

# For Immediate Press Release



**Council for Opportunity in Education  
Governmental Relations Committee, Financial Aid Sub-committee Meetings  
September 5 and 6, 2006, New York, NY**

**Financial Aid Policy Update: January – August 2006  
Prepared by Ann Coles, TERI (The Education Resources Institute)**

## **FEDERAL AID**

### **Pell Grant**

The House Appropriations Committee has proposed a \$100 increase in the maximum Pell Grant for FY07, while the Senate Appropriations Committee has voted to level fund Pell. Congress will determine the final amount in the fall.

### **Academic Competitiveness and SMART Grants**

Authorized by Congress and beginning in the fall of 2006, these new grant programs are for Pell Grant recipients enrolled full-time in degree programs who are U.S. citizens. Students who are Permanent Residents are NOT eligible for these grants. The Academic Competitiveness grant is for students enrolled in the first two years of college. First-year students who completed a rigorous high school program can receive up to \$750, and second-year students who have a 3.0 GPA for their first academic year can receive up to \$1,300. SMART grants of \$4,000 are awarded to students in the third and fourth years of college who are enrolled in a bachelor's degree program in science, engineering, technology, or a critical foreign language and have a 3.0 GPA. These grants are the first time that the Pell Grant has had a merit component and, as such, represent a fundamental change in the federal government's historic approach to need-based aid for undergraduates. It is also the first time that Permanent Residents have not been eligible for aid associated with the Pell Grant. For more information, visit

<http://studentaid.ed.gov/PORTALSWebApp/students/english/NewPrograms.jsp>.

### **Loans**

In January, Congress cut \$12 billion from the federal student loan programs by raising interest rates and reducing subsidies to lenders. Effective July 1, 2006 Stafford loan interest rates shifted from variable rates as low as 4.7 percent to a fixed rate of 6.8 percent; PLUS loans increased from an average of 6.1 percent to 8.5 percent. While Congress increased loan limits for first-years students to \$3,500 and second-year students to \$4,500, the total a student can borrow remains capped at \$23,000, requiring many to use private loans, which generally have higher interest rates.

### **Simplifying the FASFA Application Process**

New provisions passed by Congress to simplify the FASFA application and make the process more understandable include the following:

- Increased income eligibly for the automatic zero Expected Family Contribution (EFC) to \$20,000 from \$15,000.
- Reduced the penalty for students working by increasing the Income Protection Allowance and reducing the assessment rate on student assets.
- Added active duty members of the armed forces to the definition of "independent students" for needs analysis purposes.
- Added consideration of living costs, books, supplies, transportation, and child care when calculating the financial need for students enrolled less than half-time.

### **1.5 Million Aid-Eligible Students Not Applying**

A new American Council on Education Study found that up to 1.5 million college students who probably would have qualified for Pell Grants in 2003-4 did not complete the FASFA. The study estimates that that number is 76 percent higher than in 1999-2000 and suggests that "more outreach is needed to inform low- and moderate-income students

about the availability of financial aid and the application process.” For a copy of the study, go to [www.acenet.edu/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=14319](http://www.acenet.edu/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=14319)

## **US Department of Education’s Commission on the Future of Higher Education Recommendations**

The Commission report, released in August, recommends that the federal government, states and higher education institutions significantly increase need-based aid by replacing the present student financial aid system with a “strategically oriented, results-drive system built on the principles of

- (i) increased access, or enrollment in college by those students who would not otherwise be likely to attend, including nontraditional students;
- (ii) increased retention or graduation by students who might not have been able to complete college due to the costs,
- (iii) decreased debt burden, and
- (iv) eliminating structural incentives for tuition inflation.

Other Commission recommendations include:

- Significantly increasing need-based financial aid.
- Replacing the FAFSA with a shorter and easier application.
- Providing students with information about financial aid eligibility and aid estimates as early as 8<sup>th</sup> grade.

For a copy of the Commission report, go to [www.ed.gov/about/bdscomm/list/hiedfuture/reports.html](http://www.ed.gov/about/bdscomm/list/hiedfuture/reports.html)

## **STATE AID**

State spending on students financial aid increased by more than 8 percent in 2004-05, as compared to 6 percent in 2003-04. 85 percent of state aid is grant aid that does not have to be repaid. Need-based aid made up 73 percent of state financial aid, an increase of 8 percent from the previous year. Merit based aid increased by 10 percent. Ten states have more merit based aid than need based: Florida, Georgia, Kentucky, Louisiana, Michigan, Mississippi, Nevada, New Mexico, South Carolina, and West Virginia.

Per-student state support of public higher education is at an 25 year low, according to a new report by the State Higher Education Executive Officers (SHEEO) In FY05 state spending per full-time student was \$5,833 compared to \$7,121 in FY01 (in constant dollars). For a copy of the report, visit [www.sheeo.org](http://www.sheeo.org).

