STATEMENT OF TERRY W. HARTLE
SENIOR VICE PRESIDENT
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EDUCATION AND WORKFORCE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
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KEEPING COLLEGE WITHIN REACH: THE ROLE OF FEDERAL STUDENT AID PROGRAMS

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I am Terry W. Hartle, senior vice president at the American Council on Education, a trade association representing 2,000 public and private, two-year and four-year colleges and research universities. Thank you for inviting me here today. I have been asked to provide an historical overview of federal higher education policy and to draw upon that history to identify lessons learned as we look forward to the next reauthorization of the Higher Education Act.

The first significant aid to education, including the Higher Education Act (HEA), was created in 1965 as part of the Johnson administration's War on Poverty. The HEA authorized a program of need-based grants, student support programs (Upward Bound and Talent Search), and the Guaranteed Student Loan program. In addition, it incorporated two other programs—the College Work-Study Program, which had been enacted a year earlier as part of the Economic Opportunity Act of 1964, and National Defense Student Loans, created in 1958. All of these programs, although substantially altered, remain part of the Higher Education Act today. [1]

From the start, the federal government sought to help both low- and middle-income families consider and finance a college education. The Defense Loans, Opportunity Grants and Work-Study were designed to help low-income students while Guaranteed Student Loans were intended to help middle-income students and families manage college costs through low-interest loans. Initially, federal funding was modest and relatively few students took advantage of the programs. In 1970, just over $1 billion was issued in guaranteed student loans and just $365 million in the Educational Grant and Work-Study Programs.

The architecture of the Higher Education Act as we know it today was completed during the 1972 reauthorization, when Congress created the Basic Education Opportunity Grant (BEOG) Program[2]. This initiative fundamentally shaped higher education policy because it awarded the money to students as a voucher they were free to spend at any eligible school of their choosing. Institutional officials, including representatives of my organization, argued in favor of giving money directly to the institutions. The ultimate decision was to move in favor of direct government aid to students. In retrospect, that was clearly the right decision and it remains a central and abiding aspect of federal student aid. In the case of federal loans and Pell Grants, the

[1] Collectively, these programs have become the Federal TRIO Programs, the Federal Work-Study Program, the Perkins Loan Program, the Federal Direct Student Loan Program and the Federal Pell Grant Program.
[2] The Basic Education Opportunity Grant program was renamed the Federal Pell Grant Program in 1980.

money goes to students who are free to spend it at any approved postsecondary educational institution.[3]

The 1972 reauthorization marked the point when students at for-profit schools were first made eligible to participate in federal student aid programs. In a related step, the legislation eliminated the references to "higher education" and replaced them with the term "postsecondary education" to signify the act was meant to make a broader array of training and educational experiences eligible for federal aid.

The 1972 reauthorization was based on a model that assumed states were responsible for financing public higher education and would adequately fund public colleges and universities in order to maintain the very low tuition that had historically been a key feature of the sector. But to encourage states to provide need-based student aid, Congress established the State Student Incentive Grant (SSIG) program to award federal matching funds to states that created or expanded such efforts. While all states did eventually put need-based student aid programs in place, some remained very small. The SSIG program was rebranded as the Leveraging Educational Assistance Partnership (LEAP) Program in the 1998 HEA Amendments. It has recently been defunded, and we are seeing states pull out of need-based student aid as a result.

Throughout the 1970s, Congress was confronted with evidence that despite the federal guarantee on student loans, many banks were reluctant to lend money. To address this problem, Congress took several steps that brought a large number of new actors into the program. First, in 1972, it established the Student Loan Marketing Association (Sallie Mae) as a government-sponsored enterprise. Sallie Mae, which would later be privatized and become a hugely profitable company, was designed to provide a secondary market that would buy student loans from banks (thus injecting liquidity into the federal loan program) and service the loans when the borrowers entered repayment. In 1976, Congress established the "special allowance payment" for lenders, which was designed to provide a financial incentive to encourage banks to lend, and authorized the creation of state guarantee agencies to act as a bridge between lenders, students and institutions. The steps were well intended and necessary to smooth the functioning of a growing student loan program. But by creating a large number of new actors, Congress was adding to the complexity and political immutability of the student loan program, a development that would complicate federal efforts to shape policy for many years to come.

