

AFTER THE FAFSA:

how red tape can prevent eligible students from receiving financial aid

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EXECUTIVE SUMMARY

There is widespread recognition that reducing the length and complexity of the Free Application for Federal Student Aid (FAFSA) can help more students get the aid they need to attend and complete college. However, the FAFSA is just the first step in the federal student aid application process. What happens after students submit a FAFSA has received far less attention but is also complicated and time-consuming for both students and colleges, and the red tape can prevent otherwise eligible students from receiving needed aid. This report focuses on the aid process after the FAFSA, and its implications for college access and success.

After the U.S. Department of Education receives students' FAFSAs, the agency flags some applications for colleges to "verify." This process requires students to resubmit and document some or all of the information they put on their FAFSAs, which can be onerous for some students. Almost all applicants who are flagged for verification are would-be Pell Grant recipients – the lowest income students who may have little support or context to help them through this heightened level of scrutiny. In addition to verification, aid applicants face other eligibility confirmations and procedural hurdles – such as enrollment, GPA, and identification checks – before receiving their aid.

Almost all applicants who are flagged for verification are would-be Pell Grant recipients – the lowest income students who may have little support or context to help through this heightened level of scrutiny.

All of these steps are intended to ensure that students are indeed qualified to receive the types and amounts of federal student aid for which they appear to be eligible. This is an important function, especially as the weak economy drives more students than ever before to apply for aid. Financial aid administrators must strike a delicate balance between safeguarding taxpayer dollars and promoting access to needed aid that helps students attend and complete college.

The burden of verification also falls heavily on schools. Financial aid offices spend many hours and millions of dollars attempting to verify student information. Even so, many colleges verify more students than the rules require, spreading often scarce administrative resources even thinner. This practice appears to be more a function of uncertainty about how to best implement the rules than a widespread belief that fraud and abuse are rampant.

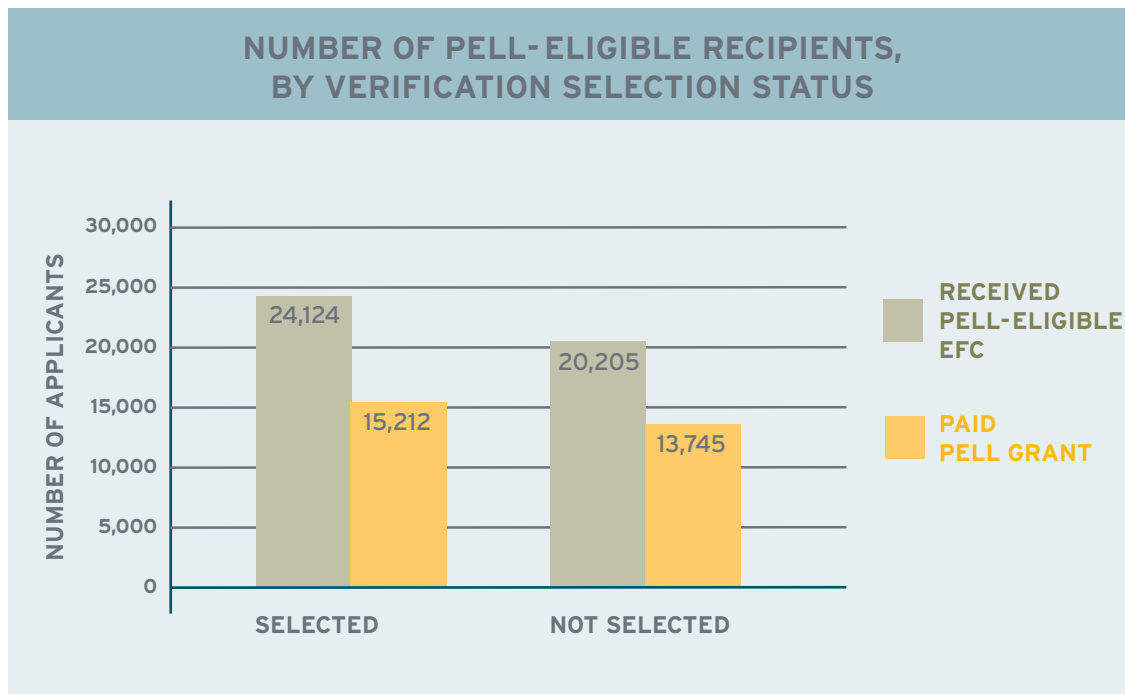
The issues highlighted in this report are applicable to all types of colleges throughout the country to varying degrees.

This analysis is based on financial aid application information from 13 California community colleges, along with interviews of financial aid administrators, and a survey of students who submitted FAFSAs and appeared to be eligible for Pell Grants but did not complete the full process. The data follow financial aid applicants from first submitting the FAFSA through either receiving or not receiving aid. At each point in the process, student outcomes varied significantly between schools, suggesting important opportunities to streamline the process at the campus level. After reviewing their own data and how they compare to other schools', many administrators from our sample colleges have already taken steps to help more aid-eligible students reach the finish line.

KEY FINDINGS

- Very few verified applicants (2 percent) became ineligible for Pell Grants, but students selected for verification were less likely to receive grants than those who were not selected.
- Financial aid administrators see additional requirements beyond the initial application as a key reason why some eligible students do not receive Pell Grants.
- In a survey, almost two-thirds (62 percent) of students who appeared to be Pell-eligible but had not completed the application process either did not know the status of their application or incorrectly identified it as being complete.
- Every college in our sample verified more students or pieces of information than the minimum required under federal regulations.
- The 13 colleges together spent between \$1.7 million and \$2.5 million attempting to verify student information.

This report is intended to raise questions and spark debate about the utility and effectiveness of the current financial aid process between FAFSA filing and aid disbursement. While it is important to make sure that aid dollars are spent appropriately, we cannot ignore the costs that well-intentioned protective measures can have for students, as well as for colleges. It is impossible to explain definitively why so many students who appear to qualify for Pell Grants do not complete the process. However, our quantitative and qualitative analyses both support the hypothesis that the red tape students encounter after filing their FAFSA prevents eligible applicants from receiving aid. We hope that federal policymakers and college administrators will consider the recommendations at the end of this report and make reasonable changes to promote greater access to financial aid and responsible stewardship of taxpayer dollars.



Note: Includes all aid applicants at the 13 colleges in our sample

INTRODUCTION

Most of the attention and discussion about access to financial aid focuses on getting students and families to complete the FAFSA (Free Application for Federal Student Aid). This application is the gateway to all federal grants, loans, and work-study, as well as most aid from states and colleges. The FAFSA is a critically important step, and more work is needed to simplify the form and increase application rates, but the financial aid application process does not stop there.

As the weak economy leads more students to apply and qualify for financial aid, the administrative burden on schools increases, making it harder for eligible students to get the help they need to complete the aid process.



