conversion of a federal asset (a loan) into an expense (CW-S wages), and possible deferment of the time when colleges and universities can develop true NDSL revovling funds. Nevertheless, diversion of resources into CW-S, wherever possible, would permit institutions to maximize the job component and minimize the loan component where that was in the best interest of the student.

Emphasizing work-study not only makes sense for the student, it also makes sense for institutions participating in the program. Observers have correctly pointed out that CW-S is as much an institutional aid program as it is a student aid program. Students

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9. The 1972 Education Amendments permit institutions to transfer 10% of their SEOG allotment to CW-S and vice versa.

may benefit from the CW-S wages, but colleges and universities benefit from the work which is performed - at a cost to the institution which is a fraction of its true market value. Unlike SEOG or NDSL, CW-S has a significant institutional benefit.[10] As a result, greater flexibility among the three programs should logically result in more funds being devoted to work-study. Given the benefits to the institution, and the fact that the alternative in most cases is increased student debt, this is desirable.

Recommendations

It is recommended

1. That the CW-S allotment formula be revised so that each participating institution receives the same percentage of panel-approved funding as every other, based on the ratio of federal appropriations to panel-approved requests nationally;

2. That disincentives discouraging CW-S students (and all students receiving federal assistance) from earning additional non-CW-S earnings be removed; and

3. That steps be taken to maximize the role of work-study in student aid by:

   a) possible modification of the cost-sharing arrangement,

   b) prohibition of subminimal wages,

   c) allowing greater flexibility to institutions in committing funds between fiscal years,

   d) increasing institutional flexibility in transferring funds among SEOG, NDSL, and CW-S, and

   e) funding the program more nearly in line with panel-approved requests nationally.

4. That a limit be placed on the amount of federally funded CW-S earnings a student may receive in a twelve-month period.

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10. For a comparison of the joint benefits to school and student under the three programs, see Appendix C.

PART III - LOAN PROGRAMS

GSLP AND NDSL - IN SEARCH OF SYNTHESIS

Seventeen years after the enactment of the National Defense Education Act of 1958,[1] and ten years after the enactment of the Higher Education Act of 1965,[2] there still is remarkably little consensus as to the role of student credit in postsecondary education, or what the appropriate structure of a national student loan program should be. Numerous questions remain unresolved. What is the role of loans versus grants? To what extent should a student be allowed to incur educational debts? Should student credit be rationed or not? Should loans be focused on one economic group to the exclusion of another? Should they be subsidized?

What is an acceptable cost to produce one dollar of student credit in the marketplace? What roles should the federal government, state governments, financial institutions, and educational institutions fill in a system of student loans, and should the roles be different depending upon the loan program? Should the structure which has been developed over the past seventeen years be altered?

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1. Which created the National Defense Student Loan Program (renamed the National Direct Student Loan Program in 1972). Under the NDSL program, 90 percent of the funds come from the federal government and 10 percent from the participating educational institution. Interest is forgiven during in-school and specified deferment periods and is only 3 percent during repayment, which extends over a ten-year period. Borrowers who enter certain fields may have a portion of their loans canceled.

2. Which created the Guaranteed Student Loan Program (GSLP). GSLP refers to both state and private nonprofit guarantee programs and to the Federal Insured Student Loan Program (FISL). Loans are made by financial institutions and other eligible lenders, and guaranteed against death, disability, and default by state guaranty agencies or the federal government. For students who qualify, interest under GSLP is paid by the federal government during in-school, grace, and specified deferment periods. Interest to the borrower is 7 percent during repayment, which extends over a ten-year period.

Although many of these questions have never been articulated in a formal or philosophical sense by the Congress or institutions of higher education, many have been answered in a practical sense because of the exigencies of the two loan programs. Capital has been rationed, directly or indirectly, under both NDSL and GSLP because of its limited availability. The true cost of capital has required subsidies of both borrower and lender to arrive at terms acceptable to both. The prior existence of state programs has resulted in state and federal governments playing a variety of roles depending upon inclination and circumstance. And because loans have been called upon to fill the gap between student need and the availability of traditional grant and job resources, the relationship of loans to grants, although unclear theoretically, has been very clear in practice.

As the most elastic of the student aid programs, the GSLP in particular, has had to fill this latter role. From loan commitment volume of $77 million in its first year, 1966, the GSLP grew to a volume of $1.3 billion by 1972 and has remained over $1.1 billion each year since. Through June 1975, cumulative loan commitments under the program will be an estimated $7.6 billion.[3] As a consequence of this growth, loan programs have become the predominant form of federal student assistance provided under Title IV of the Higher Education Act.

Although loan programs in general, and the GSLP in particular, have become the major form of student assistance provided by the United States Office of Education, they have also become the most troublesome. During the course of the hearings on Title IV, numerous failings were stressed, including uncertain availability of capital, unequal access to credit, accelerating costs, burgeoning default rates, and complex administration. As indicated earlier (see pages 13-17), we

3. Loan disbursements have been less. From 1968 through 1973, loan disbursements were 86% of loan commitments under the Federal Insured Student Loan program. Complete data on disbursements at the state level is not available. Overall, however, it would appear that cumulative loan disbursements under the GSLP will have totaled $6.5-$7.0 billion by June of 1975. Analysis of Student Borrower and Loan Characteristics, Federally Insured Student Loan Program (Systems Group, Inc., January, 1974), p. V-5.

believe the most foolproof way of reducing the costs and default problems of loan programs is to reduce student reliance on credit - and that requires greater funding of grant and work-study assistance. Nevertheless, there are many who believe the structure of student credit should be drastically changed as well. In the face of the failings mentioned above, there have been recurring recommendations to replace the present patchwork approach to student credit. Some suggest an all-encompassing federal solution, such as a national student loan bank with the federal government providing the capital and the Internal Revenue Service assuming the collection responsibilities. Others would suggest that responsibility for the GSLP be given largely to the states.

Whether the evolution of student credit programs will result in one such system or another remains to be seen. However, given the extensive student credit structure built since 1958 involving educational and financial institutions, state and private agencies, USOE, and most recently the Student Loan Marketing Association, it would seem appropriate to ask whether modifications in the present structure rather than erection of a new one would solve most of the problems. As will be seen, we believe this is possible. However, the solution lies not in a narrow programmatic approach to NDSL and GSLP, but in the creation of an integrated structure out of what have been separate and largely unrelated programs.

The Relationship of NDSL and GSLP

With NDSL and GSLP the federal government has not one but two general purpose loan programs, and the relationship between them is in need of resolution. The NDSL program traces its beginnings to an August 1957 "scholarship and loan" proposal before the House Special Subcommittee on Education, from which emerged a student loan program under Title II of the National Defense Education Act of 1958. Over the intervening years, NDSL has been highly subject to change. In the beginning it was designed primarily to encourage students to enter teaching. As circumstances changed, so did NDSL. It now offers special encouragement through loan cancellation only to those teaching in economically deprived areas or to those teaching the handicapped. In all there have been more than 40 amendments to the Act establishing NDSL.

Concern for the student with financial need, nevertheless, has always been a hallmark of the program. But even the meaning of need has changed. In the late 1960s, NDSL funds were targeted on low-income families. Subsequently, Congress indicated that the funds were to be made available to any student with "special financial need." Finally, in 1972 the Congress affirmed that any student would be eligible who needed the loan to pursue his or her course of study.

Thus, NDSL has evolved over the years to the point where it has become a general purpose loan program serving a student population similar to that served by the larger GSLP program. In fact, as the comparison below indicates, the two programs have evolved to the point where the main differences between them are the interest rates, the NDSL cancellation provision, and, most importantly, the different mechanisms by which capital is made available.

Comparative Terms

	NDSL	GSLP
Eligibility	Undergraduates, graduate students, in "good standing" and carrying at least one-half workload.	Same.
	Student must need loan to pursue course of study.	Same. To qualify for interest subsidy, student must prove need.[a)]
Borrowing Limits	Aggregate loan may not exceed $10,000 for graduate student, $5,000 for undergraduate who has completed two or more years toward bachelor's degree, and $2,500 for all others.	Aggregate insured unpaid principal amount may not exceed $10,000 in the case of graduate or professional student, $7,500 for undergraduate student. Loan in any one year may not exceed $2,500.
Interest Rate	None during in-school, grace and specified deferment periods, 3% thereafter.	None during in-school, grace and specified deferment periods for those who qualify for subsidy; 7% for all borrowers thereafter.

Comparative Terms

	NDSL	GSLP
Repayment	Equal installments over 10 years.[b)]	In installments over not fewer than 5 nor more than 10 years.[c)]
Minimum Annual Repayment	None, institutional lender at its option may require $360.	$360.
Cancellation	In the event of death or disability, and up to 100% for teaching in economically deprived areas, or as a teacher of handicapped, and up to 50% for service in the Armed Forces in an area of hostilities.	Death and disability.

a) Defined as cost of attendance less parental contribution and other financial aid. If adjusted family income is less than $15,000, student automatically receives interest subsidy on up to $2,000 of loan annually. For amounts above $2,000, or if adjusted family income is above $15,000, interest subsidy is available only if institution provides lender with statement showing need and recommending a loan in the amount of such need.

b) Or, if borrower so requests, "graduated periodic installments determined in accordance with such schedules as may be approved by the Commissioner of Education."

c) Existing FISL regulations permit graduated repayments; in practice, however, the Office of Guaranteed Student Loans has not allowed them.

There are those who argue that the remaining differences between the two programs are increasingly questionable and that for a number of reasons the NDSL rate and cancellation provisions should conform to the GSLP. For example, the 3% NDSL interest rate was established in 1958 at a time when the general level of interest

rates was less than half of what it is today.[4] In a period such as the present when credit resources are scarce, not only is the 3% rate costly, but there are many who believe it is an incentive for borrowers not to repay, since it is easily the lowest cost credit available to young graduates.

There are also many who believe that the benefit of the 3% interest rate is misplaced. The decision of who is to receive a 3% NDSL loan versus a 7% GSLP loan is based on a judgment of relative need made by financial aid officers at the time the student is in college. However, there is no difference in benefits to the student during the in-school, grace, or deferment periods under NDSL or GSLP, since no interest is charged during such periods under either program.[5] The difference is during the repayment period, when an NDSL borrower pays 3% interest and the GSLP borrower pays 7%. There is little or no basis, however, to assume that students with somewhat greater financial need in college will also be those with lower incomes during the repayment years.

In the case of the NDSL cancellation provision, observers point out that at a time of considerable surplus of teachers in the United States, such provisions are unnecessary and may be unwise. With the present supply of teaching talent, it seems illogical to be providing special incentives to encourage more young people to enter the field - even specialized parts of it. If teaching jobs in economically deprived areas or in the field of the handicapped provide competitive compensation, there is every reason to believe existing talent will seek them out. If compensation is inadequate, however, loan cancellation is not the answer. Even if incentives were desirable or required, there is no indication that cancellation of a portion of a recipient's loan, an incentive of at most a few thousand dollars (and more

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4. Moody's Average of 10-year Treasury bonds yielded 2.92% in 1958 and 6.51% in 1973, and ranged between 7% and 8% during 1974. Yields on highest grade corporate debt have risen from below 4% to almost 9% over the same period.