The desire to help middle-income families finance a higher education was also an increasingly central issue for policymakers in the 1970s. At the request of the Carter administration, Congress approved the Middle Income Student Assistance Act of 1978 (MISAA) which let any student or family regardless of income take out a federal student loan at a very generous interest rate. Not surprisingly, student loan volume expanded sharply and we soon learned what has become another enduring lesson of federal education policy: Federal programs create incentives and individuals respond to them. Indeed, the expansion of borrowing in the federal student loan program was so dramatic that Congress terminated most of MISAA in 1981, just three years later.

Another milestone in federal education policy occurred in 1979, when, at the request of the Carter administration, Congress approved legislation to create the Department of Education. The higher education community generally did not support this legislation because of widespread concern that such an agency would inevitably begin to dictate the academic affairs of

[3] Funds are distributed directly to the institutions. However, funds are sent in the name of students who then must sign them over to their institutions.

colleges and universities and come to regard itself as a federal ministry of education. Given the significant role that education now plays in national policy discourse, few would question the wisdom of having a federal agency focused solely on the important education issues of the day. However, as this Committee knows, concerns about federal intervention into academic affairs have only increased in recent years.

Federal student aid expanded slowly in the 1980s—the 1986 reauthorization of the Higher Education Act largely preserved the status quo. But by the last years of the decade, the cost of the student aid programs (particularly student loans) began rising dramatically, in large part as the number of for-profit schools participating in the program grew. While many of these schools provided high quality education, others did not and the cost of federal student loan defaults increased sharply. The default rate peaked at 22 percent in 1990, and in the same year, if student loan defaults had been given their own appropriation, it would have been the third largest expenditure at the Department of Education.

Through successive budget reconciliation bills, Congress imposed new requirements through the Higher Education Act on institutional eligibility in an aggressive effort to weed out the "bad actors." Other changes were made to curb defaults and achieve cost savings. A large number of schools closed and the student loan default rate dropped sharply from 22 percent in 1990 to 6 percent in 1999.

The surge in institutional participation in the late 1980s was facilitated by the ease with which schools could become eligible for the federal student loan program. From the beginning, eligibility required a school to meet three tests: 1) It had to be accredited by an accrediting agency recognized by the federal government; 2) It needed to be authorized to do business by the state in which it was located; and 3) It had to be judged "eligible" by the U.S. Department of Education. This system was relatively reliable when a small number of schools participated in student aid programs. However, as the number of schools and students increased, this eligibility network, called the triad, proved inadequate to protect students and taxpayers.

Extensive hearings into student loan defaults by the Permanent Subcommittee on Investigations of the Senate Government Affairs Committee, then chaired by Senator Sam Nunn (D-GA), demonstrated that the three-part mechanism designed to ensure that only high quality schools could participate in federal student aid programs was barely functional. As a result of extensive investigation, the Committee concluded that too many "schools" were more interested in making money than in educating students.

The Nunn Committee made 22 recommendations for addressing the shortcomings and virtually all them were adopted in the 1992 reauthorization. In short, accreditors were given detailed and specific responsibilities, as was the Department of Education. The states were handed a broad grant of authority under an initiative called State Postsecondary Review Entities (known as SPREs) in an effort to increase state oversight of postsecondary institutions. While Congress wanted SPREs to focus on problem schools, some states and the Department of Education saw them as a much broader mechanism to oversee institutional quality. However, after a series of embarrassing missteps, Congress quietly killed the program in 1995.

A number of other developments occurred in this ambitious reauthorization. First, Congress created two new loan programs—the unsubsidized loan program and the parental loan program (PLUS). These were designed to be "loans of convenience" to help middle-income families finance higher education. The loans carried a market-based interest rate and borrowers did not receive the subsidies that were available under the traditional subsidized loan program.

Second, Congress created a direct loan pilot program. Direct loans were designed to take banks out of the federal student loan business. In the traditional student loan model, the federal government paid a subsidy to banks, banks lent the money to students, borrowers repaid the banks and, in the case of default, the federal government paid the bill. Under direct lending, however, the Department of Education made the loans directly to the students and the borrowers repaid the federal government. In the event of non-payment, the government would use all the resources at its disposal to collect.

