

A Study of the Federal Financial Aid Programs
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by

Daniel, N, Shields
School of Education
Capella University
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Address:	77 Lori Drive
City, State, Zip:	Milford, CT 06460
Phone:	203-556-1419
E-mail:	DShie24601@aol.com
Mentor:	Shawn Fitzgerald, Ph.D.
Member:	Cheryl Doran, Ph.D.
Member:	Beazley Jackson, Ed.D.

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QUESTION 1

The Title IV Financial Aid Program is the most prevalent source of student funding in higher education today, yet thousands of students default on their student loans each year. Compare and contrast the cohort default rates of proprietary, private not-for-profit, and public institutions over the last four years. What possible inferences can be made to help explain the gaps between the three types of institutions? If there are differences in default rates, present a discussion supported by research literature explaining why one type of institution is more successful than others. Discuss the consequences for schools with high default rates.

Introduction

The Title IV Financial Aid Loan Program was designed to enable all individuals the opportunity to achieve their educational goals. Billions of dollars flow through this program on a yearly basis (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). The program does succeed in allowing those who may not have had the opportunity to fulfill their dreams of a quality education to do so. However, there are times when borrowers default on their student loans.

This loan program was designed to allow lending institutions to provide a low-interest loan to students. According to the Student Financial Aid Handbook (2003), the Title IV educational loan program can actually have four layers to it. First, the lending institution is lending the money to the individual. Second, the loan servicer collects the loan when it becomes due (the loan servicer and lending institution can be the same entity, although often they are not). Third, the guarantor guarantees the loan against default. Should the borrower default, the lender still gets paid, only now by the guarantor rather than the borrower. Finally, the United States government backs all of these loans, so it is ultimately the government that absorbs the losses attached to defaulted student loans (Default Management – Frequently Asked Questions, 2003).

It is clear that there are different layers to the Title IV educational loan program. However, despite all of these layers, it ultimately comes down to the fact that these are government loans and the government has established a strict criteria for all individuals and entities taking part in the program. Thus, there are consequences for borrowers that default on these loans as well as schools, colleges, and universities that have a high rate of students that default on their loans. The consequences for individuals that default on their student loans are severe. The Department of Education has instituted several penalties for anyone defaulting on a student loan. These penalties include the fact that the Guarantee Agency (agency which pays claims on defaulted loans) will report the default to the national credit bureaus; the loan becomes due in full; the borrower loses the right to obtain deferments or forbearances; the Guarantee Agency may turn the account over to a professional collection agency; the borrowers wages may be garnished; the Guarantee Agency can seize the federal tax refund for the borrower; the Guarantee Agency can add collections costs to the loan; the borrower becomes ineligible to receive any additional federal or state Financial Aid should the borrower decide to return to school; the borrower can be sued by the Guarantee agency or the U.S. Department of Education; the borrower can be denied employment with federal, state, or local government agencies and current employment with such agencies can be terminated; and finally, the borrower can be denied a professional license required for certain professions (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). It is certainly apparent that the United States Department of Education has instituted strict penalties for defaulters. The hope is that these severe penalties will lead to an improved default rate.

Examination of the Three Categories of Institutions that Receive Title IV Financial Aid

There are three categories of institutions that are eligible to receive Title IV Financial Aid. In examining the trends in default rates, one must first look at distinctions between these different categories of institutions. When evaluating qualifying criteria for providing financial support to students, the Department of Education has established three categories of higher education institutions: public institutions, private not-for-profit institutions, and private for-profit institutions. In order to be eligible for Title IV tuition support dollars, the Department of Education requires an institution to demonstrate financial responsibility, but each category of institution a different standard for financial responsibility. A public institution is one that shows financial responsibility simply by being backed by a state or government entity. A private not-for-profit institution simply needs to show that it is not losing money at any significant rate. As private not-for-profit institutions of higher education are not in the business to make money, it is not difficult for them to show financial responsibility. They simply must show that the institution is not in any immediate financial danger. Finally, a private for-profit institution must show that it is profitable. It does so by meeting a minimum composite score based upon the following factors: equity, expenses, assets, income, and total revenue. This calculation is done on a yearly basis (U.S. Department of Education – Student Financial Aid Handbook, 2003). So, this is how the Department of Education distinguishes between institutions for purposes of measurement pertaining to default rates.

