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THE ADMINISTRATION'S STUDENT AID PROPOSALS

H. Reed Saunders

"No qualified student who wants to go to college should be barred by lack of money. That has long been a great American goal; I propose that we achieve it now." Thus, President Nixon began his Message to the Congress on Higher Education.

These words capture the spirit and the thrust of the Administration's student aid proposals. The idea that no person should be financially barred from post-secondary education has persisted for a long time. Present student aid programs have done much in moving us toward this goal. In 1960, 46% of all American high school graduates went on to college. Only 23% of the students from the lowest income quartile were among this group. In 1967, the last year for which data is available, 61% of American high school graduates went on to college, including 44% of the lowest income quartile.

The increase in these statistics indicates that a significant change has occurred, yet we are still far short of our goal. The Administration's proposal is designed to close the remaining gap. The proposal has three main features:

- a. Changes in legislation assuring that all qualified students *will* receive the funds for which they are eligible.
- b. The establishment of the National Student Loan Association to insure that loans are available to every student who desires to borrow in order to meet college costs.



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c. A greatly increased budget for educational opportunity and work-study grants to provide minimum levels of grant support for all qualified low-income students.

Proposed Programs: Purposes

The administration's proposed improvements in the existing student aid programs have four major purposes:

- To assure the availability of funds to every qualified student.
- To assure that Federal funds go first, and in the largest amounts, to the students who have the greatest need.
- To furnish potential students with accurate information concerning the aid they will receive.
- To assure that all students of equal need are in fact treated equally.

Proposed Program: Concept and Structure

The Administration is recommending a coordinated student aid system with two parts: (a) a combination of grants, work-study payments and subsidized loans for full-time low and middle income undergraduate students attending public or non-profit post-secondary educational institutions; and (b) creation of a National Student Loan Association to raise loan funds privately and make them available to all post-secondary students at all income levels.

A. Grants, work-study payments, subsidized loans

The basic principle underlying our student assistance framework is that all students whose families are expected to make the same contribution should have the same assistance available for their education from Federal sources and in addition those who choose to attend higher cost institutions should be able to receive additional assistance to meet these increased costs. The combination of family contributions plus Federal grant, work-study payments and subsidized loan will be sufficient to enable any student to meet minimum education expenses.

Students attending higher cost institutions will be eligible for additional subsidized loans. The key determinant is family income (and, thus, family contribution). Students from lower income families will receive more Federal aid than students from higher income families. Lower income students will also receive a larger proportion of their aid in the form of grants and work-study payments rather than in the form of subsidized loans. But, the total resources available (i.e., family contribution plus Federal aid) to students at different income levels will be equivalent.

The system would work as follows. Each year the Department of Health, Education and Welfare would project the need for funds for the following year and this information would form the basis for the President's budget request to the Congress (this year a budget request for FY 1972 is being made in addition to the request for advanced funding for FY 1973).

Following Congressional appropriation, the Secretary of HEW would survey all post-secondary institutions to determine their expected enrollments of qualified students. Based upon this survey and the known appropriation, the Secretary of HEW, following consultation with the National Advisory Committee on Student Financial Aid, would then publish a schedule for the following year. Institutions would certify student eligibility and advance funds to students under the Secretary's schedule. Each student's eligibility for assistance would be calculated by determining the expected family contribution toward his educational costs. This determination would take into account such factors as the size of the family, the number of children in college, extraordinary family expenses and capital assets. The deficiency between expected family contribution and the amount of resources the student should have available to him would be met by a combination of grants, work-study payments and subsidized loans.

For example in the Fiscal 1972 budget, the Administration has requested \$820 million for this program. Based upon the best estimates available, students from families with adjusted family incomes up to \$10,000 and with two children, one of whom is in college, would be eligible for Federal funds.

Under present estimates, the maximum total amount of subsidized aid (grant and work-study plus subsidized loan) available to any one student would be \$2900. Depending upon family income, a needy student could receive a maximum grant of \$1000, and a maximum subsidized loan of \$400. (These amounts could be larger if present estimates of the eligible population are not borne out by the survey of all post-secondary institutions.) In addition to these awards which every eligible student would receive upon certification of his eligibility, colleges could make additional student loans from a \$250 million "cost of education" loan program. This program would be controlled by the colleges in a manner similar to the present NDEA loan program and the terms to students would be the same as the present NDEA loans. The maximum cost of education loans would be \$1500. The FY 1972 budget contains \$20 million for the interest subsidy on these loans.