Finally, for the first time, Congress moved student loans from a fixed interest rate that had characterized the program since its creation and adopted a variable interest rate.[4] Under the new policy, the interest rates on student loans would be reset every July 1 and would be based on the 91-day Treasury Bill rate. The interest rate would reset annually throughout the life of the loan.[5]

The arrival of President Bill Clinton brought more changes in federal higher education policy. In 1993, the federal government was, as it is now, plagued by slow economic growth and a large federal budget deficit. Upon discovering that, under federal budget rules, direct lending saved money, the administration moved to turn all federal student loans into direct loans.[6] Congress was unwilling to take such a dramatic step and simply made every school eligible to participate in direct lending, rather than the sharply limited number of institutions permitted to do so in the direct loan pilot that had been approved the year before. Importantly, this new policy was largely driven by the desire to reduce federal spending. The administration and its congressional allies certainly expected that the plan would be better for students, but it was actually the prospect of significant cost savings that led Congress to take this step.

Second, under the Clinton administration, the federal government began to make use of the tax code to help students and families finance a higher education. Prior to 1992, the federal government had few tax benefits in place to help families finance a college education. In 1993, however, President Clinton recommended Congress establish a federal program modeled after the Hope Tax Credit Program, established in Georgia by Governor Zell Miller. It proved impossible to recreate the Georgia program exactly and as a result Congress established two separate tax benefits—one aimed at traditional aged students (Hope Scholarship Credit) and one focused on adults (Lifelong Learning Credit). In both cases, the federal government sought to help middle-income families. Indeed, low-income families were largely excluded from participation because neither credit was refundable.

Once it began to make use of the tax code to help families finance a college degree, Congress quickly enacted additional benefits. Today, the tax code authorizes at least nine specific tax benefits to help families save for college (Section 529 College Savings Plans, Coverdell Education Savings Accounts, and tax-free status of U.S. Savings Bonds if used to pay for college), pay for college (American Opportunity Tax Credit, Hope Scholarship and Lifetime Learning Tax Credits, the "above the line" tuition deduction, Sec. 127 Employer-provided Educational Assistance, Sec.

[4] The variable interest rates were capped to protect student borrowers.

[5] To help students manage differential interest rates, the federal government created the consolidation loan program to give student borrowers an opportunity to combine all their student loans so that they could avoid juggling multiple payments, make one payment each month and count on a fixed interest rate.

[6] The assumption that direct loans would save money was vigorously disputed by proponents of bank-based lending and remains a controversial topic to this day.

117 Qualified Scholarships exemption), and to repay student loans (Student Loan Interest Deduction).[7]

Legislation governing higher education, and especially student aid, has increased significantly in the last few years. Beginning with the College Cost Reduction and Access Act of 2007 (CCRAA), eight major pieces of legislation affecting student aid have been passed into law. In just this short period, we have seen major expansions of Pell Grant funding and eligibility (the College Cost Reduction and Access Act of 2007, the American Recovery and Reinvestment Act of 2009, the Health Care and Education Reconciliation Act of 2010), and then sizable reductions in Pell Grant funding and eligibility (the Consolidated Appropriations Act of 2012). The interest rate on Subsidized Stafford loans was lowered over time from 6.8 percent to 3.4 percent. Two new loan repayment programs were created, loan forgiveness options have been added and expanded, and the in-school interest exemption was eliminated for graduate and professional students. Two new grant programs were created, one of which (the TEACH Grant) contains an unprecedented and controversial feature: If the terms of the grant are not met, the grant is converted to a loan with interest accruing from the moment the money was awarded.

Most notably, in the 2010 Affordable Care Act, Congress eliminated the federal guaranteed student loan program and put every institution into direct lending. According to the Congressional Budget Office (CBO), this step saved roughly $60 billion. Most of these funds were used to pay for the expanded Pell Grant Program and the remainder went to finance health care reform and reduce the federal budget deficit.

These changes to the federal student aid programs are in addition to significant changes in tax provisions, including the creation of the American Opportunity Tax Credit, which has become the single largest higher education tax benefit.

Frequent changes in complex programs means that even experts have difficulty keeping track of what has happened. Campus officials are often hopelessly confused and one can only imagine what student and parents will make of it. Changes are often made to current law before there has been sufficient time to fully understand the impact of previous changes. What's more, many of these changes have occurred not in legislation originating with the authorizers, but through (often times fast-tracked) funding legislation, where fiscal matters rather than best policy are the primary concern.