Cohort Default Rate Trends at the Three Categories of Institutions

In examining the cohort default rates of these three categories of institutions over the last four years one begins to see trends emerging. Cohort default rates are approximately eighteen

months behind calendar years. Therefore, the most recent default rates are from the cohort default year of 2001 (U.S. Department of Education – Student Financial Aid Handbook, 2003). The default rates of institutions are made public in September/October of a given year.

There are certain trends that those in the Financial Aid community are well aware of. These three different types of institutions have always finish in the same order of highest default rate to lowest default rate since the government began tracking this in the 1980's. The category of institution with the highest default rate is always the private for-profit institutions. The category with the next highest default rate is the public institution. Finally, the category of institution with the lowest default rate is the private not-for-profit institution (Official Cohort Default Rates for Schools, 2003). Throughout this paper, default trends for each type of institution will be examined. Then, inferences will be made as to why the private for-profit institution is always the most successful, while the public institution always falls second, and the private not-for-profit institution is always last.

Summary

In summary, defaults on federal student loans happen each year and these defaults cost the American taxpayer millions of dollars each year. To help identify the greatest offenders, the Department of Education has developed a mechanism to track student loan defaults both at the school level as well as the national level. This is a crucial step to the success of the Title IV Financial Aid Program. The Department of Education also breaks down schools by three basic classifications: public institutions, private for-profit institutions and private not-for-profit institutions. Since the government began tracking default rates, the private not-for-profit institutions have always had the lowest default rates. The private for-profit institutions have

always had the highest default rates, while the public institutions remain in the middle (Official Cohort default Rates For Schools, 2003).

Introduction to Gaps Between various Types of Institutions

Inferences will be made as to why these gaps exist and furthermore why one type of institution is more successful than others. In order to better understand the default rates among various institutions, the cohort default rates from the last Fiscal Year of 1998-2001 will be examined in depth and inferences will be made as to reasoning behind any changes in default rates as well as the rank order among different institutions.

Cohort Default Rate - 1998

In 1998, there were 1,863 public institutions of higher education in the United States. Of these, 201 institutions were less than two years, 1,016 were two-three years, and 646 were four years plus (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). These figures make up the public institutions in the United States.

In 1998, there were 2,047 private not-for-profit institutions in the United States. Of these, 122 were less than two years, 357 were two-three years, and 1,568 were four years plus (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). This makes up the private not-for-profit institutions in the United States.

In 1998, there were 2,580 private for-profit institutions of higher education in the United States. Of these, 1,678 were less than two years, 753 were two-three years, and 149 were four years plus (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). This makes up the private for-profit institutions in the United States.

In summary, the following is clear: private for-profit institutions had the majority of schools in the category of less than two years. Public institutions had the majority of schools in the two-three year range. Finally, private not-for-profit institutions had the market on schools that are four years plus (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003).

The formula for determining a default rate is fairly simple. For a cohort default year, you simply take the number of borrowers that have defaulted on their loans and divide that by the number of borrowers that entered repayment (U.S. Department of Education – Student Financial Aid Handbook, 2003). For example, if you have 1,500 borrowers that have defaulted of the 10,000 borrowers that entered repayment, the default rate would be 15% ($1500/10000 = 0.15$ or 15%). This is an important observation to make. Default rates are not measured by dollars, but by numbers of defaulters. This is critical when examining default rates for the three categories of institutions of higher education: less than two years, two-three years, and four years plus. It is ironic, but often schools with the largest default dollars do not necessarily have the largest default rates. In addition, institutions with the largest number of defaulters do not necessarily have the highest default rate.

