

# NASFAA TASK FORCE REPORT



## EXAMINING “ONE GRANT, ONE LOAN”



NASFAA  
**ADVOCACY**  
PUBLISHED AUGUST 2016



**NASFAA**

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

**The National Association  
of Student Financial Aid  
Administrators (NASFAA)  
provides professional  
development for financial  
aid administrators; advocates  
for public policies that increase  
student access and success;  
serves as a forum on student  
financial aid issues, and is  
committed to diversity  
throughout all activities.**



NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

**1101 CONNECTICUT AVENUE NW, SUITE 1100  
WASHINGTON, DC 20036-4303**

**202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG**

# Introduction

Growing concern over the complexity of the federal financial aid system and a push toward simplification have led to increased attention toward streamlining the federal student aid programs. Specifically, several proposals and policy papers have recommended consolidating the federal student aid programs into one grant program and one loan program, commonly referred to as “one grant, one loan.” In some cases these proposals include the addition of one work-study program.

With that in mind, the National Association of Student Financial Aid Administrators (NASFAA), in October 2015, convened a task force of financial aid professionals to examine the concept of “one grant, one loan.”

The primary purpose of the NASFAA “One Grant, One Loan” Task Force was to:

- Discuss the different possible structures of a “one grant, one loan” model and the implications of each;
- Identify the trade-offs of a “one grant, one loan” model related to simplification, targeting, transparency, etc.;
- Discuss the school’s role in a “one grant, one loan” model;
- Consider other implications of a “one grant, one loan” model, such as consumer information and loan servicing;
- Examine the potential impacts to existing campus-based aid programs; and
- Provide the NASFAA Board of Directors a final report with recommendations and considerations regarding the implementation of a “one grant, one loan” model.

The task force, as directed by the NASFAA Board of Directors, was not tasked with determining whether to support or reject a “one grant, one loan” model. Instead, the task force was charged with considering trade-offs, implications, and implementation recommendations in the event a “one grant, one loan” model is adopted by Congress.

## Task Force Members:

Chair: Angela Johnson, Cuyahoga Community College District Campus

Commission Director: Keith Williams, Michigan State University

Jaime Schulang, Salus University

Theodore Malone, Purdue University

Mark Bandré, Kansas Wesleyan University

Jacqueline Williams, University of North Carolina at Charlotte

JoEllen Soucier, Houston Community College System

Barbara Bickett, DeVry University

Scott Cline, California College of the Arts

## NASFAA Staff Liaisons:

Karen McCarthy

Stephen Payne

# Executive Summary

In the event of the adoption of a “one grant, one loan” model by Congress, the NASFAA “One Grant, One Loan” Task Force examined how “one grant, one loan” would work and subsequently developed considerations and recommendations for a “one grant” program, a “one loan” program, and for the concept as a whole.

When considering a “one grant, one loan” student aid landscape, the task force used legislation first introduced by Sen. Lamar Alexander (R-TN) and Sen. Michael Bennet (D-CO) in 2014, the Financial Aid Simplification and Transparency (FAST) Act, to examine what a simplified student aid system might look like.

## *“One Grant, One Loan” Task Force Considerations:*

- Will federal program consolidation truly make the financial aid process simpler for students and families, given the existence of other sources of financial aid?
- Will the Federal Work-Study (FWS) Program survive simplification efforts?
- What will happen to the campus-based Administrative Cost Allowance (ACA)?
- What would happen to the other Title IV grant programs and their federal funding?
- Would some students be awarded less funding under a “one grant” model than under the current model?
- Would there be a federal commitment to make up for that net loss in grant dollars?
- If the FSEOG program were eliminated, would the remaining “one grant” program funding be awarded strictly according to a federal formula, with institutions losing all of the awarding discretion they currently have under the rules of the FSEOG program?
- How would Congress reallocate savings if the “one loan” offered is an unsubsidized loan?
- Will one federal loan lead to higher debt loads?
- Will more borrowers be pushed into the private loan market?
- Who determines which programs are high-cost?
- How will interest rates fare in a “one loan” system?