Submitting the FAFSA triggers a series of communications between the student, college financial aid offices, and the U.S. Department of Education intended to verify the student's eligibility for aid. These communications may request that students resubmit their application with corrections, give students information about their likely eligibility for aid, or ask students to provide financial aid offices with documentation. These communications can also send students encouraging or discouraging signals about the value and difficulty of completing the aid process.

For students who are unfamiliar with the process, each step they take is a leap of faith that their efforts are worthwhile. Students may not have a solid understanding of the significance of each step, or what types or amounts of aid await them at the end. In fact, about a third of students in our analysis who turned in a FAFSA and appeared to be eligible for Pell Grants did not receive grants. This report focuses on students who apply for aid, are eligible for it, but do not receive it. It uses financial aid records from 13 California community colleges to illuminate what happens after students file the FAFSA up to the point when they do or do not receive financial aid.

The data in this report are from California community colleges, but the same issues exist to varying degrees at all types of colleges throughout the country. Earlier this month, 1,200 students at a community college in Michigan were dropped from their classes because of financial aid “paperwork” problems (Mostafavi, 2010). As the weak economy leads more students to apply and qualify for financial aid, the administrative burden on schools increases, making it harder for eligible students to get the help they need to complete the aid process. This report is intended to spark discussion about protecting public investments in federal financial aid while minimizing negative effects on students.

OVERVIEW OF THE FEDERAL FINANCIAL AID PROCESS

After an applicant submits a FAFSA to the U.S. Department of Education, the Department uses the information to calculate her Estimated Family Contribution (EFC). The student's EFC, along with the estimated costs she would incur as a student at each college she lists on her FAFSA, are the primary factors in determining her need for financial aid.

The Department sends the applicant her calculated EFC (through the Student Aid Report, or SAR) and relays information from the applicant's FAFSA to the colleges she selected (through the Institutional Student Information Record, or ISIR). Using information from her ISIR, the college financial aid office creates a “package” of financial aid for the student, comprised of available resources from federal, state, and institutional sources.

The college then sends the applicant a financial aid award letter detailing her cost of attendance and the resources available to help cover those costs. She can decide to attend and accept the offer, then register for and begin classes. The financial aid office can disburse the aid after she is registered, if all her paperwork is in order. For many students, getting the paperwork in order can be a challenge, and not all of them make it to the end of what can be a complex, bureaucratic process.

To examine this issue, we obtained financial aid records, free of any student identifiers, for aid applicants at 13 California community colleges for the 2007-08 academic year. For additional information and context, we interviewed financial aid administrators, and surveyed aid-eligible students who had submitted a FAFSA but not completed the process.

Some common challenges aid applicants at the 13 colleges in our sample faced:

Reject Codes For 22 percent of applicants, the first communication they received from the U.S. Department of Education told them that their EFC could not be calculated due to one or more “reject codes.” Reject codes are issued when key pieces of information needed to determine aid eligibility are missing or contradictory. For example, a reject code can indicate that the FAFSA lacks the required signatures from the applicant and/or parent, or that the amount an applicant reported paying in taxes was higher than she reported earning that year. Students who receive reject codes on their SAR do not receive an EFC, and they must resubmit corrected information. Four out of five students who received a reject code after first submitting a FAFSA submitted corrected information and received EFCs.

Verification Verification is a process in which colleges collect documentation to determine if certain information students submitted on their FAFSA is correct. The U.S. Department of Education flagged more than half (54 percent) of all Pell-eligible applicants in our sample for verification.¹ Of all Pell-eligible applicants who were selected for verification, 69 percent were successfully verified by their colleges.

Extra Documentation As part of the financial aid application process, some colleges collect documents that are not required by the federal government. Examples include student surveys, signed acknowledgements of aid eligibility requirements, or copies of drivers’ licenses. Of the 13 colleges in our study, seven required all applicants to submit additional documents not required by federal regulations.

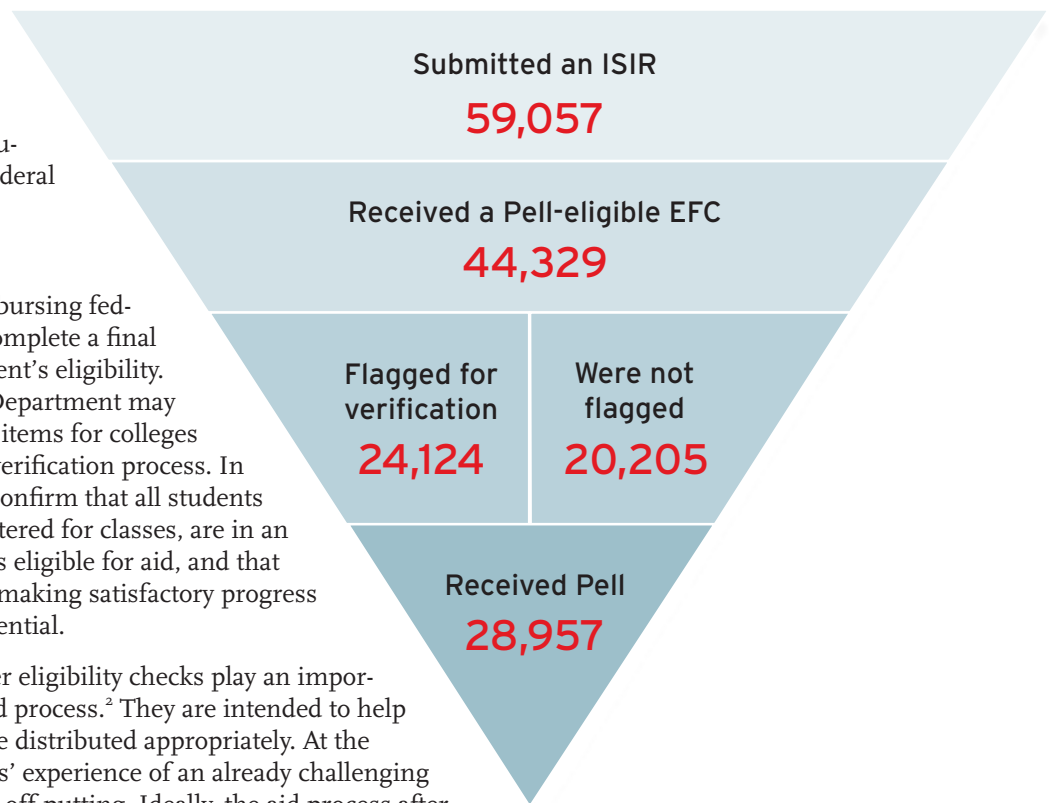
Eligibility Checks

Immediately prior to disbursing federal aid, colleges must complete a final confirmation of the student’s eligibility. For some students, the Department may have specified particular items for colleges to check apart from the verification process. In addition, colleges must confirm that all students who receive aid are registered for classes, are in an academic program that is eligible for aid, and that continuing students are making satisfactory progress towards a degree or credential.