The default rates for the cohort year of 1998 were as follows: private not-for-profit institutions 4.7%, public institutions 6.9%, and private for-profit institutions 11.4% (Briefing on National Default Rates, 2003). So, if you simply looked at default rates based on the department of education formula, it clearly points to private for-profit institutions being the worst offender. This is a continuing problem that private for-profit institutions struggle with on a regular basis.

Cohort Default Rate Data - 1999

These default trends continued throughout the next three cohort years. In the 1999 cohort default year, the default rate for public institutions lowered from 6.9% to 5.6% or a change of 1.3%. The cohort default rate for private not-for-profit institutions lowered from 4.7% to 3.8% or a change of 0.9%. Finally, the default rate for private for-profit institutions lowered from 11.4% to 9.3% or a change of 2.1% (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003).

Cohort Default Rate Data - 2000

In 2000, the default rate of public institutions went up from the previous year's default rate. It rose from 5.6% to 5.9% or a change of 0.3%. In the private not-for-profit institutions, the default rate raised from 3.8% to 4.0% or a change of 0.2%. Finally, the default rate for private for-profit institutions rose from 9.3% to 9.4 or a change of 0.1% (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003).

Cohort Default Rate Data - 2001

In 2001, default rates went to an all-time low. The national default rate was 5.4%. For public institutions, the default rate lowered from 5.9% to 5.3%. In private not-for-profit institutions, the default rate lowered from 4.0% to 3.5%. Finally, in private for-profit institutions the default rate lowered from 9.4% to 9.0% (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003).

Summary

One can see the changes that occur in default rates at each type of institution do not change the rank order. While each type of institution generally has experienced improvement,

the rank order of each institution continues to remain the same. Private not-for-profit institutions continue to have the best average default rate while the private for-profit institutions continue to have the worst. Public institutions have maintained their status in the middle of the group.

Explanations for Default Rates at Different Types of Institutions

The different types of institutions are often looked at for collective default rates. Many pose the question as to why private not-for-profit institutions always have the lowest default rate. Public institutions are always second. Private-for-profit institutions are always the worst.

Dynarski (1994) listed the four risk factors that are associated with high default rates. These risk factors include student who (1) are Black (2) are independent (3) are from low-income families and (4) do not have traditional high school diplomas. These risk factors are important characteristics when studying student demographics and trends in default rates at various types of institutions.

In the 1995-96 Financial Aid Award Year, 17% of borrowers attending less-than-four year, for-profit institutions had none of the four risk factors as defined by Dynarski (Phipps, Harrison, & Merisotis, J., 1999). This would point to the fact that a large number (83%) had at least one of the four risk factors.

In contrast, for the same Financial Aid Award Year of 1995-96, 30% of borrowers at less-than-four year, not-for-profit institutions did not have any of the risk factors associated with defaulters (Phipps, Harrison, & Merisotis, J., 1999). This group could either be public or private not-for-profit institutions. It is clear that there is a large difference in the percentages from the different types of institutions.

Furthermore, in the 1995-96 Financial Aid Award Year, 50% of borrowers at private not-for-profit institutions had at least two or more of the risk factors associated with defaulters (Phipps, Harrison, & Merisotis, 1999). These risk factors contribute to high default rates, particularly among the private for-profit institutions.

Dynarski's (1994) study proved to be a comprehensive document in examining default rate trends. In addition to listing the four risk factors associated with defaulters, the author described the three key results from the descriptive analysis that was done. The top result was that borrowers who come from low-income households and minority groups, high school dropouts, and borrowers who attend proprietary schools and two-year colleges were more likely to default on their student loan payment than others. The default trends since this study was conducted have certainly been consistent over the past ten years. In addition to identifying risk factors associated with borrowers who default on their student loans, the author has identified the type of institutions that likely to produce a high number of defaulters. The private for-profit institutions have been identified as well as public or private two-year colleges as being institutions more likely to produce a higher number of defaulters than other types of institutions.