5. This obviously applies to subsidized GSLP loans. Unsubsidized GSLP loans, where the student pays interest during college, have accounted for only approximately 4% of GSLP volume.

often a lot less), is likely to affect the choice of a career.[6]

There is another reason for trying to conform the terms and provisions of the two programs. The lack of a clear relationship between NDSL and GSLP fosters proliferation of loan obligations and creates problems of debt limits, debt consolidation and repayment terms. As the study Paying for College pointed out:

> Students can now borrow under both programs and contract for a much higher debt than Congress intended. They can also obligate themselves for dual repayment schedules which bear no relationship to each other, for which no consolidation is possible, and the existence of which only aggravates the problem of defaults.[7]

Although aid received under NDSL is presently taken into account in determining need for aid under GSLP, it is possible to borrow under both programs simultaneously, and, if need is great, to have aggregate borrowings in any one year in excess of $2,500. Over an undergraduate or graduate career it is quite possible to borrow the maximum under both programs. However, with no means of consolidating the two types of loans, the borrower faces a series of separate payment obligations which when combined may far exceed what would be required if the obligation were one consolidated loan. A borrower may also have to make payments to several different collection agents and, if he or she has repayment difficulties, will need forbearance not from one lender, but from several.

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6. Since the 1972 Education Amendments, cancellation rates are as follows: for each year of teaching in an economically deprived area, as defined, or as a teacher of the handicapped: 15% - 1st and 2nd years, 20% - 3rd and 4th years, 30% for the 5th year; for service in the Armed Forces in an area of hostilities, as defined: 12½% per year up to 50% of the loan. A CEEB study for USOE indicated only 3% of NDSL borrowers said that their career choices had been affected by NDSL cancellation provisions. Statement by Dr. Peter Muirhead to the Special Subcommittee on Education, House of Representatives, April 4, 1973.

7. Paying for College (The Sloan Study Consortium, 1974), p. 70.

All this suggests that conforming the terms and conditions of the two programs has much to commend it. At such point, there would be no observable differences in the two programs to the student borrower. The main difference would be in the mechanism by which the federal government encouraged the investment of capital in student loans. The dual system of guarantee programs and direct capital appropriations would be important recognition that regardless of the level of inducements to commercial lenders, access to loans under the GSLP will vary widely based on credit conditions, lender practices and the circumstances of the borrower. As is presently the case, NDSL capital funds will be needed to both compensate for the fluctuations in private capital devoted to the GSLP and to provide some assurance of credit to those least able to obtain it on their own.

Availability of Capital

If the relationship of NDSL and the GSLP is one critical problem of the present structure, capital availability and student access to credit is a second. The federal government has approached the problem of educational loan capital in two ways: directly under NDSL through capital appropriations to educational lenders, and indirectly under the GSLP by providing a variety of inducements to encourage the lending of private capital. Each has its advantages. The former approach assures credit for those least able to obtain it on their own. It also provides educational institutions some control over the availability of credit, which is of great help in the packaging of student aid. But it is expensive, since to meet demand, sizable annual federal appropriations would be required. The guarantee approach is less costly, at least at the outset but, like any indirect mechanism, it does not always work with the predictability and precision desired. Although the federal government has gradually expanded its NDSL capital appropriations (to $329 million in 1975) and although appropriations have totaled approximately $3.2 billion from 1959 through 1975, NDSL funds have been insufficient to meet the demand for educational credit, and since 1965 the federal government has had to rely on the more elastic GSLP program to meet credit needs.

Two significant steps have been taken to induce capital into the GSLP program. The first was the introduction of the special

allowance in 1969.[8] The second was the creation in 1972 of the Student Loan Marketing Association, a private, federally sponsored corporation whose purpose is to provide a secondary market for student loans.[9] These efforts to provide a competitive yield to holders of student loans and to bring some degree of marketability to student loan paper have been helpful in keeping financial institutions in the program and maintaining loan volume at its present levels. In spite of these efforts, however, maintaining a flow of private capital into the GSLP program remains difficult for several reasons:

1. With its variable rate (7% to 10% depending upon the quarterly special allowance) and long but uncertain maturity (15 years or longer, depending upon deferments for graduate school, military service, etc.), a student loan is very different from the typical personal credit instruments with which banks normally deal - long-term mortgages secured by collateral on the one hand, and short-term (up to 36 months) secured or unsecured personal loans on the other. As a result, many banks are uncomfortable in the role of retail lender under the GSLP and remain insured lenders primarily as a community service.

2. Since the average loan size is small (approximately $1,000) and much of the information needed to make and service such loans resides with educational institutions, it is often difficult and expensive for banks to serve as retail lenders under the GSLP.

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8. Since 1969, a special interest allowance, not to exceed 3% per annum, is paid to holders of insured loans by the federal government. This variable interest allowance, over and above the basic 7% interest paid by the borrower, is established by the Secretary of Health, Education and Welfare retroactively at the end of each quarter, and is intended to encourage lender participation in the program under all kinds of credit conditions. The special allowance has ranged from a low of 3/4% to a high of 3%.

9. The Student Loan Marketing Association, or "Sallie Mae," became operational in the summer of 1973. It makes short-term warehousing loans to eligible lenders, secured by GSLP loans, and since October 1974 has been purchasing student loans outright from financial institutions.

3. During periods of strong demand for credit by the business community, the net return to lending institutions in commercial loans is far greater than in student loans. This is especially true after taking into account compensating balances and lower administrative costs on commercial loans.

The effect of these circumstances has been that the availability of GSLP loans can and does vary widely depending upon the borrower, local and national credit conditions, and, most critically, bank policy. This uncertain availability of bank loans under the GSLP has been a problem both for student borrowers and for institutions of postsecondary education. It has especially been a problem for those institutions which, for various reasons, have considerable need for student credit. One such group of institutions is higher-priced colleges and universities, usually private, with national student bodies and in many cases major emphasis upon graduate education. In order to admit and support diverse student bodies, such institutions increasingly have had to rely on loans since traditional scholarship and fellowship resources fall far short of meeting demonstrated financial need. Over the last several years, loans for such institutions have become an integral part of all undergraduate financial aid packages, and in many cases the sole or predominant form of aid for graduate students.

With loans a required part of financial aid packages, many institutions of higher education have applied for certificates of insurance under the Higher Education Act and become eligible lenders themselves, because their NDSL funds have been insufficient to meet the demand, and because bank GSLP loans have been too uncertain.[10] As a result, of the approximately 17,000-18,000 eligible lenders under the GSLP at the present time, somewhat over 200 are educational institutions, including approximately 150 institutions

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10. Under Section 423, Title IV, Part B of the Higher Education Act, the Commissioner of Education may issue certificates of insurance to a lender in a State "for insurance of all the loans made to student borrowers by a lender who satisfies the Commissioner that, by reason of the residence of such borrowers, he will not have access to any single State or nonprofit private loan insurance program which will insure substantially all of the loans he intends to make to such student borrowers." Most institutions with national student bodies meet this requirement.

of higher education and approximately 65 vocational proprietary institutions.[11]

Because they possess the requisite information to calculate need and to originate loans, institutions of higher education are in a position to carry out certain lender functions and equalize student access to loans. Nevertheless, as was pointed out in the Sloan Consortium report, Paying for College:

> Given the great diversity within the educational community in terms of experience and resources to fill such a role, ...and the spotty history of educational institutions in carrying out their lender role under the NDSL program, ...many are questioning whether the trend should be encouraged.[12]

Thus there exists the anomaly that educational institutions are encouraged as lenders under the NDSL program, but are viewed with misgivings in that role under the GSLP. With the legitimate reliance of institutions upon loans as a necessary part of student aid packages, and with the fluctuating ability and willingness of the banking system to provide credit, participation of educational institutions as lenders in a total system of student credit is essential. Some have argued that such participation should be restricted to the traditional and limited NDSL role and that growing

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11. Vocational institutions have played a larger role in loan originations than the above number would indicate. Through March 31, 1973, of the $5.8 billion of loan commitments under the GSLP (FISL and state agency) vocational institutions accounted for 11.1% of the commitment volume, institutions of higher education 1.4%, and financial and other institutions the remainder. The largest lenders under the FISL program are proprietary vocational institutions, and at various times they have accounted for almost half of all FISL loan commitment volume and almost one-quarter of total GSLP volume (FISL and state agency). See Analysis of Student Borrower and Loan Characteristics, Federally Insured Student Loan Program (Systems Group, Inc., January, 1974), Exhibit III-2.

12. Paying for College (The Sloan Study Consortium, 1974), p. 58.

student credit needs should be met primarily by providing additional incentives to the banking community to make capital available. Additional incentives, such as more precisely defining due diligence in collections and removing the ceiling on and making more predictable the special allowance, would be helpful. However, with the great diversity among educational institutions in terms of both the need for student credit and the capability to serve as effective lenders, we would argue that a more imaginative and flexible role for educational institutions is desirable. The federal government has created two avenues by which educational institutions, which either do not have sufficient capital resources of their own or choose to use them in other ways, may have access to loan capital - through NDSL appropriations and, for those institutions which meet the eligible lender requirements of the Federal Insured Student Loan Program, through the secondary marketing services of Sallie Mae. Based on a number of variables, such as need for student credit, geographic mix of the student body, size of the institution, and the lender capability and financial sophistication of the institution, one or the other avenue, <u>but not necessarily both</u>, may be appropriate. Recognizing that fact can be a key step, along with the removal of the differences in terms of NDSL and GSLP loans, in the creation of a more unified and cost-effective federal system of student credit.

During the past year Congress has made extensive inquiries into the incidence and causes of defaults under the GSLP. Judging by the experience and research to date, defaults are excessive by any standard. It also is apparent that defaults are highly concentrated among certain groups of students, certain institutions, and in certain geographic areas.[13] Based on USOE data presented at Senate hearings on defaults in September 1974, the cumulative FISL default rate at June 30, 1974 was 14.5% and was still rising.[14]

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13. For example, it is believed that over half of the defaults under the FISL program to date relate to students at well under 100 educational institutions. It is further believed that about 60% of all the institutions nationally whose students have high default rates or high cumulative default claims are located in the states of California and Texas.

14. Defined as the dollar volume of claims divided by the dollar volume of FISL loans in repayment at June 30, 1974, or that had been repaid in full. See Hearings of the Subcommittee on Education, Committee on Labor and Public Welfare, United States Senate, September 18, 1974. Also see Appendix E for a full discussion of defaults under GSLP and NDSL.

