In this issue

- **NAICU Submits HEA Recommendations to House Committee**
- **Senate Approves Bill Changing Student Loan Interest Rates**
- **Department Releases Financial Responsibility Scores**
- **House Committee Votes to Repeal State Authorization, Credit Hour, Gainful Employment Regs**
- **Concerns Continue about Plus Loan Eligibility**
- **Senate Approves Education Funding – with a Hint of Higher Ed Reform**

**NAICU Submits HEA Recommendations to House Committee**

In response to an April 25 request from the House Committee on Education and the Workforce, NAICU submitted its recommendations on the upcoming reauthorization of the Higher Education Act. The July 24 recommendations address the six areas designated for input in the committee’s request, plus a seventh topic, teacher preparation programs.

NAICU’s recommendations, all of which include a background section to provide context, address how to:

- **Empower students as consumers in higher education**
- **Simplify and improve student aid and loan programs**
- **Increase college accessibility, affordability, and completion**
- **Encourage institutions to reduce costs**
- **Promote innovation to improve access to and delivery of higher education**
- **Balance the need for accountability with the burden of federal requirements**
- **Improve Teacher Preparation Programs**

**Highlights** of NAICU’s recommendations include proposals to assist students and families by updating and restoring student aid, create incentives for on-time graduation, promote affordability, and consolidate and improve information provided to students and families. The recommendations also address the need to combat fraud and abuse, as well as institutional concerns such as how to reduce regulatory burdens, improve federal financial responsibility procedures, and preserve academic decision making.

As the reauthorization process continues, NAICU staff will work with the committee to expand or refine any of the proposals in which the committee expresses an interest.

The committee has requested that all recommendations be submitted by August 2. Member institutions are welcome to directly submit any of the recommendations that are of particular concern by e-mailing them to the committee at HEA.Reauth@mail.house.gov.

For more information, contact Sarah Flanagan, Sarah@naicu.edu
Maureen Budetti, Maureen@naicu.edu
Stephanie Giesecke, Stephanie@naicu.edu
Susan Hattan, Susan@naicu.edu
Senate Approves Bill Changing Student Loan Interest Rates

A bill that would change how student loan interest rates are set was approved by the Senate on July 24. The Bipartisan Student Loan Certainty Act of 2013, which passed by a vote of 81 to 18, would roll back the 6.8 percent interest rate on subsidized undergraduate loans that went into effect on July 1.

The Senate bill would tie the interest rate for subsidized and unsubsidized undergraduate Stafford loans to the 10-year Treasury note (T-bill) rate plus 2.05 percent, with a cap of 8.25 percent. Under that formula, interest on all undergraduate loans for the upcoming school year would be 3.9 percent.

For the first time, the interest rate on unsubsidized Stafford loans to graduate students (who are not eligible for subsidized loans) would be higher than those for undergraduates. Unsubsidized Stafford loans for graduate students would be set at the T-bill rate plus 3.6 percent, with a cap of 9.5 percent. PLUS loans for graduate students and parents would be tied to the T-bill rate plus 4.6 percent, and capped at 10.5 percent.

Two amendments were offered to the measure, one to sunset the provisions in two years, and the other to reduce the interest rate caps. Both amendments were defeated.

The 18 votes in opposition to the measure largely came from Senate Democrats, who were concerned the change would lead to increases in the cost of student loans in the future. They preferred merely resetting the rate for undergraduate subsidized loans at 3.4 percent, where it was before doubling to 6.8 percent on July 1. An earlier attempt, on July 10, to achieve that goal by offsetting costs of the reduction with changes in the tax code, was defeated in the Senate.

The legislation is expected to be passed by the House, which earlier this year approved a similar bill. The President issued a statement of support for the bill, and is expected to sign it promptly once it reaches his desk.

For more information, contact Maureen Budetti, Maureen@naicu.edu

Department Releases Financial Responsibility Scores

The financial responsibility scores for FY 2011, expected last fall, were finally released this week. In prior years, the scores had been published much earlier.