Default Rates Among Public Two-Year Colleges

Traditionally, colleges of two years or less have grown a reputation for having poor default rates. These colleges generally offer Diploma, Certificate, and Associate's Degree Programs. Year after year, this type of school has had the highest default rates on the national level. It is important to note that generally two-year colleges are either in the category of private for-profit institutions or public institutions. The community college system across the United States continues to remain a major presence in the educational system (U.S. Department of

Education – National Default Prevention Day, 2002). In addition, there are several career schools that are classified as private for-profit institutions. These schools often offer accelerated Associates Degree Programs and make up a large percentage of the private for-profit institutions (Briefing on National Default Rates, 2003).

In 1997, it was stated that nineteen two-year colleges could possibly lose access to federal financial aid programs because of unacceptably high student loan default rates (Dervarics, 1997). As mentioned earlier, losing federal funding generally results in the closing of a school. Dervarics continued that fifteen colleges would lose eligibility to participate in federal student loan programs due to the fact that these institutions had default rates of 25 percent or higher for three consecutive years. In addition to these schools, six other schools faced expulsion from the student loan program due to a default rate of 40% or higher for one year (Dervarics, 1997). It is clear that in the calendar year of 1997, two-year schools were at the forefront for bad default management techniques. Improvements would have to be for this type of institution and indeed these improvements have been made over the past few years.

In October 2001, default rates for two-year colleges had greatly improved. Dervarics stated that two-year colleges were making improvements, as are all types of post-secondary institutions (Dervarics, 2001). The national default rate has steadily gone down over the past ten years (with the exception of one year). However, the default rate for two-year colleges had not shown as significant improvement as the other types of institutions until more recently.

Public as well as private two-year institutions continued to make strides in the right direction. Dervarics explained that public two-year institutions had a default rate of 8.8 percent on student loans for 1999 as reported by the United States Department of Education. This was

down from the 10.7 percent recorded in 1998 and 12.7 percent in 1997 (Dervarics, 2001). In the eyes of the department of Education, it is a significant accomplishment to have a default rate of fewer than 10% and additional privileges are given to schools that can accomplish this for three consecutive years (Student Financial Aid Handbook, 2003).

Private institutions also had a very significant improvement. Dervarics explained that among private two-year institutions, the 6.6 percent default rate recorded for the fiscal year of 1999 was down nearly two percentage points from the previous year. Private two-year institutions had a default rate that reached 11 percent in 1997 (Dervarics, 2001). It is clear that private two-year institutions are also making significant improvements in lowering their default rates.

Summary

It is clear that two-year schools, either private for-profit institutions or public community colleges have shown great improvements in default management over the last few years. However, it is still apparent that default rates among these institutions remain higher than the national average. For this reason, private for-profit institutions as well as public institutions continually remain behind private not-for-profit institutions in terms of rank order for default rates.

Consequences for Inflated Default Rates

One of the remarkable things about the calendar year of 2003, which covered the fiscal year of 2001 was that not one school was penalized due to a high default rate. In the late eighties and early nineties default rates on student loans had reached an all-time high. The national cohort default rate for the fiscal year of 1989 was 21.4% and for the fiscal year of 1990 it reached

22.4% (Briefing on the National Default Rates, 2003). The United States Department of Education knew that something had to be done. There had to be a stiff punishment in place for the schools that were the worst offenders. Thus, the following was put into place:

The first punishment was that a school with a default rate of 25% or greater for three years would lose eligibility in the Title IV Financial Aid Program. The regulation declared that a school would become subject to loss of eligibility to participate in the Federal Family Education Loan (FFEL) Program, William D. Ford Federal Direct Loan (Direct loan) Program, and/or Federal Grant Program should the official cohort default rates be 25% or greater for three consecutive years (National Student Loan Default Rates, 2002). There was also a provision put into place that a school could appeal this sanction. However, if the appeal was not successful then the school will lose its Title IV eligibility for a certain time period.