## *“One Grant, One Loan” Task Force Recommendations:*

1. Retain the Federal Work-Study (FWS) Program.
2. Maintain the Administrative Cost Allowance (ACA).
3. Implement a “Pell Well” or “Flex Pell” model of delivery.
4. Shift administration of the Iraq and Afghanistan Service Grant (IASG) to the U.S. Department of Defense or the U.S. Department of Veterans Affairs.
5. If a “one grant, one loan” model is adopted, Congress must fully commit to this model.
6. Convert the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program into a loan program, with forgiveness options.
7. Make the Pell Grant Program a true entitlement with 100 percent mandatory funding.
8. Create a simplified federal loan with identical terms for undergraduate students, graduate and professional students, and parents of enrolled students.
9. Eliminate loan origination fees.
10. Allow institutional authority to set loan limits for certain categories of borrowers.
11. Establish aggregate loan limits based on academic credentials.

## Background

In 2012 the Bill & Melinda Gates Foundation awarded grant funding to 16 different national organizations, including NASFAA, to present policy proposals through its “Reimagining Aid Design and Delivery” (RADD) project. Several participating groups examined the federal student aid programs in the context of simplification in white papers and reports released in March 2013. Six of the 16 groups involved in the initial RADD initiative recommended a consolidation of federal student grant programs into “one grant”<sup>1</sup> and/or a consolidation of the federal student loan programs into “one loan.”<sup>2</sup>

A recap of the RADD proposals by *Inside Higher Ed* concluded “campus-based programs were frequently a casualty of calls for simplification.”<sup>3</sup> HCM Strategists noted in their report that “Differing program structures add to aid complexity and likely confuse students and their parents, which can contribute to the matching errors affecting college completion.”<sup>4</sup> The report refers specifically to the non-portability of the Federal Supplemental Education Opportunity Grant (FSEOG) as compared to the Pell Grant.

Calls for simplification and streamlining were heard in Congress, as lawmakers—particularly Republicans—in both the U.S. House of Representatives and the U.S. Senate solidified their commitment to the “one grant, one loan” concept in June 2014.

On June 19, 2014, Sen. Lamar Alexander (R-TN), along with Sen. Michael Bennet (D-CO), introduced the Financial Aid Simplification and Transparency (FAST) Act. The FAST Act establishes a “one grant, one loan” system by eliminating the FSEOG Program and consolidating the federal student loan programs into one undergraduate loan program, one graduate loan program, and one parent loan program, thereby eliminating the Perkins Loan Program, the PLUS Loan Program, and the William D. Ford Direct Loan Program.

On June 25, 2014, the Republicans on the House Committee on Education and the Workforce released a white paper entitled, “Strengthening America’s Higher Education System: Republican Priorities for Reauthorizing the Higher Education Act.” A portion of the paper is dedicated to exploring a “One Grant, One Loan, and One Work-Study Program” proposal. The paper notes the nation’s “patchwork system of federal student aid has left many students confused about the best options available to responsibly pay for their college education.”

Sen. Alexander, now chair of the Senate Health, Education, Labor and Pensions (HELP) Committee, reintroduced the FAST Act with Sen. Bennet in January 2015, the start of the 114th session of Congress.

---

<sup>1</sup> The groups recommending program consolidation into “one grant” included the Committee for Economic Development, HCM Strategists, New America Foundation, and the U.S. Chamber of Commerce through its Institute for a Competitive Workforce.

<sup>2</sup> The groups recommending program consolidation into “one loan” included The Institute for College Access and Success (TICAS), the U.S. Chamber of Commerce through its Institute for a Competitive Workforce, Young Invincibles, and HCM Strategists.

<sup>3</sup> Nelson, L. “Reimagining Financial Aid,” *Inside Higher Ed*, March 14, 2013.

<sup>4</sup> HCM Strategists (2013). *Doing Better for More Students: Putting Students Outcomes at the Center of Federal Financial Aid*.

