

FINANCIAL AID 101

A Guide to Understanding Federal Financial Aid Programs
for Community College Trustees and Leaders



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About the Association of Community College Trustees:

The Association of Community College Trustees (ACCT) is a non-profit educational organization of governing boards, representing more than 6,500 elected and appointed trustees who govern over 1,200 community, technical, and junior colleges in the United States and beyond.

These community professionals, business officials, public policy leaders, and leading citizens offer their time and talent to serve on the governing boards of this century's most innovative higher education institutions—community, junior, and technical colleges—and make decisions that affect more than 1,200 colleges and over 13 million students annually.

Introduction

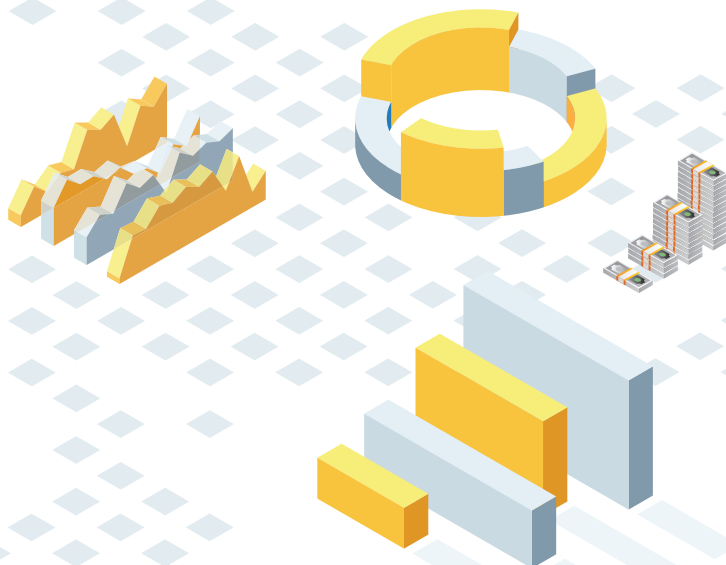
Federal financial aid serves as a crucial tool to support both access and success for students in higher education. This is especially true at community colleges. Whether they are seeking job training, a certificate, or an associate degree, our students rely on consistent and meaningful sources of support to advance their educational aspirations. The following report is designed to help community college trustees and leaders understand the broad structure and design of the largest federal financial aid programs — including grants, loans, and tax credits. Without these resources, community colleges would be fundamentally unable to fulfill their open-access missions.

Federal-aid programs have a significant impact on student outcomes, staff responsibilities, institutional revenue, and enrollment levels. The policies, practices, and procedures at each college that relate to participation in these programs are highly diverse. Trustees are responsible for many board governance decisions that relate to federal financial aid, and a primary role of trustees and college leaders is to serve as advocates for critical financial aid programs at the federal level.

As potential eligibility modifications to student aid programs are discussed by policymakers, it is important for community college trustees and leaders to know how these changes may affect students' abilities to enroll, persist, and ultimately complete their degrees, certificates, and credentials. This guide will explain the fundamental structure of federal financial aid programs as they exist today. Along with ACCT's many other public policy-related resources, we hope trustees and presidents will find this to be a useful tool to fulfill your important governance responsibilities. Should you have any questions related to financial aid or any other federal policies that affect your institution and students, do not hesitate to contact ACCT's public policy office. The association and our affiliates in Washington, D.C. appreciate all that you do and we are here to support your efforts.

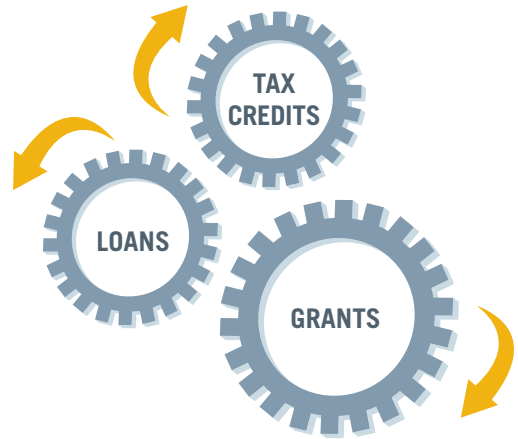


Jee Hang Lee
Vice President of Public Policy and External Relations
Association of Community College Trustees



The Growing Role of Federal Student Aid

Now more than ever, the innovative and productive capacity of the United States economy depends on the knowledge and skills of its people. In the 21st century, higher education has become essential for collective economic prosperity and individual advancement. Community colleges are a pathway to student success, and have risen to meet an urgent national challenge to raise the number of working-age adults holding high-quality degrees, certificates, and credentials. Today, more than 13 million students annually attend community colleges nationwide.



A full-time working individual with an associate degree earns \$9,400, or 27 percent, more in median annual earnings than someone holding only a high school diploma or its equivalent.¹ This wage premium is reflective of employer demand for higher education. According to the Georgetown Center on Education and the Workforce, a total of 65 percent of all jobs in the United States in 2020 will require some form of postsecondary education or training, compared to 59 percent today — driven in large part by most new jobs requiring at least some college, such as a vocational certificate, or higher. Without improvements in the rate of postsecondary attainment, labor shortages or more outsourcing may result from the quickening pace of educational demand.

As the necessity of educating current and future workers beyond high school has grown, so too have the costs of enrollment in a public postsecondary program. This has been driven in large part by a dramatic decline in state support. Between the 2007-08 and 2010-11 academic years, state funding for community colleges declined on average from \$4,578 per full-time equivalent (FTE) to just \$3,430—a dramatic 25 percent drop. Still, community colleges have worked hard to maintain access and affordability for students from all backgrounds. In the fall of 2013, annual tuition and fees for a full-time resident student at a two-year public institution² was an average of just \$3,264, compared to \$8,893 at a public four-year institution.³

With added costs of living, such as room, board, books, and supplies, attending college has become increasingly unaffordable for many families. In an era of limited resources and constrained family budgets, **federal student aid has become crucial to ensuring access to college for millions of low- and middle-income students.** Furthermore, research has established that financial aid is important to supporting college success, with a number of studies analyzing the positive correlation between financial aid and academic persistence. In total, about 44 percent of community college students now receive some type of federal financial aid from the U.S. Department of Education (ED).⁴

¹ The College Board, *Education Pays 2013: The Benefits of Higher Education for Individuals and Society* (2013). Figure 1.2. For detailed data, see: <http://trends.collegeboard.org>

² Throughout this brief, the terms *community college* and *public-two year college* are used synonymously. Some community colleges offer four-year bachelor's degrees and are classified as four-year institutions in U.S. Department of Education data presented.