Reject codes, verification, and other eligibility checks play an important role in the federal financial aid process.² They are intended to help ensure that available aid dollars are distributed appropriately. At the same time, they can make students’ experience of an already challenging process even more frustrating and off-putting. Ideally, the aid process after the FAFSA would thwart those aiming to commit financial-aid fraud without discouraging the majority of applicants who just need help paying for college.



NUMBER OF APPLICANTS INCLUDED IN ANALYSIS



1 Those with an EFC of 4110 or below. Throughout this report, we use the terms “selected” and “flagged” interchangeably in relation to verification status.
 2 State grant programs may require additional information from applicants and verification from colleges. In order to focus on the federal application process, and also because a minority of Pell Grant recipients in the California community colleges receive state Cal Grants, we did not focus on state verification requirements in this analysis.



Complicating the issue is the fact that the application process is most laborious for the students who most need financial aid. With very few exceptions, only students eligible for federal Pell Grants are selected for verification by the Department (U.S. Department of Education, undated). This is an understandable approach to minimizing financial risk, since the federal investment in the Pell Grant program is so substantial: the government distributed \$29 billion in Pell Grants in 2009-10 (U.S. Department of Education, 2010). Still, the current process can discourage students whose college attendance and completion the financial aid system is supposed to encourage and support.

Our analysis found that although relatively few students' eligibility for Pell Grants changed throughout the process, those who were selected for verification were less likely to receive grants than those who were not selected. This raises serious questions about the overall utility of the verification process as it is currently designed and implemented, and whether the resulting savings are worth the costs to students in terms of lost opportunities and future earnings. At each point in the verification process, student outcomes varied across the 13 colleges in our analysis. In this report, we will discuss these findings and their implications for federal policy and college practices.

METHODOLOGY

To conduct this analysis, we gathered an extensive amount of information from colleges, including information about their students' every financial aid transaction, stripped of all personal identifiers. Our goal was to chart the process that individual applicants experienced and whether Pell Grants were disbursed to them at any point in the academic year. For each of the 13 colleges, we collected and analyzed approximately 11 database files containing a total of more than 350,000 transaction records.³ In total, we examined anonymized records for 59,057 financial aid applicants, including 44,329 applicants with Pell-eligible EFCs.

The resulting data set included information from students' FAFSAs, types and amounts of financial aid awarded and disbursed to students, and term-based enrollment data. The population started with all applications (those with an "ISIR" or Institutional Student Information Record sent to the college by the U.S. Department of Education) from students who had applied to the college and were eligible to enroll in 2007-08. These records were compared to the "current record" used by the college to determine financial aid eligibility and amounts. We segmented students into two groups: one of students whose current record indicated that they were eligible for a Pell Grant (EFC of 4110 or less); and one of students who were not Pell-eligible. Differences between the initial applicant record, the first record containing an EFC, and the current record were then analyzed to explore reasons why some students were awarded and paid Pell Grants and some were not.

After completing the verification requirements, students must meet other basic eligibility standards of enrollment, Satisfactory Academic Progress (SAP), and course load. We collected applicants' "disbursement errors" related to these issues, but were unable to interpret them meaningfully, because the data we captured on disbursement errors (by academic term) did not correspond with our data on disbursements (by academic year). As a result, it was unclear whether a student who received a disbursement error in Fall 2007 and a \$1,000 disbursement at some point in the 2007-08 academic year had received both in the same term, or had received the error and disbursement in separate terms. Similarly, while we were able to determine whether students had enrolled during the academic year, we could not draw conclusions about the number of credits students had enrolled in or whether their enrollment status precluded them from receiving a grant.

³ We developed an exact script to use with Banner, a common software program used by college financial aid offices. As a result, our analysis was limited to colleges using Banner in 2007-08. All but one of the California community colleges that we knew used Banner in 2007-08 participated in our study. We were unable to use one college's data due to differences in data collection standards that made it incomparable to the others'.

We also asked financial aid directors at each participating college for information about when and how they contact students throughout the application process, and for anonymous examples of those communications when possible. After we completed the analysis of each college's applicant records, we shared individualized findings with each participating college. We then interviewed all but two of the 13 participating financial aid directors about their reactions to our findings, how their college compared, and what they saw as the key takeaways from this research.⁴ Finally, we surveyed financial aid applicants from one college who were identified as being Pell-eligible and enrolled in classes, but who had not completed the steps necessary to receive their grant. We asked these applicants about the status of their financial aid application, their experience in the process, and their reasons for applying. Approximately 260 of the 800 students surveyed responded, a 32 percent response rate.

ANALYSIS

REJECT CODES

When students' eligibility for aid cannot be determined with the information submitted on the FAFSA, students receive a reject code instead of an EFC. About 22 percent of students in our sample received reject codes on their initial ISIR at the college, meaning that the first information the college received was insufficient to determine their aid eligibility. We grouped the reject codes into categories, including signature, income, social security number, and other reject codes. Signature reject codes were by far the most common type that students received, but outcomes did not vary much by the type of reject code. Students receiving multiple types of reject codes – both income and signature codes, for example – were less likely to fix all the problems with their applications and receive an EFC.

The Word on Reject Codes

FROM STUDENT SURVEYS:

"Selective service claims I never registered but I did. I even re-registered but I've heard nothing."

"I tried to apply but my parents don't have social security numbers, and I don't know what to do."

FROM ADMINISTRATOR INTERVIEWS:

"We look at the rejections, and we send out information to assist students on what has to be done to make them legitimate."

"Students don't understand what 'reject' means - they may not understand that it can be resolved so they can get aid."

"Students are told on their SAR what the problems are, but we changed the wording in our own communications to be a little less wordy and more direct. Starting this year, we are also sending reminders after 15 days of no response, because students can't go forward in the process unless they get these fixed."



FREQUENCY AND OUTCOMES OF INITIALLY REJECTED ISIRs, BY TYPE OF REJECT CODE

	Share of Initially Rejected ISIRs	OUTCOMES		
		Resubmitted, Received EFC	Resubmitted, No EFC	Did Not Resubmit
Signature	77.6%	80.2%	2.8%	17.1%
Social Security Number	6.7%	80.8%	3.8%	15.4%
Income	6.9%	80.6%	2.8%	16.6%
Other	1.9%	77.1%	3.3%	19.6%
Multiple Reject Code Types	6.9%	68.1%	9.0%	23.0%
Total	100.0%	79.4%	3.3%	17.4%

