NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Improving Student Aid Outcomes

The Top 5 Student Aid Policies Needed to Enhance Accountability and Strengthen the Higher Education Experience

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The incoming Trump administration and 119th Congress must prioritize reforming our country's student aid policies to ensure all students have access to an affordable higher education, which is critical to unlocking opportunity in the United States. NASFAA offers the following policy recommendations to the incoming Trump administration and 119th Congress as a way to strengthen access to, and success in, higher education for our nation's students.

#1 ENSURE A SMOOTH IMPLEMENTATION OF THE SIMPLIFIED FEDERAL FINANCIAL AID APPLICATION PROCESS

NASFAA has long been interested in ways to make the Free Application for Federal Student Aid (FAFSA) and the overall application process simpler and more efficient for students and families. As a result of the passage of the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act in 2019 and the FAFSA Simplification Act in 2020, there were unprecedented changes to the federal student aid process, impacting all areas of the experience from application to eligibility determination. This implementation also required a complete overhaul of the decades-old Federal Student Aid systems. The rollout of the 2024-25 FAFSA was plagued by operational glitches, missed deadlines, and data integrity issues. There were delays in delivering applicant data to schools, which left them working within a compressed timeline to get financial aid offers into the hands of their students. The higher education community may see impacts on college enrollment and attainment rates for low-income students, students of color, and first generation college students. Despite the challenges and errors that occurred, FAFSA Simplification will ultimately expand Pell Grant eligibility and deliver a system that is easier for students and families to navigate in the long run.

- ***Ensure a Smooth Rollout of the 2025-26 FAFSA. The Department of Education (ED) in early August 2024 announced its plans for a "phased rollout" of the 2025-26 FAFSA.*** The phased rollout made the form available to a limited number of students and institutions through a beta testing period up until the form became available to all students on November 21. We call on the administration and ED to continue to implement fixes to ongoing bugs even after broad release, and to provide proactive and transparent communication so that the financial aid community can plan appropriately and continue serving their students.

- ***Pass Legislation to Implement Technical Amendments to the FAFSA Simplification and FUTURE Acts, Without Risking the Timely Opening of Future FAFSA Cycles.*** As with any substantial piece of legislation, there is a need to address some unintended consequences or oversights. Now that both laws have been fully implemented, we have identified several areas within the Internal Revenue Code (IRC) and the Higher Education Act (HEA) that should be reformed to ensure FAFSA simplification functions as intended.

  - **Higher Education Act (HEA) Requested Amendments**

    - Reinstate the student housing choice question on the FAFSA
    - Allow for skip logic on the FAFSA for dependency status questions
    - Discontinue use of IRS number of dependents to determine family size
    - Allow for alternate Student Aid Index for enrollment other than 9 months

- **FUTURE Act Requested Amendments**
    - Add authorization for IRS to disclose amount of foreign tax credit claimed to ED
    - Add authorization for IRS to disclose amount of earned income tax credit claimed to ED

  In June 2024, following the initial rollout of the 2024-25 FAFSA, NASFAA sent a letter to Congressional leadership on the education and finance committees outlining needed technical amendments. Congress should make these changes to fully carry out the purpose of the legislation.

- ***Ensure an October 1 Release Date for Future FAFSA Cycles and Execute the Provisions Included in the FAFSA Deadline Act.*** Before the 2024-25 FAFSA rollout, NASFAA had long advocated for codifying the October 1 release date of the FAFSA. When operating as intended, an earlier release date allows colleges and universities to provide financial aid information to students much sooner. NASFAA supported the FAFSA Deadline Act, which was signed into law on December 11, 2024, and requires ED to certify and make October 1 the official launch date for the FAFSA each year. Moving forward for future FAFSA cycles, we urge ED to fulfill the provision outlined in the law requiring them to certify to Congress, by September 1, that the FAFSA will be ready by October 1.

#2 STRENGTHEN THE FEDERAL STUDENT AID PROGRAMS

The federal student aid programs are important to ensuring our country's neediest students have the support they need to receive their postsecondary education. In 2019-20, 55% of undergraduates received federal student aid with an average amount of $8,700.[1] Ensuring robust funding is critical for the millions of low-income, first-generation, and students of color that rely on these programs every year.