The Obama administration has also changed the playing field in higher education policy by increasing regulation of higher education institutions in new and very complex ways. We now, for example, have a federal definition of credit hour and, sadly, it's not a very good one. Aside from our strong belief that the Department of Education should not be regulating academic standards, the definition is based on time spent "in class" which, in an era when distance education is expanding very rapidly, means it is obsolete. In addition, the department has published complex regulations on gainful employment and state authorization that have created enormous confusion and, at least temporarily, have been blocked by the courts.

As always happens when the economy slips into a recession, college enrollments increased in recent years as millions of Americans sought to improve their education and skills. This, coupled with the increased eligibility for federal student aid, meant that the cost of the federal student aid programs has increased sharply. In 2007-08, the cost of the Pell Grant Program was $14 billion and roughly 6 million Americans received awards. Three years later, the cost had more

[7] Several of these were reauthorized on January 1, 2013, in the American Taxpayer Relief Act of 2012.

than doubled to $31 billion and 9.6 million individuals benefited. Over that same time period, total federal lending grew from $75 billion to $110 billion.

The story of federal student aid is obviously long and complex. This summary just touches on the major developments. But more important than the history itself perhaps are the lessons and insights that we can draw from it.

Federal student aid programs have worked remarkably well. But the world has changed and that change should be acknowledged and incorporated in the architecture and design of student aid.

For almost 50 years, the central goal of federal student aid was to increase access to postsecondary education for all students without regard to income or a family's ability to pay. Universal opportunity was a uniquely bold and American experiment and it worked. From this vantage point, taking stock of historical evidence, it is obvious that the farsighted goals and the design of the core student aid programs contributed to the success of the programs. However, in this century and in this year, it is incumbent upon Congress to debate whether this goal ought to be amended or expanded in ways that acknowledge current realities and contemporary challenges. Regardless of whether or what changes or additions to the core federal goal are desirable, it is important that we maintain the goal of facilitating access to higher education.

While the higher education policy landscape has changed in many ways over the last 50 years, there are eight lessons worth noting that will impact HEA reauthorization discussions:

First, the student population served by the programs has changed dramatically. When Congress enacted the Higher Education Act in 1965, the vast majority of nation's 7.4 million students were 18 to 24 years old, predominantly dependents who attended higher education full time, lived in campus housing, and were seeking a bachelor's degree. Today, college students are much more likely to be older and financially independent. Many of them work part-time and a substantial number of these students have families of their own. They may be pursuing a four-year degree or seeking short-term training that leads to a certificate rather than a degree. They may not even be seeking a credential, just taking a few specific courses. Today, the traditional students who were the focus of the original Higher Education Act represent just 15 percent of the nation's 21 million students. It is vitally important to recognize these differences and to shape federal policy that helps all students achieve their postsecondary education goals.

Se**cond, there has been a marked shift in the policy arena that elevates completion above access**. Higher education is increasingly central to economic and social well-being in American society. While many students start a postsecondary education, a significant number do not finish. In recent years, numerous observers have suggested that graduation, or completion, ought to be equally central to federal policy. Designing policies around a completion metric is complicated, especially as participation and completion varies considerably by socio-economic status, because such policies are highly susceptible to the laws of unintended consequences, and also because they skirt complex issues regarding the role the student plays in achieving success versus the role the institution plays. This is not to say that we should not have a vigorous debate about what we want federal student aid to accomplish. We must. But we should do so in a way that compliments, but does not abandon or retreat from, the central purpose of federal student aid.

Third, federal student aid policy has been built upon the premise that states would support public higher education and keep tuitions affordable, freeing the federal

government to ensure equal educational opportunity and a measure of choice in the selection of a college. This assumption has fallen by the wayside as state governments have slashed funding for public colleges and universities and sharp tuition increases have followed.

Since 80 percent of American college students attend public institutions, this has meant much higher college costs for millions of families. As partial compensation for this trend, there has been dramatic growth in the total amount of federal financial aid expenditures. But even while the federal investment has grown, it has not been enough to make up for the decrease in support from states for higher education and unless the trends in state support change, tuition increases and public concerns about paying for college will continue to grow. Unfortunately, the federal government has few tools available to ensure states continue to play their historic role in making higher education available at a modest price and there is a real question as to whether the federal government, acting virtually alone in the student aid policy sphere, has the resources to ensure meaningful access to college.

