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Analysis of the Experimental Sites Initiative 2006-07 Award Year

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Executive Summary

Congress authorized the Experimental Sites Initiative under section 487A(b) of the Higher Education Act of 1965, as amended. The Initiative addresses concerns that Federal requirements place unnecessary burdens on postsecondary students and institutions and may foster unintended consequences counter to the goals of the Higher Education Act. Since 1996, the U.S. Department of Education, Federal Student Aid, has overseen the Initiative. This Initiative—or "experiments," as they are frequently called—tests the effectiveness of statutory and regulatory flexibility for institutions disbursing Title IV student aid at 109 postsecondary institutions. The Department of Education has waived specific statutes or regulations at postsecondary institutions, or consortium of institutions, participating in the experiments.

As a condition of participation, institutions in the Experimental Sites Initiative submit data to Federal Student Aid concerning the outcomes of the experiment(s) in which they participate. This report provides a summary of this information for all eight of the currently active experiments. This report examines the data and comments submitted by institutions participating in the Initiative for award year 2006–2007 (AY06–07). These experiments include:

- 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 non allowable 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.

In addition to aggregating outcome measures, Federal Student Aid also reviewed the comments submitted by participating institutions. Not surprisingly, the comments describe the benefits associated with the experiments and support a more permanent implementation of the administrative flexibilities that the participating schools have successfully tested.

The comments supplied by participating schools, the quantitative data provided on annual reporting templates, and a monitoring of institutional loan default rates generally indicate that the flexibility accompanying the experiments result in non-trivial administrative cost savings without any indication of an increase in loan defaults. The default measures were not applicable to all experiments and there was not always sufficient data to support reliable quantitative estimates of cost savings, but our analysis found no evidence of an increased risk to the federal student aid funds among the experiments. The eighth experiment suggests that academically ineligible students who have successfully completed the initial portion of an educational program benefit as much or more from aid than those who pass an Ability to Benefit test required for students without high school diplomas. The added cost to administer the flexibility granted is reaped in benefits to the students served.

Overview

In 1965, Congress passed and President Lyndon B. Johnson signed into law the Higher Education Act (HEA). 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) 2008, the Bush Administration projected that over eleven million postsecondary students will share more than $90 billion in new grants, loans, and campus based assistance authorized under HEA's Title IV programs.[1]

While these aid programs help make a college education possible for millions of students, their costs to the Federal government are considerable. Therefore, Congress and the U.S. Department of Education (the Department), through Federal Student Aid and the Office of Postsecondary Education (OPE), has a justifiable interest in protecting the integrity of the student aid programs. To this end, the Department has established regulatory requirements to safeguard these public investments.

All rules, of course, impose the burden of compliance. The Experimental Sites Initiative, under section 487A(b) of the Higher Education Amendments of 1998, seeks to assess the extent to which select statute and regulations function to burden the student and the postsecondary institution against the degree they enhance the integrity of the financial aid programs. Although Congress initially granted the Department 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. Congress extended the flexibilities provided by the 30-day delay and multiple disbursements experiments to other institutions through legislation. 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.

The burden of some current regulations strikes some people as being excessive in light of the benefit they provide, thereby undermining the intent of the HEA. For example, to ensure that all recipients of federal financial assistance are academically prepared for higher education, current regulations limit eligibility to students who have graduated high school or demonstrated the ability to benefit (ATB) by passing an approved ATB test. The Ability to Benefit experiment extends eligibility to students who have neither graduated high school nor passed an ATB test if they 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. On average the student beneficiaries of this experiment were more successful in college, in terms of completing credits they started and higher grade averages, than students who passed ATB exams.

[1] FY 2008 Budget Summary—February 7, 2007.

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)[2]. Institutions participating in the Experimental Sites Initiative are not a representative subset of all schools that disbursed student loans in 2006–07. The vast majority of experimental sites were public (83%), offered a bachelor's degree or higher (87%), and were located in the West or Midwest (72%). In contrast, only 35 percent of the institutions in the NSLDS were under public control, 50 percent offered a bachelor's degree or higher, and 42 percent were in the Midwest or West. The average total enrollment, just shy of 20,000, among institutions participating in the Experimental Sites Initiative is relatively large.

Table 1. Comparison of Institutional Characteristics within Data Sets

	NSLDS	Participating Experimental Sites Only
Total Number of Institutions	5,381	109
Number of Institutions by Type		
One-year or less	1,096	0
Two-year, Non-degree	355	0
Two-year, Associates	1,253	14
Bachelor's Degree	607	4
First Professional Degree	65	0
Master's or Doctor's Degree	2,005	91
Number of Institutions by Control		
Public	1,894	91
Private	1,728	18
Proprietary	1,758	0
Geographic Region		
New England	358	3
Mid-Atlantic	887	11
Southern	947	12
Midwest	1,302	40
Southwest	433	5
Western	967	38
U.S. Territories	36	0
Foreign	451	0
Average Enrollment	NA	19,881[3]

2 In NSLDS, schools that disbursed Direct and FFEL loans in award year 2006–2007

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

As a condition of their participation, Federal Student Aid required that all experimental sites institutions provide outcome data on their experiment(s). Participating institutions submitted these reports to Federal Student Aid through experiment specific web-based reporting templates approved by the Office of Management and Budget (OMB). These templates collected quantitative data and the institutions' qualitative comments.

As Federal Student Aid has done in previous analyses of the Experimental Sites Initiative, we briefly describe each experiment and aggregate the data reported by participating institutions. Findings this year were quite similar to those reported last year (AY 2005–06). Generally, participants strongly support the experiments in which they participate and argue for broader adoption. We provide more detail on the data submitted by participants in the technical appendix accompanying this report.