- ***Double the Maximum Pell Grant.*** The Federal Pell Grant Program remains the foundational federal student aid program. Without it, millions of low-income students would miss out on the benefits of a college education every year. In 2022-23, there were approximately 6.1 million Pell Grant recipients. These recipients received an average grant amount of $4,409, and just over 75% had family incomes of less than $40,000.[2] Despite the increased attention to the importance of college affordability, today's Pell Grant maximum award remains at a level similar to fiscal year (FY) 1978 when adjusting for inflation.[3] The 2024-25 maximum Pell Grant covers only 30%[4] of the average cost of tuition, fees, housing, and food at a public four-year institution, while it covered 79% in 1975.[5]

  The time has come for Congress to make a substantial investment in the program by doubling the maximum Pell Grant. The current maximum is increasingly insufficient to move the needle on college access, leaving low-income students to borrow high amounts or, worse yet, not attend postsecondary education at all. Doubling the maximum Pell Grant will provide myriad benefits not only to our nation's lowest-income students, but also to the federal government and broader society. Students who persist in higher education are more likely to be employed, tax-paying, productive members of society.[6]

  Investing in the Pell Grant program plays a critical role in ensuring college access for many traditionally underserved student populations. In 2019-20, 60% of Black undergraduates and 50% of Hispanic undergraduates received a federal Pell Grant, compared to 32% of white undergraduates.[7]

[1]https://nces.ed.gov/pubs2023/2023466.pdf
[2]https://www.nasfaa.org/uploads/documents/2024_National_Profile.pdf
[3]https://research.collegeboard.org/media/pdf/trends-student-aid-2019-full-report.pdf
[4]https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf
[5]https://www.cbpp.org/blog/2018-funding-bill-should-boost-pell-grants
[6]https://research.collegeboard.org/pdf/education-pays-2019-full-report.pdf
[7]U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study: 2020 Undergraduate Students (NPSAS:UG)

- ***Extend Pell Grant eligibility to Deferred Action for Childhood Arrivals (DACA) recipients.*** While 54% of the U.S. population between ages 15 and 32 has some college experience, just 36% of the DACA-eligible population in the same age range are either enrolled in college, have completed some college, or have earned a bachelor's degree.[8] We urge the incoming administration to protect the DACA program. Extending Pell eligibility to DACA recipients is a critical step in providing this population with access to affordable higher education opportunities.

- ***Shift the Federal Pell Grant Program to Full Mandatory Funding.*** The annual federal budget and appropriations process adds unnecessary uncertainty to a program that plays a vital role in the lives of thousands of students every year. Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year allocation to mandatory funding.

- ***Protect and Bolster the Campus-Based Aid Programs.*** The Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study (FWS) programs are critical to providing aid to our country's low and middle-income students. Similar to the Pell Grant, these programs have not kept up with the pace of inflation. In their annual budget request, the new administration should signal to Congress that these programs are in need of robust funding increases to support the thousands of students who rely on them to continue to cover the cost of their education. In turn, Congress should ensure that any final appropriations package delivers long-overdue increases to both FWS and FSEOG. We also recommend that the allocation formula for campus-based aid programs be revised by phasing out the base guarantee portion of the allocation formula over 10 years, making allocations dependent only on a "fair share" formula.

- ***Improve and Strengthen the FWS program.*** NASFAA recently developed recommendations for Congress and ED to bolster the FWS program, particularly after the COVID-19 pandemic and the temporary nature of some FWS flexibilities. After the pandemic, many institutions, for example, found it difficult to spend their FWS allocation in the same manner as prior years and should continue to be allowed to transfer up to 60% of their FWS allocation to the FSEOG program moving forward. Additionally, the current 7% community service requirement creates an administrative burden for many schools and should be removed – though institutions should still encourage and offer community service jobs and maintain the federal funding to do so. Additional recommendations can be found in the Task Force Report.

- ***Address the Continued Challenges Faced by Justice-Impacted Scholars.*** Incarcerated individuals, on July 1, 2023, became eligible to receive Pell Grants if enrolled in an eligible Prison Education Program (PEP). Incarcerated students experience a unique set of challenges when trying to navigate the financial aid application process. To provide this student population with high-quality education programs, the Trump administration and 119th Congress must address those challenges by:
  - Streamlining and expediting the application and approval process for PEPs;
  - Removing structural barriers that prevent incarcerated students from participating in financial aid, including the ability to equitably access personal records and federal programs not prohibited by law;
  - Ensuring incarcerated students have access to digital technologies so they can fully participate in the acquisition of academic material; and
  - Restoring the ability for financial aid administrators to enter and fully correct the paper FAFSAs of incarcerated students.

[8] https://www.migrationpolicy.org/research/education-and-work-profiles-daca-population

#3 STREAMLINE STUDENT LOAN REPAYMENT

While media depictions of the nation's "student debt crisis" center on graduates of elite institutions with six-figure debt loads, borrowers with small amounts of debt without a college degree reflect the real student debt crisis today[9]. Pursuing higher education while amassing some student debt is an important and responsible investment because the consequences of not pursuing a degree or credential can be devastating, but there must be sound policies in place to deter excessive borrowing and ensure repayment is simple and understandable.