The second punishment was that any school with a default rate of 40% or greater for one year would also lose eligibility in the Title IV Financial Aid Program. The regulation declared that a school would be subject to loss of eligibility to participate in the Federal Family Education Loan (FFEL) Program and/or William D. Ford Federal Direct Loan (Direct Loan) Program should the school have an official cohort default rate greater than 40 percent for one year (National Student Loan Default Rates, 2002).

So, these stiff penalties were put into place to encourage proper default management among schools. Any schools that did not take these guidelines seriously would be disqualified from participation in the Title IV Financial Aid Programs. Often times, this would mean that a school would have to close as it could not sustain itself without Title IV funding. So, in reality this often meant the end for schools that did not effectively manage their default rates.

In 1993, 402 schools were affected by the 25% or higher sanction. This number rose to 642 in 1994. These were two turbulent years for schools as some schools were behind the curve of new default management techniques. Over one thousand schools were affected by these sanctions levied by the United States Department of Education. Since then, the number of schools affected by this sanction has certainly leveled off. In total, the number of schools affected by this sanction since the fiscal year of 1991 is 1,161 schools. Ironically, over one thousand of these schools experienced the sanction for that two-year period of 1993-1994. In 2003, the United States Department of Education released the data for the 2001 fiscal year and it was announced that not one school was affected by the sanctions imposed for having a default rate of 25% or higher for three consecutive years (Briefing on National Default Rates, 2003). That is fairly remarkable considering 642 schools were affected just nine years earlier.

Summary

In summary, it is critical for schools to recognize the negative consequences for having poor default rates. Knowing these consequences can help motivate schools to quality default prevention. It is equally important for schools to recognize the keys to success. These keys will inevitably help them improve default rates. In addition, these keys help us to see why one type of school has experienced more success in the past while other institutions have not.

Five Key to Success - Introduction

Knowing and understanding the consequences for unacceptably high default rates is important for all types of institutions. The Department of Education has set these standards so that students do not abuse loan default as they have in the past. In addition to giving consequences for negative results, the Department of Education also gives tips for schools to

retain a successful default rate. Specifically, the Department of Education gives what it has determined to be the five keys to success.

The successes of default management programs have been evident over the past decade. The United States Department of Education was proud to release the 2003 national default rate of 5.4 (Fiscal Year 2001). This was the lowest default rate since the Department of education began tracking this statistic (Cavanagh, 2003). Ultimately, the success of these programs can be attributed to a successful partnership between schools, lenders/servicers, Guarantee agencies, and the Department of Education (Briefing on the National Default Rates, 2003). In a briefing released by the Department of Education on September 16, 2003, the Department listed the five keys to the success of improved borrower accountability.

In determining why one type of institution is more successful than another, it is important to explore the five areas that the United States Department of Education has deemed critical to any successful default management plan. These areas include communication, technical assistance, risk analysis and assessment, aversion tools, and program integrity (Briefing on the National Default Rates, 2003). These are all critical areas that the United States department of Education has labeled as key areas to a successful default management plan.

Five Key to Success - Communication

The first key was communication. The Department offered that schools should increase borrower contact and take part in National Default Prevention Day (Briefing on the National Default Rates, 2003). This is critical to achieving a successful default management program. First, one must keep constant communication with the borrowers. Often times, borrowers default on their loans because schools and lenders lose contact for a variety of reason. One must keep a

constant contact with borrowers in order to be able to ensure that these borrowers are living up to their responsibilities. The Department of Education also strongly encourages schools to attend default prevention day. This is an event that the department holds once a year in various cities simultaneously to ensure that all schools are given the chance to represent themselves. On this day, there are many speakers and activities that strategize new and improved ways to achieve a successful default management plan at the school level.

So, it becomes incredibly important to increase communication with borrowers as well as with other Financial Aid Professional. In previous years, the department of Education has not experiences a high volume of attendance from the private for-profit sector, which not coincidentally scores the poorest default rates each year (Default Prevention Day, 2002).