³ The College Board, *Trends in College Pricing 2013* (2013). Table 1A. For detailed data, see: <http://trends.collegeboard.org>

⁴ U.S. Department of Education, National Center for Education Statistics, *2011-12 National Postsecondary Student Aid Study (NPSAS:12): Student Financial Aid Estimates for 2011-12* (2013). Table 3. <http://nces.ed.gov/pubs2013/2013165.pdf>

Three Pillars of Federal Aid to Students

The federal investment in student financial aid comes in three primary pillars: grants, loans, and tax credits. Grants and tax credits do not need to be repaid, while loans must eventually be repaid by students. Most students use a mixture of these resources to help finance their education; 38 percent of community college students today receive a federal grant, such as the Pell grant, and 17 percent receive a federal student loan.⁵ The number of community college students and their families that claim federal education tax credits and deductions is not known due to federal privacy laws, but the majority of community college students are eligible for these benefits. In total, more than 15 million students in all higher education sectors benefit from education tax credits and deductions each year.⁶

Compared to their peers at four-year public and private colleges, community college students are also generally less likely to receive, or have access to, state grants or institutional aid due to limited resources and eligibility requirements.⁷ This means that federal aid — and particularly federal grants — is especially important for community colleges and their students. Trustees and college leaders must understand the role and impact of federal student aid programs for the purposes of effective institutional governance and thoughtful advocacy.

'Title IV' Financial Aid

Federal financial aid is sometimes referred to as “Title IV aid.” Title IV of the Higher Education Act of 1965 (HEA) lays out the structure and administration of the United States’ federal student financial aid programs and governs the overwhelming majority of all aid that flows directly to students. Title IV includes the following federal programs, with definitions included in later sections.

- **Federal Grants**

- Federal Pell Grants
- Federal Supplemental Educational Opportunity Grant (FSEOG)
- Iraq and Afghanistan Service Grant & Aid for Military Families
- TEACH Grants

- **Federal Student Loans**

- Direct Loans (Subsidized & Unsubsidized)
- Direct PLUS Loans (Graduate Students & Parents)
- Federal Perkins Loans

- **Federal Work-Study (FWS)**

⁵ NPSAS:12 (see Table 3).

⁶ The College Board, *Trends in Student Aid 2013*. Page 27. For detailed data, see: <http://trends.collegeboard.org>

⁷ NPSAS:12 (see Table 3).

ED has established guidelines and regulations that further clarify the details of how each of these programs operates. Title IV financial aid does not include all sources of what can be considered “federal financial aid.” For example, Title IV of the HEA does not govern tax credits and deductions for educational expenses, such as the American Opportunity Tax Credit (AOTC), which can be found in various parts of the federal tax code. This report focuses on all types of federal aid that impact community colleges, not just that which qualifies as Title IV.

Non-federal sources of financial aid to students include states, institutions of higher education, employers, foundations, private scholarships, and other entities. The statutes, rules, and regulations governing these sources vary greatly across the nation.

2012-13 Federal Student Aid Volume at Two-Year Public Institutions			
	Recipients	Disbursements	Average Award
Pell Grants	3.3 million	\$ 10.4 billion	\$ 3,200
Direct Loans – Subsidized	1.4 million	\$ 4.1 billion	\$ 2,900
Direct Loans – Unsubsidized	1.1 million	\$ 3.8 billion	\$ 3,400
Direct Loans – Parent PLUS	9,800	\$ 60.8 million	\$ 6,200
Federal Work Study	77,400	\$ 148.5 million	\$ 1,900
Federal SEOG	381,600	\$ 156.5 million	\$ 400
Federal Perkins Loans	2,400	\$ 4.7 million	\$ 2,000

Source: ACCT staff analysis of U.S. Department of Education, Federal Student Aid, Title IV Program Volume Reports.⁸
Note: Work Study, SEOG, & Perkins reflect Award Year 2011-12, the most recent data available. Data are preliminary for Award Year 2012-13. All numbers are rounded.

Institutions Eligible for Title IV Aid

Institutions have the option to participate in Title IV programs. The vast majority of colleges choose to participate due to the extraordinary benefits provided to their students. If they do participate, colleges must meet certain statutory and regulatory requirements set by the Higher Education Act and U.S. Department of Education (ED). In order for an institution to participate in Title IV, they must be licensed, accredited, and “deemed eligible” to participate by ED. In order to be deemed eligible, colleges must be determined by ED to be both financially responsible and administratively capable of handling program requirements.

An institution’s administrative capacity to receive Title IV is determined by whether it has required electronic processes, adequate staff support, financial aid counseling, internal checks and reporting procedures for fraud and abuse, and sufficient monitoring of students’ satisfactory academic progress. Other various statutes and regulations that are monitored by an institution’s financial aid office also apply. Today, there are more than 7,500 Title-IV-participating institutions of higher education. Participation in the Title IV program, especially the Direct Loan program, carries with it many benefits to promote college access and success that are not found through private lending or out-of-pocket spending by students.

⁸ Title IV program volume information is also available by institution at <http://studentaid.ed.gov/about/data-center/student/title-iv>

Student Loan Defaults Impact Federal Aid Eligibility

Defaulted federal student loans cost taxpayers money. In an effort to reduce the overall incidence of default, Congress enacted penalties for institutions with high cohort default rates (CDRs) after the national student loan default rate climbed above 20 percent in 1989.⁹ Under this system of sanctions, institutions with a pattern of frequent defaults eventually become ineligible to participate in the Federal Direct Loan and Pell Grant programs. The Congressional intent behind CDRs was that institutions with abnormally high default rates would be identified and held accountable, and students who might struggle to repay would be encouraged by their institutions to avoid borrowing unless absolutely necessary. After these sanctions were applied, national default rates declined significantly, but have once again been on the rise since 2006.¹⁰

CDRs are calculated as the percentage of borrowers who enter repayment in a given year and default on their federal loans by the end of the third fiscal year (i.e. those who entered repayment anytime during fiscal year 2012 and defaulted by the end of fiscal year 2014).¹¹ Institutional CDRs should stay within certain thresholds, as defined by statute:

- An official three-year CDR below 30.0 percent to maintain participation in the Pell Grant program.
- An official three-year CDR below 40.0 percent to maintain participation in the Direct Loan program.