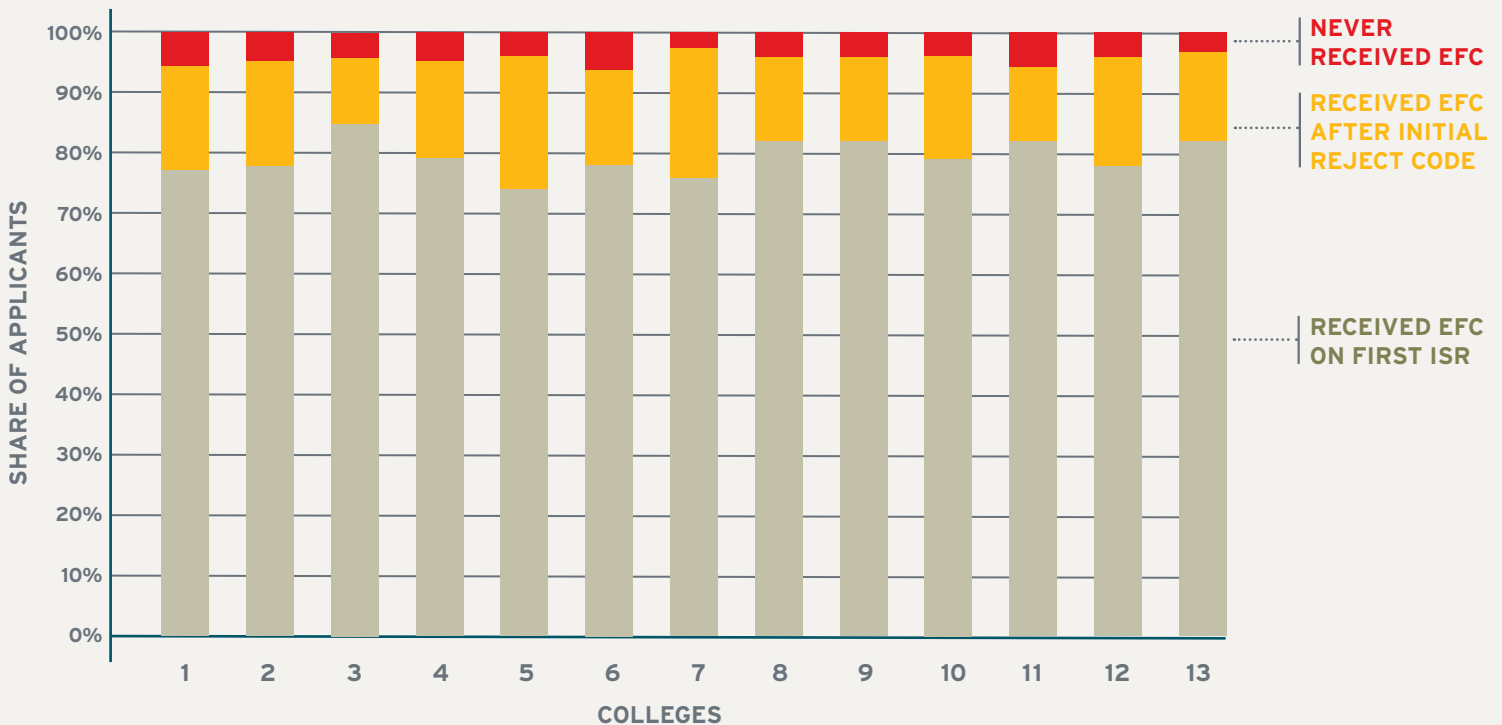
⁴ We attempted to reach all participating financial aid directors on multiple occasions.



Colleges have little control over the number of their applicants who receive reject codes on their ISIRs. They have more control over the share of those applicants who successfully resubmit their FAFSA and receive an EFC, as indicated by notable differences in approaches and outcomes across the colleges in our analysis.

- Of applicants who first received a reject code, between 71 and 88 percent eventually received an EFC.
- Only one college did not explicitly notify students that they had received a reject code and needed to submit corrections.
- Six of the colleges always or sometimes gave students specific feedback about what needed to be corrected on their application, as opposed to a more general message that “corrections are needed”.

EFC OUTCOMES BY REJECT CODE STATUS AND COLLEGE



VERIFICATION

Through a code on the ISIR, the U.S. Department of Education flags individual students to have some of the information on their application verified by the college. Colleges must verify 30 percent of their aid applicants, although often the Department flags and colleges verify more than that. Students that colleges select for verification may be required to provide the financial aid office with evidence of their adjusted gross income, taxes paid, untaxed income, household size, and a few other specific pieces of information used in determining their eligibility for aid. This process is very time-consuming for both students and administrators. It is also a major place in the the post-FAFSA process where students can get lost.

The process can become even more complicated because financial aid administrators are also required to resolve any conflicting information they notice on aid applications, or even on applicants' tax forms. The extent to which administrators take this responsibility to heart varies, but in extreme cases it can be akin to a tax audit. Students and parents may be required to fix apparent mistakes on tax forms they submitted to the IRS months earlier – often before knowing how much aid the student may be eligible for, an important motivator to complete the process. Some administrators look for conflicting information solely in the data elements they are required

to verify, while others take a more all-encompassing approach. For instance, an administrator may question how a Pell-eligible student is able to afford the iPhone she is seen using while waiting in the financial aid office line, and decide to subject that student's application to a greater degree of scrutiny.

With few exceptions, Pell-eligible students are the ones who are flagged for verification by the U.S. Department of Education and undergo this heightened scrutiny. The Department has a detailed process for flagging students for verification based on how likely the applicants' FAFSAs are to contain errors, with a cutoff score to ensure that 30 percent of all Pell-eligible applicants nationwide are flagged (U.S. Department of Education, undated).

In the 13 colleges included in our analysis, far more than 30 percent of Pell-eligible applicants were flagged for verification. About 54 percent of all Pell-eligible applicants in the entire pool were flagged, and the share of Pell-eligible students flagged at individual colleges ranged from 49 percent to 65 percent. It is unclear why students at these colleges were so disproportionately likely to be flagged, but it may suggest that the Pell-eligible students served by community colleges are particularly disadvantaged, with fewer resources – such as college access program support – to help them complete their FAFSAs without errors.

Colleges must verify up to 30 percent of their aid applicants, which need not include every applicant that the Department flagged (U.S. Department of Education, 2009). Federal regulations specify that this is a cap on the number of students that colleges must verify, regardless of how many the Department may have flagged, but many colleges treat it as a floor to be sure they are in compliance. For colleges with rolling admissions, it is difficult to predict how many aid applications they will receive throughout the year, and when they will have met the required 30 percent threshold. As a result, many community colleges choose to verify all students flagged by the Department, and a few colleges verify all applicants whether or not they were flagged (TICAS, 2007b).

Financial aid offices let students know they have been selected and what they need to do to complete verification. Once this process is complete, administrators mark in their records that the student has been successfully verified.⁵ By comparing students' ISIRs with verification flags and subsequent markers denoting successful verification, we determined how many students completed verification.

- In total for all 13 colleges in our analysis, 69 percent of Pell-eligible students selected for verification were verified, with each college's rate of successful verification ranging from 56 to 76 percent.

Colleges' reported verification practices varied in a number of significant ways that might affect students' likelihood of completing the aid process.