Five Key to Success –Technical Assistance

The next key to success was technical assistance. The Department offered should seek the following technical items: Cohort Default Rate Guide, Default Aversion Sessions and National Handbook for Best Practices (Briefing on the National Default Rates, 2003). All Schools are mandated to have a default management plan (Student Financial Aid Handbook, 2003). In order to be able to have a successful default management plan, schools require a high level of technical assistance. The Cohort Default Rate Guide is designed to provide individuals with a guide ranges from basic principles of default management to some of the more complex strategies for default management. The guide serves as a reference tolls for individuals to refer back to as basic needs arise. Default Aversion Sessions are designed for individuals to make suggestions for improving default strategies. It is really a brainstorming process that will educate individuals on not only what has worked in the past, but also what may work in the future. Finally, the National

Handbook for Best Practices is simply a document that lists the proven practices of default management. It includes processes that have worked in the past and explains why these are sound default management techniques.

In the past, institutions have complained that they simply do not have the resources for some of the technical default resources. This was particularly true for private for-profit and public institutions. As a result, default rates have suffered. In an effort to combat this, the Department of Education has stepped to the forefront and provided additional resources to schools at no cost (Default Prevention Day, 2002).

Five Key to Success – Risk Analysis and Assessment

The third key to success was Risk Analysis and Assessment. This may be the most important key to success of all. The Department offered that schools should use Data Mining and Portfolio Analysis (Briefing on the National Default Rates, 2003). This is critical to the success of any default management plan. One has to assess a student's ability to pay as well as the student's past history with managing debt. Understanding a student's potential to default is critical for an institution's ability to effectively predict future default rates and develop strategies to minimize potential risks.

Data Mining as described by the Department of Education may be the most important key to a successful default management plan. This area assesses a potential student's ability to pay as well as closely looking at the student's ability to manage debt. This is certainly an area that private for-profit schools have struggled with in the past. A group of new students brings the potential for additional revenue. However, the Department of Education now expects schools to

do a better job of screening potential students who could have a high probability of defaulting on their student loans (Default Prevention Day, 2002)

Five Key to Success – Aversion Tools

The fourth key to success was Aversion Tools. This is simply assuring that a potential student understands his/her rights and responsibilities as a borrower. The Department offered that improved entrance/exit counseling, more flexible repayment options, customized repayment plans, and electronic billing and payment (Briefing on the National Default Rates, 2003). The first item is crucial to a successful default management plan. The Department of Education requires that all students must go through exit and entrance counseling in order for a school to remain in compliance with the Title IV Financial Aid Program. The entrance counseling sessions includes the student rights and responsibilities as a borrower. It includes such items as terms of repayment, deferment and forbearance options, and consequences for failure to make payments. In addition to receiving this counseling, the student is tested on what he/she has been counseled on. The point of this is to ensure that what the student has learned has indeed sunk in and that the student understands the entire loan process. A student also has to go through exit counseling at a certain point in the borrower's academic career. This occurs when a student completes a program of study, withdraws from a program of study, or falls below half time in a program of study. The exit counseling session is similar to the entrance counseling session. It is designed to be a refresher course in the student's rights and responsibility as that student prepares to move into the repayment phase of the student loan.

It is also critical to give the borrower flexible repayment options. Lenders and Servicers are most certainly willing to work with borrowers to ensure that these borrowers successfully

fulfill their repayment obligations. In today's technical age, it is critical to give students the convenience of electronic billing and paying which many Lenders and Servicers have developed as options for students. This not only keeps the student happy and current with their payments, but it also improves cash flow for the Lenders and Servicers.

Aversion tools are another area that can vastly improve an institution's cohort default rate. It is crucial for students to understand their rights and responsibilities as borrowers as well as their options for repayment (Student Financial Aid Handbook, 2003). Public institutions were often guilty of not giving their students proper counseling due to the size of some of these institutions. The Department of Education expects significant improvement in third area fro all types of institutions, particularly public institutions with better entrance and exit counseling as well as explaining all repayment options to borrowers (Default Prevention Day, 2002).