The estimated amounts of aid to be available at different income levels for the two-child family described previously under the funding levels proposed by the Administration's proposals would be as follows:

<i>Family Income</i>	<i>Grant/Work-Study</i>	<i>Subsidized Loan</i>	<i>Cost of Education Loan</i>
\$3,000	1,000	\$400	\$1,500
4,500	900	400	1,500
6,000	450	400	1,500
9,000	0	250	1,500
10,000	0	0	0

Figures in the above chart are based on Administration budget request figures for the fiscal year 1972 and upon present estimates of the number of eligible students. The legislation does not specify eligibility levels. Several other features of the proposals merit attention:

- Assistance from State and private student aid programs would supplement Federal aid, and would permit students who are eligible for it, a wide choice of the type of institution they attend.

- A "grandfather" clause would assure that students receiving aid under the present program would receive no less under the new system than they are now entitled to.

- Institutions of higher education would preserve the option, within national limits set by the Commissioner of Education, of determining the *mix of grants and work-study payments* appropriate to the individual student.

Finally it should be noted that these proposals do not alter the valuable features of the existing programs.

- *Educational Opportunity Grants* would continue as the basic grant program, with the matching requirements eliminated.

- *The College Work-Study program* would continue. Colleges would continue to match work-study funds provided by the Federal Government (one dollar for four) but this requirement would be waived for institutions or work programs which it would hamper.

- *National Defense Student Loan* benefits would continue under the present terms and conditions for both the subsidized loan programs discussed above. However, lendable capital would come from the private money markets rather than the Federal Budget.

B. National Student Loan Association

The purpose of the proposed National Student Loan Association (NSLA) is to increase the amount of resources available for loans (both subsidized and unsubsidized) to all students at all income levels.

NSLA would be a private corporation, chartered by the Federal Government. It would raise funds by issuing its own obligations for sale in private capital markets. These obligations would be guaranteed against default by the Government, allowing the NSLA to pay a lower rate of interest.

With the proceeds from its sales, NSLA would buy, sell, or warehouse (buy under the condition that the seller will repurchase, i.e., NSLA "stores" the loans) student loan paper from colleges, banks or other eligible lenders. Typically, a college without funds of its own to invest in student loans would make a loan to a student and then turn immediately to NSLA to sell the student's note. NSLA would pay enough for the note to restore the college's cash position.

NSLA would significantly increase the flow of funds into student loans. Both banks and colleges would be encouraged to do more student lending. It is esti-

mated that NSLA would buy up to \$2 billion worth of loans in its first-year of operation.

The Guaranteed Loan Program would continue to be open to all college students, however high their family incomes. However, some changes would be made in the program: 1) the 7% interest ceiling would be eliminated; 2) the interest subsidy paid by the Federal Government on student loans to above average income students while they are in college would be eliminated; 3) the special allowance paid to banks would not be continued. Thus, it would now be an unsubsidized loan program except for students meeting a test of need.

Several other features of both subsidized and unsubsidized loans are of significance:

- Banks and other financial institutions could make both types of loans. Loan ceilings would be raised and would apply to the aggregate of both subsidized and unsubsidized loans. A student could borrow up to \$2,500 a year for up to seven years.

- The length of the maximum permissible loan repayment period would be increased to twenty years from the present ten.

- Student borrowers would not have to pay interest while in college. Federal payments would cover interest charges on subsidized loans. On unsubsidized loans, the lender would be required to allow the student to defer payments of both interest and principal while the student was in college. The Government would guarantee deferred interest payments along with principal.

- The student could repay his loan at any time without penalty. Lenders would also be permitted to agree, at the time the loan was made, to allow the student to defer payments and interest up to an aggregate of five additional years. In such cases, the student would be allowed to choose those times during the repayment period when regularly scheduled payments would be especially burdensome. The Federal Government would guarantee interest charges during such periods.

Proposed Program: Consequences

It is estimated that in Fiscal Year 1972, the first year of operation of the program:

- 3 1-2 million students would receive benefits (including unsubsidized loans), an increase of one million over the number of students receiving assistance under present programs.

- approximately \$580 million in grants and work-study payments would be available, an increase of \$230 million above FY 1971.

● about \$1,190 million would be available to make loans under the subsidized loan program, an increase of \$890 million over FY 1971.

Four major purposes are achieved by this proposal:

● *Availability* — Every student who qualified for some combination of grants, work-study payments and subsidized loans under the schedule established by the Secretary of HEW will receive those funds. NSLA will provide an adequate supply of lendable funds for students who do not qualify for subsidies.

● *Need* — Grants, work-study payments and subsidized loans will be concentrated on those in most need: students from low-income families.

● *Certainty* — The aid schedule published annually by the Secretary of HEW would inform every eligible student of the amount of aid he could expect.

● *Equity* — Students whose families could be expected to make similar contributions would receive equivalent amounts of aid.

SUMMARY

Through a combination of greatly increased grants, expanded loans and a minor restructuring of existing aid programs, the Administration's proposal promises significantly improved opportunities for the young people of our country. It deserves support.