

Analysis of the Experimental Sites Initiative: 2004-05 Award Year

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EXECUTIVE SUMMARY

The Experimental Sites Initiative was authorized by Congress under section 487A(b) of the Higher Education Act of 1965, as amended. Since 1996, the U.S. Department of Education, Federal Student Aid, has overseen this Initiative. This Initiative—or “experiments,” as they are frequently hereafter called—provides Federal Student Aid with 120 laboratories to test the effects of statutory and regulatory flexibility for institutions participating in Title IV student aid programs. Each of these laboratories is a postsecondary institution, or consortium of institutions, granted special permission to waive specific statutes and the implementing regulations. The Initiative grew from concerns that federal requirements placed unnecessary burdens on postsecondary students and institutions and that the outcomes of some of these requirements may counter the goals of the Higher Education Act.

As a condition for participation, institutions in the Experimental Sites Initiative submit data to Federal Student Aid concerning the outcomes of the experiments in which they participate. This report reviews performance outcomes with respect to all ten of the experiments currently being conducted. These experiments involve:

- Loan proration practices for graduating borrowers;
- Overaward tolerance and the disbursement of loan funds;
- Inclusion of loan fees in the calculation of student cost of attendance;
- Credit of Title IV funds to otherwise nonallowable institutional charges;
- Credit of Title IV funds to prior term charges;
- Waiver of multiple disbursements for single-term loans;
- Waiver of the 30-day delay for disbursements of loans to first-time, first-year borrowers;
- Alternative entrance loan counseling procedures;
- Alternative exit loan counseling procedures; and
- Award of Title IV aid to students not passing an “Ability to Benefit” test.

Federal Student Aid has examined the performance data submitted by institutions participating in the experiments in previous academic years and has found their support for the Initiative to be overwhelmingly positive. Participating institutions cited benefits for both themselves and their students. This report examines the data and comments submitted by institutions participating in the Initiative for award year 2004–2005 (AY04–05). Participating institutions are enthusiastically supportive and recommend the broader application of the administrative flexibility these experiments provide.

OVERVIEW

Introduction

In 1965, Congress passed the Higher Education Act (HEA). President Lyndon B. Johnson signed it into law. The HEA deals comprehensively with postsecondary education, but one of its foremost goals is to ensure that postsecondary education is accessible to all. For fiscal year 2006, the Bush administration projected that over ten million postsecondary students will share more than \$100 billion generated by the various student aid programs authorized under HEA's Title IV.¹

While the benefits of the programs are incalculable, their costs to the federal government are considerable. The total budget authority for student aid is almost \$43.6² billion in FY 2006. Congress and the U.S. Department of Education (ED), through Federal Student Aid and the Office of Postsecondary Education (OPE), have a justifiable interest, therefore, in protecting the integrity of the student aid programs. To this end, statutory and regulatory requirements have evolved, yet some have argued that these requirements may occasionally undermine the intent of the HEA. For example, the proration of loan funds to graduating borrowers may protect the interests of the taxpayer by lowering their exposure to the potential for default. In doing so, however, the ability of the student borrower to complete his or her course of studies and graduate on time may be impaired. In extreme circumstances, the ability of the student to graduate at all may be threatened.

The Experimental Sites Initiative, under section 487A(b) of the Higher Education Amendments of 1998, seeks to assess the extent to which select statutes and regulations function to burden the student and the postsecondary institution without enhancing the integrity of the financial aid programs. Although Congress initially granted ED the authority to conduct these inquiries in 1992, but the Experimental Sites Initiative did not begin until 1996. The results of these earliest efforts led to the relaxation of the 30-day delay requirement for the disbursement of funds to first-year, first-time borrowers, as well as the easing of the requirement that single-term loans be disbursed in multiple installments. The Higher Education Amendments of 1998 provided relief from the disbursement provisions for institutions with a default rate less than 10% for the three most recent fiscal years. The authorization for this relief expired on September 30, 2002, until it was made permanent again in the Deficit Reduction Act of 2006, Public Law No. 109-171.

¹ FY 2007 Budget Summary—February 6, 2006.

² Budget authority requested for FFEL does not include the liquidating account. The 2005 amount includes an upward re-estimate of \$1.2 billion, largely attributable to revised interest rates and other assumptions for loans made in 1994-2005. The 2006 amount includes an upward re-estimate of \$7.2 billion primarily related to revised interest rates, particularly for the nearly \$54 billion in FY 2005 loan consolidations; this re-estimate reflects the expanded use of in-school consolidation and an unprecedented volume of consolidations driven by a large increase in variable student loan interest rates on July 1, 2005. The 2006 amount also includes a \$1.7 billion upward modification to reflect the effect of the Higher Education Reconciliation Act on existing loans.

TABLE 1. COMPARISON OF INSTITUTIONAL CHARACTERISTICS WITHIN DATA SETS

	College Board's Common Data Set	Participating Experimental Sites Only
Total Number of Institutions	3,698	120
Number of Institutions by Type		
One-year or less	9	0
Two-year, lower	1,680	19
Two-year, upper	54	1
Three-year	43	0
Four-year	1,886	100
Five-year	22	0
Six-year	4	0
Number of Institutions by Control		
Public	1,630	102
Private	1,368	18
Proprietary	700	0
Geographic Region		
New England	231	4
Mid-Atlantic	676	11
Southern	800	12
Midwest	980	45
Southwest	303	5
Western	668	43
Foreign	40	0
Average Enrollment	3,184	13,152

Table 1 presents a comparison of the 120 institutions participating in the Experimental Sites Initiative with institutions represented in the College Board’s common data set² (CDS). Particularly compared with institutions contained in the CDS, institutions participating in the Experimental Sites Initiative are a homogeneous group.³ The vast majority of experimental sites

² The CDS, or more explicitly “the Annual Survey of Colleges of the College Board and Data Base,” is an important source of information in the comparative analyses. It is described in greater detail in the Technical Appendix to this report.