Description of the Experiments and Summarization of Results as Reported by Participating Institutions

A. Loan Proration for Graduating Borrowers

An undergraduate with unmet financial need may borrow up to an annual limit that is determined by the student's year in school. However, the law requires loans to be prorated if the borrower attends a period of study shorter than a full academic year. Schools prorate the loan amount 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. The Department allowed institutions participating in the Experimental Sites Initiative loan proration experiment to exclude graduating students from this limitation. This allowed graduating students to borrow up to the annual limit for a partial year of study if they expected to graduate at the end of that period of study.

Congress established loan proration rules to limit the Federal government's exposure to default. Proration also minimizes the additional principal added to students' accumulated FFEL/Direct Loan debt during a final partial year. Proponents of this Initiative argue that prorating loans, especially for soon-to-be graduating students, can have an adverse affect on the prospects for graduation. Although students' direct expenses, such as tuition and books, may decrease in proportion to the number of hours for which they are registered, 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. Supporters of this Initiative also point to the administrative burden of calculating and explaining prorated loans as a reason to allow graduating students to borrow the full annual amount.

Table 2 provides aggregate information for the 78 schools participating in this experiment. The first several rows of **Table 2** provide the total number of students enrolled, recipients of Title IV aid, and volume of aid disbursed by various federal aid programs at these 78 schools. We provide both the total sum at all 78 schools as well as the average value of this information.

Following this contextual information, **Table 2** aggregates the information participants of this experiment supplied through the online reporting template. The first thing to notice is that only 38,314 students out of 1.7 million students attending the schools participating in this experiment would have been subject to loan proration in a graduating term. It is important to keep in mind that entering a graduating term that will not be part of a full academic year affects only a small minority of aid recipients in any given year. Also note that less than ten percent (3,692 out of 38,314) of the students eligible for a non-prorated loan through this experiment chose not to take advantage of it and, instead, took out a prorated loan. The vast majority of students who would have been subject to loan proration in a graduating term decided to take out the larger non-prorated loan.

The next several rows of **Table 2** provide counts of various outcomes for students who borrowed a prorated and a non-prorated loan. Given the disparity in the size of the two populations it is difficult to make direct comparisons between the two strings of numbers. Therefore, we provide the percentage of each group in the various outcomes at the bottom of **Table 2**. The percentage graduating with four-year degrees among borrowers taking out prorated and non-prorated loans was quite similar in 2006–07. We did see some differences between the two groups. Students with prorated loans were more likely to withdraw (3.4% vs. 1.1%) and have an unknown enrollment status (2.8% vs. 1.2%) than students who took advantage of the flexibility offered by this experiment and accepted a non-prorated loan. Students with non-prorated loans were more likely to complete their term without graduating (12.2% vs. 6.9%) than students choosing prorated loans.

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

Loan Proration—Institution Self-reported

	Sum	Mean	Percentage
Enrollment (from IPEDS)	1,732,656	22,214	
Number of Title IV recipients*	870,440	11,159	
Total FFEL/Direct Stafford Loan volume*	$5,626,899,878	$72,139,742	
Total Federal Pell volume*	$779,202,271	$9,989,772	
Total campus-based volume*	$535,602,102	$6,866,693	
Most recent self-reported default rate*	NA	2.14	
2) Number of students in whose loans would have been subject to loan proration in their graduating term	38,314	491	
2a) Number of students who actually received prorated loans	3,692	47	
2a1) Number of students in (2a) who graduated with four-year degrees	2,951	38	
2a2) Number of students in (2a) who graduated with other degrees	259	3	
2a3) Number of students in (2a) who withdrew before end of term	126	2	
2a3i) Total amount returned to Title IV for students in (2a3) who withdrew before the end of the term	$54,779	$702	
2a4) Number of students in (2a) who completed term (not necessarily graduated)	253	3	
2a5) Number of students in (2a) with unknown status	103	1	
2b) Number of students in (2) who received non-prorated loans in their graduating term	32,983	423	
2b1) Number of students in (2b) who graduated with four-year degrees	26,389	338	
2b2) Number of students in (2b) who graduated with other degrees	1,790	23	
2b3) Number of students in (2b) who withdrew before end of term	359	5	
2b3i) Total amount returned to Title IV for students in (2b3) who withdrew before the end of the term	$427,090	$5,476	
2b4) Number of students in (2b) who completed term (not necessarily graduated)	4,034	52	

	Sum	Mean	Percentage
2b5) Number of students in (2b) with unknown status	411	5	
O1) Estimated savings in administrative work hours per borrower [13 of 78 institutions reporting]	NA	1.71	
O2) Estimated savings in administrative costs per borrower [13 of 78 institutions reporting]	NA	$58	

	Percentage
Students receiving prorated loans who graduated with four-year degrees	79.9%
Students receiving prorated loans who graduated with other degrees	7.0%
Students receiving prorated loans who withdrew	3.4%
Students receiving prorated loans who completed term	6.9%
Students receiving prorated loans with unknown status	2.8%
Students receiving non-prorated loans who graduated with four-year degrees	80.0%
Students receiving non-prorated loans who graduated with other degrees	5.4%
Students receiving non-prorated loans who withdrew	1.1%
Students receiving non-prorated loans who completed term	12.2%
Students receiving non-prorated loans with unknown status	1.3%

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

The experiment also provided participating schools administrative relief because staff in their aid offices did not have to perform burdensome calculations for prorated loan amounts and then explain to students why the dollar amount of the loan was less than they may have been expecting. **Table 2** displays the average estimated dollar savings of $58.00 per student and approximately 100 minutes of processing time per student. We based these savings estimates on the responses from 13 of the 78 participating schools that completed this corresponding section of the reporting template.

<u>Institutional Comments</u>

Nearly all of the institutions participating in this experiment expressed appreciation for the flexibility to allow students to take their full year's loan eligibility in a graduating term. They pointed out that when students have to take an extra semester to graduate other types of gift assistance are no longer available. In their opinion non-prorated loans made to this population decreased the risk of future default. We provide representative comments below.

> *Loan proration can actually have a negative impact: students may delay graduation because of a lack of resources or the necessity of working additional hours; and default rates may increase if students in this population were forced into alternative loans to finance their last term.*

By not prorating the loan, … we were able to keep the borrowing of unsubsidized funds lower and were able to preclude most students from having to pursue more costly funding options like private loans and/or credit cards.

Why do we have a statute that forces students (attending schools not participating in the experiment) needing one extra semester to graduate to turn to high priced private loans if they have remaining eligibility for the much lower priced Federal Stafford Loan?

As the following institutional responses indicate, most students choose non-prorated loans when given the option and some types of students have specific needs that non-prorated loans can help address.

Most students request the full amount of the loan, especially graduate students.

Some groups of students incur additional costs during their final semester. The most common situation is that of student teachers in our Education programs who are displaced to a different part of the state and have to maintain more than one household.

Our school is an urban institution with a significant population of non-traditional students. …. The group of students who probably benefit most from this experimental exemption are late filers. Unfortunately, limited total resources do not permit us to extend full grant funding to students who apply after our priority deadline.

The following quote succinctly summarizes complaints about the administrative burden associated with loan proration that were expressed by a number of schools.

Loan proration is very difficult to automate with the complexity of federal regulations and it is very challenging to explain the proration process to students.

B. Overaward Tolerance and the Disbursement of Loan Funds

Department of Education regulations require schools to correct any overaward that occurs prior to the full disbursement of a loan made through the FFEL/Direct Loan programs. The regulations allow for a $300 tolerance if the student's aid package includes Federal Work Study (FWS). Schools participating in this experiment were allowed to apply a $300 tolerance to all overawards of FFEL and Direct Loan regardless of FWS.

Table 3 provides a summary of the information supplied by the 37 institutions participating in this experiment. The first several rows of **Table 3** provide the total number of students enrolled, recipients of Title IV aid, and volume of aid disbursed by various federal aid programs at these colleges and universities.

The remaining rows of **Table 3** aggregate the information that participants supplied through the online reporting template. We found that overawards of $300 or less allowed by this experiment were relatively rare occurrences and when they did occur constituted a minor portion of the affected students' FFEL/Direct Stafford loan. We found that less than two percent of all students with FFEL/Direct Stafford loans experienced an overaward. The total dollar amount of these overawards constituted less than three percent of the loans made to students with overawards and only .04 percent of all FFEL/Direct Stafford loan funds made at participating schools.

Table 3. Overaward Tolerance Experiment Participants' Self-reported Values

Overaward Tolerance—Intitution Self-reported Values

	Sum	Mean	Percentage
Enrollment (from IPEDS)	790,118	21,355	
Number of Title IV recipients*	422,472	11,418	
Total FFEL/Direct Stafford Loan volume*	$2,474,478,483	$66,877,797	
Total Federal Pell volume*	$414,383,303	$11,199,549	
Total campus-based volume*	$209,129,387	$5,652,146	
Total Number of FFEL/Direct Stafford borrowers	380,272	10,278	
Most recent self-reported default rate*	NA	2.15	
2) Total number of students with loan funds overawarded by $300 or less	5,583	151	
3) Total Stafford loan volume for students in 2)	$41,109,645	$1,111,071	
4) Total amount of overawards by $300 or less in 2)	$1,081,664	$29,234	
Average amount of overaward for those with overawards of $300 or less	NA	$194	
O1) Estimated savings in administrative work hours per borrower [7 of 37 institutions reporting]	NA	1.2	
O2) Estimated savings in administrative costs per borrower [7 of 37 institutions reporting]	NA	$42	
O3) Average cost of attendance for FFEL/Direct Stafford loan population [11 institutions reporting]	NA	$20,793	

	Percentage
Percent of students with FFEL/DL Stafford loan that experienced an overaward	1.47%
Total amount of overawards by $300 or less divided by FFEL/DL Stafford loans made to students such an overaward	2.63%
Total amount of overawards by $300 or less divided by total FFEL/DL volume	0.04%

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

Based on the responses of 7 of the 37 institutions we calculated an average administrative savings of 42 dollars and 72 minutes for each student that did not need his or her small overaward corrected. This estimated administrative burden ($42) is equal to one fifth of the average dollar amount of the overawards less than $300 ($194). Since these are loans and students will eventually pay this money back, this level of administrative cost may be excessive.

Institutional Comments

The institutions participating in the overaward tolerance experiment were overwhelmingly supportive of extending this regulatory relief to more schools. They recognized that the primary benefit of overaward tolerance was a reduction in their administrative burden. The following comments were typical.

> *Reducing the number of small adjustments made to student's accounts allowed counselors to concentrate on bigger issues in the office.*
>
> *Reduction of small loan amounts due to additional aid awarded after loans have been approved is a large administrative burden with little impact if any to default rate.*
>
> *Where two standards are involved (with and without FWS) staff must be trained to the requirements of each standard, how to recognize which standard applied to what situation and what if any differences there might be in resolving the overaward under each standard.*
>
> Participants indicated that overawards of $300 or less were usually the result of the awards made by entities outside of the financial aid offices direct control. They felt burdened by the requirement to bear all the costs of these adjustments.
>
> *We rarely see students who are over-awarded. When it does happen, it's typically due to the receipt of an outside scholarship award or resource that the student did not initially report to the Financial Aid Office.*
>
> *Students do not always notify us of additional funds received in a timely manner.*

Several institutions participating in this experiment did recommend increasing the overaward tolerance to reflect increases to the cost of attending college.

> *The Cost of Attendance at “X” University has increased by more than 40% since 1998–99. As a result, the impact that the $300 overaward tolerance has on today's aid packages has significantly decreased.*
>
> *Our recommendation is to make the experiment permanent and to increase the maximum tolerance from $300 to at least $500.*

C. The Inclusion of Loan Fees in the Cost of Attendance

The statute requires financial aid administrators to include loan fees in the calculation of a student's cost of attendance (COA). The Department gave institutions participating in this experiment the option of including loan fees in the calculation of student need in special circumstances or at the borrower's request. This flexibility allowed for a quasi-customized adjustment of aid levels, potential reduction of student loan principal, and significant reduction of administrative burden in financial aid offices.

Just as we did in previous sections, we begin **Table 4** with contextual data about the total number of students enrolled, recipients of Title IV aid, and volume of aid disbursed by various federal aid programs at 51 colleges and universities participating in this experiment.

We found that the vast majority (92%) of borrowers attending schools participating in the experiment did not have their fees included in their COA calculations. One reason for this is that precisely half (50.8%) of borrowers at participating institutions were already borrowing the annual maximum and thus their eligibility for federal loans was unchanged by the inclusion of loan fees. Another reason for lack of student demand for the inclusion of loan fees is that many lenders have reduced or eliminated fees entirely. Only 64 percent of the borrowers at participating schools had loans that could have been included in their COA. The third and final reason may be that the average loan fee that was included in COA was only $270. An increase in eligibility of this magnitude, particularly if it were only an increase in loan aid, may not be large enough for students to make an effort to request the inclusion of fees in their COA.

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)	1,179,839	23,134	
Number of Title IV recipients*	612,009	12,000	
Total FFEL/Direct Stafford Loan volume*	$3,817,709,606	$74,857,051	
Total Federal Pell volume*	$570,113,240	$11,178,691	
Total campus-based volume*	$354,354,317	$6,948,124	
Most recent self-reported default rate*	NA	2.28	
2) Total number of students for whom loan fees included as part of COA	42,257	829	
3) Total amount of loans for students in (2) who have loan fees included	$432,332,509	$8,477,108	
4) Total amount of loan fees included in COA for students in (2)	$11,423,918	$223,998	
5) Number of students for whom loan fees were NOT included in COA	493,004	9,667	
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	272,171	5,337	
7) Total number of students who could have had the loan fees included in their cost of attendance	342,356	6,713	
O1) Estimated savings in administrative work hours per borrower [7 of 51 institutions reporting]	NA	0.8	
O2) Estimated savings in administrative costs per borrower [7 of 51 institutions reporting]	NA	$38	
Borrowers who had loan fees included in COA			8%
Borrowers who did not have loan fees included in COA			92%
Average amount for whom loan fees were included in COA			$270

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

Excluding loan fees in the COA eases administrative burden. Averaging the responses of the seven of the 51 participating institutions that provided estimates, we calculated a timesaving of 48 minutes (0.8 times 60 minutes) and $38 per borrower.

Institutional Comments

As illustrated with the following quotes, participating institutions appreciated the reduced burden and increased flexibility made possible by this experiment.

> *The exclusion of loan fees simplifies the packages and awarding process as it reduces the number of possible budgets. This reduces administrative burden as it allows the financial aid office to monitor and package with budgets consistent across classes of students.*

> *Participation in this experiment has allowed us to use discretion in deciding whether it is more beneficial to the student to include loan fees in the COA. Adding loan fees on a case-by-case basis has helped to eliminate over-awards and increase loan eligibility for students in need.*

Institutions also provided some explanation for relatively small demand on the part of students for the inclusion of loan fees in the COA calculations. 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. Furthermore, lenders were reducing their reliance on fees in competition for borrowers.

> *Most people do not gain eligibility. For those that do, we find that it is such a small amount that it is not an important item to the student.*

> *During the 1980s and early 1990s, loan fees ranged from 8% down to the current 4% and then over the last several years lenders/guaranty agencies have waived the fees.*

> *Our principal lender and most other lenders chosen by our office began to pay the origination and guarantor fees for the student, so we removed the fees from our cost of attendance budget. Our rationale is that only a very small percentage of our students would be impacted. The change did not negatively impact our student.*

D. Credit of Title IV Funds to Otherwise Non allowable Institutional Charges

Under current regulations, the Department requires institutions to obtain written authorization from a student or parent to apply Title IV funds to otherwise non allowable institutional charges. The intent of these regulations is to ensure that institutions apply Title IV funds exclusively to educational costs. The Department exempts institutions participating in this experiment from this requirement, but requires schools to make students aware of the policy and procedures for applying current aid to otherwise non allowable institutional charges. Schools must give students the option of opting out of crediting of Title IV funds against these fees. This administrative relief makes it less time consuming for schools to resolve billing issues for other student expenses such as payment of library charges, parking fees, student health charges, etc.

Table 5 presents a summary of information supplied by the 28 schools that participated in this experiment. Again we begin **Table 5** with contextual data about total aid disbursed at these 28 schools.