- ***Eliminate Student Loan Origination Fees.*** Deemed the "student loan tax,"[10] loan origination fees are a relic of the 1980s, when additional revenue was necessary to offset loan subsidies in the now-defunct FFEL Program. Origination fees withhold, on average, $231 of an undergraduate student's and $1,287 of a graduate student's loan proceeds after factoring in associated interest while still requiring repayment with accrued interest of the full loan amount. The federal budget should not be balanced on the backs of students and families.[11]

- ***Consolidate and Simplify the Federal Loan Repayment Plans.*** According to the Congressional Research Service, there are over 40 loan forgiveness and loan repayment programs currently authorized, with at least 30 operational as of October 1, 2021 or shortly thereafter.[12] This tangled web of repayment options confuses borrowers and was the impetus behind many of the Biden administration's debt relief efforts, like the one-time repayment recalculation, on-ramp to repayment, targeted debt relief, and even the creation of the SAVE plan. These efforts, many of which are in the midst of legal challenges, have caused even more confusion and disarray. The existing repayment plans should be consolidated into three options: a single IDR plan, a standard 10-year repayment plan, and an extended 25-year plan. All borrowers should be transitioned into one of these three plans, and all other existing repayment plans should be sunsetted.

- ***Simplify Income-Driven Repayment (IDR).*** Consolidating the various income-driven repayment plans into a single plan will help borrowers understand the benefits and protections inherent in our federal student loan repayment system. This single IDR plan should be available to both undergraduate and graduate borrowers, and should be the default option for borrowers entering repayment who do not opt into either the standard or extended repayment plans. More details on this proposal and other student loan repayment recommendations can be found here.

- ***Strengthen Public Service Loan Forgiveness.*** Preserving the Public Service Loan Forgiveness (PSLF) program and exploring new ways to strengthen it will continue to encourage students to pursue and commit to vital public service careers without fear that their student loan debt will follow them for decades. At a minimum, Congress should require ED to encourage the submission of annual employment certification forms and to conduct increased outreach to borrowers about the program. Congress should also require ED to make additional PSLF data publicly available in order to answer questions regarding the program's cost, effectiveness, and integrity.

- ***Exempt All Loan Forgiveness From the Calculation of Gross Income for Income Tax Purposes.*** Currently, forgiveness and discharge under the vast majority of federal student aid programs and provisions must be included as income for income tax purposes. Taxing forgiven loans creates a disincentive for borrowers to take advantage of forgiveness programs because it creates an immediate financial hardship that can be more financially burdensome than simply remaining in repayment.

- ***Improve Student Loan Servicing Operations.*** FSA should be required to develop and implement a comprehensive manual of student loan servicing practices. The loan servicing contracts should include an amendment that outlines

[9] "Student Debt and the Class of 2019", (https://ticas.org/wp-content/uploads/2020/10/classof2019.pdf)
[10] "End the Student Loan Tax," The Hill, by Rep. Susan Davis and Justin Draeger, (https://thehill.com/blogs/congress-blog/healthcare/221137-end-the-student-loan-tax)
[11] "Issue Brief: Origination Fees," NASFAA, (https://www.nasfaa.org/issue_brief_origination_fees)
[12] "Federal Student Loan Forgiveness and Repayment Programs," Congressional Research Service, (https://crsreports.congress.gov/product/pdf/R/R43571)

the contents of the manual created by FSA, and all student loan services should be required to adhere to that guidance. All student loan servicers should also be required to adopt student loan servicing best practices identified by FSA. We also urge ED to act on opportunities to effectively collaborate with other relevant stakeholder agencies. Additional student loan servicing recommendations put forth by NASFAA and other coalition members can be found here.

- ***Provide Financial Aid Offices With More Tools to Curb Student Indebtedness.*** Schools are held responsible for their cohort default rates (CDR) and are held accountable for their graduates' indebtedness through the Gainful Employment (GE) and Financial Value Transparency (FVT) regulations, yet they have very limited authority to impose restrictions on borrowing and are prohibited from requiring additional loan counseling. Enhancing school authority to limit excessive loan borrowing or to require additional counseling would allow schools to better serve their students' financial best interests. NASFAA has endorsed the Responsible Borrowing Act and urges Congress to pass the bill, which would allow higher education institutions to prorate or limit the amount of a federal loan a student could borrow for the academic year or in the aggregate.

- ***Restore Interest Subsidy for Graduate Students.*** Graduate and professional (GP) students with financial need were eligible to receive an interest subsidy on loans up to $8,500 per year until Congress, faced with a Federal Pell Grant shortfall, eliminated the GP subsidy in the Budget Control Act of 2011.[13] That loss currently costs GP students $365 per year. Congress should pass the Protecting Our Students by Terminating Graduate Rates that Add to Debt (POST GRAD) Act, a bill supported by NASFAA, that would restore the subsidy and reverse the harm caused when GP students are forced to bear the brunt of student aid cuts.