- Administrators at four of the 13 colleges said they verified only the federally required items, while three regularly verified additional items and the remaining six sometimes verified additional items.
- Only two of the 13 colleges informed students of their Pell Grant eligibility before verification was complete.
- Twelve of the 13 colleges attempted to verify all students flagged by the Department. The remaining college verified all aid applicants.

⁵ Alternatively, colleges can mark students' ISIRs as having not been verified if the college has already verified 30 percent of applicants. None of the colleges in our sample used this marker.

The Word on Verification

FROM STUDENT SURVEYS:

"The verification process takes too long... I had to drop half of my classes because I didn't have money for books."

"This has been a very frustrating process. I got the paperwork they requested and turned it in, but was told they lost it."

FROM ADMINISTRATOR INTERVIEWS:

"There are all kinds of things in there that stop the student at the verification process, and if they don't identify themselves to us and ask for help then they fall off the deep end."

"Verification doesn't change their EFC much...that's where it's kind of unfortunate that the student has to complete verification."

"Maybe we've made the system so complex that students just give up."



The Word on Procedural Hurdles

FROM STUDENT SURVEYS:

“I work a full-time job and don’t have time to come during the day to show my ID. It seems to be a big hassle to finish this process.”

FROM ADMINISTRATOR INTERVIEWS:

“We’re concerned about this issue, so we stopped requesting additional documents from students.”

“Some students have legitimate problems where there are eligibility criteria that they can’t meet, but some students just can’t get through the process.”

OTHER PROCEDURAL HURDLES

There are other steps that students or colleges may need to take in order to confirm Pell Grant eligibility. In addition to the income criteria, which are confirmed through the verification process, students also have to show that they are enrolled in an academic or vocational program that is eligible for financial aid. If they are a continuing student, they may need to confirm that they have been making progress towards an approved credential (referred to as Satisfactory Academic Progress, or SAP). Since their aid award depends on the number of credits they are taking, their course load must also be confirmed prior to disbursement.

These eligibility checks are typically done automatically through college software programs, and they produce “disbursement errors” when issues arise. In some cases, the error may be temporary, such

as when a student adjusts her course load or files a SAP appeal. We collected applicants’ disbursement errors but were unable to interpret them meaningfully, as we could not determine in which term the errors occurred (see Methodology section on page 6 for more information). However, it seems likely that disbursement errors would explain why some applicants who appear to be Pell-eligible did not receive grants.

Yet another step in the process for many students is fulfilling additional requirements that colleges themselves create for aid applicants. Seven of the 13 colleges required students to submit additional materials prior to receiving financial aid. The most common requirements are signing a document stating that they understand the rules of their financial aid awards or providing a copy of a driver’s license or other identification, a measure intended to protect against identity theft.

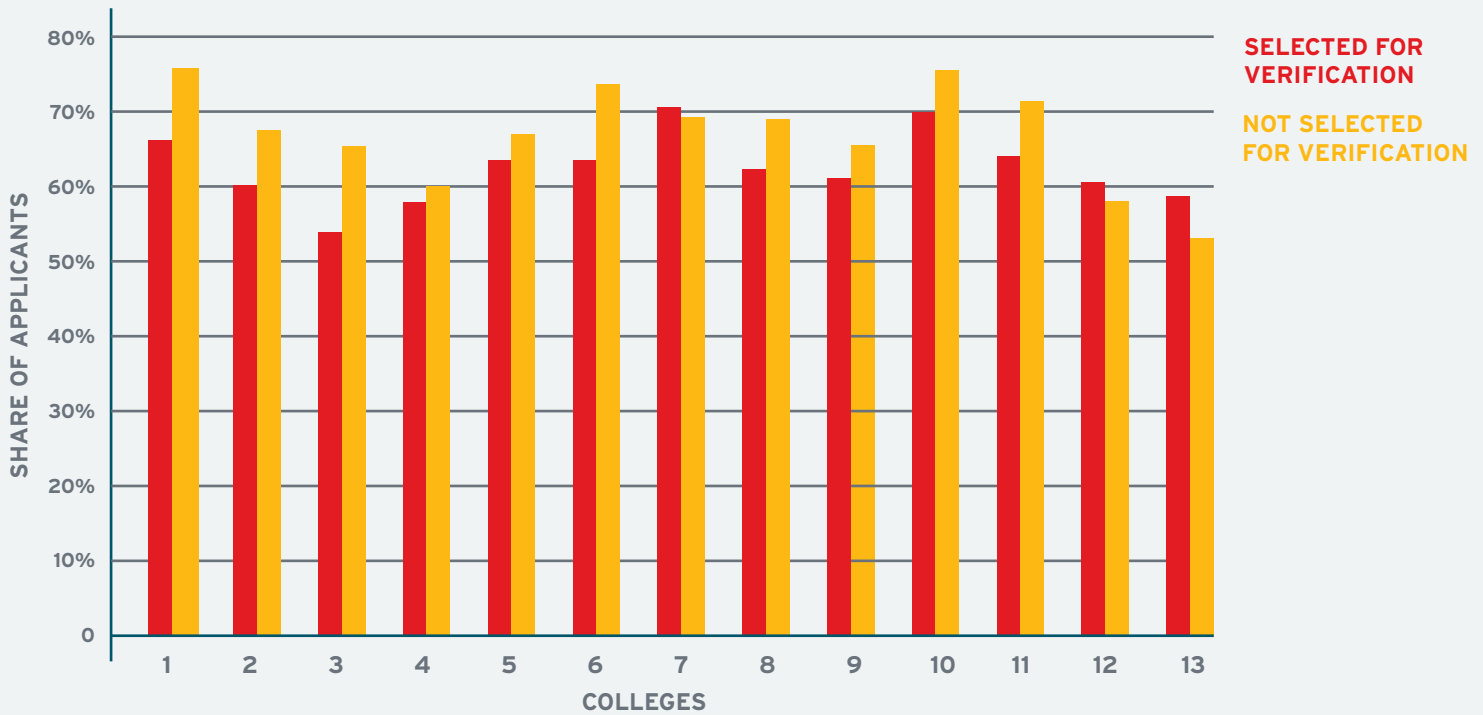
GETTING PAID

Overall, about two-thirds (65 percent) of Pell-eligible applicants actually received a Pell Grant. Across the entire sample, students who were initially selected for verification were 7 percent less likely to receive grants than students who were not selected. If the payment rate for selected students increased to match their non-selected counterparts, about 1,200 more applicants from these 13 colleges would have received Pell Grants.

While many students selected for verification did not receive grants, most students who actually completed verification did receive grants. Given that completing verification requires a certain amount of dedication and commitment, it is not surprising that this group of students were very likely (91 percent) to receive the Pell Grants for which they were eligible. Again, there was quite a bit of variation among the colleges in the share of their selected and verified students who actually got a Pell Grant, with payment rates for this group ranging from 83 to 97 percent. It is unclear why some students – 1,499 of them across all 13 colleges – went to the trouble of completing verification but did not receive grants. One possible explanation might be that they did not enroll in the college, but 999 of these students did enroll at some point throughout the year.