Using General Accounting Office projections, which are more pessimistic, the cumulative FISL default rate could rise to a high of 24% at some point in the future. In arriving at that figure, the GAO projected default rates of 12% for students who attended private institutions, 15% for students who attended public institutions and, most importantly, 47% for students who attended proprietary institutions. Despite these facts - that defaults are highly concentrated in certain institutions and in certain states, and that almost all loans to date have been originated by financial institutions and proprietary schools, the generally high level of default rates has resulted in the argument that all educational institutions, colleges and universities as well as proprietary institutions, should be eliminated as lenders under the FISL program.

In response to such arguments, we would point out that several important distinctions exist between institutions of higher education and proprietary schools serving as eligible lenders under FISL - in addition to the difference in default experience. Although there are under 100 proprietary institutions serving as eligible lenders, they include the largest FISL lenders, and at various times proprietary schools have accounted for almost half of all FISL loan volume and almost one quarter of total GSLP volume. The approximately 150 institutions of higher education serving as lenders have accounted for relatively little volume - about 1.4% of all loans made under the GSLP through fiscal 1973.

But there are some other important differences. Proprietary institutions typically have used the FISL program, not as part of a total program of financial aid, but as a means of financing almost the full tuition for almost all of their students, with insurance provided by the federal government. Even though proprietary schools are often corporations operating in several states, they typically serve from each of their locations, not national student bodies, but local commuting students, students who by reason of residence would have access to a single state or non-profit program except for the fact that many states refuse to insure loans to proprietary and/or home study students.

Those colleges and universities that serve as lenders, on the other hand, usually enroll national student bodies, and in many cases, they have sizable numbers of graduate students, many of whom now rely on loans because of the great reduction in federal fellowships since the late 1960s. Even if a single state agency were willing to insure loans made to all of the students of such institutions, in state and out of state, it is rare that financial institutions feel an obligation to lend to students who are not residents of the state. At these institutions student credit is an integral part of a financial aid system and loans are combined with

grants, fellowships, and work-study to meet student need. Typically these institutions have made sizable commitments of their own resources to assure equality of opportunity and to enroll students from diverse economic backgrounds. In a number of cases, colleges and universities serving as eligible lenders have also gone great lengths to backstop FISL loans with their own funds for students in need of forbearance.

We believe these differences are important, and that as part of any restructuring of FISL, they should be kept firmly in mind. New GSLP regulations have been transmitted to Congress and are scheduled to become effective early in April 1975. They address many of the problems of the GSLP. They regulate loan disbursement and collection procedures, refund policies, and record keeping. They require much more consumer information for the student. And most importantly, they establish standards to evaluate whether institutions should continue to participate in the program.[15] The regulations should correct many of the abuses in the program. Whether additional steps need to be taken, including the exclusion of groups of institutions as eligible lenders, remains to be seem. We would argue strongly that in making such determinations, Congress should keep firmly in mind the significant differences between colleges and universities and proprietary institutions as outlined above.

Cost of Federal Loan Programs

A third critical problem of the present structure is its growing cost. In its early years, the GSLP not only was highly elastic, but it initially required relatively modest federal funding. Federal appropriations for GSLP were approximately $10 million in 1966, $40 million in 1968, and $91 million in 1970, a year when GSLP loan volume was over $900 million. With growing appropriations required for interest subsidy and insurance payments, costs have grown rapidly since 1970, as is indicated on the following page.

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15. For example, the criteria under which institutions are to be judged are:
    - if more than 10 percent of m[illegible]ed GSLP loans at the institution are in default;
    - if more than 20 percent of the students at the institution withdrew during the academic year;
    - if more than 60 percent of the students at the institution are holding guaranteed loans.

    If any of these conditions exist, the Commissioner of Education can now require that they be rectified as a condition of further participation in the program.

	Fiscal Year Ended June 30					
	1970	1971	1972	1973	1974	1975 est.
	(Amounts in Millions)					
GSLP[a)]						
Interest subsidy	$ 79.8	$131.5	$171.7	$201.5	$222.0	$229.0
Special allowance	4.9	16.7	18.2	22.6	85.0	150.0
Insurance payments[b)]	6.0	14.0	31.7	57.4	92.0	201.0
Subtotal	$ 90.7	$161.2	$221.6	$281.5	$399.0	$580.0
NDSL[c)]	195.5	243.0	293.0	293.0	293.0	329.0
Total	$286.2	$405.2	$514.6	$574.5	$692.0	$909.0

a) Represents actual obligations or payments under the program.

b) Includes payments for defaults, death and disability and bankruptcy.

c) Appropriations.

The above figures do not tell the complete story. Because the number of loans outstanding continues to grow and because more loans will be moving into repayment status over the next two or three years, funds necessary for special allowance and default payments will also continue to grow.[16] As a result, GSLP obligations can be expected to rise to over $600 million in the 1976-77 period.

In the case of NDSL, the true cost is different from that shown, since appropriations for NDSL loans do create a federal asset. However, there are significant costs to the program. Based on an estimate of the Associate Commissioner of Education, in excess of $50 million will be lost to the NDSL capital pool in 1974

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16. This assumes that interest rates remain relatively high and a special allowance in the 2%-3% range continues to apply. If loan commitment volume remains on its present plateau of approximately $1.1 billion, interest subsidy payments should gradually level off in the $300 million range

because of various "teacher cancellation" provisions alone.[17] An additional unstated cost is NDSL defaults. Because defaults are defined differently under the NDSL and GSLP programs, and long past due accounts are not written off in any systematic way under NDSL, the annual cost of NDSL defaults cannot be ascertained with any degree of precision.[18] Nevertheless, it is known that $261 million (principal amount) of NDSL loans were in past-due status for at least 120 days as of June 30, 1973, out of $1.55 billion in repayment status at that time.[19] What portion could be considered truly uncollectable and a cost to the program in a twelve-month period is unknown. Even if only 10% of the $261 million were in that category, an additional $25 million or so should be added to cancellation costs.

The greatest cost of the NDSL program is unstated, but nevertheless real - the imputed cost of capital. From 1959 through 1974, federal capital appropriations to NDSL loan funds have totaled $2.9 billion. (Fiscal 1975's appropriation will be made available to colleges for lending in the 1975-76 academic year.) Even after cancellations and defaults, the federal government's interest in NDSL student loan receivables probably totals $2.5 billion at the present time. The return on this asset is minimal - 0 percent during school, grace, and specified deferment periods and 3 percent during repayment. With interest costs on long-term (10-15 years) Treasury bonds amounting to 7% or more, the true capital cost of the $2.5 billion invested in the program is probably in excess of $150 million annually, to which must be added $75 to $100 million or more due to cancellations and defaults.

If we take into account the erosion of capital because of death, disability, cancellation, and default, the considerable administrative costs at all levels in the delivery, servicing, and collection of student loans, and the cost of capital under both programs, it is obvious that the true costs of federal student

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17. Statement by Dr. John D. Phillips to the Special Subcommittee on Education, Committee on Education and Labor, U.S. House of Representatives, May 28, 1974.

18. For a discussion of defaults under GSLP and NDSL, see Appendix E.

19. Statement by Phillips.

credit programs are substantial.[20] The one bright spot in this otherwise sobering picture is that the Federal government has a significant and under-utilized student assistance asset - approximately $2.5 billion of NDSL loans receivable. As part of any restructuring of federal loan programs, more productive use of that asset would appear to be an imperative in the period ahead and a key part of a necessary effort to improve the cost effectiveness of federal loan programs.

The Ability to Repay

A fourth key problem area of the present structure is the question of the ability of borrowers to repay. Not surprisingly, during this period when Congress and the Office of Education have focused on the willingness of student borrowers to repay, little attention has been given to the parallel question of ability to repay. Yet with student debt burdens rising (and unemployment rising as well) and with women, who still in many cases have different career patterns from men, comprising approximately one-third of the borrowers under FISL and 40% of the borrowers under

20. The true cost of GSLP and NDSL loans can be calculated with some precision. In the case of a grant, the federal government incurs a one-time cost which can be easily measured and which, ideally, has nominal administrative expenses involved. In the case of a loan, the government incurs a stream of costs of various kinds, such as interest, special allowance, and insurance payments, which extend as far as 20 years into the future. By making various assumptions as to in-school and deferment periods and the magnitude and timing of defaults, and then discounting those future payments to arrive at their net present value, it is possible to determine the cost of GSLP and NDSL loans under various circumstances.

    What such an analysis indicates is that loans are expensive. Depending primarily upon the length of time before repayment, the present value cost to the government of making a loan can range from 45% to 70%, or higher for extremely long deferment periods, of the amount of an equivalent grant. This would suggest that the cost benefits to the government of loans versus grants are surprisingly small over time.

the state guarantee agency programs, numerous institutions have found it necessary to focus on the ability to repay and steps that can be taken to facilitate repayment.

The ability to repay is a function of both the size of the debt and the repayment requirements in relation to the borrower's income over the term of the loan. It already has been suggested that conforming the terms of and creating sensible combined debt limits under NDSL and GSLP would help to control debt burdens. Giving lenders some limited but well-aimed flexibility in repayment terms would also be helpful.

To date, both the GSLP and NDSL have used a level repayment note with a ten-year maturity regardless of the amount of debt or the prospective career of the borrower. This consistency exists in spite of the fact that graduated repayments are specifically authorized under the NDSL legislation and provided for in GSLP regulations.[21] (The GSLP legislation is silent on the subject.)

In the first several years of the GSLP, USOE's adherence to an equal installment, ten-year repayment structure has probably presented problems to few borrowers, and for several reasons. Through 1973, 60% of student borrowers under FISL incurred only one loan, and 81% incurred a maximum of two. Only 5% of the borrowers found it necessary to incur four loans, and the average cumulative debt for such borrowers was approximately $3,600.[22] The largest single cumulative loan outstanding under FISL at March 31, 1973, was approximately $5,300. During this period, however, loan amounts grew rapidly. Individual loans of over $1,000 grew from 5% of the number of FISL loans in 1968 to 43% in 1973.

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21. "All monthly or yearly payments need not be in equal installments. It is acceptable to establish a repayment schedule utilizing escalating payments, in order to anticipate fluctuations in the borrower's income." Manual for Lenders, Federal Insured Student Loan Program, USOE III,H,7. The new "proposed Requirements and Standards" for the GSLP, however, refer to "equal periodic installments," which would suggest that USOE may be planning to eliminate this possible option. As a matter of practice, graduated GSLP repayments have not been allowed by USOE.

22. See Analysis of Student Borrower and Loan Characteristics, FISL Program (Systems Group, Inc.), Chapter VII.

In the latter year, loans of over $1,000 accounted for 59% of the dollar volume of disbursements under the program.