A Chronicle of Higher Education story said that more than 150 private nonprofit and for-profit institutions failed to receive passing financial responsibility scores. All colleges must be deemed financially responsible for their students to be eligible to receive federal financial aid. Only privates are subject to the financial responsibility ratios test that produces composite numerical scores.

The Chronicle article asserted that the number of failing nonprofit colleges was 116, noting that was less than in FY 2010. However, in a letter to NAICU this spring, Under Secretary Martha Kanter put that number at 73, which is what NAICU calculated as well.

Although the scores of some colleges may reflect financial strain, in many cases the scoring system itself may be at fault. NAICU’s task force on financial responsibility produced a report last November that showed the Department of Education does not always use the most up-to-date accounting standards, and thus some colleges may receive failing scores despite being financially viable. This was especially the case for scores from July 2008 through June 2009, when the national economic downturn caused precipitous declines in the value of many institutions’ endowments. In a number of instances, the Department classified such losses as annual operating expenses.

Colleges that have received failing FY 2011 scores should have already been notified by the Department. NAICU has reached out to NAICU members on the list, with background on the ratios test for their use in responding to media inquiries, and is providing additional targeted support to members who feel they received a failing score inappropriately.

For more information, contact Maureen Budetti, Maureen@naicu.edu
House Committee Votes to Repeal State Authorization, Credit Hour, Gainful Employment Regs

The House Committee on Education and the Workforce has approved legislation that would repeal the state authorization, credit hour definition, and gainful employment regulations. Those regulations, issued in 2010, were targeted for repeal in the Supporting Academic Freedom through Regulatory Relief Act (H.R. 2637), which the committee approved on July 24, by a vote of 22 to 13.

NAICU endorsed the regulatory relief bill, and joined with several other higher education associations and accreditation agencies in a July 17 letter of support for the measure. NAICU has had long-standing concerns about the regulations, particularly those on state authorization and credit hour definition. The state authorization requirements are confusing and subject to inconsistent interpretation; as a result, many established colleges have been told their documentation for status as a college is inadequate. The federal definition of a credit hour inappropriately intrudes into academic decisions that properly rest with each institution and its faculty, and interferes with a college’s ability to explore innovative teaching methods.

The three regulations were part of a larger package of regulations that were aimed at curbing fraud and abuse in federal student aid programs - a goal NAICU strongly supports. Unfortunately, rather than advancing that goal, they have increased expenses and administrative burdens for fully legitimate colleges.

For more information, contact Susan Hattan, Susan@naicu.edu

Concerns Continue about Plus Loan Eligibility

The stricter enforcement of Parent PLUS loan eligibility requirements that was initiated by the Department of Education in October 2011 continues to be cause for concern.

The Department did not initially publicize this operational change, and the issue first came to NAICU’s attention when a member institution reported an abrupt increase in loan denials. In general, the denial rates have been much higher than average at institutions that serve large numbers of low-income students, and particularly at Historically Black Colleges and Universities. The issue has generated press interest, and efforts to relax the more stringent underwriting standards have intensified.

To date, the Department hasn’t changed the criteria used in making its decisions on Parent PLUS eligibility. However, it has announced it will actively reconsider denials upon appeal, and issued processing guidance about an expedited appeals process. In addition, as of June 30, the Department began to “identify for schools those borrowers who may be eligible for reconsideration” of a PLUS loan denial. Previously, the Department had sent e-mails or letters directly to those PLUS loan borrowers who were eligible for reconsideration.

This spring, the Department conducted four regional hearings to gather information in preparation for this fall’s planned negotiated rulemaking sessions. It identified several topics, including PLUS loans, as potential subjects for future sessions. However only one, on gainful employment, has so far been scheduled. Representatives from many colleges, particularly HBCUs, testified about the reasons for, and consequences of, the stricter eligibility standards. Their comments expressed particular concern about limiting college access and declines in college enrollments, as well as in preventing defaults.

For more information, contact Maureen Budetti, Maureen@naicu.edu
Senate Approves Education Funding – with a Hint of Higher Ed Reform

The Senate Appropriations Committee offered strong support for student aid programs through increased funding in its FY 2014 Labor-HHS-Education Appropriations bill approved July 11. It also advanced two major policy proposals aimed at college persistence and completion reform, and gave a hint of what may be addressed in the upcoming Higher Education Act reauthorization bill.