We also examined the sample to see whether particular groups of students were more or less likely to be selected for verification or eventually paid Pell Grants. Using information submitted by students on their FAFSA, we looked for differences between students by first-generation college-going status, new and renewal applicants, dependency status, and the type of formula used

SHARE OF PELL-ELIGIBLE APPLICANTS RECEIVING PELL GRANTS, BY VERIFICATION SELECTION STATUS AND COLLEGE



to calculate the applicant's EFC.⁶ With the exception of dependency and EFC formula, we did not find substantial variation between the likelihood of these subgroups to be selected for verification or paid Pell Grants. Across every subpopulation we analyzed, Pell-eligible students selected for verification were less likely to receive Pell Grants than Pell-eligible students who were not selected.

Dependent students were more likely than independent students to be selected for verification. This may be because dependent students' applications have more opportunity for error, as they must include financial details for their parents as well as themselves. Dependent students also had higher rates of grant receipt than independent students, which may reflect their greater likelihood of being first-time students or enrolling in more classes per term.

There were similar differences in verification selection and payment rates by which of the three methods the Department used to determine applicants' EFCs in 2007-08 (U.S. Department of Education, 2007).

Auto-Zero Students assumed to have no resources available to contribute towards college costs automatically receive an EFC of zero. This is for dependent students or independent students with dependents who have adjusted gross incomes of \$20,000 or less and were not required to complete the long version of the federal income tax form. Independent students without dependents are not eligible for an auto-zero EFC.

Simplified Needs Test Students who meet a simplified needs test do not have their assets taken into account in determining their contribution towards college costs. This is for dependent or independent students who had adjusted gross incomes of \$50,000 or less, were not required to file the long version of

⁶ We also attempted to make comparisons between students by the language in which they submitted their FAFSA (English or Spanish) and whether they had received a dependency override by the financial aid office, but the number of students who submitted Spanish FAFSAs or received dependency overrides was too small to make meaningful comparisons.

the federal income tax form, and did not receive means-tested benefits, such as Temporary Assistance for Needy Families (TANF) or Supplemental Security Income (SSI).

Full Needs Test This is for all applicants who do not qualify for the auto-zero EFC or the simplified needs test.

VERIFICATION SELECTION AND PAYMENT RATES OF PELL - ELIGIBLE APPLICANTS, BY EFC FORMULA TYPE		
	Share Selected for Verification	Share of All Applicants Paid Pell
Auto-Zero, Dependent	69.4%	70.3%
Auto-Zero, Independent with dependents	61.9%	60.3%
Simplified Needs Test, Dependent	55.1%	71.6%
Simplified Needs Test, Independent with no dependents	46.5%	60.8%
Simplified Needs Test, Independent with dependents	43.8%	64.3%
Full Needs Test, Dependent	76.6%	64.1%
Full Needs Test, Independent with no dependents	44.2%	56.1%
Full Needs Test, Independent with dependents	55.5%	55.7%

OFFICE COMMUNICATIONS

Colleges typically develop their own documents to convey similar types of information, and these communications vary broadly. As the following examples from the colleges in our sample suggest, the language, tone, and content of these communications vary widely in ways that likely influence students' reactions and responses.

Initial communication to students confirming receipt of their financial aid application

- “The staff at [college] would like to thank you for applying for student aid. Our purpose is to provide help with your financial aid process and support you in your future endeavors.”
- “We have received your 2007-2008 Application for Federal Student Aid information. If you are NOT planning on attending [college] for Fall 2007 or Spring 2008, **disregard this letter** (failure to do so could severely affect your aid at another school).”

Satisfactory Academic Progress

- “After reviewing your academic records, we have determined that you did not meet the satisfactory academic progress requirements for financial aid applicants and are being placed on Financial Aid Disqualification.... Students placed on Financial Aid Disqualification are entitled to appeal for financial aid reinstatement.... If you have any questions about your status or the satisfactory academic progress requirements, please call or come to the Financial Aid Office.”
- “We have reviewed your application for financial aid assistance and determined that you ARE NOT eligible due to one of the following.... Lack of academic progress (GPA, units, and/or Ws).”

Encouraging timely responses

- “We urge you to submit these forms/documents as soon as possible so we can act on your application at the earliest date. The earlier the forms/documents are submitted, the sooner you will know your eligibility for financial assistance.”
- “Please submit the following information or document(s) to our office as soon as possible. **No financial aid awards will be made until the file is complete and your eligibility determined.** In the meantime, you may want to make arrangements to pay for any tuition, fees, or book purchases needed to attend school, if you have not already done so.”



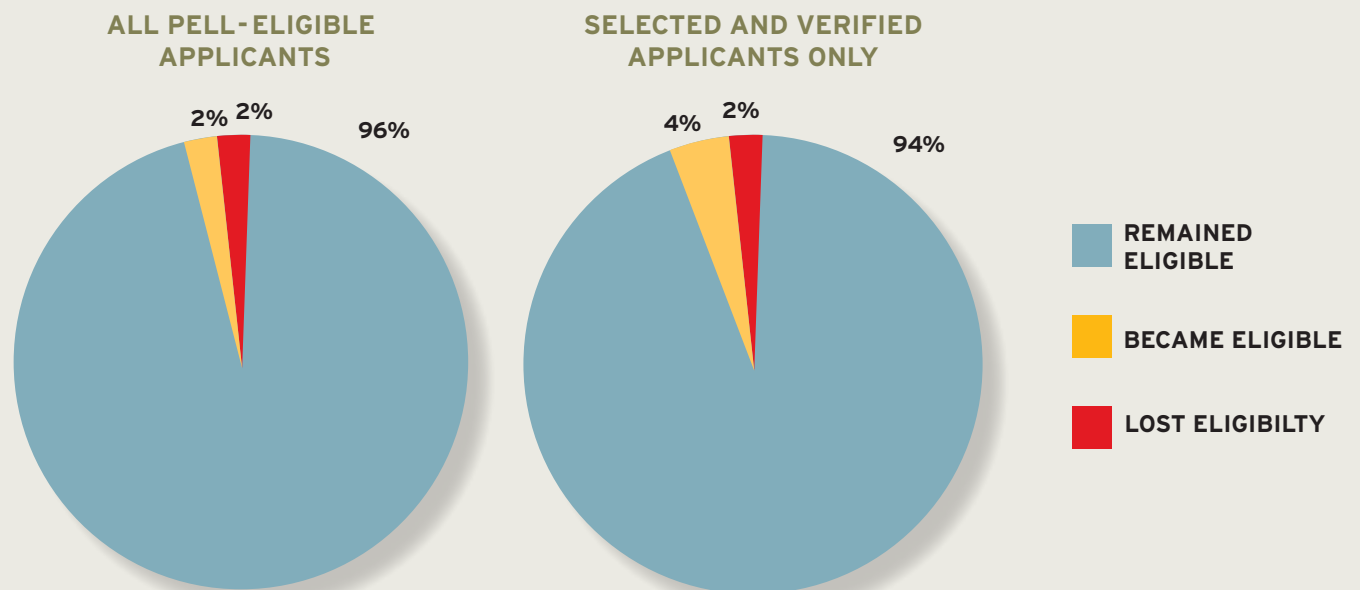
Making it clear how a student can resolve any problems; using encouraging, positive language when possible; notifying them of their eligibility before asking for extra documentation; and avoiding or explaining confusing jargon and technical terms could increase the odds that a student will take steps to complete the financial aid process. This is an area where colleges have complete control and an important opportunity to help students get the aid they are eligible for.