# "One Grant, One Loan": Considerations and Recommendations

## Considerations of a "One Grant, One Loan" Model

- **Will federal program consolidation truly make the financial aid process simpler for students and families, given the existence of other sources of financial aid?**

Beyond federal financial aid programs, students and families will apply for various other financial aid options, including state aid and institutional aid programs. Thus, students will continue to engage in multiple options and programs to fund their education. Each state has various grant, scholarship, and work programs that students will have to navigate. Likewise, many higher education institutions have multiple funds awarded to students, based on need, merit, and various other factors that will influence information available to families. Consolidation of federal student aid programs can contribute to simplification efforts, but it is important to acknowledge that robust state and institutional aid programs, while a critical funding source for millions of students, will continue to add some measure of complexity to the entire student aid picture.

- **Will the Federal Work-Study (FWS) Program survive simplification efforts?**

Most conversations about "one grant, one loan" either purposefully or accidentally exclude the FWS Program, leaving its future in doubt in the context of program simplification.

- **What will happen to the Administrative Cost Allowance (ACA)?**

Consolidation to a "one grant" program, may impact the ACA that schools use to administer various aspects of the federal student aid programs.

## General Recommendations

### Recommendation #1: Retain the Federal Work-Study (FWS) Program.

Unlike grant and loan programs, the FWS Program is a single program administered by higher education institutions. It operates outside of the definition of "grant" or "loan." Because of that, any conversation of improving the federal student aid programs should include FWS. The program has amassed goodwill over the years from legislators who value the program's effectiveness.

**Rationale:** The task force recommends, under a simplification model, that the work-study program maintain some of its current flexibility, including state-determined minimum wage and institutional awarding discretion within federal guidelines.

### Recommendation #2: Maintain the Administrative Cost Allowance (ACA).

Both the campus-based aid and the Pell Grant Program administrative cost allowance supports the operation of financial aid offices in their effort to effectively implement the federal aid programs.

**Rationale:** The task force recommends no negative impact or reduction of ACA provided to schools. Moreover, an increase in ACA would support the increasing administrative burden of institutions to report student data, which has occurred in expanded regulations, such as gainful employment reporting, unusual enrollment history, and high school equivalence completion.

# “One Grant”: Considerations and Recommendations

Moving to a single grant program would require streamlining several existing Title IV grant programs: the Federal Pell Grant Program, the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, the TEACH Grant Program, and the Iraq and Afghanistan Service Grant (IASG) Program. Because of its long history as the foundational student aid program and a funding level that dwarfs the other grant programs, a “one grant” model generally presumes that the Pell Grant would become the single grant program and the other Title IV grant programs would be subsumed elsewhere.

## Considerations

- **What would happen to the other Title IV grant programs and their federal funding?**

While it is easy to suggest FSEOG funds could simply roll into the Federal Pell Grant Program, the reality is the amount of federal funding is quite small (\$728 million in the 2014-15 award year) and would have minimal impact on overall Pell budgets (\$30 billion in the 2014-15 award year).

The TEACH Grant and IASG programs are even smaller programs (\$90.8 million and \$294,700 in the 2015 fiscal year<sup>5</sup>, respectively) with restrictive student eligibility requirements. There may be other ways to target these federal funds to the appropriate student populations without separate Title IV grant programs.

- **Would some students be awarded less funding under a “one grant” model than under the current model?**

- **Would there be a federal commitment to make up for that net loss in grant dollars?**

FSEOG is allocated to institutions according to a statutory formula. The funds are then awarded to eligible students within certain parameters. If the FSEOG program were to be eliminated and the funding used for another purpose, it is possible that some individual students would receive less total grant funding.

- **If the FSEOG program were eliminated, would the remaining “one grant” program funding be awarded strictly according to a federal formula, with institutions losing all of the awarding discretion they currently have under the rules of the FSEOG program?**

Under FSEOG awarding rules, awarding priority must be given to students who receive Federal Pell Grants, and awards must be made first to students who have the lowest expected family contributions. The minimum award is \$100 and the maximum award is \$4,000. Outside of those parameters, institutions have awarding discretion and often use FSEOG funds to supplement the aid that students receive from other sources. Because FSEOG funds are awarded by the institution, there is an opportunity for the institution to direct the funds to the neediest students, based on their individual circumstances.