Table 5. Credit of Title IV Aid to Non allowable Institutional Charges Experiment Participants' Self-reported Values

Loan Fees—Institution Self-reported Values

	Sum	Mean	Percentage
Enrollment (from IPEDS)	629,417	22,479	
Number of Title IV recipients*	304,549	10,877	
Total FFEL/Direct Stafford Loan volume*	$1,962,932,479	$70,104,731	
Total Federal Pell volume*	$258,676,183	$9,238,435	
Total campus-based volume*	$202,015,529	$7,214,840	
Most recent self-reported default rate*	NA	2.01	
3) Number for whom Title IV aid was credited to non allowable institutional charges	123,678	4,417	
3a) Total dollar amount of Title IV funds for Title IV aid recipients	$1,169,731,849	$41,776,137	
3b) Total amount of Title IV aid credited to non allowable institutional charges	$73,199,507	$2,815,366	
3c) Number of students who used some of their 2006–2007 aid for credit to non-allowable institutional charges, who either graduated or were able to continue their enrollment into the following semester	103,778	3,706	
4) Number of students declining automatic credit of Title IV aid to non allowable institutional charges	472	17	
4a) Total dollar amount of Title IV funds for Title IV aid recipients in (4)	$2,435,916	$86,997	
4b) Total amount of otherwise non allowable institutional charges for students in (4)	$136,723	$4,883	
4c) Number of students in (4) who either graduated or were able to continue their enrollment into the following semester	414	15	

		Sum	Mean	Percentage
5)	Number of students who took advantage of crediting of Title IV aid to non allowable institutional charges for multiple terms	73,071	2,601	
O1)	Estimated savings in administrative work hours per borrower (only 3 of 28 reported)	NA	Insufficient data	
O2)	Estimated savings in administrative costs per borrower (only 3 of 28 reported)	NA	Insufficient data	

			Percentage
Percentage of all Title IV recipients for whom aid was credited to non allowable funds			40.6%
Averages Title IV aid received among credited students			$9,458
Average non allowable charge among credited students			$592
Non allowable funds credited as a percentage of Title IV aid to credited students			6.3%
Percentage of credited students who graduated or were able to continue enrollment			83.9%
Percentage of all Title IV recipients who declined automatic crediting			0.2%
Averages Title IV aid received among credited students			$5,161
Average non allowable charge among declining students			$290
Non allowable funds credited as a percentage of Title IV aid to declining students			5.6%
Percentage of declining students who graduated or were able to continue enrollment			87.7%

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

The reports received from participating institutions indicate that it is extremely rare for students to decline automatic crediting of their accounts. **Table 5**, indicates that only 2 tenths of one percent of all Title IV recipients at participating institutions declined automatic crediting of their accounts for otherwise non allowable institutional charges. Over 40 percent of all Title IV participants did not object to allowing their aid to be credited to normally non allowable expenses. The remaining 59 percent of Title IV did not have outstanding expenses to credit aid against.

To see if students who declined the automatic crediting were different from the vast majority of students with outstanding institutional charges, we calculated several statistics. We calculated the average: Title IV aid received, non allowable charges, non allowable charges as a percentage of the total aid package, and percent of students who either graduated or returned the following term for the majority of students who accepted and then calculated the same statistics for the minority who declined the application of aid to non allowable expenses. The main difference we see between the two groups was those who declined crediting owed considerably less in non allowable charges and also received less in aid. Both of these suggest that students who declined crediting were more likely to be able to resolve these charges out of pocket.

Only three of the 38 institutions supplied the optional data on estimated costs associated with the administrative relief afforded by this experiment. Furthermore, these estimates were quite disparate. Therefore, we feel that these data are insufficient to support reliable estimates and we do not report them here.

Institutional Comments

Most of the participating institutions' comments included enthusiastic support for this Initiative. The following comments provide an overview.

> *Since the beginning of the experiment, not a single student has chosen to exercise their right to disallow Title IV funds from being used to satisfy non allowable charges.*
>
> *An unpaid student balance only serves to delay campus-wide services, such as registration. This tends to create a snowball affect and repeated contacts from the student to the aid office.*
>
> *This waiver relieves both students and office staff from the burden of completing, collecting and tracking authorization forms.*
>
> *If this procedure were changed it could create a tremendous workload for staff and additional costs for the institution as it could result in thousands of additional bills, refund checks and added mailing costs. There also would be additional workload for staff to collect a signature, store the signature on the system, and for counseling students who question the need for our request and for those who end up with an unpaid bill.*
>
> *The ability to use aid to cover non allowable charges afforded students a huge benefit. Students would incur late fees due to non-payment of their bills.*

E. Credit of Title IV Aid to Prior Term Charges

Just as is the case for non allowable charges, the Department requires student permission before schools may credit current Title IV disbursements toward charges from a prior term, in a previous academic year. ED allowed institutions participating in this experiment to apply Title IV funds to charges for which they were not originally intended (for example, outstanding charges from a prior term) to evaluate the effect, if any, on student retention. As in the application of Title IV aid to normally non allowable institutional charges, students must be made aware of the policy and procedures for applying current aid to prior term charges and be given the opportunity to opt out.

Table 6 presents aggregated data, beginning with contextual data about the total number of Title IV aid disbursed by the 19 schools that participated in this experiment. As evidenced by the lack of even a single student who declined to have his or her aid applied to a charge from a prior term, students do not seem to object to this practice. We have seen this complete absence of any students opting out of crediting aid against prior term charges for the last five years in a row.