Five Key to Success – Program Integrity

Finally, the fifth key to success was Program Integrity. A successful program is going to lead to successful student and borrowers. The Department offered that strategic identification and intervention would lead to improved default rates (Briefing on the National Default Rates, 2003). If these entities are going to be successful, they must recognize problem and intervene when necessary. Resolutions should be prompt and thorough. This proactive approach can ensure that the national default rate does not return to the inflated numbers that the Department of Education experiences in the early 1990's. Overall, these five steps performed successfully will most certainly lead to improved borrower account ability. However, as effective as these keys to success may be, they do not make up for the problems in the methods behind the computation of default rates.

This is an area that is not always looked upon in terms of default management, but it really should. The early 1990's marked record high default rates, particularly for private for-profit institutions (Default Prevention Day, 2002). One of the causes for this was that there were many private for-profit institutions that were not producing a quality educational product and thus student were not paying back their student loans. Often times, schools discontinued programs or shut down entirely (Default Prevention Day, 2002). This led the department of Education to closely examine the integrity of programs. For private for-profit institutions, graduation rates as well as placement rates is one way to measure the successes of an educational program. These items can be determining factors for an institution's accreditation as well as eligibility in the Title IV Financial Aid Program (Student Financial Aid Handbook, 2003).

Conclusion

In summary, it is interesting to examine cohort default rates from different perspectives. The last four years have provided us with a wide array of statistics from different types of institutions. It is interesting to look at the gaps among various types of institutions. These gaps can tell us much about default management at various types of institutions. Finally, it is important to understand consequences for poor default rates as well as the keys for a successful default management plan.

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QUESTION 2

National cohort default rates have decreased on a yearly basis over the past ten years. The calendar year of 2002 was the first calendar year that the national cohort default rate (FY 2000) increased from the previous year. Identify and articulate some of the mitigating factors for the decrease and then sudden increase of the national cohort default rate. Past research indicates that improved default management techniques as well as Department of Education sanctions have led to improved default rates. Identify some possible reasons as to why the default rate has suddenly risen again. Discuss various arguments that Financial Aid professionals have given pertaining to changes in default rates and examine the literature surrounding default management trends. Based on what the research suggests, propose a default management strategy that includes best practices and would be highly effective.

Introduction

Title IV loans are educational loans that have governmental backing as defined in the Higher Education Act of 1965. As these are government-backed loans, the default rate on these loans is measured and closely examined on a yearly basis. In 1992, the national default rates were released for cohort year 1990. At that time, the default rate had reached its highest point of 22.4% (Briefing on National Default Rates, 2003). This volume of students defaulting on their student loans was clearly unacceptable, thus there were many changes made to ensure that the number could be improved upon and this certainly has occurred. This process required the work and cooperation among the schools, lenders, and guarantee agencies.

Historically, the federal government has cracked down with harsh penalties for defaulters (National Default Prevention Day, 2002). If a student accepted a loan backed by the federal government, that student accepted certain responsibilities. According to the Student Financial Aid Handbook (2003), a student is to be provided entrance and exit counseling by the institution of higher education that clearly explains that it is the student's responsibility to keep his/her loan

out of default. A student can accomplish this by making the appropriate on-time payments or choosing deferment and forbearance options to temporarily postpone the repayment of the loan (The Student Guide, 2003). Should a student choose not to live up to these responsibilities, the loan will go into default. The penalties for default can greatly harm the defaulting borrower. In addition to seriously damaging a borrower's credit, the student loses all future financial aid privileges (Default Management-Frequently Asked Questions, 2003).

