



HOUSE OF REPRESENTATIVES II

College Funding

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Introduction

Since the university became an institution of higher learning in the 9th century, education has been a crucial factor in generating economic, social, and political progress for both the individual student and for society as a whole. Recognizing this, the English mathematician and philosopher Alfred North Whitehead once stated, “The task of the university is to create the future.” Originally an institution for the wealthy few, higher education has made a concerted effort in recent years to open the doors of learning to more socially and economically diverse populations. However, many economic obstacles still prevent young people from attending college.

In the United States, the government and students’ families work together to shoulder the economic burden of higher education. Across public and private universities, financial aid is available in the form of need-based and merit-based financial aid. The cost of attending public colleges can also be eased by federal and state **loans** and **grants**. Loans on college tuition have low, fixed interest rates. The federal government pays this interest rate fee for the majority of recipients while they are in school, and if recent graduates become unemployed or face economic distress, the government may even continue paying the interest for an additional period.

Under current law, parent borrowers must begin repayment of federal PLUS college loans 60 days after the disbursement of the loan. This places an immediate and urging burden on the families of the students, since, despite the economic help they receive by the state, they must quite immediately take action so as to repay it.

Nevertheless, this system is not perfect. From the complicated and burdensome application to the difficulty of funding such a huge investment, much improvement could be made in college funding. As members of the United States House of Representatives, it is up to you to produce bills that address these problems and help create better systems college funding. This is critical for enabling students, their families, and states to reach higher levels of education while maintaining economic stability.

Loan—*money lent at interest.*

Grant—*a sum of money that is bestowed; does not need to be paid back.*

Explanation of the Problem

History of the Problem

The first scholarship in American history was awarded in 1643 at Harvard University and was funded privately by Lady Anne Radcliffe Mowson. The funds she gave became the first scholarship at Harvard. To honor her contribution, the all-women portion of the university, Radcliffe College, was named after her.

The next most significant event in the history of financial aid came in 1862, with the *Morrill Act*, also known as the *Land Grant Act*. This statute gave federally-owned land to states, in order that they establish colleges offering programs in agriculture, engineering, and home economics, in addition to the traditional academic subjects. Colleges established on these properties are called “Land Grant Colleges.” In 1887, the *Hatch Act* added to provisions established by the *Morrill Act* by funding agricultural experiment stations for scientific research.

For the next hundred years, as the population rapidly expanded and spread across the United States, funding for education became ever more important. Recognizing the need for widespread education, President Franklin D. Roosevelt signed the *Servicemen’s Readjustment Act of 1944*, known also as the GI Bill. Among other benefits, the bill provided for college and **vocational** training for returning World War II veterans. The bill changed society’s beliefs about higher education by popularizing the idea that large numbers of people, especially those from middle-class backgrounds, could afford to attend college.

Vocational—training for an occupation or skill set.

College Scholarship Service (CSS)

In the 1950s, with endowments and scholarships growing at colleges across the country, it became necessary for colleges to **standardize** their methods for determining applicants’ financial need. Initially need was determined using a method that was developed by John Munro, Director of Financial Aid at Harvard College. However, this system was updated in 1954 with the creation of the College Scholarship Service (CSS) by a group of 95 private colleges and universities, mostly located in the Northeast. CSS developed a standard system of assessing a family’s ability to contribute to their children’s education, and its analysis system continues to be one way colleges gather information from families. The widespread use of CSS’s methods contributed to the prevalence of the philosophy that aid should be awarded on the basis of need.

Standardize—to bring into conformity with a standard.

Higher Education Act

During the 1960s, while US President Lyndon B. Johnson was fighting the nation’s War on Poverty, Congress began to implement leg-

islation that recognized how crucial education was to reducing America's **income gap**. Two key pieces of legislation were passed in this period: the *Economic Opportunity Act of 1964* and the *Higher Education Act of 1965*. The first bill developed the precursor to today's Federal Work-Study Program, which gives federal funds to schools to pay students for working part-time. The second bill, the *Higher Education Act*, formed the basis of current law authorizing federal student aid programs. It established federal scholarships for low-income undergraduate students and made clear the government's role in helping students secure loans. The law also created two new programs: the Educational Opportunity Grant Program and the Guaranteed Student Loan Program. Most of the laws currently used to govern student fees were first established in the *Higher Education Act*.

Income gap—large difference in levels of income between different segments of society.

Federal Pell Grant Program

This act responded to the **disparity** of funding among institutions by creating what is now the Federal Pell Grant Program. This program awards **Pell Grants**, which are federal grants sponsored by the US Department of Education, based on results of a financial need formula. These Pell Grants are intended to serve as the foundation for a student's financial aid; the federal government provides for some basic amount, and schools add on top of this total. In the 1980s, the federal government expanded the goals of the Pell Grants to include aid for middle-income families. With the passage of the Higher Education Amendments in 1980, Congress established the Parent Loan for Undergraduate Students (PLUS) Program. This allowed middle-income families to borrow \$3,000 a year for each dependent child in school regardless of family income.