Table 6 indicates that ability to apply aid funds to charges from a prior term affected roughly 10 percent of the Title IV recipients at participating schools. The average amount of these charges was $614, which constituted a 21 percent increase to the average per student charge from 2005–06. A large majority (82%) of the aid recipients that benefited from this regulatory flexibility graduated or remained enrolled.

We received estimates concerning the value, in terms of dollars and time, of the administrative relief provided by this experiment from only two of the 19 participants. We do not deem this sufficient base to support a reliable estimate.

Table 6. Credit of Title IV Funds to Prior Term Charges Experiment Participants' Self-reported Values

Institutional Charges—Institution Self-reported Values

	Sum	Mean	Average Amt.
Enrollment (from IPEDS)	521,938	27,470	
Number of Title IV recipients*	250,388	13,178	
Total FFEL/Direct Stafford Loan volume*	$1,668,299,563	$87,805,240	
Total Federal Pell volume*	$217,263,605	$11,434,927	
Total campus-based volume*	$162,534,811	$8,554,464	
Most recent self-reported default rate*	NA	2.19	
3) Total number of students who had Title IV aid credited to prior term charges	23,799	1,253	
3a) Total amount of Title IV aid	$238,324,480	$12,543,393	
3b) Total amount of Title IV aid credited to prior term charges for a prior year	$14,600,876	$768,467	
3c) Number of students who used some of their 2006–2007 aid to pay 2005–2006 prior term charges, who either graduated or were able to continue their enrollment into the following semester	19,571	1,030	
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 2006–2007 aid to pay 2005–2006 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 [2 out of 19 institutions reporting]	NA	Insufficient data	
O2) Estimated savings in administrative costs per borrower [2 out of 19 institutions reporting]	NA	Insufficient data	
Percentage of all Title IV recipients for whom aid was credited to prior term charges for a prior year			9.5%
Average Title IV aid received among students with credited charges for a prior year			$10,014
Average charge from prior terms			$614
Credits to charges from prior terms as a percentage of Title IV aid to students for whom aid was credited			6.1%
Percentage of students for whom aid was credited to prior year that graduated or continued Enrollment			82.2%

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

Institutional Comments

Participating institutions were very positive about this Initiative in the qualitative comments they submitted. Most focused on time and effort saved by the schools, students, and families by changing to passive rather than active consent for crediting current aid against prior term charges. The following comments reflect the general tone.

> *Students express a high level of satisfaction with this experiment. No students have expressed the need to decline the crediting of aid to prior award year charges:*
>
> *For such a low risk at this institution, it is very worthwhile to continue to allow aid to be credited to prior term charges thus not creating a hardship for the students.*
>
> *For the past several years we have not had any students decline the option to have financial aid pay their prior years charges. This demonstrates that our students would prefer to pay their charges using the automated billing system and consider this a convenience.*

Schools also stressed that many students were able to continue their postsecondary education attendance due to this experiment.

> *Per institutional policy, a student cannot enroll for a future semester if they have an outstanding balance from an earlier term. This experiment allows us to pay small balances for a prior award year from future aid, facilitating retention and academic persistence.*
>
> *Students' plans and life are often interrupted due to circumstances beyond their control and may be left with unpaid balances owed the school which could hinder their ability to return to school to complete their educational goals. Allowing them to use current Title IV aid to pay previous charges facilitates their ability to reach their educational goals.*

F. Alternative Entrance Loan Counseling Procedures

To decrease loan default rates, regulations require all institutions to provide entrance counseling to students before disbursing Perkins, Direct, or FFEL loans. The regulations are meant to provide first-time borrowers information regarding their rights and responsibilities, especially when it comes to repaying their loans. Although regulations vary somewhat depending on the type of loan, institutions must conduct and document initial counseling to all first-time borrowers. The 1998 amendments to the HEA allowed schools to counsel first time borrowers by audiovisual presentation, interactive electronic means, or in person. Before the amendment, schools were required to conduct in-person counseling.

Many institutions have taken advantage of the 1998 amendments by delivering non in-person entrance counseling. The Department allows schools participating in the entrance loan counseling experiment even greater latitude. Participating institutions may allow a student to receive loan funds at the beginning of the semester even if they have not had time to complete entrance counseling. Participating schools are also excused from “entrance counseling certification”, which requires schools to maintain documentation in each student file to verify that entrance counseling was performed.

Table 7 summarizes the data that 51 institutions participating in this experiment supplied through the online template. As we have done for the other Initiatives, the first several rows of **Table 7** are devoted to supplying contextual information concerning the total Title IV aid disbursed by these 51 schools. The participating schools disbursed 3.7 billion dollars in FFEL/Direct Stafford loans in 2006–07. The low average default rate (1.9%) at these institutions suggests that the regulatory flexibility enjoyed regarding entrance counseling at these schools has not led to high levels of student loan default.

The rest of the information in **Table 7** provides some detail about the entrance counseling experiment. The average total loan made to first time borrowers at participating schools was $4,716.[4] Eight of the 51 schools indicated they required “only certain groups of students” to complete entrance counseling. These groups of students were deemed by the schools to be most at risk for default, either those in danger of losing academic eligibility or graduate/professional students borrowing large amounts of money.

[4] This is greater than the $3,500 subsidized loan limit for dependent first year for a number of reasons. This average includes loans to independent students, unsubsidized loans (including PLUS), and initial loans to students in their second or later year of study.