DISCUSSION

Pell Grants are supposed to help lower income students enroll and succeed in college, but our analysis suggests that the financial aid process can keep eligible students from receiving this important source of aid. Only about two-thirds of students in our study with Pell-eligible EFCs received Pell Grants, and most who did not had enrolled at the college at some point during the academic year. Across the 13 colleges in our sample, about 1,200 additional students would have received Pell Grants if those selected for verification received grants at the rate of those who were not selected.

There are a number of important factors that limit our ability to draw conclusions from our findings. For example, our data may show that a particular student had not completed verification, when it is possible that she completed it and enrolled at another college. Alternatively, some students may have been ineligible to receive grants for reasons we could not clearly document, such as by already having a bachelor’s degree. However, it is reasonable to assume that these and other issues affect students equally – that is, students who faced these challenges were no more or less likely to be selected for verification than those who did not.

CHANGES IN PELL ELIGIBILITY STATUS



Note: includes all applicants whose initial ISIR or current ISIR record had an EFC of 4110 or less.

One possible explanation for the lower grant receipt rates among students flagged for verification is that their applications were correctly identified by the Department as likely to contain significant errors, and that they lost Pell Grant eligibility either by correcting them or failing to correct them. If verification effectively targets and properly screens out ineligible applicants, one would expect to see extensive changes in applicants' EFCs or Pell eligibility status after verification. That is not supported by our data, which show that nearly two-thirds (63%) of those who undergo verification see no change in their EFC whatsoever, and only a small fraction see a change in their Pell eligibility status. It should be noted that there is no way to confirm or refute whether this was an issue for applicants who did not complete the verification process.

Another explanation of the difference in payment rates between selected and not-selected students is that the verification process itself influences students' ability to complete the application process and receive grants. In fact, it is well documented within the field of behavioral economics that additional steps or requirements serve as deterrents in any number of settings (Thaler and Sunstein, 2008). These responses may be particularly acute when it comes to financial aid (Dynarski and Scott-Clayton, 2006). Students who are asked to share sensitive personal financial data with the college may decide the non-financial costs – including concerns about loss of privacy, legal status, or parents' reluctance to share income information with their children – outweigh the potential benefits, the scope of which may be unknown to students and their families at this point.

Students' responses showed widespread misperceptions about their application status and their eligibility for aid. More than six in 10 students (62 percent) either did not know the status of their aid application or incorrectly identified it as being complete.



College practices and communications with students throughout the process may also play a significant role in determining students' responses. At any point in the process, there are colleges that send students targeted instructions about what to do next, and others that provide very little information. Communication formats and styles ranged from placing generic notices on student web portals, to repeated letters, emails, and phone calls to encourage students to complete necessary follow-up.

There are also logistical challenges that can keep students from completing the application process. For some students, work, evening course schedules, and daytime financial aid office hours can make in-person follow-up difficult. Others may seek assistance, only to be thwarted by long lines or staff who do not speak the native language of students or their parents.

The financial aid records and communications we collected from colleges cannot explain exactly why so many Pell-eligible students did not complete the steps necessary to receive aid. To explore this issue, we surveyed students from one college who had completed a FAFSA, received a Pell-eligible EFC, were enrolled in courses, and yet had not completed all the necessary steps to receive financial aid.

Students' responses showed widespread misperceptions about their application status and their eligibility for aid. More than six in 10 students (62 percent) either did not know the status of their aid application or incorrectly identified it as being complete. Of the remaining respondents, many (15 percent) knew their application was incomplete but did not know what to do to complete it. These findings support the hypothesis that additional requirements and the complexity of the process contribute to the lower payment rates of selected students.

The majority of financial aid administrators we interviewed also felt that the complexity of the application process was a better explanation for low receipt rates than significant, widespread errors or attempts to commit fraud amongst selected applicants.

Virtually all of the administrators we interviewed found this analysis useful to their work, and many made substantial changes to their practices based on our early analyses of their data. These changes include eliminating unnecessary steps for students to receive aid, or expanding their communication efforts to ensure that students have the information they need to complete the process. Many administrators also signaled that they intend to use this framework as a measure of how well the financial aid office is serving students on an ongoing basis.



RECOMMENDATIONS

Our findings suggest that the verification process reduces eligible students' chances of receiving a federal Pell Grant. This is a particularly important issue when the economy is weak, budgets are tight, and more students need financial aid. In 2009-2010, the federal government spent \$29 billion on Pell Grants (U.S. Department of Education, 2010), and protecting the integrity of that investment through sensible verification policies is critically important.

Based on the U.S. Department of Education Inspector General's estimates of the institutional costs of verification (2002), the 13 colleges in our sample likely spent at least \$1.7 million on federal verification efforts in 2007-08, and actual expenditures may have been closer to \$2.5 million.⁷ In addition to costing colleges a substantial amount of money, extensive verification requirements and procedures can take limited staff time and attention away from helping students and families learn about and apply for aid.

The costs to students are harder to estimate but cannot be ignored. Students who are deterred from completing the aid process not only lose access to important sources of funds, but may also make decisions that reduce or negate their chances of academic success, such as working excessive hours or reducing their course loads. The resulting economic losses are felt both by students, who miss out on the future earnings that a degree or certificate can bring, and also by the local and national economies that need an educated workforce.

Students, colleges, and taxpayers all have a stake in what happens after the FAFSA, and sensible policies must balance maximizing college access and success, minimizing administrative burdens, and protecting taxpayer investments in financial aid.

