MASFAA Moments

Midwest Association of Student Financial Aid Administrators

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Illinois Indiana Iowa Michigan Minnesota Missouri Ohio West Virginia Wisconsin

Inside this issue:

MASFAA Moments is published quarterly with the purpose of providing a forum for communicating with members about issues affecting our profession as well as to inform members of the ongoing activity of MASFAA committees and the Executive Council.

Articles may be submitted by any person, committee, state association or organization. All submissions are subject to final acceptance and review by the editorial board prior to the publication of the newsletter. Submissions may be rejected, edited for content or edited for length. Articles must be intended for the benefit of MASFAA members and not for company marketing or promotional purposes.

Please send articles, photos and comments to:

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Newsletter Committee Chair
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President's Message:

Professional Judgment Primer

Rick Shipman, Michigan State University
MASFAA President

Financial aid professionals are afforded one of the most important authorities in federal law: that "right", "responsibility", "onus" thing we call Professional Judgment. Popular media suggests that aid officers can do whatever they want to assist families, but that is far from the truth. While financial aid officers do have broad ability to make significant changes to student aid eligibility award packages, they must approach these changes with great respect for both the letter and spirit of the law. So what exactly is the Professional Judgment law?

The provision we call Professional Judgment derives from several sections of the Higher Education Act of 1965, as amended, but none is really labeled "professional judgment". Section 479A is named most closely to it but is properly called "Discretion of Student Financial Aid Administrators". This section specifically addresses only changes in need analysis components, college costs, and refusal of loan certification. Section 480(d) provides for dependency overrides and Section 668.34 allows for leniency in Satisfactory Academic Progress. Sections 685.301(a)(7) and 682.603(e) provide further authority for the refusal to certify Stafford Loans in the Federal Direct Student Loan and Federal Family Education Loan programs, respectively. Regardless of the legal citations, Professional Judgment is perhaps the most powerful authority granted to student financial aid administrators.

The Professional Judgment (PJ) provisions exist because the financial aid community advocated strongly during creation of the Higher Education Act of 1965 that they regularly encounter special circumstances that are reasonable but not covered by the standard rules. Nor, they further argued, could regulations be written to cover these many exigencies. Congress agreed and provided aid administrators with some of the broadest exceptions that are seen anywhere in federal law. PJ is something of an anomaly for many who are new to the aid profession because so much of the aid officer's job is proscribed very narrowly. PJ authority, in contrast, describes what may or may not be done in notably vague language. So how does the student financial aid administrator decide when an exception is warranted and stay on the right side of the compliance line?

The two most often used aspects of PJ are need analysis component changes and cost of attendance increases. The law gives aid administrators broad discretion to change income or assets when circumstances suggest that what was used in the need analysis calculation does not properly reflect the family's situation. Perhaps a significant portion of reported income was from overtime that has been discontinued.

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Or maybe one or both parents lost employment entirely. And, of course, if income goes down, taxes paid generally go down too. Private school tuition expenses are another item generally ignored but these too can be included. Generally cash and savings that existed at the time of FAFSA completion are used to determine aid eligibility, but exceptions can be made if an aid administrator deems it appropriate. Maybe there was an emergency that required dipping into savings, like home damage not covered by insurance, a medical crisis, or burial costs for a relative. Just as with income and assets, the amounts included in the student financial aid budget can be increased when the aid officer believes a student has encountered something substantially different. Maybe the aid budget includes only 15 credits per semester but the student has taken 18, or the $500 book allowance was blown with books for only 2 of 4 classes. The examples can go on and on.

Clearly, what happens with the aid package derives at least in part from the type of change allowed by the aid administrator. When need analysis components change, the Expected Family Contribution changes and federal, state, and institutional aid that uses that calculation should change accordingly. About the only time you can avoid following this rule is when an aid program's funds are exhausted at the time the PJ change is made. Cost of attendance changes do not change the Expected Family Contribution but simply raise the number from which it is subtracted to determine financial need. Schools can decide what forms of aid they wish to make available for a cost of attendance increase.

Satisfactory Academic Progress exceptions often are not thought of as PJs, but statute makes it clear that they are. In fact, they may be one of the more important situations faced by the aid administrator as they lead quite directly to completion of the academic program. A student who takes more than 150% of the normal time required to complete their academic program may have understandable reasons for this protraction, whether reasonable or not. Similarly, a student who fails to complete 75% of their coursework may consistently bite off more than they can chew, in an academic sense. Regardless, it can be hard to figure out how much extra help to give a student who has struggled to earn a degree when attainment is imminent. So much of the outcome depends on having and following a good academic plan for a student with Satisfactory Academic Progress problems. The notion is that all aid for which the student qualifies continues when a Satisfactory Academic Progress exception is made.