If an institution's default rates rise above these thresholds, increasing levels of federal sanctions may result over time, including the loss of Title IV eligibility. For example, an institution with a three-year CDR of 30.0 percent or greater in just one federal fiscal year is required to establish a "default prevention task force" and to develop and enforce plans to reduce student defaults. Institutions with CDRs of 30.0 percent or greater for two consecutive fiscal years are required to revise their plans and could be subject to provisional certification to participate in Title IV. Institutions with three consecutive CDRs of 30.0 percent or greater lose Direct Loan and Pell Grant program eligibility for the remainder of the fiscal year in which the institution is notified of its sanction and for the following two fiscal years thereafter.

Community college tuition and fees are much lower than four-year counterparts. Therefore, even though community college students often have fewer financial resources, they are generally much less likely need to borrow than students at other types of institutions. When only a small portion of the student body takes out student loans, the cohort default rate should be interpreted with caution as these rates may not reflect the entire college population. An appeals process for cohort default rates known as the Participation Rate Index, or PRI, is available for institutions that have low percentages of students borrowing, but this process can be difficult. Additionally, because CDRs are calculated over a three-year period, ED also provides "draft" rates each year that show the rates of default in the first two years of a cohort, allowing more time for PRI challenges.

Therefore, institutions have many chances to avoid CDR sanctions, but **trustees and college leaders should pay close attention to the statuses of their borrowers**. Although some institutions decline to participate in the Direct Loan program altogether in order to eliminate defaults, this can force students to resort to alternative means of borrowing with less favorable terms, such as higher interest rates and fewer repayment options that are associated with private educational loans.

⁹ U.S. Department of Education, Office of Federal Student Aid. *FY 2011 2-Year Official National Student Loan Default Rates* (2013). <http://www.ifap.ed.gov/eannouncements/attachments/2013OfficialFY112YRCDRBriefing.pdf>

¹⁰ *Ibid.*

¹¹ Specifically, cohort default rates (CDRs) represent the percentage of borrowers of federal Direct Subsidized and Unsubsidized Loans from an institution who enter repayment on Federal Direct Loans "together" – within a single federal fiscal year (October 1 to September 30) – who subsequently default within that fiscal year or the following two fiscal years. Thus, the cohort is tracked for three years, after which time a borrower's default does not affect the institutional CDR. ED previously used two-year CDRs under statute, but this window was expanded to three years by the Higher Education Opportunity Act of 2008. Three consecutive releases of the new three-year rates will allow new sanction thresholds based on these new rates to apply to institutions beginning in September 2014. Institutions must have 30 or more borrowers entering repayment in a fiscal year for full sanctions to apply, otherwise an average over multiple years is substituted.

How a Student Applies for Federal Student Aid

Students apply for all federal aid programs by completing the Free Application for Federal Student Aid (FAFSA) online at www.fafsa.ed.gov or by mailing in a paper application. Most state and institutional aid programs also require the FAFSA, and some colleges may require additional information and applications for nonfederal aid. Students must apply annually for each “award year” for which they are requesting federal aid.

The FAFSA collects basic identifying information such as name, Social Security number, citizenship status, driver's license number, and date of birth, as well as detailed information about the student's and (when applicable) his or her parents' income and assets, to determine financial need. This generally requires that the student or his or her family has prepared their federal tax information or submitted a tax return prior to filling out the FAFSA.¹²

As determined by answers to FAFSA questions about family circumstances, students who do not meet requirements to be “independent” must provide their parents' income information. For independent students, parent financial information is not required.¹³ Many community college students are adult or returning students and qualify as independent.

Students and their parents have the option of completing a paper FAFSA, but the vast majority of applicants complete the form online. In doing so, applicants can receive an immediate estimate of federal aid eligibility (but not actual award levels) based on their information, just as completing tax returns via ‘e-filing’ produces an estimate of tax liability or refund. By using the online FAFSA, students and parents are also able to import their IRS tax return information directly into the form if it is eligible and has been processed by the IRS. Income information provided on the FAFSA is linked to a common formula used by the U.S. Department of Education (ED) to determine a student's or family's ability to pay for college.

Qualifications for Federal Student Aid

In order to be eligible for federal student aid, a student must:

- demonstrate financial need (for most programs);
- be a U.S. citizen or an eligible noncitizen;
- have a valid Social Security number (with the exception of students from the Republic of the Marshall Islands, Federated States of Micronesia, or the Republic of Palau);
- be registered with Selective Service, if male
- be enrolled or accepted for enrollment as a regular student in an eligible degree or certificate program;
- be enrolled at least half-time to be eligible for Direct Loan Program funds;
- maintain satisfactory academic progress in college or career school;
- sign statements on the FAFSA stating that he or she is
 - not in default on a federal student loan and does not owe money on a federal student grant and
 - that he or she will use federal student aid only for educational purposes; and
- demonstrate that he or she is qualified to obtain a college or career school education by
 - having a high school diploma or a recognized equivalent such as a General Educational Development (GED) certificate or
 - completing a high school education in a homeschool setting approved under state law.

¹² Estimates of income can be used, but must later be verified.

¹³ The family of an independent student consists of the student and, if any, his or her spouse and dependents. These family circumstances affect an independent student's eligibility for aid under the federal methodology.