Disparity—markedly distinct; composed of fundamentally different elements.

Pell Grant—a type of educational grant program sponsored by the US Department of Education.

Higher Education in the Reagan Administration

During President Ronald Reagan's administration, many federal programs were scaled back, including programs for higher education funding. The Higher Education Amendment of 1986 restricted students' eligibility for federal educational loans. They limited PLUS Loan Program eligibility to parent borrowers, thus preventing independent students from applying for loans under this program. They also established limits on eligibility for Pell Grant funds, restricting funds to apply only to a certain number of years of college rather than paying for all four years. Between 1987 and 1992, Congress also took Pell Grant eligibility away from students who were enrolled in college as less-than-half-time students.

Events of the 1990s

Throughout the 1990s, the overall trend was an increase in federal support for college tuition. Congress returned Pell Grant eligibility

to less-than-half-time students. In 1992, more Higher Education Amendments were passed. Among these are provisions to use one need analysis method through an application called the Free Application for Federal Student Aid (FAFSA). The FAFSA helps streamline the process of determining eligibility for federal student financial aid, including Pell Grants, PLUS loans, and work-study programs. These amendments also removed PLUS loan limits and allowed the Department of Education to provide student loans directly through schools. They also clarified the purpose of the Federal Work Study Program by adding a community service component to the jobs for which the federal government would pay. In 1997, the *Tax Payer Relief Act* established new tax credits for higher education, including the HOPE Scholarship Tax Credit which gave up to \$1,500 in tax credits for each of the first two years of college. This also allowed interest paid on education loads to be tax deductible. The bill allowed for greater flexibility for families saving in state pre-paid tuition plans.

Recent Developments

In the new millennium, Congress has passed a number of laws that reduce **fraud** and cut costs. However, other cost-saving measures were more harmful for students. For example, in 2005 the *Higher Education Reconciliation Act* cut \$12.7 billion from student aid and raised fixed interest rates on student loans from 6.8% to 8.5%. In 2007, the New York Attorney General accused many loan lenders and college financial aid programs of illegal sharing of agreements and referrals. Afterwards, a new code of conduct was passed to prevent **collusion** by loan lenders and college financial officers. Additionally, many prominent financial aid administrators and US Department of Education officials were removed from their positions.

Fraud—*deceit; intentional manipulation of the truth.*

Collusion—*secret agreement or cooperation, especially for an illegal purpose.*

Congressional Action

H.R.2669 College Cost Reduction and Access Act

The College Cost Reduction and Access Act became law on September 7, 2007, and the bill passed by a vote of 79-12 in the Senate and 292-97 in the House of Representatives. This bill established the largest increase in federal student aid since the GI Bill, and it did this at no cost to taxpayers, as its funds come from cutting payments to lenders. This legislation also increased the maximum amount of funds available under Pell Grants from \$4,310 in 2007-2008 to \$5,400 in 2012-2013. It also cut interest rates on **subsidized** loans in half and added public service loan forgiveness. It also cut out some questions from the FAFSA, making the application process easier. The Department of Education

Subsidize—*a grant to assist an enterprise deemed advantageous to the public.*

also announced that it would stop mass distribution of the paper form and would encourage use of the online form, as a cost-saving and waste-reducing measure.

H.R. 4137 College Opportunities and Affordability Act of 2007

This 800-page bill sought to lower tuition costs and streamline the financial aid process. Its provisions create new penalties for states that cut their budgets for institutions of higher education. In addition it also includes protection for student loan-takers, proposals to make textbooks more affordable, and options for expanded funding for low-income students. Interestingly, it also has a provision requiring colleges to develop a plan to block **peer-to-peer file sharing** and illegal downloading of music and other forms of media. The bill passed both houses of Congress and was also signed into law by President Bush.

Peer-to-peer file sharing—*providing and receiving digital files over a computer network.*

H.R. 5715 Ensuring Continued Access to Student Loans Act of 2008

Due to the turmoil in the US **credit markets** over the few months before this bill's passage, some lenders have had difficulty guaranteeing student loans. These loan companies face problems securing the capital needed to finance college loans, which had caused some lenders to lessen their lending activity. While no student or college had reported any problems accessing federal student aid, the federal government **preemptively** decided to make sure that regardless of events in the credit markets, students and families would continue to have access to federal loans. The bill was signed into law on May 7, 2008, and passed with wide margins in both houses. In regards to this act, chairman of the House Committee on Education and Labor George Miller and Senator Edward Kennedy said, "Although we are hopeful that the overall credit market conditions will soon improve, the Congress recently enacted legislation to make sure that students and parents continue to have access to all the federal student loans for which they are eligible, regardless of financial market conditions. We believe that this information will be critical as we monitor both the implementation of this new law and this administration's efforts to protect the best interests of students and families working hard to pay for college."