The Senate Democratic Policy Committee issued a report, “The College Cost Crunch: A State-by-State Analysis of Rising Tuition and Student Debt,” that provides state-specific data on college costs at four-year institutions, changes in the purchasing power of the Pell grant, percentage of family income need to pay for college, and the debt incurred by undergraduates. For a copy of the report, go to [http://kennedy.senate.gov/newsroom/press\\_release.cfm?id=5E8DC409-18C0-4ED0-AAD2-823A796921EE](http://kennedy.senate.gov/newsroom/press_release.cfm?id=5E8DC409-18C0-4ED0-AAD2-823A796921EE)

## **STUDENT EDUCATION LOAN DEBT**

### **The Problem**

The number of college graduates with high debt levels has increased dramatically since the early 1990s. Two-thirds of graduating seniors have student loan debt today, compared to fewer than half in 1993, and average debt has grown from \$9,250 to \$19,200, a 58% increase after accounting for inflation. Approximately 7,000 of 1993 graduates had student loans equal to or higher than \$40,000 in today’s dollars. According to the Project on Student Debt, today over 77,000 students have this level of loan debt, a tenfold increase. Low-income students assume more student debt than others: 88% of Pell Grant recipients who graduated with bachelor’s degrees in 2004 had students loans compared to 59% of students who did not have Pell grants, and Pell recipients borrows on average 12% more than the amount borrowed by other students. ***Higher interest rates instituted in July 2006 combined with level-funded Pell Grants and increasing college costs will increase student debt burden considerably in the near future unless new policies are implemented to address this issue. In addition, evidence exists that aversion to debt is likely to become a major barrier to college access, particularly for low-income students whose families often have had negative experiences with borrowing.***

## **The Project on Student Debt**

The Project on Student Debt ([www.projectonstudentdebt.org](http://www.projectonstudentdebt.org)), established in 2004 with funding from the Pew Charitable Trust and others to address problems associated with student debt, focuses on increasing public awareness of student debt and its impact on students, families, and the American economy and society. The Project also works to identify cost-effective solutions to student debt designed to expand college opportunities and protect the financial security of students and families. Working closely with State Public Interest Research Groups (PIRG), the Project has produced a number of reports analyzing various dimensions of student debt and its impact on students, especially those from low-income backgrounds, including the following:

- The Student Debt Dilemma: Deb Aversion as a Barrier to College Access
- Addressing Student Loan Repayment Burdens
- Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Careers Opportunities
- How Much Debt Is Too Much? Defining Benchmarks for Manageable Student Debt
- High Hopes, Big Debts
- Student Debt and the Class of 2005: Average Debt by State, Sector, and School

The Project also has petitioned Secretary of Education Margaret Spellings to initiate regulatory changes that would create more affordable ways for borrowers to repay student loans. Signed by the Council for Opportunity Education (COE), College Board, the United States Student Association (USSA), and others, the petition calls for changes that would: (i) reduce a borrower's required payments when they exceed 15 percent of discretionary income (ii) streamline the process of conforming borrower eligibility for reduced payments and related interest subsidies on eligible loans, and (iii) discharge remaining balances after 20 years when borrowers have been diligent and responsible in making manageable payments. These recommendations are included in a "Five-Point Plan to Help Grads Mangle Loans" that the Project has developed and is promoting, a copy of which can be found on the Project's web site.

## **National Student Loan Data System**

This is the U.S. Department of Education's central database for student aid where borrowers can find details of their federal student loans, including balances. The web site url is [www.nsls.ed.gov](http://www.nsls.ed.gov). To access their information, borrowers need to provide some personal information including their Social Security number and their PIN from the Department of Education.

## **RECENT REPORTS**

***Promise Abandoned: How Policy Choices and Institutional Practices Restrict College Opportunities***, Education Trust, August 2006 ([www.edtrust.org](http://www.edtrust.org)) – Documents trends in federal, state, and college policies and practices that discourage low- and moderate-income students from entering and graduating from college, and calls on policymakers to award aid first to lower-income students who can't attend without it and higher education leaders to take responsibility for admitting and graduating their fair share of lower-income students.

***College Access, Financial Aid and College Success for Undergraduates from Foster Care***, National Association of Student Financial Aid Administrators, August 2006 ([www.nasfaa.org](http://www.nasfaa.org)) – Examines effects of foster care on the college experiences of undergraduate students. Finds that despite receiving more financial aid students from the foster care system are less than half as likely to complete postsecondary programs as others.

***Latest Data Confirm a College Affordability Gap for Students from Middle- and Lower-Income Families***, Southern Regional Education Board, June 2006 ([www.sreb.org](http://www.sreb.org)) – Finds that 63 percent of students do not have enough money from their families expected contribution, grants, and work-study to cover the costs of attending college. When education loans are added, 45 percent of students still cannot meet their college costs.

***Convergence: Trends Threading to Narrow College Opportunity in America, Institute for Higher Education Policy***, April 2006 ([www.ihel.org](http://www.ihel.org)) – Predicts and provides evidence that the coming decade will see more financial aid flowing to upper-income students, financial aid becoming less effective in the face of rising tuitions, and students being forced to borrow more in order to pay education costs.

***Unmet Financial Need of Undergraduate Students by State, Sector, Status and Income Levels, Postsecondary Education Opportunity***, January 2006 ([www.postsecondary.org](http://www.postsecondary.org)) – Report by Tom Mortenson finds that American undergraduate college students faced more than \$31 billion in unmet financial need in 2003-04. Unmet need is greatest

for lower and middle-income students - \$4,689 for students from incomes of \$34,000 or less, compared to \$3,600 for students from families with incomes over \$62,000.

***Economic Diversity of Colleges: College-Level Data for Researchers and the Public***, The Institute for College Access and Success, March 2006 ([www.economicdiversity.org](http://www.economicdiversity.org)) – This website is the first public source of campus-level data in student income, race, ethnicity and loan usage. It profiles 3,000 colleges across the US and allows users to compare institutions on 128 different factors.

**Post Office Box 470197 - Los Angeles, CA. 90047  
1-866-620-GIFT (4438) - 310-621-8367 - FAX: 213-402-8222  
Email: [jbeadfoundation@aol.com](mailto:jbeadfoundation@aol.com); [jbutler40560@yahoo.com](mailto:jbutler40560@yahoo.com)  
Website: <http://www.jbeadfoundation.org>**