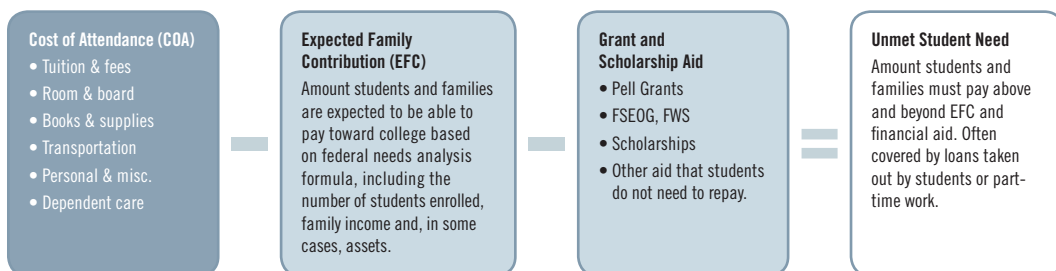
How Student Financial Need is Calculated

Eligibility for Title IV student financial aid programs is determined by a formula adopted by Congress to measure the financial resources available to a student, and his or her family, to pay for higher education. This process is known as the Federal Need Analysis Methodology, but is easier to think of as a formula. Once the applicant's financial information is provided on the FAFSA form, the formula assesses the student's or family's adjusted gross income and applicable assets, as well as the number of people in the family and the number of dependents expected to be enrolled in a postsecondary program. The formula produces what a family can reasonably be expected to contribute to postsecondary educational costs out of pocket, and is called the Expected Family Contribution (EFC).

When subtracted from the total cost of attendance (COA) — tuition, fees, room, board, books, supplies, transportation, and personal costs — at the institution in which the student will enroll, the EFC then provides a standard measure for awarding financial aid to help fill gaps in a student's unmet need. The most generous federal aid is generally for students and families with "zero EFC." These "zero EFC" students and families are regarded by the federal government as financially unable to contribute to their own cost of attendance, although they may still face need that must be covered by borrowing.

After a student's financial need is determined, it can then be met with the appropriate mix of federal financial aid (grants or loans), institutional grants, scholarships, and student or parent contributions, in order to help the student afford his or her education. If a student is eligible, the Pell Grant is always applied first. Federal tax credits and deductions are not determined by the formula or FAFSA application, but are instead calculated during an individual's annual federal tax-filing process. The income thresholds used to determine EFC are set in statute by Congress, and cannot be modified by the U.S. Department of Education.

Using the EFC, colleges personalize a package of grants and loans for each student in "award letters," which they then send out electronically or mail to applicants. Only upon receiving these financial award letters do students know how much college will cost for the upcoming academic term.



How a Student Receives Federal Financial Aid

Nearly all federal financial aid flows to students through their institutions before reaching the student. After a student has applied and qualified for aid, received a financial aid offer from the college, enrolled, and then completed certifying paperwork (such as loan promissory notes), only then will aid be disbursed to cover a student's expenses. Financial aid is usually first used to 'pay down' tuition, fees, and other institutional charges (including room and board, if any). If the amount of students' aid is greater than these charges on the students' account, the difference will be sent to them via check or direct deposit. The exact date for this refund to students varies by institutional or state policies, but is usually within the first few weeks of a term. If students reduce their enrollment intensity, leave, or drop out before the end of an academic term, they may be required to pay back a portion of their aid under federal guidelines.

Grants

Grants do not need to be repaid by students and they are a critical source of financial support to promote college access and success. Given the large number of low- and middle-income students enrolled in community colleges, they receive a significant share of the federal grant aid that is allocated among all students nationwide including 33 percent of all Pell Grant funds. Available federal grant aid has also been growing; the amount disbursed to all students in postsecondary education doubled in inflation-adjusted dollars between 2007-08 and 2012-13, while state grant aid grew by only 11 percent¹⁴ This increase in federal grant aid resulted from a combination of policy changes, growth in college enrollment, and the economic downturn that increased unemployment and reduced family and student financial capacity.

Federal Pell Grants

The Pell Grant program is the cornerstone of federal financial aid and the most important federal program for community colleges. Each year, Pell Grants enable more than 9.7 million low-income students in higher education to pay for tuition, fees, books, transportation, and other living expenses. Nearly 3.5 million of these recipients attend community colleges each year. Since they were first received by students in 1976, Pell Grants have provided a pathway to an affordable higher education for tens of millions of aspiring graduates. However, today the program faces funding challenges, largely due to its dramatic growth in the several years after the 2008 recession when the program more than doubled in cost: from \$14.7 billion in the 2007-08 award year to \$32.6 billion in the 2013-14 award year.¹⁵

Programmatic Structure of Pell Grants

The Pell Grant functions like a voucher for students.

It is awarded to students pursuing a degree or certificate that have financial need, have not previously earned a bachelor's or graduate degree, and meet several academic requirements.¹⁶ It is portable and can be used at any accredited institution that has signed what is known as a Title IV participation agreement. Like most other forms of federal aid, the size of a student's award is determined by the federal methodology. However, Pell Grant eligibility is limited to 12 total semesters of full-time equivalent enrollment (roughly six years) or its program equivalent, as defined by the U.S. Department of Education.

Federal Pell Grant Program	
Award Year	Maximum Award (Current Dollars)
2017-18	\$6,100*
2016-17	\$5,970*
2015-16	\$5,845*
2014-15	\$5,730*
2013-14	\$5,645
2012-13	\$5,550
2011-12	\$5,550
2010-11	\$5,550
2009-10	\$5,350
2008-09	\$4,731

*Projected based on CPI-U
Source: Congressional Budget Office (2013)

¹⁴ *Trends in Student Aid 2013* (see page 3).

¹⁵ The total program growth occurred from a substantial increase in both the number of recipients and the average award. From 2006-07 to 2010-11, the average Pell grant increased by 43 percent in real terms and the number of recipients increased by 80 percent, according to: Congressional Budget Office (CBO). *The Pell Grant Program: Recent Growth and Policy Options* (2013). Table 2. <http://www.cbo.gov/publication/44448>

¹⁶ A student entering a second or later year must demonstrate that he or she has made satisfactory academic progress to that point by completing a certain number of credit hours of course work and by attaining a particular grade point average (GPA), as determined by the institution.

For the 2013-14 award year, the maximum Pell Grant award is \$5,645. The grant is currently scheduled to increase steadily with the Consumer Price Index to a total of \$6,100 by the 2017-18 award year, according to non-partisan Congressional Budget Office estimates and at which point scheduled increases will cease under current law. There is also a minimum Pell Grant award, which is statutorily set at 10 percent of the maximum award.