³ 4,492 private, for-profit institutions are identified in the Integrated Postsecondary Data System (IPEDS). The Postsecondary Education Participants System identifies 1,912 proprietary schools in addition to 495 foreign schools. The institutions in IPEDS are not necessarily Title IV eligible.

The source of data for the CDS is *The Annual Survey of Colleges of the College Board and Data Base, 2002-03*. Copyright 2002 College Entrance Examination Board. All rights reserved. The CDS contains a wealth of information concerning the characteristics of postsecondary institutions and was an important source of data for these analyses.

are public (85%), four-year institutions (83%). On average, they are four times the size of the average institution in the CDS, and they are clustered in the Midwest and West (73%). For the purposes of comparison, note that 44 percent of the institutions in the CDS are under public control, 51 percent are four-year institutions, and 45 percent are in the Midwest or West. Institutions participating in the Experimental Sites Initiative are not broadly representative of U.S. postsecondary institutions.

As a condition to their participation, all experimental sites institutions are required to report on the outcomes of the experiments in which they participate. Reports are submitted to Federal Student Aid through the use of OMB approved experiment-specific web-based reporting templates that relay quantitative data and qualitative comments.

Previous analyses of the Experimental Sites Initiative relayed the results of the experiments as reported by participating institutions through the reporting templates. This analysis will also characterize the data provided by participating institutions.

Outline

This report will briefly describe each experiment. Data reported by participating institutions will be summarized. Findings this year are similar when compared to previous years. Generally, participants support the experiments in which they participate and argue for broader application.

A technical appendix accompanies this report. The reader is referred to this appendix as a source of greater detail concerning the data and the variables.

DESCRIPTION OF THE EXPERIMENTS AND SUMMARIZATION OF RESULTS AS REPORTED BY PARTICIPATING INSTITUTIONS

A. LOAN PRORATION FOR GRADUATING BORROWERS

An undergraduate may borrow up to the annual limit for the student's year in school subject to an estimation of the student's need. Under 34 CFR 682.204(a), (d) for the Family Federal Education Loan (FFEL), and 34 CFR 682.203(a), (c) for the Direct Loan (DL) program, however, loans must be prorated if the borrower has a remaining period of study that is shorter than a full academic year. The loan amount is prorated by multiplying the student's annual limit by a coefficient equal to the number of hours (or weeks) for which the student is registered divided by the total number of hours (or weeks) in the academic year. Graduating students at institutions participating in the Experimental Sites Initiative loan proration experiment are not subject to this limitation.

Loan proration was designed to limit the Federal government's exposure to default. It carries the additional benefit that it decreases the student's loan principal. Some have argued, however, that prorating loans, especially for soon-to-be graduating students, can have an adverse affect on their prospects for graduation. Although a student's direct expenses, such as tuition and books, may decrease in proportion to the number of hours for which they are registered, their indirect expenses, such as room and board, do not. Because of a lack of funds, students may have to delay their graduation or, in extreme cases, drop out.

Institutions found that allowing students in the experiment to take their full loan eligibility benefited these students. Many times, if the student has to take an extra semester to graduate other types of gift assistance are no longer available. For example, ninth semester undergraduate borrowers benefit greatly from this experiment because some forms of financial aid are no longer available to students in their fifth year of study.

In some cases, loan proration stands as a barrier to graduation for low income students with limited resources who need an extra semester to graduate. This experiment helps students finance the final semester needed to obtain their degree. Studies have shown that students who receive their degree have much lower default rates than those who are not able to finish. Loan proration also provides assistance to graduate students who need to finance their final semester expenses. Potential harm is great when loan amounts are prorated, as the persistence of the most needy students can be adversely affected by reduced loan eligibility.

Colleges and universities participating in the experiment cited other problems they felt were more prevalent. Specifically, if a student's source for subsidized loans is cut off, he or she may have to resort to other, more expensive, alternatives like private loans and credit cards. Regardless of the source of alternative funds, the student's debt burden is increased. Regrettably, the student's probability of default rises as payments on Federally subsidized loans are ignored in favor of payments for the more expensive, more aggressively collected, alternative funding options. In some extreme cases this has caused an increase in student dropout rates.

Indirect expenses associated with attending a postsecondary institution do not necessarily diminish with a student's course load. Institutions participating in this experiment note that, for

the case of students on the cusp of graduation, indirect expenses may actually rise. Students may begin to incur job search expenses. They may need help with resume preparation or may need to pay for examinations that qualify them for graduate school. Although the student loan programs were designed to help a student meet his or her educational expenses, it is hard to argue with the proposition that the smoother a student’s transition to the workforce is, the more likely it is that he or she will quickly begin repayment.

This experiment was also found to provide administrative relief because schools did not have to perform burdensome calculations for prorated loan amounts and then counsel students on the rationale. This has allowed staff to focus their time and resources on improving other areas of the financial aid process.

Participants in this experiment are predominantly four-year, public institutions. Table 2 indicates that, of the 31,879 students who received nonprorated loans, only 0.6 percent (191) withdrew before the end of the term. Over 75 percent (24,315) graduated as scheduled. A total of 4,262 students received prorated loans, with 3,685 graduating as scheduled (86%).