Credit market—*a financial market where participants buy and sell securities.*

Preemptively—*taking preventive action against something anticipated.*

Focus of the Debate

Liberal View

The liberal view, which is the predominant stance in the House Committee of Education and Labor, considers education a crucial aspect of society and believes that college affordability needs to be reformed. As such, liberals are willing to go to greater extremes to ensure that all Americans have access to higher education. Liberals would support leg-

isolation to target minorities who are not adequately supported in their financial aid packages and would also support initiatives that increase the numbers of minority students who attend college. They argue that improving subsidies for higher education is critical to attracting minorities to universities. Specifically, some Democrats are calling for a greater involvement of the state in both facilitating and monitoring these processes. Additionally, in regards to student loans, liberals try to limit the involvement of private lenders and banks to give greater freedom to students. This could be achieved by working with universities directly to determine loan packages rather than going through third-party lenders.

Conservative View

Republicans believe institutions must be held more accountable for their roles in escalating college costs. Therefore, rather than enacting legislation targeting lenders or students themselves, they call for a higher and more direct control of colleges in an effort to offer **transparency**. They propose more clarity in the financial aid process and hold individual institutions more accountable for steadily rising education costs. They also want to establish a Government Accountability Office to study the policies currently used by schools to enhance affordability.

Transparency — something that is sheer enough to be seen through; something that is free from pretense or deceit.

Presidential View

President Obama has expressed great concern about the rising cost of college for American families, especially because he also recognizes the importance of higher education. He has stated that we must address the problem of college affordability, citing a statistic that “between 2001 and 2010, 2 million academically qualified students will not go to college because they cannot afford it.” To solve this problem, President Obama has several proposals to make higher education more affordable.

One of the proposals that President Obama has made is what he has called the American Opportunity Tax Credit. Obama wants to offer a fully refundable, annual tax credit to pay for the first \$4000 of college expenses. For the average American student, this would pay for two-thirds of a year of college tuition, and would pay for all the tuition at an average community college. Obama proposes that this tax credit be based on the previous year's tax returns, which would make the funds available for families at the beginning of the school year.

Additionally, President Obama supports expanding Pell Grants for low-income students. As a senator, Obama's very first bill was the HOPE Act (Higher Education Opportunity Through Pell Grant Expansion Act), which would have increased the maximum Pell Grant from \$4,050 to \$5,010. [2] Because the HOPE Act did not pass, the President might be very interested in bills that offer similar reforms in a new Congress. On the issue of student loans,

President Obama wants to end government subsidies to the Federal Family Education Loan Program, which provide students and their families with expensive student loans. Instead, Obama wants to redirect this money into the publicly funded Direct Loan system, which provides lower cost loans for students.

President Obama wants to eliminate the Free Application for Federal Student Aid (FAFSA), which is five pages and 127 questions long. Instead, students would become eligible for aid simply by parents checking a box on their federal tax form.

In order to better prepare high school students for college, the President wants to provide \$25 million annually in matching funds for states to develop a college early assessment program; this means that the federal government will match the amount of money that states contribute to this program, up to \$25 million. These programs allow students to voluntarily take an exam in the 11th grade to measure their college readiness, so that they will have time to improve any skills in which they need improvement.

President Obama wants to create a Community College Partnership Program, which would reward junior colleges that graduate more students and increase the number of transfers to four-year schools. In addition, this program would provide grants to community colleges to research the kinds of jobs and skills that are most in demand by local industry, and to implement degree programs that meet these demands.

Finally, President Obama also supports the proposed Development, Relief and Education for Alien Minors (DREAM) Act, which would make college education more accessible to children of undocumented workers who have been in the U.S. at least since the age of 15. Upon high school graduation, the DREAM act would require these students to earn a two-year degree or at least two years of a four-year degree, or to serve for two years in the military. Young people would have six years to complete these requirements, and would be eligible for student loans and work study, but not Pell Grants, during this time period.

NGO Perspectives

College Lobbyists

College lobbyists seem to oppose the **bureaucracy** that is proposed by Congress to ensure the protection of students. As one member of a higher education lobby reports, “It’s pretty clear that the House Committee wants to impose a significant number of new reporting burdens on colleges and universities and extensive new record-keeping requirements on the Education Department. Schools will not be compensated for the costs associated with the new mandate, and the department will not be given new staff to manage the effort at their end.... Increas-

Bureaucracy—a system of administration that is characterized by strict rules and a hierarchy of authority.

ing federal mandates on institutions increases the cost of doing business and, unfortunately, those costs are passed on to consumers.” College affordability reform definitely concerns individual students and their families, but there are also institutions that should be taken into account when finding solutions to this issue.