Fourth, postsecondary education has become much more complex, and this has complicated decisions about institutional eligibility. In 1965, there were just over 2,000 colleges and universities in the United States. The mid-1970s witnessed a rapid increase in the growth of community colleges throughout the country. Today, there are more than 6,000 two- and four-year, public and private non-profit colleges, research universities, for-profit career colleges, and online as well as brick and mortar schools. All of this poses enormous challenges regarding decisions about institutional eligibility and the design of student aid programs.

Fifth, once institutional eligibility is settled, there remains the issue of oversight. Historically, the HEA has relied on the so-called "triad" consisting of states, the federal government and regional (and national) accrediting agencies to ensure proper stewardship of federal resources. As I noted earlier, within the triad, roles were clear: The states were to ensure schools were licensed to operate as educational entities within their borders and to receive consumer complaints; the federal government was to ensure institutions met a clear set of conditions for eligibility to participate in federal student aid programs and to oversee compliance with those conditions; and the accrediting agencies were to evaluate and attest to the quality of the academic programs consistent with the mission of the institution. Unfortunately, the state and federal roles never have been fully realized. The states have always had differences among them in the way they relate to their higher education institutions and many have been indifferent to their responsibilities under the federal aid programs. The federal government itself has a spotty record of oversight. The practical effect of these realities means that over time, accreditation has become overwhelmed with added, and some would say inappropriate responsibilities. Instead of being a barrier to federal regulation, accreditation has become a portal to it.

Sixth, Congress should consider the role federal regulation plays as a cost-driver in tuition growth. As the size and complexity of student aid has increased, government regulation of colleges and universities has grown exponentially and changed considerably. Until the early 1990s, federal student aid regulations were almost entirely designed to ensure campuses would be good fiscal stewards of federal funds. But in the 1990s, Congress began to impose regulations on institutions for a huge variety of purposes that are totally unrelated to student aid. At present, for example, colleges and universities must provide information about salaries of athletic coaches, provide the Department of Education with an annual list of gifts accepted from foreign governments and corporations, and conduct activities to commemorate

Constitution Day every September 17th. These are all worthy things, but they impose compliance costs and someone must pay for them.

Moreover, even the most conscientious campus can never be sure that it is in full compliance with all the rules, regulations and "sub-regulatory guidance" published by the Department of Education. The department has a strong bias toward regulation but seems unwilling to look for the simplest and most direct ways to accomplish its responsibility to ensure the laws are faithfully executed. Indeed, the department's reluctance to address the compliance burden created by government regulations has led it to ignore a specific legislative requirement in the 2008 reauthorization [HEA Sec. 482 (e)] which required publication of an annual calendar showing key compliance dates for institutions.

Seventh, "simplification" has been the holy grail of each successive reauthorization and remains so today. Unfortunately, efforts to make federal student aid simpler rarely succeed. The reasons are two-fold. First, simplification can be expensive. It would be easy to streamline the Free Application of Federal Student Aid (FAFSA) by simply asking for less information from applicants, but doing so would inevitably make more individuals eligible for aid and increase the cost of the federal programs. Second, efforts to simplify the federal student aid system often run headlong into a desire to create more options to help students and families. For example, the federal government now offers student loan borrowers seven different loan repayment options. Multiple options may well make for more choice for borrowers, but it significantly increases program complexity. This is not in any way to suggest that "simplification" is undesirable. Rather, it suggests that genuine simplification in federal student aid is actually complex.

Eighth and finally, experience has taught us that federal policy creates incentives and individuals and organizations will respond to them. In the 2008 reauthorization, to enable students to shorten their time to a degree, Congress made it possible for students to receive a Pell Grant to attend school year-round. So many students responded to this incentive and took advantage of "summer Pell grants" that more than $4 billion per year was added to the cost of the program. Unfortunately, the sizable cost increase of the program proved unsustainable, and in 2010, less than two years after approving the provision, Congress repealed it. Once again, students who wish to study year-round cannot use Pell grants for that purpose. It is a pattern we have seen before—public policy creates incentives and people act accordingly. It's vitally important that we understand those incentives before changing public policies because we will get what we ask for.

There are many more insights and lessons that flow from the long and complex history of the Higher Education Act. As this committee embarks on reauthorization, I hope you will keep this history in mind. I believe that doing so will improve the design and implementation of the many changes you will make to this vitally important legislation.