TABLE 2. LOAN PRORATION EXPERIMENT PARTICIPANTS’ SELF-REPORTED VALUES

Loan Proration–Institution Self-reported Values			
	Sum	Mean	Percentage
Enrollment (from CDS)	1,292,739	16,159	
Number of Title IV recipients*	881,512	11,018	
Total FFEL/Direct Stafford Loan volume*	\$5,428,621,893	\$67,857,774	
Total Federal Pell volume*	\$830,814,470	\$10,385,181	
Total campus-based volume*	\$564,806,532	\$7,060,082	
Most recent self-reported default rate*	N/A	2.4	
2) Number of students in (2) whose loans would have been subject to loan proration in their graduating term	38,912	486	
2a) Number of students in (3) who actually received prorated loans	4,262	53	
2a1) Number of students in (3a) who graduated with four-year degrees	3,685	46	
2a2) Number of students in (3a) who graduated with other degrees	187	2	
2a3) Number of students in (2a) who withdrew before end of term	25	0	
2a3i) Total amount returned to Title IV for students in (2a3) who withdrew before the end of the term	\$9,589	\$120	
2a4) Number of students in (3a) who completed term (not necessarily graduated)	364	4	
2b) Number of students in (2) who received nonprorated loans in their graduating term	31,879	398	
2b1) Number of students in (4) who graduated with four-year degrees	24,315	303	

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Loan Proration–Institution Self-reported Values			
	Sum	Mean	Percentage
2b2)Number of students in (4) who graduated with other degrees	2,329	29	
2b3)Number of students who withdrew before end of term	191	2	
2b3i)Total amount returned to Title IV for students in (4b) who withdrew before the end of the term	\$193,487	\$2,419	
2b4)Number of students in (4) who completed term (not necessarily graduated)	3,205	40	
O1)Estimated savings in administrative work hours per borrower [11 institutions reporting]	7.1	0.64	
O2)Estimated savings in administrative costs per borrower [11 institutions reporting]	\$184	\$17	
Students receiving prorated loans who graduated with four-year degrees			86.5%
Students receiving prorated loans who graduated with other degrees			4.4%
Students receiving prorated loans who withdrew			0.6%
Students receiving prorated loans who completed term			8.5%
Students receiving non-prorated loans who graduated with four-year degrees			76.3%
Students receiving non-prorated loans who graduated with other degrees			7.3%
Students receiving non-prorated loans who withdrew			0.6%
Students receiving non-prorated loans who completed term			10.1%

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

B. OVERAWARD TOLERANCE AND THE DISBURSEMENT OF LOAN FUNDS

The regulation regarding overawards states that schools must correct any overawards that occur prior to the full disbursement of a loan. The FFEL/DL programs have a provision that allow a \$300 tolerance if a student has Federal Work Study (FWS) in their student aid package. If there is no FWS in the student’s aid package, an overaward threshold is not allowed under FFEL/DL. The regulatory relief in the experiment, however, exempts the correction of overawards for FFEL and DL of \$300 or less that arise before the loan is fully disbursed.

Institutions participating in the overaward tolerance experiment overwhelmingly endorse it. They see the benefits of overaward tolerance as primarily accruing to themselves, but also suggest that students benefit. Students are able to budget their resources earlier and more accurately, incur less paperwork, and avoid frustrations from what they perceive as needless bureaucratic regulation. Participating institutions argue that overaward tolerance greatly reduces their administrative burden.

In addition to potential cost savings, the flexibility of overaward tolerance has considerable utility. It saves participants from having to repackage awards if state grants are delayed or if a state experiences large increases in tuition. Overawards of \$300 or less are usually the result of

the “tweaking” of awards by outside agencies. They may also be the result of adjustments in state and scholastic departmental awards. Whatever the source, institutions in the overaward experiment do not believe that they, or their students, should bear the cost of these adjustments.

Institutions participating in this experiment recommend that the overaward tolerance, if incorporated into law, should be raised from the \$300 threshold to \$500. This recommendation is based solely on the increase in tuition. Institutions have cited increases of up to 70% since the commencement of this experiment in the 1995-1996 award year. Institutions have even suggested a percentage-based tolerance by cost of attendance. Participating institutions also stated that the confusion of explaining two different processes for loans is cumbersome for financial aid staff and difficult for students to understand.

As reported by participating institutions, the occurrence of overawards of \$300 or less is relatively rare. From Table 3 it can be calculated that only two percent of all students with FFEL/Direct Stafford loans had overawards. The total amount of these overawards amounted to only .04 percent of all FFEL/Direct Stafford loan funds, which demonstrates that there is minimal negative financial impact on federal funds. These overawards are comprised entirely of loans, which will eventually be paid back.

TABLE 3. OVERAWARD TOLERANCE EXPERIMENT PARTICIPANTS’ SELF-REPORTED VALUES

Overaward Tolerance–Institution Self-reported Values			
	Sum	Mean	Percentage
Enrollment (from CDS)	619,234	16,736	
Number of Title IV recipients*	425,812	11,508	
Total FFEL/Direct Stafford Loan volume*	\$2,393,733,543	\$64,695,501	
Total Federal Pell volume*	\$438,097,120	\$11,840,463	
Total campus-based volume*	\$207,126,060	\$5,598,002	
Most recent self-reported default rate*	N/A	2.6	
2) Total number of students with loan funds overawarded by \$300 or less	5,702	154	
3) Total Stafford loan volume for students in 2)	\$31,194,950	\$848,107	
4) Total amount of overawards by \$300 or less in 2)	\$1,034,363	\$27,956	
Average amount of overaward for those with overawards of \$300 or less	N/A	\$176	
O1) Estimated savings in administrative work hours per borrower [5 institutions reporting]	7.0	1.0	
O2) Estimated savings in administrative costs per borrower [6 institutions reporting]	\$257	\$43	
O3) Average cost of attendance for FFEL/Direct Stafford loan population [11 institutions reporting]	\$246,018	\$22,365	
Students with FFEL/DL that had overawards			1.5%
FFEL/DL funds that were overawarded by \$300 or less			.04%

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

C. THE INCLUSION OF LOAN FEES IN THE COST OF ATTENDANCE

Financial aid administrators are required by statute to include loan fees in the calculation of a student's cost of attendance (COA). Institutions participating in this experiment are given the option of including loan fees in the calculation of student need in special circumstances or at the borrower's request. Not including loan fees in the COA calculation allows for a quasi-customized adjustment of aid levels, potential reduction of student loan principal, and significant reduction of administrative burden associated with the calculation of COA.