There has been particular concern about the relationship of debt burdens to repayment requirements at higher-priced private colleges and universities. Because of high tuitions and sizable self-help requirements, the need for loans at such institutions is large and growing. In the absence of sufficient grant and work-study resources, it is increasingly common for students to incur debts of $4,000 or more over the course of four undergraduate years. Moreover, at many such institutions, including those which are members of the Consortium on Financing Higher Education, approximately two thirds to three quarters of each graduating class pursue graduate education, further adding to individual debt burdens. Since the 1972 Education Amendments increased GSLP debt limits from $1,500 to $2,500 per year and to as much as $10,000 total in the case of graduate or professional students, it was obviously the intention of Congress that students be able to participate in the program throughout several years of undergraduate and graduate training. What is not clear is whether Congress intended that such students, with many thousands of dollars of debt, should be expected to adhere to a repayment schedule more appropriate for the great majority of students who incur only one or two loans and modest total debt.

Numerous institutions have gone great lengths to ease the repayment burden of their student borrowers, one notable example among several being Yale University's unique private program, the Tuition Postponement Option. Other institutions, including Harvard, Northwestern and M.I.T., have attempted to provide greater repayment flexibility for their borrowers under the Federal Insured Student Loan Program - usually by converting a level GSLP repayment obligation into a graduated repayment obligation using the institution's own funds. Thus, at considerable cost and some administrative difficulty, certain institutions on their own have attempted to provide a degree of repayment flexibility for those individuals with sizable debt burdens. While we believe such private institutional efforts should be encouraged, we believe even more strongly that somewhat more flexible repayment options should be more generally available. At present, a few universities have been willing to refinance, and thus backstop, FISL loans because of the absence under the GSLP of a graduated repayment option for borrowers with large debts. As outlined in the recommendations that follow, it would be far preferable to allow lenders the option of writing a specific graduated repayment note, or a longer-term level repayment note, for borrowers with large debts and thereby recognize the need to conform repayment schedules more closely to income growth for those most dependent upon educational credit.

Recommendations

1. To create a more unified and cost-effective federal loan structure, it is recommended that Congress bring the NDSL and GSLP programs into closer alignment, and make more productive use of the NDSL asset, by

- increasing the NDSL interest rate from 3% to 7%;
- eliminating all NDSL cancellation provisions except for death and disability;
- conforming the repayment, grace, deferment, and forbearance provisions of the two programs;
- encouraging the prepayment of outstanding NDSL receivables by authorizing NDSL lenders to discount outstanding 3% loans based on a 7% interest rate and the remaining years to maturity.[23]

2. To ensure an adequate flow of capital into student loans, it is recommended that Congress maintain the present dual system of loan guarantees under GSLP and direct capital appropriations to institutional lenders under NDSL. To encourage the continued participation of financial institutions in the GSLP, it is recommended

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23. This would simply recognize the inherent discount in outstanding 3% NDSL loans at 7% interest rates and the fact that it should make no difference to the NDSL lender whether the borrower pays a discounted amount now, which can be reloaned at 7%, or pays the full principal amount at 3% interest over the original life of the loan. Potentially, this would increase available loan funds, decrease default exposure, save collection costs, and possibly revive presently delinquent accounts. For a 3% loan with ten years to maturity, the discount would be approximately $160 per $1,000. It would be less for shorter maturities.

- that the present in-school interest subsidy system be maintained;[24]

- that the special allowance provision be amended so that it is no longer discretionary or limited by law to 3%, but tied to appropriate prevailing market interest rates;[25]

- that the House Banking and Currency Committee and the Senate Banking, Housing and Urban Affairs Committee be requested to study various proposals to attract long-term private capital to the GSLP, most particularly recommendations to permit the creation of student loan backed securities which can be sold to private investors who are not now willing to invest directly in student loans.

3. To resolve the role of educational institutions as lenders, it is recommended that Congress affirm its support for institutions serving as lenders - either under NDSL or, assuming that certain conditions are met, under the GSLP. The conditions which we believe should apply for an educational institution to serve as an eligible lender under the GSLP are:

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24. On numerous occasions banking representatives have made it clear that if they are required to bill students for interest during the in-school period, when the student has no income, or they are required to accrue the interest, they will withdraw their support from the program. In the former case, lenders and the federal government would be placed in the difficult position, if a student became delinquent or defaulted, of having to decide whether or not to continue to extend the student credit to continue his or her education. In the latter case, the ultimate payment burden of the borrower would increase with a possible adverse effect upon both the default rate and the federal government's insurance exposure.

25. A possible formula, which has been recommended by one banking institution, is that the total GSLP rate for any quarter shall be between 190 and 220 basis points (1.9%-2.2%) above the prior quarter's average of the market yields on five-year Treasury bonds, with the rate announced at the beginning of the new quarter.

- that the institution meet the requirements of Section 423 (b) (2) of Title IV, Part B, of the Higher Education Act, but that Section 423 (b) (2) be amended to read:

  "The Commissioner may issue certificates of insurance to a lender in a State for insurance of all of the loans made to student borrowers by a lender who satisfies the Commissioner that,

  a) by reason of the residence of such borrowers, such lender will not have access to any single State or non-profit private loan insurance program which will insure substantially all of the loans the lender intends to make to such student borrowers," or
  b) *by reason of the residence of such borrowers, other eligible lenders insured by a single insurance program will not lend to substantially all of such borrowers.*[26]

- that the institution have at least 1,000 students;

- that it have at least one full-time financial aid officer;

- that in the judgment of the Commissioner, the institution be able to meet satisfactorily the specific collection and servicing standards set forth in the GSLP regulations, or alternatively, that the institution have contracted for equivalent services with an outside organization.

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26. Proposed amendment in italics. Under the present language, an institution with a national student body might be precluded from serving as an eligible lender under FISL if the guarantee agency in the state chose to insure the loans of all students of the institution, whether in-state residents or not. In that circumstance, the institution would either have to rely on other eligible lenders in the state to provide loan funds, even though financial institutions typically lend only to in-state students, or to seek lender status under the state program, a status few, if any, states would allow given their past opposition to educational institutions serving as lenders.

4. It is further recommended that institutions of higher education that meet the requirements of eligible lender under FISL be assured access to student loan capital by

- having full use of the services of the Student Loan Marketing Association, including the unencumbered right to sell student loans to Sallie Mae at a discount.[27]

5. It is recommended that educational institutions serving as eligible lenders, and having access to capital as described in 4 above, be precluded from receiving further capital appropriations under Part E of the Higher Education Act (NDSL), but that they be allowed to use their existing NDSL capital pools as working capital for FISL loans.

(The effect of recommendations 4 and 5 would be to recognize the legitimate need of a finite number of educational institutions with national student bodies and in many cases major emphasis upon graduate education for greater access to loan capital than can be provided under NDSL. It would also mean that if this distinction were recognized and made, such institutions would not need to place further demands upon limited NDSL capital appropriations, with the potential of significant savings to the federal government.)

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27. At present, educational institutions serving as eligible lenders can avail themselves of the short-term warehousing loan program of Sallie Mae. However, present GSLP regulations state that "educational institutions which act as lenders may only sell or otherwise transfer notes at their par value, except where the Office of Education determines that emergency circumstances justify waiving this rule." In effect this precludes educational institutions from participating in the purchase program of Sallie Mae since, as a condition of purchase, Sallie Mae insists upon assuming responsibility for servicing the loan and therefore must purchase the loan at a discount to cover such costs. Thus USOE is not only causing educational lenders under FISL to borrow short from Sallie Mae to lend long to students, but is also precluding educational institutions from transferring, as an adjunct to sale, the servicing responsibility to Sallie Mae, an organization generally acknowledged to have the highest collection standards in the student loan field.

6. To regulate debt burdens more carefully under the two programs, it is recommended

- that combined borrowing limits be established for the two programs along the following lines:[28]

First year of postsecondary study	$1,500 per academic year
Second, third, and fourth years of post-secondary study	$2,000 per academic year
Aggregate unpaid principal amount shall not at any time exceed:	
- for undergraduate study	$7,500
- for undergraduate and graduate study combined	$15,000

- that in recognition of the ability and desire of many students to accelerate their educations by attending a full twelve months per year, that the above academic year borrowing limits be considered nine-month limits which can be increased by one third for students on a twelve-month schedule. However, the cumulative totals would still apply.

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28. These limits are actually less than the sum of the two separate limits under the present programs, which, for example permit up to $12,500 in undergraduate debt ($5,000 - NDSL and $7,500 - GSLP) and $20,000 in undergraduate and graduate debt combined ($10,000 - NDSL and $10,000 - GSLP). Because of the direct correlation between dropouts and default, and for reasons of the age of most first-time borrowers, we believe that borrowing levels in the first year of postsecondary education should be less than for returning undergraduates and graduate students.

- that, where the Commissioner determines, pursuant o regulations as may be prescribed by him, higher annual amounts may be allowed

  a) with respect to students engaged in specialized training requiring exceptionally high costs of education, and

  b) in such other circumstances as the Commissioner may determine as appropriate, including as necessary to reflect inflation.

7. To enhance the ability and willingness of borrowers to repay, it is recommended

- that clear, rigorous and common definitions of due diligence in collections be established for the NDSL and GSLP programs;

- that educational debt of all kinds be exempted from discharge in bankruptcy proceedings during in-school, grace, and authorized deferment periods and for a minimum of five years upon commencement of repayment;

- that debt consolidation be facilitated and encouraged through several steps, namely

  a) by authorizing NDSL lenders to consolidate, for those presently in school, existing 3% NDSL loans and proposed 7% NDSL loans into a single 7% note by discounting the 3% note to a 7% rate to maturity,

  b) by authorizing NDSL and GSLP lenders, at their option, to issue 7% consolidation notes to consolidate both NDSL and GSLP obligations with the proviso that prior existing 7% obligations be repaid at the outstanding principal balance plus accrued interest and that prior existing 3% NDSL obligations be repaid at the discount

price to yield 7% to maturity plus accrued interest,[29]

c) by amending Sallie Mae's charter to permit the Association, at its option, to purchase NDSL notes on the above basis, but only in conjunction with the purchase of GSLP notes of the same borrower, and upon receipt of federal insurance coverage and special allowance benefits on the NDSL loan to be purchased.

- that where debt levels under either program, or both programs combined (if borrowing has taken place under both) are high ($4,000 and above), NDSL and GSLP lenders be given the option of issuing a ten-year graduated or fifteen-year level repayment note for all or part of the obligation with specific repayment schedules approved by USOE which are also acceptable to Sallie Mae.[30]

- that as a means of developing more useful delinquency and default data on NDSL, and in order to make it comparable to GSLP data, NDSL lenders be required to maintain data on the age of their NDSL receivables, and that when new and more rigorous due-diligence

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29. This would permit educational institutions which have been both NDSL and FISL lenders to create one FISL note and one repayment schedule for students who have borrowed under both programs from the institution or outside lenders. Where an institution was solely an NDSL lender, it is doubtful, other than in exceptional circumstances, that it would choose to use its NDSL capital to consolidate a student's outside GSLP obligations. However, the option should exist.