The refusal to certify loans is likely the least used authority. An aid officer can only deny loan certification when there is clear evidence that the student is unlikely to repay. Such evidence may be difficult to come by and to survive a challenge by the student or his/her representative. Only federal loans are affected by exercise of this authority.

Finally, dependency changes—always from dependent to independent—are the most difficult requests to handle. The result of a successful appeal of this type is quite obviously a financial windfall for the student. But the aid administrator must feel strongly that the student's story is not just a story. There are many situations that might qualify a student to be considered independent by circumstances but these generally fall under the heading of a broken and irreconcilable relationship with parents. Maybe the student has been living with friends or relatives because of an abusive situation with parents or a parent drug problem or numerous other unfortunate scenarios. (I note that changes from independent to dependent are not considered PJ but simple corrections of filing errors.)

Regardless of the type of PJ appeal presented to the aid officer, the primary requirement is to document, document, and document. The documentation for some PJs is self-evident, such as providing receipts for claims of unexpectedly high medical bills or a check stub for reduced income. Others, like Satisfactory Academic Progress and change in dependency, require letters from cognizant third parties, in other words unbiased people who reasonably can be expected to know the details of the situation. It is important that 1) the documentation support the request, 2) that the aid officer believe in both the request and the documentation and, more importantly, that 3) the aid office permit such interventions.

So there you have a summary of the laws behind the financial aid administrator authority called Professional Judgment. It should be clear that broad authority is given to make decisions, but always with the expectation that documentation supports the decision and that the decision itself makes sense.

2009 MASFAA Summer Institute: Focusing on the Basics

Vickie Crupper
Associate Director, Office of Financial Aid
University of Michigan

Are you new to the financial aid profession or do you have staff that are new to either their position or to the profession? If the answer is "yes", then does MASFAA have a deal for you!!

The 2009 MASFAA Summer Institute will be held at Baldwin-Wallace College in Berea, Ohio from May 31 through June 5, 2009. Registration is slated to open in mid-March. This training will provide a week of intensive, day-long, training that will focus on the basics of financial aid administration and provide participants with the keys to a successful career in financial aid, no matter what their current position within your office may be. Taught by much respected, seasoned professionals, the areas of focus include:

- Ethics and Diversity Awareness,
- The Federal Pell Grant, from determining which school formula must be used to working through an actual EFC calculation,
- Campus Based Program Administration,
- ACG/SMART and TEACH, AND
- Much, much more.

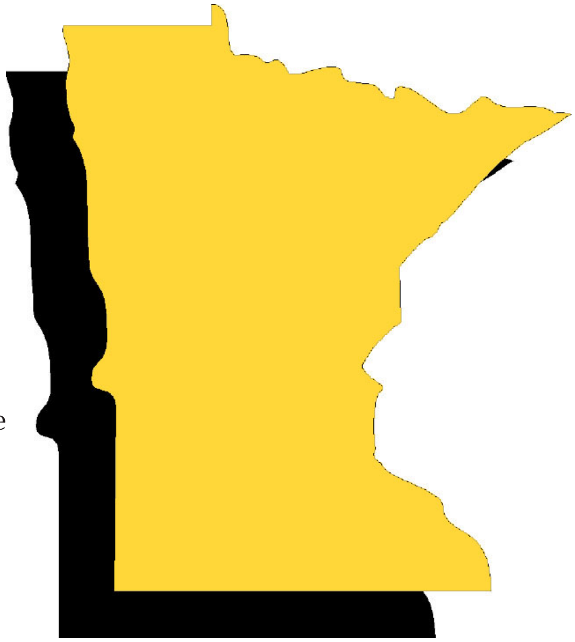
To allow you to budget your professional development dollars, the costs of attendance are provided below. Registration materials will be out in early March.

- Single Occupancy Room/Board, Materials and Tuition - $600*
- Double Occupancy Room/Board, Materials and Tuition - $450
- Commuter Board, Materials and Tuition - $350

** Single rooms are reserved for participants with medical needs requiring a single room and are very limited in number.*

2009 MASFAA Summer Institute
May 31-June 5, 2009
Baldwin-Wallace College
Berea, Ohio

Discover Minnesota Nice at the 2009 MASFAA Conference



You may have heard by now that Minnesota is hosting the 2009 MASFAA Conference in Minneapolis. You may ask yourself, why should I make the trip to Minneapolis, Minnesota? We believe there are some excellent reasons why you should consider traveling to this conference.

Most importantly, the content covered in the MASFAA conference will be substantive and may include elements that you will not receive at a state financial aid conference. As 2009 MASFAA President Rick Shipman points out on the Conference Mini-Site, "The MASFAA conference is a great deal for financial aid professionals because it offers national quality presentations at state conference prices. In addition, the size of the MASFAA Conference is just big enough to ensure broad perspectives, but small enough to ensure that everyone has an opportunity to get their own questions answered."

If Mr. Shipman's plug is not enough, and you are looking for additional reasons to make the trip, consider all of the beautiful scenery that you can take in while in town. Minnesota is known as the land of 10,000 lakes, and is home to the headwaters of the mighty Mississippi River. Even though you may not make the 200+ mile trip to the Lake Itasca headwaters, you can still marvel at the splendors of the Mississippi River as you view St. Anthony Falls from a stroll or trolley ride across the Stone Arch Bridge in Minneapolis.

If nature is not where your soul finds refreshment, you may choose to visit America's largest enclosed mall: The Mall of America. Located in Bloomington, "MOA" is within easy reach of downtown Minneapolis. Note: For the avid shoppers - Minnesota has no sales tax on clothing!

In addition to nature and shopping, Minneapolis has many fine arts and music options. Music venues such as The Fine Line Music Café as well as First Avenue & 7th Street Entry (made famous by Prince) are within walking distance. Visitors could also attend a performance at the new Guthrie Theater or marvel at paintings and sculptures in the Minneapolis Institute of Arts. Several exhibits at the Minneapolis Institute of Arts are free, so you can save some money to spend at some of the excellent dining establishments that Minneapolis has to offer. Whatever your interests are, Minneapolis is sure to have something for you.

The conference will be held in Minneapolis on October 18 – 21, 2009. Hotel room rates are excellent (The Marriott City Center Hotel is offering 2009 MASFAA conference rates of $139 for a single, double or triple room), and the conference registration fees are $295 for the full conference or $195 for one day! Please visit the 2009 Conference Mini-Site on **www.masfaaweb.org** for more information.

We look forward to seeing you in Minneapolis!

Nate Rosckes
Office of Student Finance
University of Minnesota

Revae Nelson
Assistant Director of Student Financial Services
Carleton College

MASFAA Local Arrangements Committee

News from the Membership Chair

The Many Faces of MASFAA

Aaron Steffens
Associate Director of Financial Aid
Luther College

I have been a MASFAA member now for nine years. It is inevitable that whenever a membership report is given we simply hear about how the numbers of financial aid professionals who belong to this great organization, but don't really know about the composition of the group. Sure, we probably all can make generalizations about the MASFAA membership such as there are more women then men in the organization and there are more members from Ohio than West Virginia…but what else do we know?

Each time you renew your membership facts are gathered about you that help us define the organization. Did you know that 76% of our members hold regular membership status, while 23% are considered associate members and 1% define themselves as retired, lifetime or other? Four percent of us work in the proprietary school sector, 7 percent are lenders, 12% work for an agency or guarantor, 29% work in private institutions and 37% work in public institutions. The remaining 11% did not specify their employment type.

There are more women than men in the organization. In fact, 68% of the membership is female. If we look at membership by ethnicity, .5% of the group is American Indian/Native American, .5% is Asian/Pacific Islander, 2% is Hispanic/Chicano/Mexican American, 9% is Black/African American, 71% is White/Caucasian and the remaining 17% of the membership did not specify their ethnicity.

So, do we have any guesses on how membership breaks down by state? This is an area where the leader can change each month as you will soon see. Currently, Ohio holds the largest percentage of MASFAA membership at 19%. However, Illinois and Indiana are in a close second at 17% each. There is a three-way tie for third place at 9% each for Michigan, Missouri, and Wisconsin. Iowa and Minnesota each have 6% of the membership and West Virginia rounds out the group at 2%. For those of you keeping track of my math, the remaining 6% of the membership live outside of the region. For my friends in West Virginia, it is important to remember that we can spin numbers in many different ways. In the next article, I hope to be able to look at how the states compare as we look at each state's MASFAA membership as a percentage of their state association's membership.

Stay tuned…this could be interesting. In the meanwhile, be on the lookout in your state for potential MASFAA members!

Nominate colleagues to receive MASFAA awards

Arman Habegger
Awards Committee Chair
Director of Financial Aid, University of Findley

Imagine attending the annual MASFAA Conference, listening to the MASFAA President reading a narrative about an award recipient, and suddenly realizing that the recipient is you. I recall that happening once, and I was both surprised and extremely pleased and humbled.

You now have that opportunity to nominate one or more colleagues for the various awards that MASFAA awards at its annual fall conference. We also recognize members for their years of service in MASFAA, and we recognize our colleagues who have chosen to retire during the year.

The specific awards for which we are soliciting nominees are the following:

- Student Success Story—must be from 2009 conference host state (Minnesota)
- Outstanding New Professional
- Allan Purdy Distinguished Service Award
- Meritorious Service
- Award of Appreciation
- MASFAA Leadership (each state)
- Nomination for NASFAA Leadership

In addition, we seek the names of colleagues who meet the following critera:

- Retirement Award names
- 20-Year Service Recognition
- 25-Year Service Recognition
- 30-Year Service Recognition
- 35-Year Service Recognition
- 40-Year Service Recognition

We would like to hear from you as soon as possible. I have provided the link for the various recipients for 2008 and the descriptors for the various awards: http://www.masfaaweb.org/docs/associnfo/awards.html

Please forward your nominee names and retirement/service recognition names to Arman Habegger, Awards Committee Chair for 2009, at **habegger@findlay.edu**.

We look forward to hearing from you and appreciate your taking the time to commend your fellow financial aid colleagues.

Allan W. Purdy Distinguished Service Award

This is the highest award MASFAA bestows on an individual. Individuals elected to receive it must have made outstanding achievements to the financial aid profession and to MASFAA's goals. Their career in the profession and within education itself must demonstrate service to fellow professionals, students, and those other publics served by the professional aid administrator. The key criteria for this award are based on significant contributions over a period of time and are not typically given for a single contribution. The recipient must hold regular or associate membership in MASFAA.

Outstanding New Professional Award

This award is given annually to recognize the outstanding contribution of a new professional to the financial aid profession. The recipient must have been in the profession for less than five years and made outstanding contributions at the institutional state, regional, and/or national levels. The recipient must be a current member of MASFAA.

More Award Information

Descriptions for all MASFAA Awards are available on the MASFAA website at **www.masfaaweb.org**.

MASFAA Member Profile:
Jim Brooks

MASFAA Moments is featuring a series of interviews with members of the Executive Council. The following is an interview with MASFAA President-Elect Jim Brooks. Brooks serves as Director of Student Financial Aid at the University of MIssouri-Columbia in Columbia, Missouri.

How did you get started in the industry?
I was coming out of graduate school with a degree in Sociology and not really sure what I wanted to do. I saw a Financial Aid Counselor position listed and thought I could do that for a couple years until I found a "real" job. Instead of a temporary job I found a career that I've enjoyed for many years.

How many years have you been in the industry?
I started right out of grad school in September 1987. So I'm in the middle of my 21st year in financial aid.

Have you worked for other institutions in the MASFAA region?

I started at Indiana University Bloomington, and was there until October 2008.

Who or what has been the biggest contributor to your success as a financial aid professional?

My former supervisor at Indiana University Bloomington Dr. Susan Pugh, gave me many opportunities to learn, to grow, and to succeed as a financial aid administrator. I had the opportunity to touch every aspect of financial aid administration during my time at IU. I also had the opportunity to be involved with state and regional associations, and all of these things helped me grow as a financial aid administrator.

What steps do you and your colleagues take to best serve students at your institution?

We try to keep the process simple and transparent for students. Since their primary objective is to complete their degree requirements, we don't want students getting bogged down dealing with issues related to financial aid.

What words of wisdom would you offer other financial aid professionals?

Take every opportunity that you can, to learn more, to experience more, and to prepare yourself to serve. Volunteer, get involved. Share your expertise and abilities with other financial aid administrators. We are all busy, and many times overworked, but the personal satisfaction you gain from serving, makes up for everything.

How does MASFAA membership benefit you as a financial aid professional?

Firstly, MASFAA is comprised of individuals committed to serving students, and working with individuals who share the same vision is great. Also, the ability to network with other financial aid administrators; I enjoy knowing that I can reach out to any of my colleagues with an issue, or a question, and they are willing to provide guidance, encouragement or just commiserate with me. That alone would be worth the price of membership. Then of course, the guidance and support that we receive as members of a large professional organization is fantastic.

Do you have any other thoughts or comments that you would like to share with the MASFAA membership?

I would encourage everyone to get involved. We are all busy, and most days are trying to balance too many things at once, but the benefits of volunteering and serving the membership make up for the additional responsibilities. I would also say that we need to remember why we do what we do. Think of all the students you've helped make it to a diploma, certificate or degree, and how that has positively changed their lives.

State of Ohio Report
OASFAA Update

Randy J. Ulses
OASFAA President-Elect
University of Cincinnati

The winter months remain an active time for OASFAA. Conferences are scheduled, College Goal Sunday is executed, finances are re-examined, training continues, and awards are determined. And while the work of the Association is a volunteer effort, our membership is hard at work with the issues of winter and spring terms as well as award offers for the upcoming year.

College Goal Sunday proved once again to be an all-out effort for OASFAA on February 8th. With more than 500 volunteers at 40 sites across the state, we were able to assist 2210 student complete the FAFSA. Additionally, Governor Strickland joined us in our efforts by issuing a proclamation that officially recognized February as Financial Aid Awareness Month in Ohio.

Another key event occurs April 1, 2009. OASFAA is again a part of the annual Policy Breakfast for legislators, policy makers, business and community leaders, and higher education professionals hosted by the Partners in College Access and Success. It is an opportunity for our association to join with the Ohio Association for College Admission Counseling (OACAC), the Ohio Board of Regents & Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), Ohio College Access Network (OCAN), the Ohio Department of Education, Ohio TriO, and Tech Prep to focus on the lives of Ohio's young people by promoting increased collaboration, access to postsecondary education, and engagement though degree completion.
The Partners in College Access and Success are committed to the future of Ohio and have faith in the potential of all of its citizens. As a result, the Partners provide direct service to students and share common goals to:

- MOTIVATE students to pursue and complete education beyond high school,
- COUNSEL students and families how to apply to college and financial aid, and
- SUPPORT students with scholarships, internships and college retention programming.

About OASFAA

OASFAA stands for the Ohio Association of Student Financial Aid Administrators. OASFAA is a non-profit, professional organization for individuals actively engaged in the administration of financial aid within the State of Ohio for higher education.

As an educational organization, OASFAA strives to offer resources to students, families and high school advisors to promote higher education and increase awareness of financial aid opportunities.

As a professional development organization, OASFAA offers state-wide opportunities for training, through state conferences held twice a year and regional meetings and individuals sessions conducted throughout the year. These opportunities cover current topics, research and many other areas ranging from counseling techniques to the fundamentals of student aid delivery.

As an organization representing over 600 members from over 250 institutions operating within the State of Ohio, OASFAA serves a diverse group of practitioners. As a unified voice for these individuals, OASFAA strives work to work with organizations across the State to address concerns relating to its mission and to promote the use of financial assistance to students and families facing the expenses of higher education.

State of Iowa Report
IASFAA Update

Michele Dunne
IASFAA President 2008-09
Director of Financial Aid
Grand View University

Greetings from the state of Iowa. The Iowa Association of Financial Aid Administrators (IASFAA) held the fall conference and 40th birthday celebration - 40 and FAbulous in Dubuque, IA. Thanks to Julie Dunn, chair of Birthday Bash and her team for all of the preparations for the birthday event at STAR Stone Cliff Winery. Accolades to Pam Perry, Program Chair, and her team for the planning of the fall's conference. They saw to it the conference provided meaningful information and training, good debate and discussions and ample opportunity for networking.

Since MASFAA conference was held in Iowa a few years ago, IASFAA has been doing our own Reality Store. This year we went to Turkey Valley, Iowa in September. We had 95 - 8th grad students from Turkey Valley and South Winneshiek participate in the event. It is so rewarding and fun to help the students explore the world of finance and budgets.
Iowa held the first College Goal Sunday events this February. We planned events in five cities: Des Moines, Ottumwa, Waterloo, Sioux City and Council Bluffs. We served over 162 families across the state. Thanks to Juan Garcia, state site coordinator, and the task force consisting of Des Moines Schools GEAR UP program, IASFAA, Iowa College Access Network, Iowa College Student Aid Commission, Iowa Department of Education, Iowa Dollars for Scholars, Iowa Jobs for America's Graduates, Iowa TRIO Programs and Scholarship America. If you would like to view our web site for more information please follow this link: http://www.iowacgs.org/Default.aspx

We held our elections and here are the new IASFAA executive board who will take over at the end of our spring 2009 conference.

- President - Chad Olson
- President Elect - Joan Meyer
- Past President - Michele Dunne
- Vice President - Kristi Fuller
- Secretary – Jeannie Barness
- Treasurer - Jen Sassman
- Treasurer Elect - Julie Haack
- Delegates - Mary Jacobson, Mary Bloomingdale, Erin Gjerdes-Bailey

Our spring conference Riding the Wave of Change will be held in Ames on March 26th and 27th at the Gateway Hotel. We are working on a great slate of interest sessions that will provide HEOA information as well as other topics of interest. MASFAA president, Rick Shipman, will attend and present on professional judgment. A topic that is timely in our challenging economic condition. We will also have a colleague from Illinois, President-elect Susan Swisher; join us as the MASFAA state exchange representative. Should any colleagues in the region want to attend follow this link http://www.iasfaa.com/docs/toc_conferences.html

The executive council will meet on March 25 at 6:00. The hospitality room (my room) will be open after we have completed our meeting. You are all welcome to join me.

I leave you with this Motto To Live By: "Life should NOT be a journey with the intention of arriving safely in an attractive and well preserved body, but rather to skid in sideways, chocolate in one hand, martini in the other, body thoroughly used up, totally worn out and screaming, 'WOO HOO, what a ride!'"

About IASFAA

The Iowa Association of Financial Aid Administrators (IASFAA) is a dynamic organization serving practitioners, users and providers of student financial aid programs.

News from NASFAA

First Signs of an Approaching Storm: Looking into the Future

By Haley Chittey
NASFAA Associate Director
for Communications

NASFAA's 2008-09 National Chair and University of Wyoming Financial Aid Director Dave Gruen sparked an interesting online conversation when he predicted in a blog posting that the recent economic turmoil had sparked a tsunami that would soon crash on financial aid office shores.

In the Oct. 27, 2008 blog entry, Gruen pointed to some indicators he was witnessing on his campus that suggested an oncoming wave of students and families who would need financial assistance to compensate for lost wages, dwindling college savings, and lost or reduced home equity.

Financial aid administrators posted responses to the blog entry reporting a variety of experiences. Some corroborated Gruen's fears with stories of increasing need and aid eligibility among students and families while others reported no indications that the economy was affecting those they served.

Looking back, it seems that Gruen's somewhat dire predictions were well founded. As the economic downturn spreads it is having a negative impact on every sector of the U.S. economy, including families' ability to pay for college and institutions' and states' ability to provide financial aid.

Documenting Troubling Trends

A recent report by the Chronicle of Higher Education's new research service illustrates the challenges these trends are creating for students, families, and higher education institutions. The report, "Financial Uncertainty and the Admissions Class of Fall 2008," found that nearly 80 percent of institutions had more applicants in 2008, but 46 percent of institutions had fewer students actually attend after being accepted. Among the 46 percent, three-quarters said they did not expect any decrease in matriculation.

"After being overwhelmed by piles of applications, many colleges had to dig deep into their waiting lists to fill their classes," the report states.

The college admissions officers surveyed for the report cited the following factors for the reduced matriculation rate:

- 76 percent said that changes in the financial situations of parents and/or students was a factor
- 64 percent said that more students attending community colleges was a factor
- 58 percent said that a decline in home values was a factor
- Half said that the availability of student loans was a factor
- 76 percent said that more aggressive financial-aid offers from key competitors was a factor
- 60 percent said that "summer melt," or students who put down deposits but did not matriculate was a factor

Four of the six reasons cited can be attributed directly to the floundering economy. The report details other impacts that the economy is having on students and families, including:

- Students increasingly reluctant to travel far from home to attend college
- Families less likely to want to take on student-loan debt
- Students applying to more colleges, hoping to leverage them against one another to get larger offers of financial aid
- Students trading down - looking more seriously at public universities instead of pricey private colleges.

These trends strain lower-cost colleges like state universities and community colleges, which are experiencing an enrollment boom. Enrollment in community colleges is up 8 percent this year by some estimates. The increased enrollment in lower-cost institutions is stretching their budgets at the same time that state budget cuts are hitting public universities and community colleges hard. This limits their ability to accommodate all applicants, and is creating fears that lower-income and minority students will be pushed out of the system as it is flooded with more qualified applicants and/or applicants with a greater ability to pay for tuition and fees.

At the same time, students are looking for more financial help. About 56 percent of the admissions officials surveyed said more students than usual have come to financial-aid offices this fall to work out new payment arrangements.

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Looking into the Future —
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Unfortunately, institutions are having a tough time finding the money to help these students. Among the colleges that reported more financial aid requests, only 61 percent said they could meet students' needs. More than 50 percent of those surveyed planned to raise funds for additional scholarships, 12 percent planned to use more funds from endowments for financial aid, and 9 percent planned to create new loan programs to make more credit available to families.

As Gruen predicted in his blog entry, survey respondents expected things to get worse before they get better.

A Silver Lining?
If the past is any indication, the U.S. traditionally responds positively to crisis and challenges. It tends to bring the best out of people and gives the nation an opportunity to rethink fundamental assumptions and practices that have led to the current crisis.

"Perhaps this will turn out to be a good thing in the end," wrote one colleague in response to Gruen's blog post. "College tuition was rising at an unreasonable rate and students continued to attend schools they could not afford and continued to borrow money they could not pay back. Much like the housing market, we all will be forced to make better decisions and find another way to pay for college besides borrowing out of control."

Beyond the short-term challenges facing higher education and financial aid, the U.S. faces larger challenges of educating the future workforce and leaders. Demographics dictate that tomorrow's leaders will come from low-income and minority backgrounds, the very population that is currently underserved by higher education. The current crisis offers an opportunity to retool the system to better meet these long-term goals.

NASFAA's National Conversation Initiative will provide important insight into how the financial aid system can be redesigned to meet America's future needs. NASFAA encourages you to get involved to ensure that we make the most of the current crisis/opportunity and that the initiative has a positive and long-lasting impact on the future direction of the financial aid programs.

Resources

National Conversation Initiative Web site:
- http://nasfaa.org/redesign/nci/ncicenter.html

NASFAA National Chair Blog:
- http://nasfaachair.org/blog/

Chronicle Report
- http://research.chronicle.com/reports.html?utm_source=at&utm_medium=en

By Haley Chitty, Associate Director for Communications, National Association of Student Financial Aid Administrators (NASFAA). Comments may be addressed to the author at ChittyJ@NASFAA.org.

Breaking the Deadlock: Unifying Our Federal Student Loan Programs

Coauthored by **Paul Combe**, President & CEO, American Student Assistance

and **Steve Biklen**, former President and CEO of Citibank's Student Loan Corporation

The recent credit crunch that destabilized the mortgage market and leaked to student loans, along with a heightened public awareness of the impacts of student debt, has brought to light the very real need for student loan reform. As we watched the events of the past few months unfold, the higher education community has been forced to face the fact that the dislocation in the credit markets could pose a real threat to the delivery of student aid. While Congress, the Department of Education and the student loan industry have worked together to ensure the continued availability of federal student loans in the immediate future, we must examine ways to improve our student loan system in the future for students and taxpayers alike.

The drumbeat for student loan reform has been building slowly, but steadily, for several years now. Starting in 2006, the Secretary of Education's Commission on the Future of Higher Education called for the simplification of the entire federal aid process. In 2007, regulators and policymakers questioned relationships between student loan lenders and the college financial aid professionals who recommend them to students. Then in 2008, more than 100 lenders stopped or curtailed making federal student loans due to slashed subsidies and market conditions that resulted in shrinking profit margins. Finally, newspaper headlines across the country are now reflecting the warning signs that students' capacity for managing debt is reaching a breaking point.

With a growing appetite for change among the public, policymakers and aid administrators alike, now is the time to examine a new proposal for a single, robust, neutral student loan program. A program that uses both private lenders and the federal government as sources of capital should be the cornerstone of that reform, harnessing efficient standardization, competitive borrower benefits, taxpayer-cost effectiveness and true consumer choice.

To understand where our federal student loan program is headed, we must first understand where it's been. For over 15 years, the Congress, college financial aid officers, and the higher education financing industry have been locked in a polarizing struggle between two competing federal student loan programs: the Federal Family Education Loan Program (FFELP) and the Direct Loan Program (DL). The major focus of the debate is which program scores less in the federal budget. Unfortunately, for both sides, FFELP vs. DL is a death match where only one can survive. Rhetoric has smothered rationality and real dialogue on how to make the two programs actually work together has been impossible. Objective observers all agree that the competition and interplay between the two programs have been beneficial to schools and borrowers, each program forcing the other to improve service, systems, and even pricing. The efficiency and standardization of DL's single delivery system, the consumer choice and service competition of the "market" of multiple lenders, and the debt management/default prevention activities of the guarantors in FFELP have all been major competitive drivers improving both programs. In spite of the obvious advantages and synergies of the two programs, and the advantages of the competition to the consumer and schools, the programs are still being operated by Congress and the U.S. Department of Education (ED) as, at best, separate. Each program is now affiliated with a political party, further polarizing the issue.

To return the federal loan program to its primary mission, it is time to move from FFELP vs. DL to FFEL and DL. A much-needed reform program should focus on:

- The consumer and their rights and needs
- The delivery system
- The pricing for private capital

They are consumers: While the student loan debate has raged, education debt levels have more than doubled. Borrowers have an obligation, but society does as well, to help the borrower manage that debt over the life of the loan. Education loans create a 10 to 25-year relationship between the borrower, the lender/servicer, and the federal government. Unlike grant aid, the long term nature of the loans, and the obligations and relationships created by it over the life of the loan, make the education borrower, in every sense, a "consumer" rather than just a recipient. The borrowers' consumer needs for access to information, timely and responsive advice and service, and mediation of issues are real and critical to the program's success.

One of the basic rights of a consumer is choice. The education loan consumer should have the right to pick who they want to deal with over the next 10 to 25 years, whether it is the federal government, a guarantor, or a private lender. So far the dialogue has been just about federal cost. There needs to be a balance between taxpayer costs and consumer rights.

Thus, one of our goals should be to squeeze unnecessary costs, whether public or private sector costs, from the student loan programs, and use some of those savings to better assist borrowers in successfully completing their education financing by assuring that they have the information they need to manage and pay off their loans.

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Breaking the Deadlock —
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Debt management and default prevention is something that should be measured and for which guarantors, as neutral third parties, should be held accountable.

Indeed, the role and financing of the "guarantor" community should be refocused away from the origination process to early awareness and information, debt management and default prevention, and loan rehabilitation for all borrowers, including those with Direct Loans. Essentially, guarantors would no longer insure the lenders, but instead help guarantee the borrowers' success. Since loans may be securitized or sold to any party, including ED, the guarantor provides the borrower a stable, neutral third-party relationship over the life of the loan. Guarantor fees and incentives should be focused on the relative success of the borrowers in their portfolio as measured by Loans in Good Standing and these results should be published and available to the consumer. The consumer should be allowed to select the guarantor that they believe would best provide those services over the life of the loan.

The System: In the late '80s, it was the inefficiency of the multiple loan delivery processes developed by individual lenders and guarantors, and the lack of standardization between those systems, that was a primary impetus for the creation of DL, a single, efficient delivery system solution for schools. As the competition between the programs grew and the private sector began improving their systems, standards were developed that excluded DL. Within FFELP vs. DL, and in FFEL itself, the delivery systems became a market tool that can be used to restrict the range of consumer choice.

The process of programmatic convergence should first focus on developing a single, robust, lender/capital neutral, origination platform. This system should be developed by ED, lenders, schools (FFELP and DL), guarantors and school financial aid management system (FAMS) providers. The system may be a federal system or a mutual benefit corporation and should accommodate and communicate data and disburse loans for multiple lenders, including ED, and should be the required process for all federal loans. This development eliminates the loan distribution process as a possible point of market control.

Had there been a single, federal loan delivery system already in place, the recent dislocation in the credit markets would have posed very little threat to the delivery of loan funds to the students. Also, a single system would lower the cost of entry into the student loan markets, opening the market to more lenders and capital sources. With one delivery system, capital becomes fungible, allowing small lenders to compete, side by side, with large lenders. Also, with a single system in place, Congress should require all schools to place ED, with its Direct Loan brand, and at least two other lenders on their preferred lender list. Effectively, the consumer could pick any lender (including ED) on any campus and be assured that the funds would be delivered efficiently and on time. This is ultimate consumer choice.

Capital costs: The last priority is the setting of the interest rate provided to the private lenders/capital in the FFEL program. Congress sets the rate charged to the student, which is the same for both DL and FFEL. Historically, Congress has periodically set the subsidy rate (special allowance payment), but this has always politicized the process. If it is the private-public partnership that allowed the student loan program to develop into a viable student loan market, a mechanism has to be developed that provides a reasonable, risk-rated return. The question is how. The answer should be provided by the private sector. Auctions have been suggested but these would be operationally cumbersome and ignore completely consumer rights. Most recently, Ben Bernanke, the Federal Reserve Chairman, has suggested a mechanism that would track the spread between two relevant measures of the cost of funds to lenders and use those as a mechanism to determine the appropriate lender return. Ultimately, capital markets in conjunction with Congress, ED and loan providers should develop a proposal that uses the cost of the DL program as a benchmark; satisfies the needs of the federal government and the consumer; is market based; and provides an appropriate role for private capital and market competition.

Building a Model for the Future: Getting to Unity

2008 has turned into a watershed year for the student loan industry. The recent threat of an unprecedented disruption to student loan access has brought forth not only a rapid response from lawmakers, the administration and the industry, but also a rallying cry for a broad and thorough review of the entire federal student aid system. The time is right to convene "Clean Slate" working groups to tackle reform.

Working Group activities should include:

- Creating a structure and laying the groundwork for regulation or legislation to unify our federal loan programs into one
- Integrating an R&D approach to setting student loan policy
- Researching and publishing position papers on key issues
- Providing a Web-based clearinghouse of information

In a bid to retain America's competitiveness in an increasingly global economy, it is imperative that our nation invest in the proper education, training and support for its citizens. We must develop a unified student loan program with an eye toward efficiency, affordability, accountability, and sustainability. It's time to break the deadlock and restore America's higher education finance system as the true support mechanism for college access.

What do you think of a single unified federal loan program? Join the conversation on ASA's Policy Perspectives blog at http://www.amsa.com/blogs/policyperspectives.