This experiment found that students do not choose to add loan fees to their COA calculation. One reason, institutions report, is that doing so has a minimal impact on their loan funds eligibility. In the majority of cases, students are already near, or at, maximum award levels. Increasing the estimate of their cost of attendance will have little or no effect on their final award. Generally, costs are rising at postsecondary institutions so quickly that the inclusion of loan fees to the calculation of student need is usually unnecessary for students to qualify for the maximum award, according to participating institutions.

Reporting institutions experienced increased flexibility. Specifically, they stated that the option of including loan fees presented them with an opportunity to correct overawards in a reasonably simple fashion, avoiding any negative impact on student loan fund eligibility that the overaward may otherwise have created. Institutions suggested that the experiment reduced their burden and increased flexibility and benefits to their students in the form of amplified individual and customer service. One participating institution suggested changing the loan fee requirement to an option by adding the fees to the cost of attendance as part of professional judgment.

Institutions participating in the loan fees in COA initiative agree that it has the potential for reducing student indebtedness. In fact, when offered the opportunity, only a small percentage of students elected to include loan fees in the estimation of their COA. Overall, only 12 percent of FFEL/DL borrowers at participating institutions had loan fees included in their COA calculation (Table 4). Institutions participating in this experiment over a period of time have also noticed a steady decline in default rates. Allowing alternative methods of excluding loan fees in the COA decreases student borrower financial burden.

Institutions largely report favorable results concerning the influence of this experiment on the operations of their student financial aid offices. Table 4 displays that, for the eight institutions reporting, participating in the loan fees in COA experiment resulted in a savings of 0.4 of a work hour and almost \$6 per borrower. Not having to calculate loan fees simplifies the overall loan processing system.

TABLE 4. LOAN FEES IN COST OF ATTENDANCE EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Loan Fees—Institution Self-reported Values			
	Sum	Mean	Percentage/Amount
Enrollment (from CDS)	891,355	17,141	
Number of Title IV recipients*	617,483	11,874	
Total FFEL/Direct Stafford Loan volume*	\$3,697,048,274	\$71,097,082	
Total Federal Pell volume*	\$608,152,127	\$11,695,233	
Total campus-based volume*	\$363,743,750	\$6,995,072	
Most recent self-reported default rate*	N/A	2.7	
2) Total number of students for whom loan fees included as part of COA	64,555	1,241	
3) Total amount of loans for students in (4) who have loan fees included	\$565,064,306	\$10,866,621	
4) Total amount of loan fees included in COA for students in (4)	\$14,937,168	\$287,253	
5) Number of students for whom loan fees were NOT included in COA	497,455	9,566	
6) Total number of students who did NOT have loan fees included in their COA, who received the maximum annual loan limit for the award year	286,953	5,518	
7) Total number of students who could have had the loan fees included in their cost of attendance	398,932	7,671	
O1) Estimated savings in administrative work hours per borrower [9 institutions reporting]	3.0	0.4	
O2) Estimated savings in administrative costs per borrower (Q4_O2) [8 institutions reporting]	\$47	\$6	
Borrowers who had loan fees included in COA			12%
Borrowers who did not have loan fees included in COA			88%
Average amount for whom loan fees were included in COA			\$231

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

D. CREDIT OF TITLE IV FUNDS TO OTHERWISE NONALLOWABLE INSTITUTIONAL CHARGES

Under current regulations, institutions must attain written authorization from a student or parent to apply Title IV funds to otherwise nonallowable institutional charges. The intent of these regulations is to ensure that institutions apply Title IV funds exclusively to educational costs. The experiment allows participating institutions exemption from this requirement, providing administrative relief and flexibility for institutions. Institutions no longer have to spend valuable administrative work hours acquiring authorization from students or parents when they wish to apply Title IV funds to other student expenses such as payment of library charges, parking fees, student health charges, etc. In all cases, however, students must be made aware of the policy and procedures for applying current aid to otherwise nonallowable institutional charges.

When it comes to the relief of administrative burden, most participating institutions appeared enthusiastic about the experiment. Schools report that the experiment saves the financial aid office time because it does not have to explain to each student why a refund was issued, when there was a balance due and relieves the offices of the burden of mailing out, collecting and tracking the authorization form. One participating institution stated, “If the experiment is no longer available after this next reauthorization, we would hope that our positive experience would lend credence to making this allowance part of the reauthorized regulations governing student financial aid programs.” This sentiment appears to be shared by all participating institutions.

The experiment requires that participating institutions report on those students who declined automatic crediting of their accounts, with the presumption that students might object to the use of Title IV funds in this manner. The results of the experiment indicate that this does not appear to be the case. According to Table 5, less than one-half of one percent of all Title IV recipients declined automatic crediting of their accounts for otherwise nonallowable institutional charges. Individually, participating institutions indicate that most students are satisfied with this procedure.