30. Ideally, a lender would be able to issue a single consolidated note for all of the borrower's debt. However, where the borrowings have occurred at two or more institutions and consolidation is difficult, a lender, in recognition of the size of the total debt, should have the option of issuing a ten-year graduated repayment or fifteen-year level repayment note on that portion for which the lender is the obligee.

requirements have been met, receivables past due for a considerable length of time (perhaps one year) be segregated and written off, at which point they would be transferred to and become the property of USOE.

8. It is recommended that the present, complex NDSL allotment formula [31] be revised so that each participating institution in the nation receives the same percentage of panel-approved funding as every other, based on the ratio of federal appropriations to panel-approved requests nationally. Since need is a function of the economic mix of students in relation to the price structure of postsecondary institutions within each state and not enrollments per se, the panel-approved requests are the best indication of that need and should be the determinant of funding. This change is particularly needed if the dual approach to educational institutions as lenders presented herein is adopted with a number of present NDSL/FISL lenders choosing to obtain loan capital in the future solely through the services of Sallie Mae. Otherwise, any NDSL capital available for redistribution would benefit the remaining NDSL lenders in a given state in an unintended way.

9. Finally, in recognition of the critical role that state guarantee agencies play under the GSLP, and the close working relationship many maintain with financial institutions within their states, it is recommended that state guarantee programs be encouraged in fact as well as by statute, by removing certain of the differences between the state agency and FISL programs. Specifically, it is recommended that the federal government, through reinsurance, assume 100% of the insurance risk on both principal and accrued interest under the state programs, as it does under FISL, and as would be the case if a state chose to terminate its own program and request implementation of the FISL program. However, to maintain the present incentive for

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31. Under the present formula, 90% of the federal funds available are allotted among the states in such a manner that each state's proportionate share of the amount so allotted is equal to its proportionate share of the national full-time enrollment in institutions of postsecondary education. The remaining 10% is first used to raise each state to at least the level of its original allotment, prior to reallotment, for fiscal year 1972, if its allotment from the 90% portion is less than that level.

states to manage their programs so as to minimize defaults, it is further recommended that in any fiscal year in which reinsurance payments to a state for death, disability and default exceed 5% of the average principal amount of loans insured by the state guarantee agency and reinsured by USOE which are in repayment status during such year, the payments in excess of the 5% rate should be shared by the state agency and USOE equally.[32]

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The effect of the above proposals would be to create a unified and more cost effective general purpose loan program for postsecondary education. Although it is beyond the scope of this paper on Title IV of the Higher Education Act, the proposed structure is one which, in all likelihood, would also permit the ultimate inclusion of the Health Professions Student Loan Program (HPSL). Most of the lenders under the HPSL are the same institutions which also serve as eligible lenders under the FISL program and which we recommend should have access to capital through Sallie Mae. Although it would require careful analysis, this overlap suggests that inclusion of the HPSL might produce further significant savings in federal appropriations for loan capital. It happily also raises the possibility that those institutions presently serving as lenders under three programs - FISL, NDSL and HPSL, in the future might only have to administer one.

The proposals we have made are based on the existing student credit structure. Many believe, however, that the present structure should not just be modified, as we suggest, but altered fundamentally, either through the creation of a federal student loan bank or alternatively, by transferring responsibility for student loans to the states. A few comments about such suggestions are appropriate.

Unlike grant programs, where a new one entirely replaces the old, existing loan programs must continue to be administered according to their terms and provisions until the last loan is paid, even

32. This would not only be fair to the states, and still provide them with operational incentives, but would also as a by-product generate some reliable default information on state programs, information which is largely unavailable.

though a new loan program has been introduced. For this reason, we believe that changes in loan programs should be made deliberately and carefully since their terms and provisions remain in effect for a long time.

In the event that Congress undertakes more fundamental changes in the system of student credit, we do not believe that the transfer of responsibility to the states is the appropriate answer. It is true that such a step would gradually reduce the administrative responsibilities of USOE. It is also true, as has been proven in Pennsylvania and New York, that state guarantee agency programs can be effective if the requisite resources and leadership are devoted to the task. Nevertheless, it also should be pointed out that even if all the states and territories were willing to assume this responsibility, which is doubtful, the most likely result would be a proliferation of state programs of widely differing quality with a myriad of student credit instruments. Transfer of the GSLP to the states would eliminate the possibility of establishing a clearly understood national student credit instrument which could be consolidated regardless of the state in which it is issued. A state solution would also frustrate Sallie Mae's efforts, and any future private efforts, to create a secondary market for student loans in the United States.

A second approach recommended over the years is a federal student loan bank with a single national collection capability under the auspices of the Internal Revenue Service. Proponents of this approach argue that under the present program the federal government encourages the private sector to perform functions, such as raising capital and collecting payments, which the federal government can do more effectively and at less expense itself. Advocates also point out that with repayment incorporated into the federal tax collection system, it would be possible to relate repayment terms to income.

A solution which requires complete federal responsibility for both capital availability and collections appears enticing when compared to either the known problems of the existing GSLP or the potential confusion of fifty different state programs. Nevertheless, we remain divided ourselves that an exclusively federal solution is desirable or is likely to be without problems.

PART IV - COMMENTARY

Goals and Priorities

This report is somewhat unusual. It is the collaborative effort of a small group of institutions; yet it speaks to the needs of all postsecondary education. It proposes a financial aid structure which in large measure would accomplish the goals of access and choice in postsecondary education; yet it is realistic in its demands on public revenues. It is a detailed report; yet its overriding concern has been the structure and architecture of financial aid.

To the extent that we have been successful in the accomplishment of our goals, in large part it is because we have been willing to make recommendations for relinquishing and reducing benefits under existing law in order that those resources can be devoted to better and more effective use. In this last respect the report is most unique.

Among the changes in practices and provisions we propose in order to devote resources to higher priorities are:

- increasing the NDSL interest rate from 3% to 7%;
- elimination of the NDSL loan cancellation provisions;
- establishment of higher standards for lenders and borrowers under both the GSLP and NDSL loan programs;
- elimination of NDSL capital appropriations for certain institutions that are also FISL lenders; and
- increasing the employer share of the College-Work Study program.

As a group of private institutions, we recommend the elimination of the one-half cost of attendance limitation under the BEOG program, a change which would particularly benefit students attending low-priced public institutions. As participants in the present campus-based SEOG program, we recommend that it be made a more equitable national entitlement program. Under both the BEOG

and SEOG programs, we recommend a significant self-help expectation of students receiving federal grant funds.

We have not recommended the elimination or reduction of certain benefits because we value them lightly, but because we believe there are higher priority uses for these resources. In certain cases, our proposals, of necessity, must be considered conditional. For example, we suggest the elimination of NDSL capital appropriations to those institutions that are also FISL lenders, but only if such institutions are allowed full use of the services of Sallie Mae. Those who take a more narrow programmatic view of Title IV hopefully will recognize these and other critical interrelationships. To ignore them would be to perpetuate a patchwork approach to federal student assistance.

With a few important but easily accomplished changes, we propose to transform BEOG into a clearly focused national access program. Using existing components, we propose to transform the GSLP and NDSL programs into a single, rational, and cost-effective loan program, which might also encompass HPSL. We propose to convert SEOG into a far more equitable tuition-related program, which over time and with the answers to some difficult questions could, together with SSIG, become the basis of a rational federal/ state partnership in tuition-related assistance. And in all these efforts, we have consciously tried to relate grants, work, and loans, to the extent that we have built a significant degree of student self-help responsibility into our BEOG and SEOG recommendations. Above all, out of a patchwork of poorly related programs, we have tried to create a structure for Title IV that is both sound and durable.

To propose a theoretical structure is one thing, but to do so within a realistic fiscal framework is another. As the discussion which follows makes clear, cost has been a foremost consideration in the development of our recommendations.

A Discussion of Costs

With the help of the Washington office of the College Entrance Examination Board, cost estimates for the BEOG and SEOG proposals have been developed. BEOG estimates, showing the effect of certain variables, are presented below.[1] The estimates are based on data for the 1974-75 academic year and assume full funding of the program for all four classes of full-time students. The assumed minimum grant is $200. According to the CEEB, the inclusion of part-time students, who are eligible for BEOG, would increase program costs by an estimated 8%.

Basic Grant Cost Estimates at Full Funding
(Assumes 80% participation rate)

	Present BEOG Program	Alternative Examples	
Maximum grant	$1,400, with half-cost limitation	$1,400, no half cost	$1,600 no half cost[2]
Estimated cost at full funding (billions)	$1.35	$1.50	$1.86
# Recipients (millions)	1.57	1.57	1.77
Est. average grant	$859	$959	$1,050

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1. The CEEB estimates are based on USOE data on students enrolled in the 1974-75 academic year. The student enrollment data is broken down by institutional type, by cost of attendance, and by family income of matriculants. Using the BEOG eligibility index for 1974-75 and relating it to the enrollment data, it is possible to estimate total program costs, number of recipients, average grant, and the distribution of dollars and recipients by family income and type of institution attended.

2. The alternative proposed in this report.

Of great importance, the above estimates assume an 80% participation rate,[3] which is considerably higher than the approximately 51% participation rate under the BEOG program during the 1973-74 and 1974-75 academic years. It is also higher than the 56% participation rate on which next year's USOE payment schedule is based, and the 70% participation rate on which the Administration's budget estimate is based, assuming full funding of the program, for the fiscal year beginning July 1, 1976. At participation rates lower than 80%, the estimated cost of the BEOG proposal would be as follows:

	Maximum Grant of $1,600, No Half-Cost Limitation[4]			
Participation rate	50%	60%	70%	80%
Est. cost at full funding (billions)	$1.16	$1.40	$1.63	$1.86
# Recipients (millions)	1.11	1.33	1.55	1.77
Est. average grant	$1,050	$1,050	$1,050	$1,050

Estimates of the cost of the proposed SEOG program, again showing the effect of certain variables, are also shown. The alternative proposed in this paper is underlined.

BEOG Ceiling	Gap Before Applying SEOG	Est. SEOG Program Costs (000,000)	# Recipients (000)	Average Grant
$1,400	$1,000	$367	671	$547
	1,200	298	646	462
	1,500	184	380	486
<u>$1,600</u>	<u>$1,000</u>	<u>$319</u>	<u>671</u>	<u>$475</u>
	1,200	229	646	354
	1,500	155	380	409

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3. The participation rate is that percentage of the number of enrolled students nationally who are theoretically eligible for a BEOG award and who apply for and receive assistance under the program.