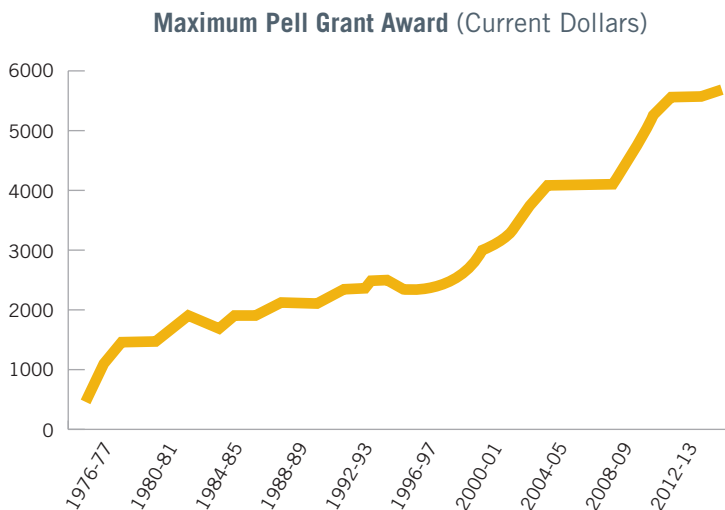
Pell Grants play a much more prominent role in community college student financing than in other sectors for two primary reasons. First, community college students, on average, have the lowest family incomes of students enrolled in higher education. And second, these students also pay the lowest average tuition and fees. This means that Pell Grants cover more total expenses for community college students than for those attending other types of institutions. Access to grants also helps to minimize student borrowing.

Growth of the Pell Grant Program Over Time

The federal government has dramatically expanded its investment in Pell Grants since the program's adoption through increases in the maximum award as well as greatly expanded eligibility that has rapidly increased the total number of recipients. These increases have more recently begun to level-off, especially as eligibility for the program has been restricted. Yet the cost of the program to the taxpayers remains high when compared to pre-recession levels. At the same time, rapid growth in average cost of attendance has limited the "purchasing power" of the Pell Grant over time. Colleges have therefore struggled to maintain affordability for students even with new federal resources at hand.

Given deep cuts in state support to higher education after the recession in 2008, institutions were forced to raise tuition and fees to maintain quality and continue to provide needed educational services. With rising costs for students, the federal investment in Pell Grants is critical to maintaining access to higher education for millions of students who would otherwise be unable to afford it.

Congress has faced repeated 'shortfalls' in Pell Grant funding, leading appropriators to search for new funding from other programs and also reducing community college students' eligibility for other federal financial aid programs. Pell Grant program funding shortfalls are expected to occur in FY 2015 and worsen thereafter.



History & Future of the Pell Grant

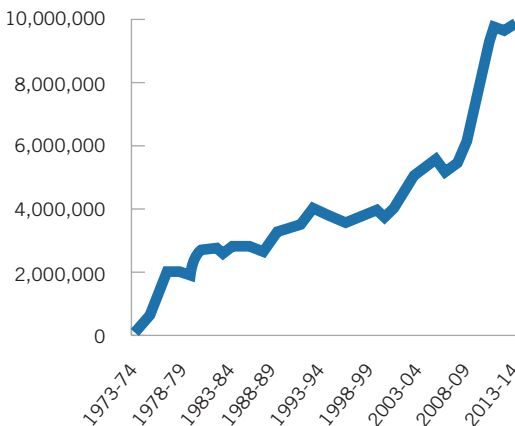
The Federal Pell Grant began in 1972 as the Basic Eligibility Opportunity Grant and was first awarded to students in the fall of 1976. Among the chief legislative champions of the program was Senator Claiborne Pell (D-RI), and the grant was renamed after him in 1980. More than 40 years later, the Pell Grant program is still fundamentally sound in its structure and operation. This is a tremendous achievement given the enormous variety of students and institutions in higher education today.

When it was first conceived, the Pell Grant was designed primarily for recent high school graduates to attend traditional four-year degree programs. Today, 36 percent of Pell Grant recipients attend a two-year public institution, and 63 percent of those community college recipients are independent students.¹⁷ Furthermore, the program's bipartisan popularity remains rare for large domestic federal programs, largely avoiding criticisms of being ineffective or suggestions of privatization. The Pell Grant program is widely viewed as tremendously successful in sending more low- and middle-income students to college.

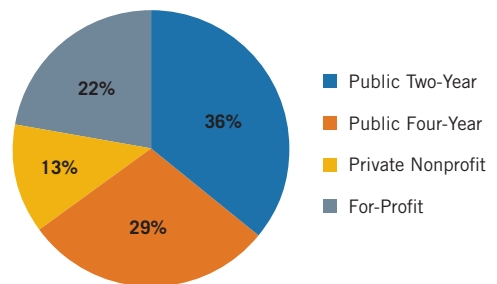
Various legislative proposals to restructure the program and produce cost savings have been discussed by policymakers, but should be strongly opposed. Recent eligibility changes in the program during the past few years have denied opportunities to students that Congress should reverse. In addition, maintaining the maximum Pell Grant award and expected increases at the expense of general eligibility has created unacceptable tradeoffs for low-income students, and in particular for those who follow a “nontraditional” pathway to education, such as for students who enroll in courses year-round.¹⁸ Students also meet requirements for Satisfactory Academic Progress to maintain Title IV eligibility, and increasing these requirements through federal mandate could further restrict access for community college students.

The Pell Grant remains a valuable investment in a better-educated workforce, higher wages, and a stronger economy. Through these hard economic times, community colleges are leading the way to allow millions of students and workers to gain the valuable education and workforce training they need to meet the demands of the 21st Century. Continued funding for the Pell Grant program is a vital component to our nation's long-term economic strength and global competitiveness.

Total Pell Grant Recipients – All Sectors



Percentage Distribution of Federal Pell Grant Recipients by Sector, 2011-12



Sources: U.S. Department of Education, Office of Postsecondary Education, *2011-2012 Federal Pell Grant Program End-of-Year Report*, Table 5-A; U.S. Department of Education, Office of Federal Student Aid, *Title IV Volume Reports*, 2012-13.