#4 ENHANCE STUDENT AID DELIVERY

Tasked with implementing the federal student aid programs, FSA provided more than $114 billion in financial aid to more than 9.7 million students during fiscal year 2023.[14] With $1.180 trillion in total assets in FY 2019, FSA would rank fifth on the Federal Reserve System's list of largest U.S. holding companies by total assets.[15] Most importantly, FSA, in partnership with institutions, plays a central role in expanding access to affordable postsecondary opportunities through the administration of federal student aid programs. Given the agency's role as a linchpin of our nation's higher education system and the tendency for secretaries of education to come from backgrounds focused on K-12 education, it is critical that FSA has strong leadership, efficient governance, and adequate staffing. The incoming administration and Congress should ensure this occurs.

- ***Improve the Operational Efficiency of the Department of Education's Office of Federal Student Aid.*** FSA was structured as a performance-based organization (PBO) in 1998 with expanded administrative autonomy in exchange for increased oversight and accountability. Since the designation of FSA as a PBO, little oversight of the agency has occurred, and financial aid administrators feel that FSA acts more as a watchdog than as a partner in the administration of the student aid programs.[16] We urge Congress to prioritize accountability and oversight of FSA and increase the involvement of stakeholders in the FSA strategic planning process by requiring FSA to provide the final report for a program review within 60 days after receipt of an institution's response, introducing additional performance metrics, and establishing an FSA Oversight Board.[17] Additionally, while there are positions that deal with the student loan programs in FSA, there are no current positions with a specific focus and responsibility for delivering quality student loan servicing, which is why Congress should also establish a new, required role of chief

[13]"The Budget Control Act of 2011", Congressional Research Service, (https://fas.org/sgp/crs/misc/R41965.pdf)
[14]https://www.ed.gov/sites/ed/files/about/reports/annual/2023report/fsa-report.pdf
[15]https://www.ed.gov/sites/ed/files/about/reports/annual/2023report/fsa-report.pdf
[16]"NASFAA Testifies Before Congress on Financial Aid Administrators' Experiences with FSA," NASFAA, (https://www.nasfaa.org/fsa-testimony)
[17] "Improving Oversight and Transparency at the U.S. Department of Education's Office of Federal Student Aid." NASFAA, (https://www.nasfaa.org/uploads/documents/NASFAA_FSA_Report.pdf)

servicing officer. The size, scope, and impact of loan servicing require a dedicated leader. The chief servicing officer should report directly to the COO.

- ***Provide the Office of Federal Student Aid With Adequate Staffing and Resources.*** A cornerstone of FSA's ability to fulfill its responsibility as gatekeeper of the federal student aid programs is its workforce. As our nation's higher education and student aid landscape continues to modernize, the agency must be equipped with a talented, skilled workforce that can evolve to meet the changing needs of students. NASFAA encourages the incoming administration to prioritize the staffing of FSA and develop a plan to attract and retain talented public servants.

#5 ACCOUNTABILITY AND TRANSPARENCY

- ***Consider the impacts of poorly-designed accountability proposals on low-income students and under-resourced institutions.*** While policymakers continue to emphasize the need for additional "skin-in-the-game" for institutions, schools already take on significant risk when dedicating scarce resources to students who have been deemed at-risk. Institutions admit at-risk students and provide remediation for students who need extra investment to benefit from higher education. In addition, colleges and universities provide — whenever possible — generous grant aid and participate in the campus-based aid programs, which entail risk-sharing in the form of institutional contributions and administrative expenses. A poorly designed risk-sharing model could end up hurting the same students the HEA is designed to support. Institutions have a vested interest in the success of their graduates, but to tie an institution to the repayment behavior of its former students can be problematic. Policymakers should take caution to avoid unintended consequences and perverse incentives for institutions that could incentivize serving fewer at-risk students than more. Instead, Congress should attempt to work within existing institutional risk-sharing parameters or consider "carrot" versus "stick" approaches to accountability if developing new models.

Conclusion

NASFAA is committed to working with the Trump administration and 119th Congress on systemic reforms to the federal student aid system. NASFAA looks forward to collaborating with all stakeholders on these policy recommendations to promote affordability and equity in higher education.

For more information about NASFAA's policies, advocacy, and research, visit NASFAA's website. Please email policy@nasfaa.org with any comments or questions.

About NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is the only national, nonprofit association with a primary focus on information dissemination, professional development, and legislative and regulatory analysis related to federal student aid programs authorized under Title IV of the Higher Education Act of 1965, as amended. Our membership consists of more than 29,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every 10 undergraduates in the United States. For more information, visit www.nasfaa.org.

The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues; and is committed to diversity throughout all activities.

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