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)	1,100,651	21,581	
Number of Title IV recipients*	578,785	11,349	
Total FFEL/Direct Stafford Loan volume*	$3,711,922,787	$72,782,800	
Total Federal Pell volume*	$525,131,228	$10,296,691	
Total campus-based volume*	$321,600,017	$6,305,883	
Most recent self-reported default rate*	NA	1.93	
2) Number of first-time borrowers	121,112	2,375	
3) Total loan funds for students in (2)	$571,221,125	$11,200,414	
4) Has the institution exempted certain groups?	YES: 8 NO: 43	NA	
O1) Estimated savings in administrative work hours per borrower [8 of 51 institutions reporting]	NA	1.04	
O2) Estimated savings in administrative costs per borrower [8 of 51 institutions reporting]	NA	Unreliable data	
Average loan amount for first-time borrowers			$4,716

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

Eight of the 51 schools supplied the optional estimates of administrative savings per borrower. Based on these estimates we calculated an average timesaving of one hour of administrative work per borrower. The eight schools also supplied dollar estimates for these savings. These responses included several large numbers that we suspect represent estimates of dollars saved for more than one borrower. Therefore, we do not report the dollar saving estimates.

Institutional Comments

The comments supplied by participating institutions indicate a great deal of variation in terms of which particular aspects of the regulatory flexibility allowed under the Initiative schools chose to exercise. Some schools handle entrance counseling much as they would under HEA as amended in 1998, i.e., requiring all students to complete entrance counseling prior to an initial disbursement. Other schools routinely make initial disbursements to students who have not yet completed counseling or focus their entrance counseling on specific subsets of students believed to be most at risk for default. Despite these differences, most participating institutions appreciated easing the requirements to document entrance loan counseling. The selected comments provide an overview.

> *The institution requires completion of entrance counseling before releasing the first disbursement of the first Federal Stafford loan made to a student borrower. Students are instructed to complete on-line entrance counseling. Students may also print a Rights &*

Responsibilities Summary Checklist form from the institution's web site or request a paper version from our office.

“X” University does not exempt any category of borrowers from completing pre-loan counseling based on specific demographic criteria. However, we do waive the requirement for students during the fall quarter. Winter and spring disbursements remain on hold until the student completes required entrance counseling.

This project has allowed us to effectively communicate loan rights and responsibilities to our students without the administrative burden of tracking entrance interview requirements prior to disbursement of loan funds.

The institution has continued to provide extensive loan counseling information on its website, including specific personal information for each borrower regarding his/her own loan amounts. Personal entrance interviews are no longer required for FFELP borrowers. Since the Experimental Site Reporting began in 1995–96, our cohort default rate has gone from 5.3% to 1.6% for this reporting cycle.

We particularly focus our counseling efforts on students at academic risk in their first two years, requiring them to participate in financial counseling each semester.

Due to the high debt amounts of our professional students, we feel in-person counseling is the most appropriate means to educate them on borrowing student loans and we make entrance counseling a mandatory part of their orientation process.

G. Alternative Exit Loan Counseling Procedures

Under current Federal statute and regulations, institutions must conduct in-person exit loan counseling, sometimes before issuing transcripts or even permission to graduate. Because of the large number of borrowers, exit counseling often becomes a time-consuming and paperwork-intensive task. The Department released institutions participating in this experiment from the "in-person" requirement. This allowed participating schools to investigate other means of reminding borrowers of their financial obligations, including the use of the postal service and electronic communication. The Department also released schools from the requirement to document the participation of each borrower in exit counseling.

Table 8 summarizes the data the 44 institutions participating in the exit counseling experiment supplied using the online reporting template. The first several rows of **Table 8** are devoted to supplying contextual information concerning the total Title IV aid disbursed. The average default rate (2.25%) at these institutions indicates that regulatory flexibility enjoyed by these schools has not led to problematic default levels.

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

	Sum	Mean
Enrollment (from IPEDS)	976,284	22,188
Number of Title IV recipients*	515,489	11,716
Total FFEL/Direct Stafford Loan volume*	$3,340,566,287	$75,921,961
Total Federal Pell volume*	$456,668,311	$10,378,825
Total campus-based volume*	$298,211,981	$6,777,545
Most recent self-reported default rate*	NA	2.25
2) Conducted exit counseling	Y=30; N=14	68%
3) Number of final-term borrowers	124,855	2,838
4) Number of borrowers who graduated	92,632	2,154
5) Number of borrowers who withdrew	16,780	442
6) Total amount of Title IV loans for students in (3)	$2,817,397,732	$64,031,767
O1) Estimated savings in administrative work hours per borrower [5 of 43 institutions reporting]	NA	1.2
O2) Estimated savings in administrative costs [5 of 43 institutions reporting]	NA	$44

Exit Loan Counseling—Institution Self-reported Values

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

The rest of the information in **Table 8** pertains more directly to the exit counseling experiment. This experiment affected the exit counseling of approximately 125 thousand student borrowers in 2006–07. This group of students had accumulated Title IV indebtedness of over 2.8 billion dollars. Therefore, the average accumulated debt per student was $22,565.

Fourteen of the 44 schools indicated they did not conduct exit counseling at all.

Five institutions completed the optional section of the reporting template dealing with estimated administrative savings. We averaged these responses to derive the 1.2 hours and 44 dollars per borrower savings presented in **Table 8**.

Institutional Comments

As was the case for the entrance counseling experiment, exit-counseling participants adopted a variety of approaches under the regulatory flexibility allowed under the experiment. Many participating schools chose web-based methods as an alternative to in-person counseling. Other schools relied on special group sessions, postal mailings and telephone interviews. Several participating institutions singled out particular subgroups of students for more intensive exit counseling. The following quotes illustrate these points.