One possible model which would allow schools to retain the awarding discretion of the FSEOG program would keep the former FSEOG funds as a separate part of the Pell Grant funding. Schools that are retaining and graduating students above the predicted levels for their population could apply for these funds, which then could be awarded by the institution to exceptionally needy students as a Pell Grant “add-on.” A model like this advances the “one grant” model while also retaining institutional awarding discretion. The disadvantage to such a model is that it eliminates the “portability” feature of a Pell Grant, namely that a student receives the same Pell Grant award at all institutions.

## Recommendations

The “One Grant, One Loan” Task force developed five recommendations on a potential “one grant” program, divided into the following two areas of focus:

- Simplicity and flexibility
- Funding

### Focus #1: Simplicity and Flexibility

After discussing the current aid program structure, with its myriad programs all serving different purposes, the task force determined that any “one grant” model must be both simple and flexible. Generally, the task force agreed that the concept of “one grant” appealed to them, but that “one grant” program must be nimble and able to meet the needs of current students. The task force puts forward the following recommendations to structure a “one grant” program.

---

<sup>5</sup> Federal Student Aid Annual Report FY 2015, <http://www2.ed.gov/about/reports/annual/2015report/fsa-report.pdf>

### **Recommendation #3: Implement a “Pell Well” or “Flex Pell” model of delivery.**

A “Pell Well” of funds would be available for student use throughout the course of an undergraduate education. Students would “draw” funds from the well as needed (under certain current rules, such as proration for less-than-full-time enrollment) until the student either completes the academic program or runs out of Pell funds.

**Rationale:** The current system of Pell Grant delivery, which is based on the traditional fall/spring academic calendar, is outdated and confusing to families in light of trends toward innovative academic calendars, online education, and the influx of part-time and non-traditional students.

A second benefit to the Pell Well concept is that it allows the Pell Grant program to respond to non-traditional enrollment patterns. Currently, Pell Grant funds are awarded on a scheduled award basis, which represents the amount of a Pell Grant that would be paid to a full-time student for a full academic year. Because the scheduled award covers an academic year rather than a full 12-month period, Pell-eligible students who wish to enroll year-round often run out of Pell Grant funds before the end of the 12-month period, and are not eligible to receive another scheduled award until the next award year (which begins on July 1).

### **Recommendation #4: Shift the administration of IASG to the U.S. Department of Defense or U.S. Department of Veterans Affairs.**

The Iraq and Afghanistan Service Grant Program is a Title IV grant program. The task force believes this program would be more properly funded and administered by the Department of Defense (DoD) or the Department of Veterans Affairs (VA). Furthermore, the IASG student eligibility tie to Pell Grant eligibility should be eliminated.

**Rationale:** In the interest of streamlining the Title IV grant programs, it makes more sense for the IASG program to be administered by DoD or VA. In addition, the current eligibility rules provide a full IASG award equivalent to a maximum Pell Grant for eligible students who are not Pell-eligible, a maximum Pell Grant award for eligible students who are Pell-eligible, and no additional funding for students who are already eligible for the maximum Pell Grant award. This structure provides the maximum financial benefit to the least needy students and no financial benefit to the most needy students. Therefore, the task force recommends severing the tie between Pell eligibility and IASG eligibility.

### **Recommendation #5: If a “one grant, one loan” model is adopted, Congress must fully commit to this model.**

If the “one grant” model is to succeed and contribute to a simpler federal student aid system, then it is imperative that we not dilute that simplicity by subsequently creating new Title IV grant programs, or tinkering with the provisions of the Pell Grant program and adding complexity to the point where we have “one grant” program in name only.

**Rationale:** In recent years, statutory changes and proposals on the table veer into significant “scope creep” related to the goals and purpose of the Pell Grant Program. Examples include the creation of the IASG program, Pell eligibility for dually-enrolled high school students, and Pell eligibility for incarcerated students.

### **Recommendation #6: Convert the TEACH Grant Program into a loan program, with forgiveness options.**

In its current state, students are awarded the grant which, if certain provisions are not met, transforms to a loan. We recommend that the TEACH Grant award initially take the form of a loan, and then offer forgiveness options if the required provisions are met.