4. The alternative proposed in this report.

As can be seen, the SEOG program costs vary inversely with the BEOG ceiling. Using a $1,000 gap before applying SEOG,[4] as the BEOG ceiling rises from $1,400 to $1,600, estimated SEOG program costs drop from $367 million to $319 million. Raising the gap has the obvious effect of reducing program costs; each SEOG recipient's award is reduced by $50 for every $100 increase in the gap. With a BEOG ceiling of $1,600, increasing the gap from $1,000 to $1,500 cuts the estimated SEOG program costs from $319 million to $155 million.

Again, it should be pointed out that these SEOG estimates are based on 80% participation rates. To the extent that SEOG participation rates mirror the lower rates experienced under the BEOG program during the past two years, program costs would be less. At the 80% participation rate, the formula proposed in this report would produce an estimated 671,000 awards averaging $475 for a total cost of $319 million, compared to a cost of $240 million for fiscal 1975 under the present SEOG program. Whereas students attending public institutions would receive approximately three quarters of the dollars under the proposed BEOG program, students attending private institutions would receive approximately three quarters of the dollars under the proposed SEOG program.[5] Whereas the BEOG proposal would concentrate basic grant funds on students from families with incomes under $10,000, the SEOG proposal would help students from both lower- and middle-income families who attend moderate and higher-tuition institutions.[6]

Presented in the table below are estimates of the cost of key Title IV programs based on the present law and based on the recommendations proposed herein. The fiscal year used in the comparison is that beginning October 1, 1976, on the assumption that if a new Title IV were enacted during calendar 1975, that the first fiscal year it would affect from an appropriations standpoint would be the new federal fiscal year 10/1/76 to 9/30/77. The

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4. Which can be filled by student self-help, state, or institutional resources.

5. For a distribution of both BEOG and SEOG awards by family income and by type of institution, see Appendix F.

6. For examples of specific BEOG and SEOG awards at various income levels and various tuition levels, see Appendix D.

participation rate used in the comparison for both BEOG and SEOG is 70%, which we assume would be a realistic attainment by that time.

Cost Comparison - Key Title IV Programs
(Millions)

	FY 1977 (10/1/76 - 9/30/77)	
Program	Present Law	As Proposed
BEOG[a]	$1,181	$1,630
SEOG[a]	(	280
CW-S	(900[b]	360
NDSL	(	200
SSIG[c]	70	70
Total	$2,151[d]	$2,540
Difference		$389

a) Assumes 70% participation rate and grants to four classes of students.

b) In fiscal 1975, appropriations under the SEOG, CW-S, and NDSL programs, excluding the CW-S add-on, are $861 million. The $900 million figure is a conservative estimate of the cost of the three programs in FY 1977 assuming no change in the present law.

c) In both cases, assumes a gradual increase in SSIG funding.

d) This total differs from fiscal 1975 appropriations for the same five programs ($1,541 million) primarily because the fiscal 1975 BEOG appropriation of $660 million is designed to provide grants to only three undergraduate classes, after ratable reductions in awards.

As the table indicates, the overall increase of $389 million is accounted for by increased funding of BEOG. The $200 million estimate for NDSL represents a $121 million reduction from the FY 1975 NDSL appropriation of $321 million and is based on the assumption that educational institutions which fulfill the FISL lender requirements will be given access to loan capital through Sallie Mae, in lieu of NDSL appropriations.

The proposals regarding loan programs are designed, however, to produce savings over and above those shown. Although changing the NDSL interest rate from 3% to 7% would only produce savings over time, based on the present NDSL lending level of almost $500 million annually, from both repayments and new appropriations, the interest rate change could produce interest savings approaching $100 million annually by the early 1980s, savings which should significantly reduce the need for new capital. Elimination of NDSL cancellation provisions also would produce substantial savings, but again over time.

The greatest potential savings from the proposals arise for other reasons. The above table does not reflect outlays for the GSLP, which are estimated at approximately $580 million in fiscal 1975, about two thirds of which are for interest payments and one third for insurance payments. We firmly believe that higher performance requirements of lenders and borrowers as a result of the due diligence, bankruptcy, consolidation and loan limit recommendations, as well as more rigorous federal regulations, can have a significant impact upon defaults and delinquency under both the GSLP and NDSL programs.

Of equal importance, greater funding of grant and work-study assistance, as we have proposed, should reduce the reliance on student credit, and borrowing should be less than otherwise would be the case. As the increase in GSLP obligations since 1970 from $91 million to $580 million indicates, credit is an expensive form of student aid. Our own studies indicate that the net present value cost of making a loan to a student can equal half to three quarters of the amount of an equivalent grant. All of this suggests that the savings in interest and default payments by greater emphasis upon grants and work-study could be substantial, and over time could largely offset the increased appropriations required to fund the BEOG program.

These savings obviously relate to the Title IV programs themselves. On the basis of the potential savings in loan programs, and the importance of creating a more rational student aid structure, we firmly believe that enactment of the grant proposals can be justified on their own merits. However, it may also be helpful to place the funding of these proposals in a larger perspective.

The largest student aid program, in terms of funding, is not part of Title IV. It is, of course, the program of educational

benefits for veterans, better known as the GI Bill.[7] In a fundamental sense, the GI Bill is not an aid program, but an entitlement in return for United States military service. Nevertheless, veterans benefits are also the single largest student aid program, and no discussion of student assistance would be complete without reference to the GI Bill. The table below presents projected benefit outlays for veterans in postsecondary education over the next several years. The projections are those of the Department of Veterans Benefits of the Veterans Administration as of late February 1975.

Projected Benefit Outlays for
Veterans Postsecondary Education
(000,000)

Outlays	1975	1976	7/1/76 to 9/30/76a)	1977	1978	1979	1980
For College	$3,049	$3,101	$592	$2,540	$2,390	$2,246	$2,115
For Adult Education	687	699	133	572	539	506	477
TOTAL	$3,736	$3,800	$725	$3,112	$2,929	$2,752	$2,592
Change from peak year				($688)	($871)	($1,048)	($1,208)

a) Transition period from present June 30 federal fiscal year to the new September 30 fiscal year beginning in FY 1977.

As the table indicates, benefit outlays are peaking during the 1975-76 period, and by the 1977 fiscal year will be approximately $700 million below the peak level. Benefit obligations will continue to decrease through the remainder of the decade and beyond.

The above projections are based on the present legislation. If, as has been proposed, changes were enacted either to make benefits unavailable to those entering the service after a given date, or to change the present delimiting period for use of benefits

7. The second largest program is educational benefits under Social Security, outlays for which are expected to total approximately $850 million in fiscal 1975.

from ten years to eight years, outlays would drop even faster than shown. In fact, if both changes were enacted, outlays could drop to approximately $2.7 billion by 1977 and $1.6 billion by 1980. All this suggests that the Title IV proposals should not be viewed in isolation. The earliest fiscal year in which 1975 Title IV amendments are likely to affect federal appropriations is the new fiscal 1977, a year when GI Bill benefits are expected to be almost $700 million below present levels using the most conservative assumptions. Given this trend in GI Bill outlays, even with the enactment of the Title IV recommendations presented herein, the overall pattern of federal student assistance outlays would be marked by relative stability through the remainder of this decade.

It is well known that beyond 1980 the number of Americans age 18 to 21, the traditional college-going age group, begins a long and substantial decline continuing until at least 1993. Although matriculation patterns are based on more than demographics, and although the need for federal student assistance is a function of numerous variables, nevertheless, it is possible that, in constant dollars, overall requirements for federal student assistance will be less demanding in the future than they are at present or have been in the recent past.

In the past, the cost of a rational student assistance structure has always seemed beyond reach and, as a result, we have settled for a patchwork of partially funded programs. In view of the trends outlined above, we believe a rational structure is within reach if we have the perception to grasp it: The occasion of the 1975 amendments to the Higher Education Act provides that opportunity, and we hope these proposals provide the means to seize it.

The various proposals we have presented are fundamentally conservative. They build on existing structures; they attempt to conserve resources wherever possible. They are also rooted in the firm belief that, unlike most transfer payments within the society, public expenditures for well-designed financial aid programs are not simply a form of publicly sponsored current consumption, but one of the most necessary and productive long-term investments a society can make.

APPENDIX A

Percentage of Panel Approved Requests Allocated to Each State in Each of the Three Campus-Based Student Aid Programs - 1973-74 [a)]

State	SEOG	CWS	NDSL
Alabama	42.6%	47.0%	36.0%
Alaska	42.6	45.2	31.2
Arizona	53.0	68.5	50.5
Arkansas	45.1	69.0	100.0
California	43.5	45.2	44.1
Colorado	43.7	45.2	45.7
Connecticut	62.2	67.4	50.5
Delaware	54.8	74.1	63.2
District of Columbia	42.6	45.2	41.9
Florida	53.9	72.1	63.1
Georgia	42.6	74.0	57.8
Hawaii	100.0	73.3	100.0
Idaho	61.1	47.5	99.3
Illinois	42.6	45.2	48.4
Indiana	42.6	68.3	39.4
Iowa	42.6	56.8	40.0
Kansas	50.6	57.7	69.4
Kentucky	44.3	72.4	71.0
Louisiana	42.6	67.9	73.7
Maine	42.6	45.2	18.1
Maryland	47.0	65.9	51.4
Massachusetts	42.8	45.2	34.5
Michigan	42.6	46.5	49.9
Minnesota	42.6	45.2	37.5
Mississippi	42.6	55.8	57.9
Missouri	52.2	57.9	65.7
Montana	44.4	45.2	91.8
Nebraska	50.2	65.9	88.2
Nevada	54.6	45.2	56.8
New Hampshire	42.6	45.2	23.1
New Jersey	48.1	67.0	56.5
New Mexico	42.6	53.3	52.6
New York	42.6	50.9	42.8
North Carolina	42.6	61.6	61.2
North Dakota	42.6	45.2	33.5
Ohio	42.6	63.5	50.5
Oklahoma	42.7	49.6	61.4

APPENDIX A
(Continued)

State	SEOG	CWS	NDSL
Oregon	43.8%	45.2%	43.8%
Pennsylvania	53.7	71.1	62.0
Rhode Island	42.9	45.2	30.4
South Carolina	42.6	78.9	51.4
South Dakota	42.6	49.9	39.8
Tennessee	43.7	64.6	57.8
Texas	48.8	63.6	96.6
Utah	66.8	60.8	100.0
Vermont	42.6	45.2	35.2
Virginia	47.9	64.3	62.2
Washington	42.6	45.2	36.6
West Virginia	42.6	45.2	73.3
Wisconsin	42.6	45.2	37.4
Wyoming	43.8	45.2	71.3
Panel-Approved Requests (000,000)	$468.1	$489.7	$577.0
Federal Funds Available (000,000)	$210.3	$270.2	$286.0
As % of requests	44.9%	55.2%	49.6%

a) The percentages are for the fiscal/academic year July 1, 1973 - June 30, 1974, and are based on federal funds available to institutions in that year (the amount appropriated in the prior fiscal year) as a percentage of panel-approved requests for the 1973-74 year.