Generous Support for Student Aid

The bill offers good news for low-income students by providing increased funding for student aid programs. It sets the Pell Grant maximum at $5,785; maintains funding for SEOG and graduate education grants; and increases Federal Work Study by $50 million, TRIO by $10 million, and GEAR UP by $5 million. Other funding increases include $43 million to restore support for Teacher Quality Partnership Grants and a $10 million increase for international education programs. The bill also provides $1 million for a deregulation study focused on institutional burden – a study authorized in 2008 but never funded.

NAICU supports these proposed funding increases.

Reform Initiatives and Their Significance

As was the case last year, the legislation funds several new initiatives. The most significant are two major policy proposals, both under existing statutory authority, targeted at college persistence and completion. The first is a high school-college, dual-enrollment demonstration program for high school students seeking college credit. The bill provides $20 million for the award of grants, loans, and work study to “low-income students who would qualify for Pell grants, but are not eligible because they do not have a high school diploma.” The grants would cover tuition, fees, and supplies for participation in a dual-enrollment program. The program’s goals are to shorten time-to-degree, increase college enrollment, and reduce students’ college costs.

The second proposal is a $250 million Race to the Top: College Affordability and Completion plan, the fourth installment of the Obama administration’s Race to the Top initiative from the 2009 stimulus bill. The $250 million in competitive grant funding is intended to support the reform of public higher education, specifically, to improve college affordability, quality, and institutional capacity to graduate more students. Before receiving funds, states would have to prove they are implementing reforms for fiscal support of public higher education, removing barriers to degrees, empowering consumer choice, increasing awareness about college and financial aid in high schools, and providing seamless transitions from high school to college. The administration has been seeking these types of higher education reforms since its first budget request in FY 2010.

These two reform plans will likely form the basis of more extensive initiatives to be considered under the upcoming Higher Education Act reauthorization bill. For example, additional federal financial support for high school students enrolled in dual-enrollment programs might be considered. We also could see renewed efforts to promote the type of state-based higher education reform initiatives that have been of concern to NAICU institutions in the past. This means NAICU must continue to seek opportunities for independent institutions to participate in reform initiatives, while avoiding situations in which state authorities exercise undue control over these colleges.

The bill provides several other glimpses of the policy directions the Senate may take in the upcoming reauthorization. For example, the committee gives high praise to the Department of Education’s work with the Department of Veterans Affairs in developing a student complaint system, and it calls for the Department to “broaden the scope of the complaint system and make it more accessible to all students attending institutions of higher education, regardless of their receipt of federal education benefits.”

The bill also signals continued interest in addressing concerns raised largely with respect to for-profit institutions, such as a prohibition on using federal education funds for advertising, marketing, and recruitment. In addition, it prohibits the use of federal education funds for gainful employment programs unless the programs meet all state-required licensing, certification, and specialized accreditation. Although private nonprofit institutions are not likely to be in violation of these policies, depending on how their implementation is fleshed out, they could face significant added burdens in demonstrating compliance.
Outlook

It’s no secret that the FY 2014 appropriations process is headed for gridlock in September, and it’s all but certain that Congress will pass a continuing resolution to avoid a government shutdown at that time. However, any further movement on funding is unlikely, absent a big budget deal to change the budget enforcement law.

The House and Senate Appropriations Committees are working from funding totals that are $92 billion apart, and a final bill can’t be developed without an agreement on the top-line amount. The House has set a $966 billion total, which matches the FY 2014 spending cap in the Budget Control Act of 2011. The Senate is using $1.058 trillion, which reflects restoration of the FY 2013 sequestration cuts. Neither House Appropriations Chair Hal Rogers (R-Ky.) nor Senate Chair Barbara Mikulski (D-Md.) like the sequestration cuts, and they would like to find a way to bridge the gap between the two extremes. However, they will need support from House and Senate leadership to proceed.

NAICU will monitor budget process action throughout the summer and fall, and will continue to analyze its impact on student aid funding.

For more information, contact Stephanie Giesecke, Stephanie@naicu.edu