**Rationale:** The task force considered the TEACH program a grant in its deliberations. However, for roughly one-third of recipients, the grant ultimately converts to a loan based on the terms of the program. Therefore, the task force recommends with a “one grant, one loan” model, the TEACH program be a loan, with the option of forgiveness if the teaching service obligations are met. As such, the loan limits, as discussed in the loan section of this recommendation would include flexible loan limits for students who would otherwise be impacted by the elimination of TEACH.

## **Focus #2: Funding**

### **Recommendation #7: Make the Pell Grant Program a true entitlement with 100 percent mandatory funding**

The task force proposes that the Federal Pell Grant become a true entitlement program by making 100 percent of its funding mandatory, rather than the current mandatory/discretionary funding split. This concept has been a NASFAA goal for many years.

**Rationale:** Currently, the funding that makes up most of a Pell Grant comes from the discretionary side of the budget, which must be appropriated every year and is subject to politics and budgetary machinations. A small amount of Pell Grant awards is set in law as mandatory funding—that is, automatic spending that is not subject to annual appropriations fights. Due to the fact that the Federal Pell Grant Program remains tied to a cyclical appropriations process, the amount of support that a high-need student can expect from this program remains uncertain from year to year. When making plans to attend an institution of higher education, a level of certainty in regard to the continuing availability of financial aid resources is especially critical to low-income students. The annual uncertainty of Federal Pell Grant awards also impacts institutions in providing accurate information about net costs to low-income students in a timely fashion. Transforming the Federal Pell Grant Program into a true federal entitlement program would provide a level of certainty to high-need students, which would be absolutely critical if the Pell Grant Program is the only Title IV grant program.



# “One Loan”: Considerations and Recommendations

Moving to a single loan program would mean the consolidation of the existing William D. Ford Direct Loan program—which serves undergraduate students, graduate and professional students, and parents of undergraduate students—and the Perkins Loan Program, which serves undergraduate and graduate/professional students .

## Considerations

### • How would Congress reallocate savings if the “one loan” offered is an unsubsidized loan?

As part of the William D. Ford Direct Loan Program, certain undergraduates with need are eligible for an interest subsidy, where the federal government assumes the cost of interest that has accrued while the student is enrolled, during the six-month “grace period” before the borrower enters repayment, and during all deferments. If simplification efforts include the elimination of the interest subsidy, federal budget savings could total close to \$45 billion over 10 years. Congress would then have the authority to reallocate those savings toward other benefits in the student loan programs, other higher education programs, other federal government programs, or toward paying down the national debt.

### • Will one federal loan lead to higher debt loads?

If a “one loan” framework means the loss of the interest subsidy and the elimination of stepped annual loan limits as proposed in the FAST Act, some borrowers may experience higher debt loads. The current annual loan limits gradually increase as a student progresses from one grade level to the next. Research indicates that approximately 60 percent of student loan defaulters earn fewer than 15 credits , so there may be some hesitation for these higher-risk borrowers to have access to more loan dollars.

### • Will more borrowers be pushed into the private loan market?

Under a “one loan” model, it is possible that the annual and aggregate loan limits may not be adequate for all students. Students and families can currently borrow under the PLUS loan program to help cover educational expenses. Assuming there is no adverse credit history, the PLUS loan could be awarded up to the cost of attendance less any other financial aid. Eliminating such a program might force families to become more dependent on private alternative loans. In some cases, the terms and conditions of private loans are less favorable than PLUS loans currently.

The FAST Act does not go into great detail about the funds available to graduate or professional students aside from declaring that these students would be eligible for \$30,000 per year with an aggregate limit of \$150,000 not including undergraduate loans. Students in high cost programs would be allowed up to a 50 percent increase on their aggregate limit that would allow them to borrow \$225,000. The bill does not mention an increase in annual limits beyond the \$30,000 or how much a student in a high cost program could borrow on an annual basis.