**TABLE 5. CREDIT OF TITLE IV AID TO NONALLOWABLE INSTITUTIONAL CHARGES
EXPERIMENT PARTICIPANTS’ SELF-REPORTED VALUES**

Institutional Charges – Institution Self-reported Values			
	Sum	Mean	Percentage
Enrollment (from CDS)	477,525	16,466	
Number of Title IV recipients*	306,519	10,569	
Total FFEL/Direct Stafford Loan volume*	\$1,878,320,071	64,769,658	
Total Federal Pell volume*	\$280,753,536	9,681,156	
Total campus-based volume*	\$197,701,368	\$6,817,289	
Most recent self-reported default rate*	N/A	2.6	
3) Number for whom Title IV aid was credited to nonallowable institutional charges	127,874	4,409	
3a) Total dollar amount of Title IV funds for Title IV aid recipients	\$1,071,037,005	\$36,932,311	
3b) Total amount of Title IV aid credited to nonallowable institutional charges	\$57,155,863	\$1,970,892	
3c) Number of students who used some of their 2002–2003 aid for credit to nonallowable institutional charges, who either graduated or were able to continue their enrollment into the following semester	105,741	3,646	
4) Number of students declining automatic credit of Title IV aid to nonallowable institutional charges	535	18	
4a) Total dollar amount of Title IV funds for Title IV aid recipients in (4)	\$4,225,732	\$145,715	
4b) Total amount of otherwise nonallowable institutional charges for students in (4)	\$213,559	\$7,364	
4c) Number of students in (4) who either graduated or were able to continue their enrollment into the following semester	117	4	

Institutional Charges – Institution Self-reported Values			
	Sum	Mean	Percentage
5) Number of students who took advantage of crediting of Title IV aid to non-allowable institutional charges for multiple terms	62,133	2,142	
O1) Estimated savings in administrative work hours per borrower [5 institutions reporting]	N/A	N/A	
O2) Estimated savings in administrative costs per borrower [3 institutions reporting]	N/A	N/A	
Title IV funds credited to non-allowable institutional charges			5%
Students for whom Title IV aid was credited to non-allowable charges			42%

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

E. CREDIT OF TITLE IV AID TO PRIOR TERM CHARGES

Student permission is normally required of institutions before crediting charges from a prior term, in a previous academic year, with funds from Title IV disbursements. This experiment eliminates the requirement and allows the institution to apply Title IV funds to charges for which they were not originally intended (for example, outstanding charges from a prior term and not a current term) to evaluate the effect, if any, on student retention. As in the application of Title IV aid to traditionally non-allowable institutional charges, students must be made aware of the policy and procedures for applying current aid to prior term charges.

Several participating institutions specifically mentioned that no student declined the option of automatic crediting of prior term charges with Title IV funds. In addition, the experimental conditions led to positive benefits, such as a decrease in administrative work and an increase in retention. It saves institutions from having to contact students and parents for the necessary permissions and saves them from having to print, mail, collect and tabulate the permissions.

Also, as a result of this experiment, many students were allowed continued attendance that may have been otherwise withheld from them. Some institutions offer counsel to students at which time the student is informed that he/she will not be able to register if these charges are not paid. The student is not always able to pay and can only return to school by using the residual funds from Title IV. Automatic crediting of prior term charges is viewed as a valuable service for students. It eliminates the problem of class cancellation and subsequent late re-registration for a number of students.

TABLE 6. CREDIT OF TITLE IV FUNDS TO PRIOR TERM CHARGES EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Prior Term – Institution Self-reported Values			
	Sum	Mean	Average Amt.
Enrollment (from CDS)	391,056	20,582	
Number of Title IV recipients*	253,313	13,332	
Total FFEL/Direct Stafford Loan volume*	\$1,595,413,852	\$83,969,150	
Total Federal Pell volume*	\$233,192,865	\$12,273,309	
Total campus-based volume*	\$155,141,331	\$8,165,333	
Most recent self-reported default rate*	N/A	2.6	
3) Total number of students who had Title IV aid credited to prior term charges	30,013	1,579	
3a) Total amount of Title IV aid	\$239,779,707	\$12,619,985	
3b) Total amount of Title IV aid credited to prior term charges for a prior year	\$16,109,485	\$847,868	
3c) Number of students who used some of their 2001–2002 aid to pay 2000–2001 prior term charges, who either graduated or were able to continue their enrollment into the following semester	25,125	1,322	
4) Number of students declining automatic crediting of Title IV aid to prior term charges for a prior award year.	0	0	
4a) Total amount of Title IV aid	N/A	N/A	
4b) Total amount of Title IV aid credited to prior term charges for a prior year	N/A	N/A	
4c) Number of students who used some of their 2002–2003 aid to pay 2001–2002 prior term charges, who either graduated or were able to continue their enrollment into the following semester	N/A	N/A	
O1) Estimated savings in administrative work hours per borrower [2 institutions reporting]	1.0	.5	
O2) Estimated savings in administrative costs per borrower [2 institutions reporting]	N/A	N/A	
Average amount of Title IV aid credited to prior term charges			\$537

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

F. WAIVER OF MULTIPLE DISBURSEMENTS FOR SINGLE-TERM LOANS

Regulations require that institutions disburse single-term loans in two separate installments. Students receive half the loan at the beginning of the term and the other half at the midpoint. It is hypothesized that because the majority of a student’s expenses are incurred at the beginning of a term, disbursing only a portion of his or her loan at that time can create hardships. Frequently, students must turn to their institutions for help in granting fee deferments, emergency loans, and other stopgap measures. This, in turn, creates additional administrative costs and burden for the institution’s financial aid office.

Under the conditions of this experiment, participating institutions can disburse the entire loan at the beginning of the term. Students benefit academically from this experiment because the disbursement of the entire loan at the beginning of the semester enables them to immediately fund course-related expenses and increasingly costly living expenses. Institutions report a benefit through a reduction in work hours and costs associated with disbursing a loan two times during the same semester. Institutions state that they often have to provide emergency short-term loans to fill the gap in student expenses created by multiple disbursements, leading to an even greater administrative burden and stress to students. Furthermore, some institutions do not have funds available for emergency or short-term loans, which may cause the student to withdraw.

Risks associated with disbursing single-term loans in one installment include the possibility that students may withdraw at mid-term after they receive their loan funds and eventually may default on a larger loan principal. At institutions participating in this experiment, this does not appear to be the case. As indicated in Table 7, the most recent self-reported default rate for participating institutions is 2.8 percent; only 1.7 percent of students receiving single-term loans withdrew before the midpoint of the term. Withdrawal and default rates among students, especially upper-level students, do not appear to be adversely affected by a single disbursement. In some cases, the potential for withdrawal and default may be overstated. Table 7 also demonstrates that \$3,416,442 in Title IV loan funds was returned by students withdrawing before the mid-point of the term. This represents a little over one-half of one percent of all loan funds distributed to students at participating institutions with single-term loans.

At one participating institution the experiment contributed to an 83% reduction in the number of short term loans from 1994-95 through the 2004-05 award years. This allowed the administration of the short term loan program to help in other areas of the financial aid and bursar's office. Participating institutions have reported retention rate increases. Also, the decrease in student withdrawal is probably directly associated with the students having all loan funds available at the beginning of a semester. Table 7 indicates that, on average, participating institutions that responded to these queries saved approximately one hour per borrower in administrative work hours.

TABLE 7. WAIVER OF MULTIPLE DISBURSEMENTS OF SINGLE-TERM LOANS EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Multiple Disbursements – Institution Self-reported Values			
	Sum	Mean	Percentage
Enrollment (CDS)	1,064,746	14,996	
Number of Title IV recipients*	723,173	10,185	
Total FFEL/Direct Stafford Loan volume*	\$4,170,612,895	\$58,741,027	
Total Federal Pell volume*	\$740,055,564	\$10,423,318	
Total campus-based volume*	\$402,254,603	\$5,665,558	
Most recent self-reported default rate*	N/A	2.8	
2) Number of students with single-term loans	120,399	1,695	
2a) Total amount of loan funds for students in (2)	\$546,557,880	\$7,697,998	
2b) Number of students withdrawing before midpoint of term	2,032	28	
2c) Total amount of Title IV loan funds returned to Title IV for students withdrawing before the midpoint of the term	\$3,416,442	\$48,119	
2d) Number of students completing the term	113,573	1,599	
O1) Estimated savings in administrative work hours per borrower [12 institutions reporting]	7.0	0.6	
O2) Estimated savings in administrative costs per borrower [12 institutions reporting]	\$232	\$19	
Students withdrawing before midpoint of term			1.7%
Loan funds returned by students withdrawing before midpoint of term			0.6%
Students completing with single term loans			94.3%

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

G. WAIVER OF THE 30-DAY DELAY FOR THE DISBURSEMENT OF LOANS TO FIRST-YEAR, FIRST-TIME BORROWERS

To protect the interests of the federal government, the statute and the implementing regulations stipulate that loan funds for first-time, first-year borrowers not be disbursed until 30 days after the first day of classes. This proscription was instituted because of the relatively high probability of new students withdrawing from the institution within their first term. It has been suggested, however, that this restraint may lead to hardships for students because start-up costs are very high: access to funds is crucial during the first weeks of classes because housing costs usually involve an additional month's rent (security deposit); living spaces need to be furnished; and supplies, such as textbooks and other items essential to study, need to be purchased. Participants in this experiment were exempted from this 30-day delay requirement in an effort to assess the effects of this exemption on withdrawal rates.

At nearly every institution that provided commentary, less than three percent of first-time, first-year borrowers withdrew before 30 days into the term. Most reporting institutions reported figures of less than one percent. Generally, the number of students who did withdraw within the first 30 days was negligible in relation to the total number of students who accepted loans, according to participating institutions. Table 8 relates that of the 78,835 first-time, first-year borrowers at institutions participating in the experiment, only 403 (0.5%) withdrew within 30 days. On average, students who did withdraw returned \$1,235 of the Title IV loan funds

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distributed to them. At 12 institutions, the number of students withdrawing within 30 days was zero. As a result, most participating institutions reported that the delay was unnecessary.

A major advantage of the exemption to the 30-day delay requirement includes a reduction in stress on students as they attempt to finance their first month of classes. Additional merits of this experiment include immediately available funds for food, housing and start-up supplies, such as textbooks, equipment, furnishings, and security deposits.

TABLE 8. EXEMPTION FROM THE 30-DAY DELAY EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Thirty-Day Delay – Institution Self-reported Values			
	Sum	Mean	Percentage/Amount
Enrollment (from CDS)	907,022	14,397	
Number of Title IV Recipients*	633,694	10,058	
Total FFEL/Direct Stafford Loan volume*	\$3,756,776,577	\$59,631,374	
Total Federal Pell volume*	\$637,010,530	\$10,111,278	
Total campus-based volume*	\$357,045,160	\$5,667,383	
Most recent self-reported default rate*	N/A	2.6	
2) Number of first-time, first-year students	191,786	3,044	
2a) Number of first-time, first-year students withdrawing	3,771	59	
2b) Number of first-time, first-year students withdrawing within 30 days of enrollment	1,253	19	
3) Number of first-time, first-year borrowers	78,835	1,251	
3a) Total loan volume for students in (3)	\$235,618,553	\$3,739,977	
3b) Number of first-time, first-year students withdrawing	1,424	22	
3c) Number of first-time, first-year students withdrawing within 30 days of enrollment	403	6	
3d) Total amount returned to Title IV for students in (3b)	\$1,076,964	\$17,095	
3e) Total amount returned to Title IV for students in (3c)	\$453,350	\$7,196	
O1) Estimated savings in administrative work hours per borrower [11 institutions reporting]	9.8	0.9	
O2) Estimated savings in administrative costs per borrower [11 institutions reporting]	\$381	\$35	
First-time, first-year students withdrawing			1.97%
First-time, first-year students withdrawing within 30 days of enrollment			0.65%
First-time, first-year borrowers withdrawing			1.81%
First-time, first-year borrowers withdrawing within 30 days of enrollment			0.51%
Average amount of Title IV funds returned by students withdrawing			\$756
Average amount of Title IV funds returned by students withdrawing within 30 days of enrollment			\$1,125
Average loan amount for first-time, first-year borrowers			\$2,989

* These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

H. ALTERNATIVE ENTRANCE LOAN COUNSELING PROCEDURES

To decrease institutional default rates, regulations require that all institutions provide entrance counseling to students before disbursing Perkins, Direct, or FFEL loans. The regulations are intended to provide first-time borrowers information regarding their rights and responsibilities, especially when it comes to repayment of loans. Although there is some variation, depending on the type of loan, regulations generally require that institutions conduct and document this initial counseling to all first-time borrowers. The amendment to the HEA in 1998 eased the restrictions contained in these regulations by allowing counseling to be in person, by audiovisual presentation, or by interactive electronic means. Before the amendment, in-person counseling was required.

Although many institutions have taken advantage of the 1998 amendments to the HEA by employing less burdensome means of counseling, the Experimental Sites Initiative entrance loan counseling experiment allows even greater latitude for participating institutions. Participating institutions are afforded the opportunity to allow a student to receive loan funds at the beginning of the semester when the money is needed for numerous postsecondary expenses even if they have not had time to complete entrance counseling. In addition, participants are free from the cumbersome “entrance counseling certification” to maintain documentation in each student file to verify the entrance counseling performed. By further easing the restrictions on when and in what form entrance loan counseling may occur, financial aid offices benefit significantly from savings in administrative costs and workload. By having this relief, institutions are able to target certain high-risk groups, such as students submitting Satisfactory Academic Progress (SAP) appeals, students requesting additional unsubsidized loans due to Parent Loans for Undergraduate Students (PLUS) denials, etc.

Most participating institutions responded positively to the easing of requirements concerning entrance loan counseling. Institutions took advantage of the choices and flexibility open to them under the experiment by employing alternative and creative means through which to accomplish counseling. Web sites such as the Direct Loan Servicing Web site, the Department of Education’s Web site and Mapping Your Future were popular options. Most institutions have found that the convenience and widespread use of the internet among students results in far greater exposure to vital loan information than is the case under more traditional, in-person counseling sessions. Other institutions have found that offering videos for their student aid population to view at their leisure at the library to be a popular alternative. Another common practice within this consortium is the formation of peer groups on campus; students who have been in serious debt talking with first-time, first-year borrowers about the consequences of financial aid and borrowing.

According to participating institutions, the easing of requirements appears to have had a number of positive results. First, most institutions indicated a reduction in administrative and financial costs associated with counseling. As Table 9 indicates, under these experimental conditions institutions save an average of 30 minutes administrative work hours per borrower. In addition to reducing administrative costs, participating institutions also stress the importance of having the ability to redirect counseling to sources of information most relevant to individual borrowers.

In all cases, participating institutions do not believe that their alternative means of entrance loan counseling threatens the integrity of the student loan programs through higher default rates. In most cases, they indicate that default rates have declined since the experimental procedures were implemented. At one institution, the total of all loan programs has almost tripled (\$57 million to \$150 million) since they began participating in this experiment ten years ago. During this same period of time their default rate has been reduced by 4.5%. This was a popular example used to show that no correlation exists between default rate and entrance counseling. Table 9 displays a default rate of 2.1 percent for the institutions—predominantly four-year, public institutions—participating in this experiment.

TABLE 9. ALTERNATIVE ENTRANCE LOAN COUNSELING PROCEDURES EXPERIMENT PARTICIPANTS’ SELF-REPORTED VALUES

Entrance Loan Counseling – Institution Self-reported Values			
	Sum	Mean	Average Amount
Enrollment (from CDS)	821,953	15,807	
Number of Title IV recipients*	579,840	11,150	
Total FFEL/Direct Stafford Loan volume*	\$3,579,490,938	\$68,836,364	
Total Federal Pell volume*	\$548,018,229	\$10,538,812	
Total campus-based volume*	\$340,299,897	\$6,544,229	
Most recent self-reported default rate*	N/A	2.1	
2) Number of first-time borrowers	130,475	2,509	
3) Total loan funds for students in (2)	\$631,297,193	\$12,140,331	
4) Has the institution exempted certain groups?	YES: 9 NO: 43	N/A	
O1) Estimated savings in administrative work hours per borrower [11 institutions reporting]	5.6	0.5	
O2) Estimated savings in administrative costs [institutions reporting]	N/A	N/A	
Average loan amount for first-time borrowers			\$4,838

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

I. ALTERNATIVE EXIT LOAN COUNSELING PROCEDURES

Under current federal statute and the implementing regulations, institutions are required to conduct in-person exit loan counseling, sometimes before issuing transcripts or even permission to graduate. Participating institutions were released from the requirement of personal interaction and were permitted the flexibility to investigate other means of reminding borrowers of their responsibilities, including the use of the postal service and electronic communication. They were not required to document the participation of each borrower. The rationale lies within the value of having the institution explicitly remind the student of his or her financial responsibilities and to confirm the student’s understanding thereof. Because of the large number of borrowers, this often becomes a time-consuming and paperwork-intensive task.

Overwhelmingly, participating institutions expressed their pleasure with the extent of administrative and workload relief provided through the experiment. As seen in Table 10, nine institutions reported an average savings in work hours per borrower of over 20 minutes and their

average savings in administrative costs per borrower was almost \$5. At one public university with an estimated population of greater than 25,000, annual savings were estimated at over \$100,000 per year. Their relief was the result of the flexibility the experiment provided in allowing them alternate means of communicating with their graduating students that are faster and more efficient.

Predominant among these alternate means of communication were web-based methods. As in the entrance loan counseling experiment, several institutions opted to take advantage of existing online sources of information. Sources of online exit counseling include the Direct Loan Servicing Center, Mapping Your Future, Department of Education and United Student Aid Group Web sites. Other reported forms of communication included special group sessions, postal mailings and telephone interviews. Many participating institutions were able to offer their graduating students, at their preference, the full range of these options, including in-person counseling. Several commenting institutions relayed that having a range of options was not only convenient for their student aid offices but was also well received by their student bodies.

Table 10 shows that default rates at institutions participating in this experiment are relatively low. In some cases this experiment has contributed to dramatically decreased default rates over the period of time those institutions have participated. Institutions believe that exit counseling has no adverse effect on the default rate and that graduation is the best way to prevent default.

TABLE 10. ALTERNATIVE EXIT LOAN COUNSELING PROCEDURES EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Exit Loan Counseling–Institution Self-reported Values		
	Sum	Mean
Enrollment (from CDS)	723,241	16,072
Number of Title IV recipients*	519,524	11,544
Total FFEL/Direct Stafford Loan volume*	\$3,209,755,669	\$71,327,904
Total Federal Pell volume*	\$478,235,634	\$10,627,459
Total campus-based volume*	\$296,297,430	\$6,584,387
Most recent self-reported default rate*	N/A	2.5
2) Conducted exit counseling	Y = 33; N = 12	N/A
3) Number of final-term borrowers	117,655	2,614
4) Number of borrowers who graduated	85,190	1,893
5) Number of borrowers who withdrew	16,942	376
6) Total amount of Title IV loans for students in (2)	\$2,519,371,862	\$55,986,041
O1) Estimated savings in administrative work hours per borrower [9 institutions reporting]	3.2	0.4
O2) Estimated savings in administrative costs [8 institutions reporting]	\$40	\$5

*These figures are taken from the demographic reporting template and do not necessarily correspond to experiment-specific entries.

J. ABILITY TO BENEFIT EXAMINATIONS AND THE AWARD OF TITLE IV AID

To qualify for Title IV financial aid, a student must possess a high school diploma, a general equivalency diploma, or pass an independently administered ability to benefit (ATB) test. Institutions participating in this experiment, however, may waive this requirement and offer financial aid to those otherwise eligible students who have successfully completed at least six credit hours of college level classes with a cumulative grade point average of “C” or better, without the benefit of federal student aid.

Participating institutions argue that this exemption provides an incentive for students, who cannot demonstrate their ATB through traditional requirements, to stay in school and that these students perform at least as well academically as their counterparts. The consortium of 15 two-year colleges participating in this experiment overwhelmingly endorses it. Those providing comments find that students failing the ATB exams—usually the Wonderlic, CELSA, or TABE exams—perform satisfactorily on the math portion, but the English-language portion of the tests is their downfall. Some students are able to overcome this language barrier and successfully complete at least six credit hours. Those who have completed the six credits continue to perform at least as well academically as students who passed the exam.

Table 11 reveals that, on average, students who failed the ATB exam, but completed at least six credit hours, attempted and completed more hours than students who were required to take the ATB test as a whole. Also, their grade point averages were higher. Compared to a random sample of financial aid recipients with high school diplomas, students who failed the ATB exam attempted and completed slightly fewer credit hours. Grade point averages are comparable. Students in the ATB experiment also compare favorably with the population of all students taking an ATB exam, the subsets of all students who failed the ATB exam, and those who passed.

These results support the conclusions of participating institutions that students failing an ATB exam, but completing six or more credit hours with a cumulative grade point average of “C” or better, perform at least as well academically as any other group of students at these institutions. In sum, the use of ATB exams to predict student success at these institutions and, thus, student ability to benefit from financial aid relative to other students is in question. Further, when one compares credits attempted and completed, as well as the overall grade point average of students passing or failing a departmentally approved ATB exam to the grade point average of regular students with high school diplomas, the students in the experiment fare as well as other matriculating students. The use of ATB exams as the only acceptable predictor of academic success does not appear to hold up. Since all aid recipients are subject to satisfactory academic progress standards, perhaps the ATB requirement poses an unnecessary initial obstacle to a small group of students.

TABLE 11. ABILITY TO BENEFIT EXPERIMENT PARTICIPANTS' SELF-REPORTED VALUES

Group	Avg. # Units Attempted	Avg. # Units Completed	Average Cum. GPA
Students enrolled in degree or certificate applicable classes	12.01	9.86	2.61
Random sample of FA recipients with HS diplomas/or Total # of FA recipients with HS diplomas	15.06	12.43	2.53
All students required to take ATB test	11.38	8.64	2.13
All students who failed ATB test	9.67	7.07	2.02
All students who passed ATB test	13.01	10.05	2.33
Students who failed ATB test but successfully completed 6 college units	13.31	10.63	2.32