¹⁷ ACCT staff analysis of NPSAS:12. Data access by “PowerStats,” October 2013. <http://nces.ed.gov/datalab/>

¹⁸ Students' ability to obtain Pell grants to attend school year round, such as during the summer and a normal academic term, was repealed by the Department of Defense and Full-Year Continuing Appropriations Act of 2011, negatively impacting many community college students. This is often referred to as “year-round” or “summer” Pell.

Federal Supplemental Educational Opportunity Grant

The Federal Supplemental Educational Opportunity Grant (FSEOG) program is a small program administered directly by financial aid offices at participating institutions — with federal funds — and is often called “campus-based” aid. Funding is intended to support low-income students, and many institutions require that recipients also be eligible for the Pell Grant. Students can receive between \$100 and \$4,000 a year depending on financial need, other sources of available aid, and funding received by the institutions. Each participating institution receives a certain amount of FSEOG funds each year from the U.S. Department of Education, and once the full amount of funds have been awarded to students, no more FSEOG awards can be made for that year. Community colleges received just 16 percent of all FSEOG funds awarded to colleges by ED in Award Year 2011-12.¹⁹

Federal Work-Study

Federal Work-Study (FWS) is an incentive grant that provides part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. The federal government pays a portion of a student’s wage or salary, while the employer pays the other portion. Institutions that participate in FWS award funds on a first-come, first-served basis — and funds often run out. The amount of FWS received is usually dependent on the amount of other financial aid resources disbursed, a student’s course schedule and his or her academic progress, and the amount of money remaining in the college’s work-study fund. Students must earn at least the federal minimum wage.

Iraq & Afghanistan Service Grants

If a student’s parent or guardian died as a result of military service in Iraq or Afghanistan after the events of 9/11, the student may be eligible for additional aid through the Pell Grant program or Iraq and Afghanistan Service Grants. To be eligible, a student must have been under 24 years old or enrolled at least part-time at a college or career school at the time of the parent’s or guardian’s death. Payments will be adjusted if the student is enrolled less than full-time. Very few community college students receive these service grants.

TEACH Grants

A Teacher Education Assistance for College and Higher Education (TEACH) Grant provides grants of up to \$4,000 a year to students who are completing or plan to complete course work needed to begin a career in teaching in a high-need field that serves students from low-income families. The grant carries a four-year service requirement. If recipients do not complete their service obligations, all TEACH Grant funds are converted to a Direct Unsubsidized Loan, which must be repaid. Very few community college students receive TEACH grants.

Military Benefits

Military benefits for active duty, National Guard, and Reserve service members, as well as veterans, are not covered by this report and are not administered by the U.S. Department of Education. These programs include Military Tuition Assistance (MTA), which supports active service members’ tuition and fee charges for college courses taken during off-duty hours, as well as the Post-9/11 GI Bill, which provides generous financial support for education to veterans who have served since September 10, 2001. These programs are administered directly by the service branches and the U.S. Department of Veterans Affairs, respectively. Many community colleges enroll large numbers of student service members and veterans who utilize these benefits.

¹⁹ ACCT staff analysis of two-year public data from U.S. Department of Education, Office Federal Student Aid, AY 2011-12 Title IV Program Volume Report, Campus-Based Aid. <http://studentaid.ed.gov/about/data-center/student/title-iv>

Loans

Federal student loans, which must be paid back or forgiven, total more than \$8.3 billion to community college students each year.²⁰ They include Federal Direct Subsidized and Unsubsidized Loans (also known as Stafford Loans), Direct PLUS loans, and Perkins Loans. Some of these loans are limited to students based on their financial needs, and all students must be enrolled at least half-time to qualify for a federal loan. Additionally, institutions must choose, and remain eligible, to participate in the Direct Loan program in order for their students to have access to these loans.

Direct Subsidized Loans and Perkins Loans are limited to students with demonstrated financial need, while Direct Unsubsidized Loans are available regardless of need, up to the cost of attendance. Federal Direct Parent PLUS Loans, which allow parents to borrow in order to finance the undergraduate education of their dependents, are considered part of total aid but are rarely used by community college students.

Federal loans are almost always the best deal for students given their flexible repayment terms and options for deferment, forbearance options, or loan forgiveness. Other potential, but less common, sources of loans for community college students include state, institutional, or private loans. Given the more affordable tuition and fee levels at community colleges, students rarely have to resort to these alternatives because they are unlikely to reach the Direct Loan limits.

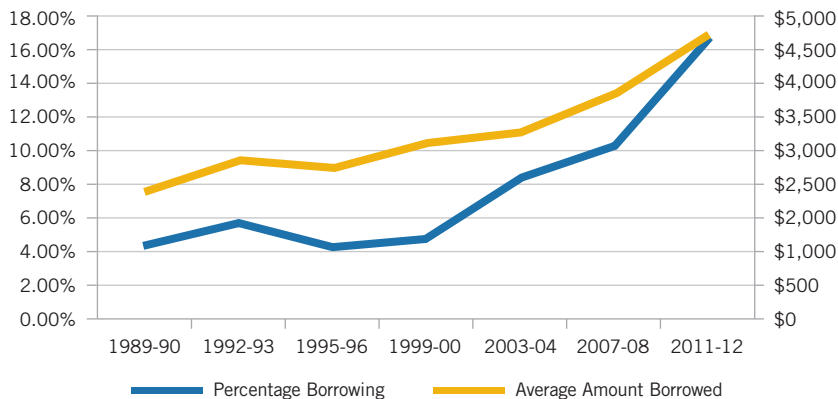
Repaying Federal Loans

Student loan payments are generally collected by the U.S. Department of Education through a loan servicer. A loan servicer is a company that handles the billing and other services on federal student loans and will work with students to enroll them in repayment plans and loan consolidation. Federal loans, which are usually disbursed by academic year or term, can also be “consolidated” into a single Direct Consolidated Loan to facilitate one simple monthly repayment. After a student is no longer actively enrolled at least half-time, most federal loans will enter a short grace period of six to nine months, during which time borrowers select a repayment plan.

Student Loan Interest Rates		
For disbursements made 7/1/13 – 6/30/14		
	Current Interest Rate	Interest Rate Cap*
Direct Sub* & Unsub (Undergrads)	3.86%	8.25%
Direct Sub* & Unsub (Graduates)	5.41%	9.5%
Direct PLUS Loans	6.41%	10.5%
Note: Interest on Subsidized Loans does not accrue while the student is currently enrolled. Interest rates for new loans are set each July 1 based on the 10-year Treasury Yield but are capped to protect future borrowers against future interest rate increases.		

²⁰ ACCT staff analysis of data from U.S. Department of Education, Office Federal Student Aid, *2011-12 Direct Loan & Perkins Loan Volume Information* (2013). <http://studentaid.ed.gov/about/data-center/student/title-v>

Student Borrowing at Two-Year Public Institutions



Source: ACCT staff analysis of NCES 2011-12 National Postsecondary Student Aid Study (NPSAS:12)

There are currently seven different loan repayment plans available. The most common is the “standard” repayment plan of up to 10 years, which generally results in less interest paid over the life of the loan. Four income-related plans are also available, which set payments based upon a borrower’s monthly Adjusted Gross Income (AGI) under federal definitions, as well as debt levels and family size. This includes the ‘Pay as You Earn’ plan that caps federal loan payments at no more than 10 percent of AGI. There are also several options for having loans forgiven in exchange for serving as a teacher or in other public service positions. Under certain circumstances, borrowers can receive a deferment or forbearance for financial hardship that allows them to temporarily postpone or reduce their federal student loan payments and avoid default.

Federal Direct Loans

Direct Subsidized Loans

Direct Subsidized Loans from the U.S. Department of Education are made based on student financial need and other specific eligibility requirements. The federal government pays the interest while borrowers are enrolled, during a six-month ‘grace’ period, and during authorized periods of deferment.

For all recent borrowers (on or after July 1, 2013), there is a limit on the maximum period of time that the student can receive Direct Subsidized Loans that is equal to 150 percent of the published length of the student’s

program. For students enrolled in a two-year associate degree program, this ‘maximum eligibility period’ is three years (150 percent of 2 years = 3 years). After reaching this time limit, if a student wishes to continue borrowing, he or she must take out unsubsidized loans. The time limit does not apply to Direct Unsubsidized Loans or Direct PLUS Loans. The time limit was put in place purely for budgetary reasons when Congress was dealing with the Pell Grant shortfall in 2012. It has already proven administratively complex to track students’ Direct Subsidized usage, especially when they have transferred from one institution to another or when their program does not align to a traditional academic year.

Direct Loan Borrowing Limits (Sub & Unsub)

	Dependent	Independent
1st Year	\$5,500 (\$3,500)	\$9,500 (\$3,500)
2nd Year	\$6,500 (\$4,500)	\$10,500 (\$4,500)
3rd & 4th Year	\$7,500 (\$5,500)	\$12,500 (\$5,500)
Aggregate	\$31,000 (\$23,000)	\$57,500 (\$23,000)
Note: Amounts in parenthesis reflect the subsidized portion limits.		

Direct Unsubsidized Loans

Direct Unsubsidized Loans do not consider financial need as an eligibility factor. The borrower is responsible for interest throughout the life of the loan, including that which accrues during active enrollment. The borrower may choose to pay the interest charged on the loan or allow the interest to be capitalized (added to the loan principal) when the loan enters repayment. Unsubsidized loans are subject to caps that vary by year of academic study.

Direct PLUS Loans

PLUS loans are federal loans that graduate or professional degree students, or parents of dependent undergraduate students, can use to help pay education expenses. The U.S. Department of Education makes Direct PLUS Loans available to eligible borrowers through institutions participating in the Direct Loan Program.

Generally, it is only necessary for a student to resort to Parent PLUS loans if they have already exhausted their normal Direct Subsidized & Unsubsidized loan limits. Because community college students are generally not graduate students, the few students who do benefit from a PLUS loan have parent loans. Only 13,000 such parents of community college students took out a PLUS loan in 2011-12, the most recent award year for which data are available. PLUS loans carry higher interest rates, and in order to qualify, a borrower must not have an adverse credit history.

Direct Consolidation Loan

All Direct Loan borrowers, and Perkins Loan holders with at least one Direct Loan, can combine their multiple loans into one Direct Consolidation Loan. This provides one lender and one monthly payment for borrowers. Consolidating loans is free, but the borrower must apply to consolidate his or her loan. Because community college students borrow less overall, they are also less likely to acquire multiple types of loans, and therefore they apply for consolidation in lower numbers than baccalaureate borrowers.

Federal Perkins Loans

The Federal Perkins Loan program functions as a “campus-aid” program and also as a federal loan. Perkins Loans are low-interest federal student loans for undergraduate and graduate students with financial need. These loans carry a fixed interest rate of 5 percent, which is currently higher than the Direct Subsidized and Unsubsidized rate for undergraduates but lower than prevailing graduate or PLUS rates. The institution generally functions as the loan ‘servicer’ during a student’s repayment. Based on legacy formulas for determining Perkins funds made available to institutions of higher education, very few community colleges participate in the Perkins program — only 2,200 community college students received a Perkins loan in 2011-12, the most recent award year for which data are available. Students wishing to include their Perkins loans in income-based repayment options must first convert them to a Direct Consolidation Loan.

Private Education Loans

Private education loans are NOT federal loans, but students often think they are. Additionally, most federal loans are “serviced” by private lenders, but these are not private loans as the servicer does not guarantee the loan. Private educational loans are rarely used by community college students, and often carry higher interest rates and fewer repayment options than federal loans. Because students can “self-certify” their financial need for a private loan, institutions do not track the status of these loans.

Tax Credits & Deductions

Over \$20 billion in savings are provided to students and their parents through federal education tax credits and tuition deductions each year.²¹ Education tax credits and deductions are “tax expenditures;” as such, they reduce federal income tax liabilities and federal tax revenues, and have the same overall impact on the federal budget as direct expenditures on other programs. However, because these tax credits and deductions are received only after tax filing, their effect on college access and success is regarded by researchers to be somewhat less immediate and less significant than federal grants. There have been numerous legislative proposals to consolidate the various tax credits and deductions within comprehensive tax reform efforts. The following programs are the major federal tax benefits available.