### • Who determines which programs are high-cost?

Currently, students in programs which used to participate in the Health Education Assistance Loan (HEAL) program (schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or in programs in health administration and clinical psychology) are able to receive additional unsubsidized Direct Loan funds beyond the annual \$20,500 limit. Since the elimination of the HEAL program, new high cost programs, which are not currently eligible for the additional unsubsidized funds, have emerged (ie. Audiology, Physician Assistant, Physical Therapy). The FAST Act makes no mention of specific programs that would be classified as high cost, thus enabling borrowers to receive additional funds under the “one loan” plan. Would individual schools make a determination of high cost, or would that be determined at the federal level?

### • How will interest rates fare in a “one loan” system?

As it stands today, interest rates vary among the federal student loan programs. Direct Loans for undergraduates, Direct Loans for graduate and professional students, and PLUS Loans all carry different interest rates. In the context of simplification, interest rates and loan fees add to complexity and diminish the ability for students and families to undertake responsible financial planning.

## Recommendations

### **Recommendation #8: Create a simplified federal loan with identical terms for undergraduate students, graduate and professional students, and parents of enrolled students.**

If Congress enacts a “one loan” framework under the rationale of simplification, it is important that the one loan program be simplified for all parties involved at all stages of the student aid life cycle. The task force believes an ideal “one loan” would be a federal loan that would have identical terms for undergraduate students, graduate and professional students, and parents of enrolled students.

**Rationale:** Borrowers should easily understand loan terms and conditions and corresponding loan limits, while financial aid professionals on campus should be able to reasonably implement the awarding, processing and disbursement of the loan program without significant administrative burden. Increased regulatory burden requires aid administrators to spend less time on counseling students and families and more time on compliance.

The FAST Act allows for all undergraduate students, regardless of dependency status and year in school, to have the same annual loan limits. The task force agrees with this proposal.

### **Recommendation #9: Eliminate loan origination fees**

Currently, all borrowers pay a loan origination fee when originating a new loan. This fee, essentially a “student loan tax” that has outlived its intended budgetary purpose, adds to a student’s cost of attendance. The origination fee was first introduced in the 1980s to help offset loan subsidies in the now-defunct Federal Family Education Loan (FFEL) Program.

**Rationale:** The task force believes that the elimination of origination fees contributes to simplification efforts. Loan fees mask a borrower’s true loan cost, since students must borrow more than they actually receive to put toward their education in order to cover the cost of the loan origination fee. Furthermore, there is no certainty in the loan origination fee for the sake of financial planning, as the fee percentage changes annually as part of sequestration imposed under the Budget Control Act of 2011.

### **Recommendation #10: Allow institutional authority to set loan limits for certain categories of borrowers.**

The task force recommends that financial aid administrators be given the authority to limit loan amounts in certain scenarios. Specifically, the task force recommends that institutions be allowed to limit borrowing based on institutional factors, credential, or program level. Using professional judgment, aid administrators should still have the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis.

**Rationale:** Federal law sets the annual loan limits for the Direct Loan program. Institutions must prorate loan limits for academic programs less than one year in length or if the student is in a final period of enrollment of less than one year; no other proration of the statutory annual loan limits exists.

The lack of restriction on annual loan limits can lead students to accumulate high loan debt very quickly without making progress toward degree completion, or to struggle to repay loan debt that is excessive relative to the expected earnings for the student’s field of study or credential.

Institutions have very few practical ways to prevent students from over-borrowing. Current statute views student loans as “entitlements,” and institutions can deny or limit loan eligibility only on a case-by-case basis through “professional judgment.” Applying professional judgment is time-consuming because each case must be considered individually, and all decisions must be documented. Additionally, institutions are reluctant to use their authority to deny or restrict loan eligibility because they may be subject to lawsuits or civil rights actions.

### **Recommendation #11: Establish aggregate loan limits based on the level of academic credential.**

Aggregate loan limits should be established based on the level of academic credential the student is pursuing. Specific limits would be set for Certificates, Associate, Baccalaureate, Graduate, and Professional Degrees.

**Rationale:** Moving to a “one loan” model with clear aggregate loan limits based on the program can contribute to simplification and clarity for students and families. Currently, a student in an associate degree program can borrow Direct Loans up to the aggregate loan limit for a student in a bachelor’s degree program.



NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1101 CONNECTICUT AVENUE NW, SUITE 1100  
WASHINGTON, DC 20036-4303  
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG