



Analysis of the Experimental Sites Initiative: 2005-06 Award Year

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**Compiled by: Enterprise Performance Management/Strategic Planning and Reporting Group with
School Services and Training Channel/School Outreach Division**

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 the Initiative. This Initiative—or “experiments,” as they are frequently hereafter called—provides Federal Student Aid with 109 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 run counter to 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 eight 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;
- 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 2005–2006 (AY05–06). Participating institutions continue to be enthusiastically supportive and recommend the broader application of the administrative flexibility these experiments provide.

Overview

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 (FY) 2007, the Bush Administration projected that over ten million postsecondary students will share more than \$83 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 \$22.2² billion in FY 2007. 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 ability to benefit experiment allows students without a high school diploma or its recognized equivalent, and who have failed the ATB test, the opportunity to receive financial aid. However, these students must have completed at least six college credits, in core courses acceptable by the community college, with a cumulative grade point average of "C" or better. This experiment allows students that would have previously been denied financial aid the ability to succeed in a postsecondary educational environment.

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, the Experimental Sites Initiative did not begin until 1996. The results of these earliest efforts contributed 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 flexibilities provided by the 30-day delay and multiple disbursements experiments are now included in the law. The Deficit Reduction Act of 2006, Public Law No. 109-171 allows Title IV institutions that have held their default rate at 10% or below for the three most recent fiscal years to be eligible for these flexibilities.

¹ FY 2007 Budget Summary—February 6, 2006.

² Discretionary amount for 2007 assumes use of \$138.6 million is surplus funds originally appropriated in 2006 to support grants in award year 2007-2008 under the scoring rule included in the 2006 Congressional Budget Resolution. Amount also includes \$34.5 million in 2007 for Special LEAP. Budget authority requested for FFEL does not include the Liquidating account. The 2007 amount includes a net downward re-estimate of \$3.2 billion primarily related to revise assumptions for interest rates, loan volume, and default collection costs for the FFEL program. The 2007 amount also includes a net upward re-estimate of \$3.7 billion primarily related to revised assumptions related to interest rates and collections on defaulted loans for the Direct Loan program.

Table 1. Comparison of Institutional Characteristics within Data Sets

	NSLDS	Participating Experimental Sites Only
Total Number of Institutions	5,333	109
Number of Institutions by Type		
One-year or less	1,086	0
Two-year, Non-degree	351	0
Two-year, Associates	1,237	14
Bachelor's Degree	612	4
First Professional Degree	73	0
Master's or Doctor's Degree	1,974	91
Number of Institutions by Control		
Public	1,894	91
Private	1,738	18
Proprietary	1,701	0
Geographic Region		
New England	351	3
Mid-Atlantic	894	11
Southern	933	12
Midwest	1,286	40
Southwest	421	5
Western	959	38
U.S. Territories	35	0
Foreign	454	0
Average Enrollment	NA	19,962 ²

Table 1 presents a comparison of the 109 institutions participating in the Experimental Sites Initiative with institutions represented in the National Student Loan Data System (NSLDS)³. Particularly when compared with institutions in the NSLDS, institutions participating in the Experimental Sites Initiative are a homogeneous group. The vast majority of experimental sites are public (83%), four-year institutions (87%). For the purposes of comparison, note that 36 percent of the institutions in the NSLDS are under public control, 50 percent bachelor's degree or higher degree institutions, and 42 percent are in the Midwest or West. Institutions participating in the Experimental Sites Initiative are not broadly representative of U.S. postsecondary institutions.

² Enrollment data came from the Integrated Postsecondary Data System (IPEDS).

³ In NSLDS, schools that made Direct and FFEL loans in award year 2005-2006.

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 Office of Management and Budget (OMB) approved experiment-specific web-based reporting templates that relay quantitative data and qualitative comments. The 30-day delay and multiple disbursement experiments have concluded now that the Congress included those provisions in the law. Thus, schools participating in these two experiments did not have to report on them for the 2005-2006 award year.

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.

This report will briefly describe each experiment and summarize that data reported by participating institutions. 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. The law states that 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.

The data in Table 2 demonstrates that participants in this experiment are predominantly four-year, public institutions. Of the 32,353 students who received non-prorated loans, only 0.7 percent (232) withdrew before the end of the term. Over 78 percent (25,506) graduated as scheduled. A total of 4,062 students received prorated loans, with 2,979 graduating as scheduled (73%).

The experiment also provided administrative relief because schools did not have to perform burdensome calculations for prorated loan amounts and then counsel students on the rationale. Table 2 displays a savings of \$28.00 per student and approximately 45 minutes of processing time per student. This savings allowed staff to focus their time and resources on improving other areas of the financial aid process.

Table 2. Loan Proration Experiment Participants’ Self-reported Values

Loan Proration–Institution Self-reported Values			
	Sum	Mean	Percentage
Enrollment (from IPEDS)	1,733,953	22,230	
Number of Title IV recipients*	871,545	11,174	
Total FFEL/Direct Stafford Loan volume*	\$5,543,323,490	\$71,068,250	
Total Federal Pell volume*	\$780,363,369	\$10,004,659	
Total campus-based volume*	\$532,190,255	\$6,822,952	
Most recent self-reported default rate*	NA	2.4	
2) Number of students in (2) whose loans would have been subject to loan proration in their graduating term	38,526	494	
2a) Number of students in (3 – on demographics worksheet) who actually received prorated loans	4,062	52	
2a1) Number of students in (2a) who graduated with four-year degrees	2,979	38	
2a2) Number of students in (2a) who graduated with other degrees	158	2	
2a3) Number of students in (2a) who withdrew before end of term	513	7	

Loan Proration–Institution Self-reported Values			
	Sum	Mean	Percentage
2a3i) Total amount returned to Title IV for students in (2a3) who withdrew before the end of the term	\$2,042,929	\$26,191	
2a4) Number of students in (2a) who completed term (not necessarily graduated)	188	2	
2b) Number of students in (2) who received non-prorated loans in their graduating term	32,353	415	
2b1) Number of students in (2b) who graduated with four-year degrees	25,506	327	
2b2) Number of students in (2b) who graduated with other degrees	2,285	29	
2b3) Number of students in (2b) who withdrew before end of term	232	3	
2b3i) Total amount returned to Title IV for students in (2b3) who withdrew before the end of the term	\$324,444	\$12,479	
2b4) Number of students in (2b) who completed term (not necessarily graduated)	3,864	50	
O1) Estimated savings in administrative work hours per borrower [15 of 78 institutions reporting]	12.0	0.80	
O2) Estimated savings in administrative costs per borrower [15 of 78 institutions reporting]	\$420	\$28	
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.

Institutional Comments

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 benefited 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. Recently released data from the U.S. Department of Education's National Center for Education Statistics reveal that despite borrowing relatively small amounts, students who drop out or earn only certificates are more likely to default than peers who tend to borrow more but complete degrees. 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 neediest students can be adversely affected by reduced loan eligibility.

Colleges and universities participating in the experiment cited other concerns 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. There is a concern that the student's probability of default rises as payments on Federally subsidized loans could be neglected in favor of payments for the more expensive, 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 additional expenses that they will need to address such as job search, resume preparation and/or may need to pay for examinations that qualify them for graduate school. Although the student loan programs are 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.

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 allows 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, regardless of FWS.

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 .05 percent of all FFEL/Direct Stafford loan funds with a savings of 43 dollars per student, which demonstrates that there is minimal negative financial impact on federal funds or cost savings to the institution. 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 IPEDS)	787,392	21,281	
Number of Title IV recipients*	421,923	11,403	
Total FFEL/Direct Stafford Loan volume*	\$2,452,218,474	\$66,276,175	
Total Federal Pell volume*	\$413,788,330	\$11,183,468	
Total campus-based volume*	\$213,820,921	\$5,778,944	
Most recent self-reported default rate*	NA	2.6	
2) Total number of students with loan funds overawarded by \$300 or less	6,912	187	
3) Total Stafford loan volume for students in 2)	\$46,134,616	\$1,246,882	
4) Total amount of overawards by \$300 or less in 2)	\$1,303,495	\$35,230	
Average amount of overaward for those with overawards of \$300 or less	NA	\$189	
O1) Estimated savings in administrative work hours per borrower [7 of 37 institutions reporting]	8.1	1.2	
O2) Estimated savings in administrative costs per borrower [7 of 37 institutions reporting]	\$300	\$43	
O3) Average cost of attendance for FFEL/Direct Stafford loan population [11 institutions reporting]	\$196,451	\$19,645	
Students with FFEL/DL that had overawards			1.8%
FFEL/DL funds that were overawarded by \$300 or less			.05%

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

Institutional Comments

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. Overawards of \$300 or less is 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 tuition increases of up to 70% since the commencement of this experiment in 1995-1996 award years. 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.

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.

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 eases administrative burden and 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 seven institutions reporting, participating in the loan fees in COA experiment resulted in a savings of 0.7 of a work hour and almost \$28 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 IPEDS)	1,188,505	23,304	
Number of Title IV recipients*	612,276	12,005	
Total FFEL/Direct Stafford Loan volume*	\$3,777,695,319	\$74,072,457	
Total Federal Pell volume*	\$570,804,563	\$11,192,246	
Total campus-based volume*	\$341,691,070	\$6,699,825	
Most recent self-reported default rate*	NA	2.6	
2) Total number of students for whom loan fees included as part of COA	63,869	1,252	
3) Total amount of loans for students in (2) who have loan fees included	\$565,863,476	\$11,095,362	
4) Total amount of loan fees included in COA for students in (2)	\$15,382,852	\$301,625	
5) Number of students for whom loan fees were not included in COA	481,043	9,432	
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	286,816	5,624	
7) Total number of students who could have had the loan fees included in their cost of attendance	393,614	7,718	
O1) Estimated savings in administrative work hours per borrower [7 of 51 institutions reporting]	4.9	0.7	
O2) Estimated savings in administrative costs per borrower [7 of 51 institutions reporting]	\$198	\$28	
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			\$241

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

Institutional Comments

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 service and customer service.

D. Credit of Title IV Funds to Otherwise Nonallowable Institutional Charges

Under current regulations, institutions must obtain 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.

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 IPEDS)	630,524	22,519	
Number of Title IV recipients*	304,341	10,869	
Total FFEL/Direct Stafford Loan volume*	\$1,924,523,010	\$68,732,965	
Total Federal Pell volume*	\$260,908,869	\$9,318,174	
Total campus-based volume*	\$201,017,997	\$7,179,214	
Most recent self-reported default rate*	NA	2.3	
3) Number for whom Title IV aid was credited to nonallowable institutional charges	128,934	4,605	
3a) Total dollar amount of Title IV funds for Title IV aid recipients	\$1,109,324,280	\$39,618,724	
3b) Total amount of Title IV aid credited to nonallowable institutional charges	\$65,724,687	\$2,347,310	
3c) Number of students who used some of their 2005–2006 aid for credit to nonallowable institutional charges, who either graduated or were able to continue their enrollment into the following semester	102,291	3,653	
4) Number of students declining automatic credit of Title IV aid to nonallowable institutional charges	632	23	
4a) Total dollar amount of Title IV funds for Title IV aid recipients in (4)	\$4,282,493	\$152,946	

Institutional Charges – Institution Self-reported Values			
	Sum	Mean	Percentage
4b) Total amount of otherwise nonallowable institutional charges for students in (4)	\$172,493	\$6,161	
4c) Number of students in (4) who either graduated or were able to continue their enrollment into the following semester	219	8	
5) Number of students who took advantage of crediting of Title IV aid to non-allowable institutional charges for multiple terms	83,967	2,999	
O1) Estimated savings in administrative work hours per borrower	NA	NA	
O2) Estimated savings in administrative costs per borrower	NA	NA	
Title IV funds credited to non-allowable institutional charges			6%
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.

Institutional Comments

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 Reauthorization is finalized or new experiments are added, we would hope that our positive experience would lend credence to making this allowance part of the regulations governing student financial aid programs.” This sentiment appears to be shared by all participating institutions.

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.

Table 6 shows that the average amount of Title IV aid credited to prior term charges was \$510 per student. That number is up 27% from the 2001-02 reporting year. Table 6 also shows that 81% of students who had Title IV aid credited to prior terms charges were able to graduate or continue their enrollment into the following semester. During each of the last four reporting periods no student has declined this benefit. Six percent of the total amount of Title IV aid was credited to prior term charges from a prior year.

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 IPEDS)	524,700	27,616	
Number of Title IV recipients*	251,841	13,254	
Total FFEL/Direct Stafford Loan volume*	\$1,638,190,917	\$86,220,575	
Total Federal Pell volume*	\$219,851,284	\$11,571,120	
Total campus-based volume*	\$161,169,022	\$8,482,580	
Most recent self-reported default rate*	NA	2.6	
3) Total number of students who had Title IV aid credited to prior term charges	24,727	1,301	
3a) Total amount of Title IV aid	\$200,530,831	\$10,554,254	
3b) Total amount of Title IV aid credited to prior term charges for a prior year	\$12,619,114	\$664,164	
3c) Number of students who used some of their 2005–2006 aid to pay 2004–2005 prior term charges, who either graduated or were able to continue their enrollment into the following semester	20,127	1,059	
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	NA	NA	
4b) Total amount of Title IV aid credited to prior term charges for a prior year	NA	NA	
4c) Number of students who used some of their 2005–2006 aid to pay 2004–2005 prior term charges, who either graduated or were able to continue their enrollment into the following semester	NA	NA	
O1) Estimated savings in administrative work hours per borrower [1 out of 19 institutions reporting]	1.0	.5	
O2) Estimated savings in administrative costs per borrower	NA	NA	
Average amount of Title IV aid credited to prior term charges			\$510

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

Institutional Comments

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. If the student is not able to pay he/she 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.

F. 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.

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 7 indicates, under these experimental conditions institutions save an average of 1 hour of administrative work 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. The total of all loan programs at one institution has almost tripled since the beginning of this experiment, with \$57 million in 1995-96 to over \$157 million in 2005-2006. The default rate at that institution dropped 4.4% since FY95 and is 5.3% for FY04. This was a popular example used to show that no correlation exists between default rate and entrance counseling. Table 7 displays an average default rate of 2.2 percent for the institutions—predominantly four-year, public institutions—participating in this experiment.

**Table 7. Alternative Entrance Loan Counseling Procedures Experiment
Participants' Self-reported Values**

Entrance Loan Counseling – Institution Self-reported Values			
	Sum	Mean	Average Amount
Enrollment (from IPEDS)	1,098,226	21,534	
Number of Title IV recipients*	576,228	11,298	
Total FFEL/Direct Stafford Loan volume*	\$3,651,948,374	\$71,606,831	
Total Federal Pell volume*	\$520,349,069	\$10,202,923	
Total campus-based volume*	\$323,135,685	\$6,335,994	
Most recent self-reported default rate*	NA	2.2	
2) Number of first-time borrowers	127,487	2,500	
3) Total loan funds for students in (2)	\$629,749,951	\$12,348,038	
4) Has the institution exempted certain groups?	YES: 9 NO: 43	NA	
O1) Estimated savings in administrative work hours per borrower [9 of 49 institutions reporting]	8.3	1.0	
O2) Estimated savings in administrative costs per borrower [10 of 49 institutions reporting]	\$71	\$8	
Average loan amount for first-time borrowers			\$4,940

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

Institutional Comments

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 experiment is the formation of peer groups on campus; students that have

been in serious debt talking with first-time, first-year borrowers about the consequences of financial aid and borrowing.

G. 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. Because of the large number of borrowers, exit counseling 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 8, six institutions reported an average savings in work hours per borrower of one hour and their average savings in administrative costs per borrower was \$37. 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.

Table 8 shows that default rates at institutions participating in this experiment are relatively low. Institutions believe that the existing flexibilities for exit counseling has no adverse effect on the default rate and that graduation is the best way to prevent default. The table also shows that allowing schools to conduct exit counseling using alternative measures resulted in one administrative work hour saved per borrower.

Table 8. Alternative Exit Loan Counseling Procedures Experiment Participants' Self-reported Values

Exit Loan Counseling–Institution Self-reported Values		
	Sum	Mean
Enrollment (from IPEDS)	978,652	22,242
Number of Title IV recipients*	513,374	11,668
Total FFEL/Direct Stafford Loan volume*	\$3,281,428,531	\$74,577,921
Total Federal Pell volume*	\$453,739,891	\$10,312,270
Total campus-based volume*	\$289,578,221	\$6,581,323
Most recent self-reported default rate*	NA	2.5
2) Conducted exit counseling	Y = 33; N = 12	NA
3) Number of final-term borrowers	122,303	2,780
4) Number of borrowers who graduated	89,468	2,033
5) Number of borrowers who withdrew	17,437	396
6) Total amount of Title IV loans for students in (2)	\$2,563,980,034	\$58,272,274
O1) Estimated savings in administrative work hours per borrower [6 of 43 institutions reporting]	5.8	1.0
O2) Estimated savings in administrative costs [6 of 43 institutions reporting]	\$219	\$37

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

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.

H. Ability to Benefit Examinations and the Award of Title IV Aid

Under current federal statute and regulations, 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.

Table 9 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 9. Ability to Benefit Experiment Participants’ Self-reported Values

Group	Avg. Number Units Attempted	Avg. Number Units Completed	Average Cum. GPA
Students enrolled in degree or certificate applicable classes	11.79	9.37	2.60
Random sample of FA recipients with HS diplomas/OR Total number of FA recipients with HS diplomas	15.24	12.12	2.56
All students required to take ATB test	11.54	8.84	2.00
All students who failed ATB test	9.29	6.35	1.85
All students who passed ATB test	13.59	10.52	2.40
Students who failed ATB test but successfully completed 6 college units	15.86	12.46	2.48

Institutional Comments

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 14 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 without the benefit of financial aid. Those who have completed the six credits continue to perform at least as well academically as students who passed the exam.