National Education Association

The National Education Association is deeply concerned with the increasing college costs and seeks further reforms in the system to protect students and higher education as a whole. It offers various programs and applications that parents and students may use to help reduce their debts and improve their efforts to pay for college tuition. For example, they inform parents of the possibility of attending a program called Income-Based Repayment. This will be available starting July 1, 2009, and will provide a formula that takes a person's income-to-debt ratio into account. That means a borrower will never have to pay more than 15% of his or her **discretionary annual income** towards student loan debt. The general opinions and visions of the NEA should be considered while addressing the issue.

The Consumer Bankers Association

The Consumer Bankers Association is also concerned about the constant reforms made on the loan system. Bankers **decried** the House proposal, which they warned would chase lenders out of the student loan programs. As Joe Below, President of the Association, states, “The House package of budget cuts is an anti-student bill in pro-student clothing. It increases grants but jeopardizes the stability of the student loan program relied on by approximately eight of every ten students attending U.S. colleges and universities.” According to this group, loan availability could become **tenuous** as a result of the combination of a dramatically lower return coupled with significantly increased risk.

Discretionary annual income—one's yearly income after subtracting taxes and the cost of essential goods, such as food, clothing, and housing.

Decry—to express strong disapproval of.

Tenuous—lacking substance or strength.

Possible Solutions

One potential solution to the problems of college affordability and loan debts is to create committees to monitor and regulate prices and advise students about their options. Another option would be to increase the involvement of the federal government in fixing the cost of tuition. Democrats Miller and Kennedy also asked the Department to increase its efforts to prepare the **lender of last resort program** and to help schools transition from the Federal Family Education Loan Program (FFELP) into the Direct Loan Program. Additionally, actions that the federal government could take to safeguard federal student loans without increasing costs to taxpayers should be considered.

Lender of last resort program—an institution that will extend credit when no other will.

Questions for Policymakers

While preparing a bill, delegates should keep in mind key questions to help them focus on the main issues. For example, should there be greater federal involvement in the establishment of college prices? If not, how can the federal government ensure that students who face immense economic obstacles can still attend college? Should the federal application for loans be modified or even eliminated? Is an increase of the federal loan limit desirable? What system of advice should be in place to help students and their families make the best decisions for their futures?

Conclusion

This is hardly an easy topic, and there are many different viewpoints that should be closely examined. College affordability has been keeping students from attending state colleges and has been placing great financial burdens to their families. Additionally, the application for federal loans has been deemed rather unsuccessful, so its reform may be necessary. The loan system itself may also be subject to reform in order to address the diverse economic backgrounds of the families. The relationship between colleges and federal government also needs clarification, particularly in regards to which body is responsible for determining tuition rates. As college education is a central aspect of one's life, it is a very important issue that merits serious consideration.

Guide to Further Research

College affordability is quite a complicated topic, as it has lofty goals of expanding coverage to more students while simultaneously facing increasingly limited federal funds. However, it is by no means an **incomprehensible** issue. Here are some suggested websites to use as a springboard for your research.

- www.edlabor.house.gov

This is the website of the House of Representatives committee on education and labor. A good start would be looking into the bills that have been passed so far about this topic. This will give you a better idea of the progression of the issue and flaws of past solutions, which can help you come up with more effective and cohesive plans.

Incomprehensible—
impossible to understand.

- <http://www.collegeaffordability.net>
This is the website for the **Center for College Affordability and Productivity**. This website can be really helpful to show you different ideas and plans for the US system. Also, it offers perspectives from foreign countries, which may spur your creativity in solving the domestic problems for financing higher education.
- <http://www.insidehighered.com>
This non-partisan website presents articles arguing for both liberal and conservative sides of college affordability. This would be an excellent resource for researching your party's perspective and may also contain information about your particular role.
- http://www.nea.org/nea_today/blog/index.html/1202139965206.html
This is the website of the National Education Association, an organization that has strong opinions about the benefits and disadvantages of past and current systems of tuition and applications. You can get ideas and non-governmental opinions from this website.
- www.help.senate.gov
This is the website of the Senate Committee on Health, Education, Labor and Pensions. Take a look at opinions of Senators who have supported the passed bills as well as those who have expressed their dissatisfaction about the strategies that have so far been followed. This will give you broader perspective on the issue, which will be helpful when presenting possible laws before the Senate during Congressional Full Sessions.

Center for College Affordability and Productivity—an organization whose goal is to improve the levels of higher education in the United States and internationally.

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