> *All students who graduate or leave school for any reason, such as not returning, suspension, etc. are notified by e-mail that they must go to a designated webpage for exit loan counseling. If the student does not have an e-mail address, we will send them a letter.*
>
> *Our student population is very non-traditional in that we have a large number of part-time students who work. It is difficult with this type of population to design a workable venue for exit counseling sessions … The increase in number of students conducting their Exit Counseling sessions online versus the number opting to attend in-person sessions make it obvious that students want flexibility in meeting these requirements. The use of the online process has facilitated easier access to borrowers that have stopped out or graduated and have already left the area. The online process has allowed us to reduce the number of in-person sessions significantly and reduce the staff resources involved in these sessions.*
>
> *We require our borrowers to complete Exit Loan Counseling sessions on the Department of Education's website.*
>
> *We provide Senior Seminar presentations to graduating students that include loan counseling, debt management (including consumer debt), retirement, consolidation and other sound financial principles. … We send the exit interview packets to those who did not attend.*
>
> *"X" University offers 3 options for exit counseling—web, group sessions, or individual in-office sessions—to better accommodate our students' preferences.*
>
> *Target group for exit loan counseling: Seniors with GPA's between 2.0 and 2.5, graduating students with the following academic majors: Social Sciences, Liberal Arts, English, Psychology and all withdrawing students.*

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 to be eligible for Title IV aid. The Department allowed institutions participating in this experiment to make a limited exception to this requirement. Under this experiment, schools were allowed to award financial aid to students even if they had not completed high school, equivalency, nor passed an ATB test, if the students had 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.

The 14 schools participating in this experiment reported the average: number of units attempted; number of units completed and grade point average for six specific student populations. The six populations included: all students enrolled in degree or certificate applicable classes; financial aid recipients with a high school diploma[5]; all students who were required to take an ATB test; all students who failed their ATB test; all students who passed their ATB test; and students who failed their ATB test but successfully completed six college units. **Table 9** reports the average of these reports from the 14 schools.

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

Group	Avg. Number Units Attempted	Avg. Number Units Completed	Avg. Cumulative GPA
Students enrolled in degree or certificate applicable classes	15.61%	12.57%	2.61%
Random sample of FA recipients with HS diplomas/OR Total Number of FA recipients with HS diplomas	18.16%	14.34%	2.56%
All Students required to take ATB test	13.89%	10.12%	2.21%
All students who failed ATB test	11.79%	8.52%	2.03%
All Students who passed ATB test	15.76%	11.81%	2.41%
Students who failed ATB test but successfully completed 6 college units	16.35%	12.91%	2.63%

Based on the experiment averages, we found that students who failed the ATB exam, but completed at least six credit hours, attempted and completed more hours than all students who were required to take the ATB test. Their grade point average was also higher than students subject to the ATB requirement. The subset of students made eligible by this experiment even compared favorably to financial aid recipients with high school diplomas. While the experimental group of students attempted and completed slightly fewer credit hours than high school graduates, they completed a nearly identical percentage of units attempted and earned a slightly higher grade point average than aid recipients who had completed high school.

[5] Schools were given the option of estimating values for this population from a random sample.

The data collected from participants in this experiment suggest that students with the ability to complete six or more credit hours with a cumulative grade point average of “C” or better without federal assistance are academically prepared for college. Insisting that all students without high school degrees or equivalency pass an ATB exam, even if they have demonstrated the ability to successfully complete college work may be unfairly excluding students from Title IV assistance just because they, for whatever reason, do not test well. Since all aid recipients are subject to satisfactory academic progress standards, applying the ATB requirement to individuals who have successfully navigated the beginning of an academic program may constitute an unnecessary obstacle to completing that degree for a small group of students.

Institutional Comments

The comments received from the 14 two-year colleges participating in this experiment for the 2006–07 award year focused on the methodology a subset of schools used to draw a random sample of financial aid recipients with high school diplomas. The comments submitted by these schools in previous years indicated that students failing the ATB exams—usually the Wonderlic, CELSA, or TABE exams—performed satisfactorily on the math portion, but failed the English-language portion of the tests. Some of these students were able to overcome this language barrier and successfully complete at least six credit hours without the benefit of financial aid.

Summary

The flexibility provided institutions participating in these experiments with non-trivial administrative relief. This relief not only allowed financial aid office staff to concentrate on other issues but reduced the time demands on students and their families as well.

There were five experiments that involved the relaxation of specific regulations regarding the disbursing of Stafford FFEL/DL loans:

- 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;
- Alternative entrance loan counseling procedures; and
- Alternative exit loan counseling procedures.

The primary rational for the regulations in these areas is to minimize the risk of student loan default. The current low default rates observed at participating institutions and the fact that default rates have declined over the time schools participated in these five experiments suggests that these regulations could be relaxed elsewhere without increasing the risk of default.

Two of the experiments provided schools with the freedom to apply federal aid awards toward charges that would normally require securing prior student permission:

- Credit of Title IV funds to otherwise non allowable institutional charges and
- Credit of Title IV funds to prior term charges

Schools participating in these experiments found that only a small minority of students declined the crediting Title IV funds to non allowable charges. Not a single student objected to crediting current aid awards against unpaid prior term charges. By changing to a presumption of student approval, aid offices were able to increase the efficiency of resolving outstanding student balances.

The final experiment involved:

- Award of Title IV aid to students not passing an “Ability to Benefit” test.

Schools participating in this experiment were allowed to award aid to students who failed an ATB exam if they had successfully completed 6 credits. This experiment found that student success in the initial portion of an educational program benefit might be better predictor of academic success than the ability to pass an Ability to Benefit test.