American Opportunity Tax Credit

Under provisions instituted with the American Recovery and Reinvestment Act (ARRA), many parents and students qualify for a tax credit known as the American Opportunity Tax Credit (AOTC) to help pay for college expenses. The AOTC replaced the Hope Scholarship Credit, expanded eligibility for the credit to a broader range of taxpayers, and has been extended through 2017 by the American Taxpayer Relief Act of 2012. Independent students can claim the tax credit for their educational expenses, or families or spouses can claim the credit if the relevant student qualifies as their dependent.

Many of those eligible qualify for the maximum annual credit of \$2,500 per student, of which up to \$1,000 is fully refundable (100 percent of the first \$2,000 spent on higher education; 25 percent of the next \$2,000) and can be claimed for the first four years of post-secondary, degree-seeking education. The refundable portion of the credit allows beneficiaries with no tax liability upon filing to receive a refund from the federal government of up to \$1,000. The credit can be claimed for each qualified individual student.

The full credit is available to filers whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing jointly. The credit is phased out for taxpayers with incomes slightly above these levels, and is capped at modified adjusted gross incomes of \$90,000 or more for individuals, or \$180,000 or more for married couples filing jointly. At these levels, the vast majority of community college students are eligible for the AOTC.

Lifetime Learning Credit

The Lifetime Learning Credit, created in the Taxpayer Relief Act of 1997, is available for up to \$2,000 annually (20 percent of the first \$10,000 spent on higher education) for an unlimited number of years. Qualified expenses include tuition, fees, and required books, supplies, and equipment. Students must be enrolled in at least one post-secondary course and need not be pursuing a degree or other recognized education credential. There is no limit on the number of years the credit can be claimed for each student. However, a taxpayer cannot claim both the AOTC and Lifetime Learning Credit for the same student in one year. Thus, the Lifetime Learning Credit may be particularly helpful to graduate students, students who are only taking one course, and those who are not pursuing a degree.

²¹ *Trends in Student Aid 2013* (see Figure 16A)

Generally, a filer can claim the Lifetime Learning Credit if all of the following requirements are met:

- The filer paid the qualified education expenses of higher education; and
- The filer paid the education expenses for an eligible student; and
- The eligible student is either the filer, their spouse, or dependent for whom the filer claims an exemption on their federal tax return.

If a filer pays qualified education expenses for more than one student in the same year, they may choose to take credits on a per-student, per-year basis. This means that filers can claim the AOTC for one student and the Lifetime Learning Credit for another student, in the same tax year. The full credit is available to filers whose modified adjusted gross income is \$52,000 or less, or \$104,000 or less for married couples filing jointly. The credit is phased out for taxpayers with incomes slightly above these levels, and is capped at modified adjusted gross incomes of \$62,000 or more for individuals, or \$124,000 or more for married couples filing jointly.

Other Higher Education Tax Deductions & Benefits

Tuition and Fees Deduction

A higher education tuition and fees tax deduction is available to individuals who do not use the Lifetime Learning or American Opportunity Tax Credit. Unlike a tax credit, which reduces the amount of taxes owed, the tuition and fees deduction reduces taxable income. Both the tuition and fees deduction and student loan interest deductions are “above-the-line” deductions, meaning tax filers need not itemize deductions to claim the benefits. In fiscal year 2010, this policy reduced taxes for those who were eligible by \$760 million (no estimate was available for fiscal year 2013).

The maximum tuition and fees deduction is \$4,000 and varies according to income level. But the income ceiling is approximately \$20,000 higher for the tuition and fees tax deduction than for the Lifetime Learning Credit, making the deduction more popular for higher-income families. The tuition and fees deduction also cannot cover personal expenses such as room and board.

Student Loan Interest Deduction

Individuals can also deduct the interest paid on a federal or private student loan from their taxable income. The maximum student loan interest deduction is \$2,500 and decreases as income levels increase. The income ceiling for the loan interest deduction is \$15,000 lower than the tuition and fees deduction. In 2013, the policy will reduce taxes for all student loan borrowers by an estimated \$1.46 billion.

Employer-Provided Education Benefits

Section 127 of the federal tax code allows employers to give employees up to \$5,250 a year in tax-exempt tuition and fees assistance at the undergraduate and graduate level regardless of whether the education is job-related. The employer deducts the cost of the benefit but the employee doesn't have to report it as income. After numerous lapses, this tax provision was given a permanent extension by the American Taxpayer Relief Act of 2012.

Conclusion

What Trustees and College Leaders Need to Know About Financial Aid

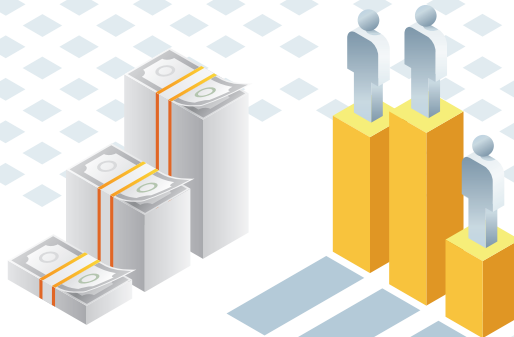
Students depend on federal financial aid resources to be able to afford higher education, and community colleges would not be able to fulfill their open-access missions without the grants, loans, and tax credits available to these students. Trustees and college leaders are charged with the tremendous responsibility of effectively governing and managing these important financial aid resources through a variety of programs, practices, and policies at their institutions.

Trustees and college leaders must serve as effective advocates for financial aid with federal policymakers in order to protect these valuable investments and expand access to students in need. In addition to understanding the basic structure and function of federal aid programs and sources of financing, boards should gather information specific to their campuses and students.

As a community college trustee or president, you are responsible for knowing:

- The total amount of Pell Grant funding received by your institution, as well as the total number of students who receive Pell Grants.
- Whether your institution participates in the Federal Direct Loan program.
- The percentage of students who take out federal loans and your institution's recent official Cohort Default Rates (CDRs).
- The types and number of work-study positions available at your college, as well as the funding available for these positions.
- What state or institutional aid may be available to supplement federal aid to students in need.
- Programs, practices, and resources to encourage and assist students in claiming federal tax credits or deductions for which they are eligible.

Having this important information at hand will help policymakers fully understand the significance of federal financial aid to your students and your institution.





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