APPENDIX B

Estimated Distribution of SEOGs and College Work-Study Funds - Fall, 1973[a]

	SEOG		CW-S		Totals	
Estimated # of Recipients						
At public institutions	242,000	68%	376,000	67%		
At private institutions	114,000	32	187,500	33		
Totals	356,000	100%	563,500	100%		
Estimated Average Award						
At public institutions	$469		$560 (448)[b]			
At private institutions	827		601 (481)			
All institutions	646		582 (466)			
Average Award as % of Average Tuition, Fees[c]						
At public institutions ($399)	118%		140%			
At private institutions ($1952)	42%		31%			
Total Amounts Awarded (000,000)[d]						
At public institutions	$113	55%	$169	65%	$282	61%
At private institutions	94	45	90	35	184	39
Totals	$207	100%	$259	100%	$466	100%

a) The data is based on, or derived from, The Impact of Office of Education Student Assistance Programs, Fall, 1973, Higher Education Panel Reports, #18, ACE, April 1974, a report based on a survey of 515 institutions of higher education with the responses statistically adjusted to represent the total population of colleges and universities.

b) The federal portion (80% of the total) is in parentheses.

c) Tuition and required fees per full-time undergraduate degree-credit student were $399 at public institutions and $1,952 at private institutions in 1972-73. This suggests the extent to which the college-based programs at public institutions are being used for maintenance of students (board and room), a function better served by BEOGs.

d) Amounts based upon estimated # of recipients and average award figures. Includes only federal portion of CW-S.

APPENDIX C

A Comparison of the Benefits of CW-S, SEOG and NDSL

Nationally, a typical annual federal appropriation per institution under each of the three programs has been approximately $100,000. This exhibit compares the effect of such an appropriation under the three programs in terms of institutional and student benefits, using present rules and regulations. In each case, it is assumed that the institution itself has a total of $25,000 of discretionary institutional funds which it can apply to any one of the three programs. Finally, in the case of CW-S, it assumes the institution can use its appropriation in on-campus employment.

	Alternatives		
	CW-S	SEOG	NDSL
Benefits to Institution			
Institutional funds available	$ 25,000	$ 25,000	$ 25,000
Federal funds available	100,000	100,000	100,000
Required program match[a)]	25%	--	10%
Value of Work received[b)]	125,000	0	0
Institutional assets created[c)]	0	0	10,000
Institutional funds remaining[d)]	0	25,000	15,000
Cost to institution of match	25,000	0	0[g)]
NET Benefits to Institution[e)].	$100,000	$25,000	$25,000
Benefits to Students (Aid Created)			
CW-S	$125,000	$ 0	$ 0
SEOG	0	100,000	0
NDSL	0	0	110,000
Other aid[a)]	100,000	100,000	100,000
TOTAL	$225,000	$200,000	$210,000
Net Benefits			
Institution	$100,000	$ 25,000	$ 25,000[g)]
Students	225,000	200,000	210,000
TOTAL	$325,000[f)]	$225,000	$235,000[g)]

APPENDIX C
(Continued)

a) Institutional share as a percent of federal share. SEOGs awards may not exceed 50% of total student assistance, defined as BEOGs, SEOGs, CW-S, NDSL, state, and private scholarship programs. In this example, it is assumed that prior existing BEOGs, state and private scholarship funds available to the institution are sufficient to meet this requirement and are present under all three alternatives.

b) The value of the work received could vary all the way from 50 cents on the dollar if the jobs performed are truly marginal to 200 cents or more on the dollar if, in the absence of CW-S, the jobs would otherwise be filled by higher-priced regular employees with expensive fringe benefits.

c) NDSL loan receivables.

d) Institutional funds remaining after deducting required match under each program from the $25,000 that was available.

e) Value of labor received, assets created, and institutional funds remaining less cost to institution of program match.

f) A higher nonfederal matching requirement under CW-S, assuming jobs were available on campus, would result in no increase in institutional benefits (the value of the incremental work performed would be offset by the incremental wage costs) but would result in a dollar-for-dollar increase in student aid created for every dollar of funds expended.

g) Although the NDSL required match is $10,000, it is not truly a cost, since the institution simply replaces one type of asset (cash) with another (loan receivables). In fact, however, the NDSL loan, which yields 0% interest for several years and 3% thereafter, and is subject to default, as an asset is worth less than par.

APPENDIX D

BEOG and SEOG Awards at Various Income and Tuition Levels (See Tables which follow.)

Assumptions

1. The maximum BEOG entitlement is related to average noninstructional costs nationally less a summer earnings expectation of the student, or alternatively, to average costs nationally of room, board and books. For 1975-76, the maximum entitlement, or BEOG ceiling, would be $1,600. There is no one-half cost of attendance limitation. Since the program is proposed as an entitlement, it is assumed to be fully funded, and the BEOG award always equals $1,600 minus the BEOG eligibility index (the amount under the program that a family is expected to contribute based on income and assets).

2. The SEOG entitlement is related solely to tuition and is equal to one half of the amount remaining after deducting from tuition a) any family contribution remaining after deducting non-instructional costs of $1,600 (the BEOG ceiling), and b) $1,000. SEOG awards at three different tuition levels are shown.

3. In the table, BEOG and SEOG awards are based on the 1975-76 USOE eligibility index for the BEOG program. In each case, for calculation purposes, it is assumed that family assets equal income.

4. The minimum grant under both BEOG and SEOG is $200.

5. Total costs of attendance in each case equal tuition plus $1,600 of noninstructional costs. As outlined in the BEOG chapter, it is assumed that noninstructional costs in excess of $1,600 are met by a student's summer earnings.

6. In the calculations, the family has one child in college and either one, three, or five dependent children.

Comments

As can be seen, using the 1975-76 BEOG eligibility index, for a family with three dependent children, eligibility for BEOG ends between $13,000 and $14,000 of gross family income and for SEOG at about $21,000, where the student is attending a high-tuition institution.

APPENDIX D
(Continued)

BEOG and SEOG Awards at Various Income and Tuition Levels

Gross Family Income	Number of Dependents	Tuition	BEOG 1975-76 Eligibility Index	BEOG Award	SEOG Award	Summary of Resources: BEOG & SEOG	Summary of Resources: Family	Summary of Resources: Self-help, Other	Total Cost of Attendance
$ 5,000	1	$1,000	$ 140	$1,460	$ 0	$1,460	$ 140	$1,000	$2,600
5,000	1	2,500	140	1,460	750	2,210	140	1,750	4,100
5,000	1	4,000	140	1,460	1,500	2,960	140	2,500	5,600
5,000	3	1,000	0	1,600	0	1,600	0	1,000	2,600
5,000	3	2,500	0	1,600	750	2,350	0	1,750	4,100
5,000	3	4,000	0	1,600	1,500	3,100	0	2,500	5,600
5,000	5	1,000	0	1,600	0	1,600	0	1,000	2,600
5,000	5	2,500	0	1,600	750	2,350	0	1,750	4,100
5,000	5	4,000	0	1,600	1,500	3,100	0	2,500	5,600
7,500	1	1,000	560	1,040	0	1,040	560	1,000	2,600
7,500	1	2,500	560	1,040	750	1,790	560	1,750	4,100
7,500	1	4,000	560	1,040	1,500	2,540	560	2,500	5,600
7,500	3	1,000	200	1,400	0	1,400	200	1,000	2,600
7,500	3	2,500	200	1,400	750	2,150	200	1,750	4,100
7,500	3	4,000	200	1,400	1,500	2,900	200	2,500	5,600
7,500	5	1,000	0	1,600	0	1,600	0	1,000	2,600
7,500	5	2,500	0	1,600	750	2,350	0	1,750	4,100
7,500	5	4,000	0	1,600	1,500	3,100	0	2,500	5,600
10,000	1	1,000	970	630	0	630	970	1,000	2,600
10,000	1	2,500	970	630	750	1,380	970	1,750	4,100
10,000	1	4,000	970	630	1,500	2,130	970	2,500	5,600
10,000	3	1,000	620	980	0	980	620	1,000	2,600
10,000	3	2,500	620	980	750	1,730	620	1,750	4,100
10,000	3	4,000	620	980	1,500	2,480	620	2,500	5,600

APPENDIX D
(Continued)

BEOG and SEOG Awards at Various Income and Tuition Levels

Gross Family Income	Number of Dependents	Tuition	BEOG 1975-76 Eligibility Index	BEOG Award	SEOG Award	Summary of Resources: BEOG & SEOG	Family	Self-help, Other	Total Cost of Attendance
$10,000	5	$1,000	$ 360	$1,240	$ 0	$1,240	$ 360	$1,000	$2,600
10,000	5	2,500	360	1,240	750	1,990	360	1,750	4,100
10,000	5	4,000	360	1,240	1,500	2,740	360	2,500	5,600
12,500	1	1,000	1,710	0	0	0	1,710	890	2,600
12,500	1	2,500	1,710	0	695	695	1,710	1,695	4,100
12,500	1	4,000	1,710	0	1,445	1,445	1,710	2,445	5,600
12,500	3	1,000	1,185	415	0	415	1,185	1,000	2,600
12,500	3	2,500	1,185	415	750	1,165	1,185	1,750	4,100
12,500	3	4,000	1,185	415	1,500	1,915	1,185	2,500	5,600
12,500	5	1,000	905	695	0	695	905	1,000	2,600
12,500	5	2,500	905	695	750	1,445	905	1,750	4,100
12,500	5	4,000	905	695	1,500	2,195	905	2,500	5,600
15,000	1	1,000	2,420	0	0	0	2,420	180	2,600
15,000	1	2,500	2,420	0	340	340	2,420	1,340	4,100
15,000	1	4,000	2,420	0	1,090	1,090	2,420	2,090	5,600
15,000	3	1,000	1,910	0	0	0	1,910	690	2,600
15,000	3	2,500	1,910	0	595	696	1,910	1,595	4,100
15,000	3	4,000	1,910	0	1,345	1,345	1,910	2,345	5,600
15,000	5	1,000	1,535	0	0	0	1,535	1,065	2,600
15,000	5	2,500	1,535	0	750	750	1,535	1,815	4,100
15,000	5	4,000	1,535	0	1,500	1,500	1,535	2,565	5,600
17,500	1	1,000	3,115	0	0	0	2,600	0	2,600
17,500	1	2,500	3,115	0	0	0	3,115	985	4,100
17,500	1	4,000	3,115	0	743	743	3,115	1,742	5,600

APPENDIX D
(Continued)