COLLEGES

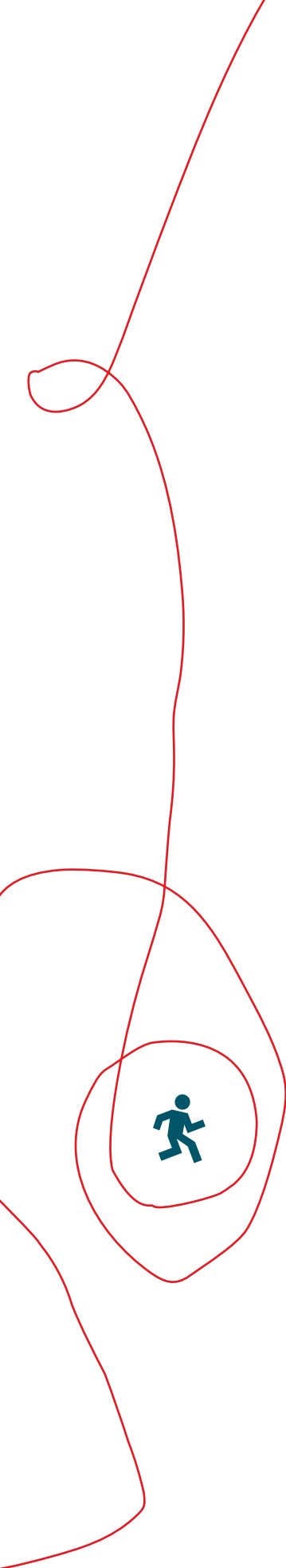
Our findings are based on the practices and student outcomes at 13 California community colleges, but the issues are broadly applicable. Any college can replicate the framework we used to analyze its own students' passage through the full financial aid process. Many of the colleges in our sample have already begun using this analysis to inform their financial aid policies and practices. We hope that other colleges will take the initiative to examine their own data and, to the extent possible, compare their approaches and outcomes to those of other colleges serving similar populations.

Even without extensive data analysis, colleges can and should consider the practices, policies, and communications that shape their students' experiences of the financial aid application process after the FAFSA. Below are four common-sense steps that colleges can take to promote student success and reduce administrative burden while still protecting taxpayers' investments.

- 1. Reconsider steps not required by federal or state regulations.** Checking drivers' licenses or requiring students to certify awareness of financial aid terms may simply be additional hurdles that do more harm than good.
- 2. Do not verify more students than necessary.** Federal regulation currently requires that schools verify up to 30 percent of all applicants, yet every school in this study attempted to verify at least all applicants flagged by the Department of Education. At some schools, including one in our sample, everyone who applies for aid is subjected to verification as a matter of course. Unless the college has a specific reason to believe that students' applications contain errors, routinely verifying everyone who applies or is flagged may have more costs than benefits. Cutting down on unnecessary verification will save the college time and resources, remove red tape for students, and increase the likelihood they get the aid for which they are eligible. Better guidance from the Department would help address the concerns that lead colleges to over-verify.

⁷ The Inspector General estimated in 2002 that institutional per-student verification costs were \$81.34 in 1999-00. Adjusted for inflation, this would come to \$101.70 in 2007-08. At the 13 schools in our sample, 24,124 Pell-eligible students were selected for verification, and 16,711 were successfully verified. The low-end estimate of \$1.7 million includes only those applicants who were successfully verified. Including the costs of attempting to verify all selected applicants, which may be a more realistic measure of verification efforts, results in an estimate of \$2.5 million.



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- 3. Review communications from a student-centered perspective.** Letters and emails should help guide students through the financial aid process, providing encouragement and useful information in plain language and a timely manner. It is easy for students and their parents to get overwhelmed and intimidated by negative or confusing communications. Sending multiple friendly and clear reminders through various channels, such as phone, email, and postal mail, can also help keep students on track.
 - 4. Provide adequate funding for financial aid offices.** To review and improve their practices, financial aid offices may need more resources, especially at cash-strapped community colleges with open enrollment and large numbers of low-income students. If financial aid administrators are expected to change the way they do a core task that is already resource-intensive, they will need time, training, and support to do so.

U.S. DEPARTMENT OF EDUCATION

Many colleges verify more students than they need to, and some verify all financial aid applicants – putting unnecessary burdens on both schools and students. Even still, anxiety about meeting regulatory requirements for verification and the resolution of conflicting and discrepant data is widespread. Clear guidance from the Department about requirements is critical to save time and resources and promote access to aid.

The Department recently proposed changes to the rules that govern the verification process at colleges, including the removal of the 30 percent cap on the share of applicants that colleges need to verify. The proposed changes may subject a greater share of students to verification, a move this study suggests could prevent more eligible students from receiving aid. To avoid such unintended negative consequences for students, we recommend that the Department:

- 1. Retain a cap on the share or number of applicants required to be verified.** This report demonstrates that even though very few applicants who completed verification lost Pell eligibility, students who were selected for verification had significantly lower rates of grant receipt compared to those who were not selected. With appropriate guidance, retaining a verification cap would minimize unnecessary hurdles for colleges and students while still safeguarding the integrity of financial aid programs. Colleges would still be required to resolve any conflicting information on students' applications.
- 2. Allow all aid applicants to pre-populate their FAFSAs with their own IRS data.** The Department of Education and the Internal Revenue Service (IRS) recently began a pilot project to allow some aid applicants to electronically transfer data from their 1040 income tax forms into the FAFSA. The FAFSA requires a considerable amount of income information that the IRS already has, and we have long advocated for this common-sense way to simplify the aid application process (TICAS, 2007a).

One benefit of this approach is that it could reduce verification burdens on colleges and students. The recently proposed regulations would clear the way by specifying that IRS data imported into the FAFSA do not need to be verified by financial aid offices. This is essential movement in the right direction.

Still, the majority of students most burdened by current verification policies are not currently able to pre-populate their FAFSAs using IRS data. In addition to the pilot's limited scope, many applicants do not have 1040 data to transfer. Almost three-quarters of Pell Grant recipients have incomes so low that they do not owe federal income tax, and they may not have filed 1040 tax forms.⁸ Until FAFSAs can be pre-populated using earnings data from W-2 forms – an approach that is not yet being piloted – these students will not benefit from pre-population. We urge the Department to expand the pre-population pilot to include all aid applicants, including those who do not file 1040 tax forms.

8 Authors' calculation based on U.S. Department of Education, National Postsecondary Student Aid Study, 2007-08 (undergraduates).

CONCLUSION

Just about every part of the financial aid application process is hardest for the students who stand to benefit the most: learning about aid, applying for it, and making informed decisions about borrowing and how to pay for college. The back-and-forth that many students go through even after completing the FAFSA can be yet another barrier to the financial aid that could help them complete a degree or certificate. At the same time, there must be reasonable protections in place to ensure that applicants are truly eligible for the aid they receive and to prevent fraud and abuse.

This report sheds new light on what happens after the FAFSA is submitted, and the importance of balancing competing priorities throughout the aid process. Our findings suggest that measures intended to protect taxpayer investments can keep eligible students from receiving the aid they need. Financial aid administrators also spend a great deal of their limited time and resources verifying FAFSA information, following up with students, and administering the complex checks and balances that are part of the current system. This report lays out practical steps the Department of Education and colleges can take immediately to cut away some of the red tape, while leaving sensible protections in place.



Our findings suggest that measures intended to protect taxpayer investments can keep eligible students from receiving the aid they need.



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