BEOG and SEOG Awards at Various Income and Tuition Levels

Gross Family Income	Number of Dependents	Tuition	BEOG 1975-76 Eligibility Index	BEOG Award	SEOG Award	Summary of Resources: BEOG & SEOG	Family	Self-help, Other	Total Cost of Attendance
$17,500	3	$1,000	$2,620	$ 0	$ 0	$ 0	$2,600	$ 0	$2,600
17,500	3	2,500	2,620	0	340	340	2,620	1,140	4,100
17,500	3	4,000	2,620	0	1,090	1,090	2,620	1,890	5,600
17,500	5	1,000	2,260	0	0	0	2,260	340	2,600
17,500	5	2,500	2,260	0	420	420	2,260	1,420	4,100
17,500	5	4,000	2,260	0	1,170	1,170	2,260	2,170	5,600
20,000	1	1,000	3,810	0	0	0	2,600	0	2,600
20,000	1	2,500	3,810	0	0	0	3,810	290	4,100
20,000	1	4,000	3,810	0	395	395	3,810	1,395	5,600
20,000	3	1,000	3,315	0	0	0	2,600	0	2,600
20,000	3	2,500	3,315	0	0	0	3,315	785	4,100
20,000	3	4,000	3,315	0	643	643	3,315	1,642	5,600
20,000	5	1,000	2,955	0	0	0	2,600	0	2,600
20,000	5	2,500	2,955	0	0	0	2,955	1,145	4,100
20,000	5	4,000	2,955	0	823	823	2,955	1,822	5,600
22,500	1	1,000	4,475	0	0	0	2,600	0	2,600
22,500	1	2,500	4,475	0	0	0	4,100	0	4,100
22,500	1	4,000	4,475	0	0	0	4,475	1,125	5,600
22,500	3	1,000	3,995	0	0	0	2,600	0	2,600
22,500	3	2,500	3,995	0	0	0	3,995	105	4,100
22,500	3	4,000	3,995	0	303	303	3,995	1,302	5,600
22,500	5	1,000	3,650	0	0	0	2,600	0	2,600
22,500	5	2,500	3,650	0	0	0	3,650	450	4,100
22,500	5	4,000	3,650	0	475	475	3,650	1,475	5,600

APPENDIX E

Defaults Under Federal Loan Programs

Few subjects are as beclouded as that of defaults under federal loan programs. There are two principal reasons. The first is a dearth of reliable data, a lack now being filled for the Federal Insured Student Loan Program, but much less so for the state agency programs and NDSL. The second is the problem of definition. Under the GSLP, a default occurs when a student borrower fails to make a scheduled loan payment for a period of 120 days and the lender files a claim with the federal government. As will be seen, however, it is possible to relate such defaults to loan volume, and thus define the default rate, in a number of ways.

FISL

The basic source of default data for the FISL program is the GSLP Loan Estimation Model developed beginning in 1973, with the help of outside contractors, by the Office of Planning, Budgeting and Evaluation of the U.S. Office of Education. The purpose of the Model was to help USOE better estimate likely claim volume based on the characteristics of outstanding loans which were entering the repayment period.

In September 1974 Terrel Bell, Commissioner of Education, testified before the Subcommittee on Education of the Committee on Labor and Public Welfare of the U.S. Senate regarding the defaults under the GSLP. In his testimony he revealed that the current "default rate" at that time was 14.5% and that it was projected to increase to 18.5% in fiscal 1975. The 14.5% rate Mr. Bell was referring to was the dollar value of all claims under FISL, whether for death and disability, bankruptcy or default,[1] from the beginning

1. According to USOE, of total claims paid, approximately 4% are for bankruptcy, 5% for death and disability, and 91% for default.

APPENDIX E
(Continued)

Defaults Under Federal Loan Programs

of the program in 1968 through fiscal 1974, divided by the dollar volume of FISL loans which were in repayment status at the end of fiscal 1974, or had been repaid in full over the period. Reflecting the fact that claims were rising rapidly in the summer and fall of 1974, he estimated that this rate would reach 18.5% by June 30, 1975.

At the request of Senator Pell, the General Accounting Office, using USOE's Loan Estimation Model, had also extrapolated default rates. Based on certain pessimistic assumptions regarding the mix of borrowers and their default rates, the GAO predicted that the default rate, similarly defined, could reach as high as 24% in the unspecified future.

Fortunately, these alarming numbers may not reflect the extent or cost of defaults over time, for two reasons:

1. Defaults tend to surface early. Of total FISL loans outstanding, roughly two thirds are in an in-school, grace, or deferment status, and slightly more than one third are in repayment status. Because 80% to 90% of those who default never make their first payment, such bad loans show up in the statistics quickly. This tendency is reinforced by the shorter life-cycle of vocational and proprietary loans, on which the default rate is higher,[2] and where the borrower is in school for a shorter period and thus enters repayment status sooner. At the present time, default data seems to reflect the influence of both vocational and proprietary loans moving into repayment status in large number and the fact that even among students who have attended colleges and universities defaults tend to surface quickly. Thus there is the expectation that the default rate over a full cycle of loans may be better than the

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2. How much higher is indicated by the GAO's extrapolated default figures. In arriving at the 24% figure cited above, the GAO estimated default rates of 47% for students who attended proprietary schools, 15% for students who attended public institutions, and 12% for students who attended private institutions.

APPENDIX E
(Continued)

Defaults Under Federal Loan Programs

initial or entry rate would suggest. It is hoped that the experience on the loans which are not yet in repayment may prove better than the experience to date with those which are.

2. Although it may only affect the default rate indirectly, USOE has begun much more rigorous post claim collection efforts. For the first time, sizable numbers of collection personnel are being placed in the ten regional HEW offices to pursue borrowers after the loan has been repurchased by USOE. Commissioner Bell has expressed the hope that new and stiffer GSLP regulations, better management generally, and this post-claims collection effort may reduce the default rate from 18% to a true loss rate closer to 12%.

As a result of USOE's growing experience with defaults under FISL, certain other generalizations about defaults can be made:

1. Defaults are highly concentrated in a few states, lenders, and schools. For example, it is believed that students who have attended under 100 institutions have accounted for more than half of all the defaults under FISL to date.

2. There is a high correlation between default rates and dropout rates.

3. There is an inverse correlation between family income of the borrower and the claim rate. Borrowers from families with incomes below $6,000 have a disproportionate share of claims.

4. Default rates are much higher for borrowers who are divorced, separated or widowed.

5. Possibly the single most important factor in the claim rate is not the ability or willingness of borrowers to repay, but the quality of the loan origination and collection process, including the ability of the lender to keep track of the borrower during the grace, deferment and repayment period, normally for most borrowers a highly mobile period.

APPENDIX E
(Continued)

Defaults Under Federal Loan Programs

State Agency Programs

In the case of the 26 states that operate state guarantee agencies, there is little data regarding default rates, and for several reasons:

1. Since state guaranteed loans are typically reinsured by the federal government at an 80% rate, many states choose to attempt collections on their own before submitting a claim to USOE. Thus there is often a lag in submitting such claims to the federal government. One state, Ohio, which has guaranteed in excess of $150 million of GSLP loans since the inception of the program, has never submitted a claim to the federal government.

2. Not only is federal data on claims submitted by the states misleading, but in addition, the states typically do not report currently or consistently to USOE data on the volume of loans in repayment status. Thus a federally derived default rate for individual state programs is unobtainable, as is an overall state agency rate.

3. Many states purchase from lenders delinquent accounts and "rehabilitate" them rather than acknowledge them as true defaults. Thus, defining pre- and post-claims collections in some states is difficult.

In spite of these caveats, it is generally believed that state agency default rates are less than those of the FISL program, if for no other reason than that almost all proprietary and vocational school loans are insured directly under the FISL program.

NDSL

If determining default rates under the GSLP state agency programs is difficult, it is even more so for NDSL, because there is no definition of default under the program and because federal information regarding the program is obtained only once a year through the fiscal-operations reports submitted by colleges and universities.

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(Continued)

Defaults Under Federal Loan Programs

Nevertheless, Associate Commissioner of Education John Phillips, in testimony before the Special Subcommittee on Education of the House of Representatives in May 1974, did attempt to present information on NDSL in a manner comparable to the default information maintained by USOE on FISL loans. Dr. Phillips indicated the following regarding NDSL as of 6/30/73:

	# Borrowers	Original Face Value of Loans (000)
Loans past due		
Under 120 days	168,000	$ 170,000
More than 120 days	371,000	320,000
Subtotal	539,000	$ 490,000
Loans fully retired	457,000	$ 255,000
Loans in deferred status	29,000	30,000
Loans in repayment status	1,009,000	1,065,000
Total	2,034,000	$1,840,000

Of the $320 million face value of loans more than 120 days past due at 6/30/73, $40 million had been repaid and $19 million had been cancelled leaving $261 million principal amount outstanding. Under the FISL definition, this $261 million would be considered in default. When related to the $1.84 billion of NDSL loans which have entered repayment status from the inception of the program, this represents a cumulative default rate to date of 14.2%, assuming the $261 million was truly uncollectable and should be written off.

The default picture could also be presented in a somewhat different manner. Of the $261 million principal amount past due, only $90 million should have been collected as of 6/30/73. (An additional $12 million was past due and should have been collected on loans in past due status for 120 days or less.) Comparing the $90 million to the sum of the cumulative principal amount actually collected to date under the program ($535 million) and the amount 120 days past due and collectable ($90 million) produces a default

APPENDIX E
(Continued)

Defaults Under Federal Loan Programs

rate of 14.4%. Although there is no data on the age of the $90 million of receivables past due more than 120 days, the fact that only $12 million was past due under 120 days would indicate a relationship suggesting that the $90 million has been past due, on average, two and one half years.

All this is to suggest that default rates under federal loan programs remain a complicated subject. Whether the collection experience on unsecured loans made to young people without prior credit experience and without benefit of any earnings history can be better than the numbers above suggest remains to be seen.

APPENDIX F

A Distribution of Dollars and Recipients by Family Income and Type of Institution Under the Proposed BEOG and SEOG Programs

BEOG

Family Income	% of Total Dollars	% of Total Recipients
$ 0 - $ 6,000	38%	29%
$ 6,001 - $ 9,000	22	20
$ 9,001 - $15,000	20	28
$15,001 and above	2	2
Independent Students	18	18
	100%	100%
By Type of Institution		
Public 4-Year	47%	48%
Public 2-Year	26	26
Private	20	20
Proprietary-vocational	7	6
	100%	100%

SEOG

Family Income	% of Total Dollars	% of Total Recipients
$ 0 - $ 6,000	15%	17%
$ 6,001 - $ 9,000	15	16
$ 9,001 - $15,000	32	33
$15,001 and above	22	18
Independent Students	16	16
	100%	100%
By Type of Institution		
Public 4-Year	19%	29%
Public 2-Year	1	1
Private	74	65
Proprietary-vocational	6	5
	100%	100%