Default Rate Trends – Factors for Increases and Decreases in Default rates

There have been many measures and improved practices put into place that have contributed to decreased default rates. Among these are improved practices by schools, lenders, and guarantee agencies. In particular, improvements by schools were made with improved entrance and exit counseling, early intervention calls, letters, and borrower contact. The lenders and guarantee agencies also contributed with improved borrower contact as well as more comprehensive default prevention literature. In addition, the Department of Education had imposed serious penalties for students who default on their loans as well as schools with high default rates. Conversely, lapses in these practices can lead to poor default rates. The Department of Education identified that during the all-time high national default rate (22.4 %), there was a complete breakdown in practices where borrowers were not properly counseled on, nor fully aware of their rights and responsibility as a borrower (National Default Prevention Day, 2002).

These measures have certainly contributed to a decrease in the national student default rate over the past several years. The cohort year of 1990 yielded a default rate of 22.4. It has steadily gone down since then. The following numbers show this progression: 1990 – 22.4%;

1990 – 17.8%; 1992 – 15.0%; 1993 – 11.6%; 1994 – 10.7; 1995 – 10.4%; 1996 – 9.6%; 1997 – 8.8%; 1998 – 6.9%; 1999 – 5.6% (Briefing on National Default Rates, 2003).

Then, the cohort year of 2000 yielded a higher default rate for the first time since 1990. The default rate was 5.9%. Now, although this was a moderate increase, it was an increase none-the-less. There have been many reasons given to explain this increase in the default rate. The 1999 cohort default rate was released in September 2001. This month also marked the tragedy of the terror attacks on September 11th. The Department of Education responded very proactively offering automatic forbearances to anyone associated directly or indirectly with the tragedy of September 11, 2001 (Sallie Mae Newslink, 2001). These individuals did not have to complete the normal forbearance paperwork, but simply call the loan servicer and inform them verbally that they needed this granted. This was a very proactive move that helped a number of individuals in a time of hardship. The national default rate was still at an extremely low level. It is still nowhere near the level that the Department of Education experiences in the early nineties.

While it is impossible to accurately predict future default rates, one can look to trends in the student lending industry as well as in the overall economy as a good indicator of what is to come. One expert predicted that economic decline would end the trend of the national default rate lowering from its previous year. Although the rate that borrowers default on student loans dropped for nine consecutive years, even falling below 6 percent, there were still signs that this trend may end. In fact, Department of Education Officials warned that if economic conditions continued to worsen, then future default rates could go up (Burd, 2003). So, even at a time when the new cohort default rates had been released and the national default rate was down, experts were predicting a rise in default rates in the future. This proved to be true as the national default

rate did rise in the calendar year of 2002. This was the first time since the calendar year of 1992 that the national default rate went up (Briefing on National Default Rates, 2003).

The calendar year of 2003 yielded different results, if only by a few percentage points. This was released in September of 2003. The final national default rate for the calendar year of 2003 (fiscal year 2001) was 5.4. One expert explained that the rate at which students default on their federal loans decreased from 5.9 percent to 5.4 percent (Briefing on National Default Rates, 2003). This was an all-time low for the national cohort default rate. In addition, it was the first time in more than a decade that no colleges or universities faced penalties (Cavanagh, 2003).

This release of cohort default rates was significant for at least three reasons. First, the default rate was back on the decline again after raising slightly in the previous year. Second, the default rate hit an all-time low that is remarkable in and of its self. Third, no school suffered penalties as a result of this default rate (Briefing on National Default Rates, 2003). These penalties could have stemmed from having a default rate of over 25% for three years straight or having a default rate of 40% for one year (Student Financial Aid Handbook, 2003). The last feat may have been the most impressive feat of them all.

After such a remarkable year in default management, many Financial Aid Professionals attributed the success of this year to a number of entities, according to the Department of Education. Department of Education officials attributed the decline in the default rate to a variety of sources. Among these were improved efforts by schools, private lenders, and the department itself in efforts to counsel students on the repayment options (Cavanaugh, 2003). This improvement came after the national cohort default rate reached an all-time high of 22.4% in

1992 (Briefing on National Default Rates, 2003). The difference of the two national default rates is abundantly clear.

In order to put these numbers in perspective, one could look to the fiscal year of 1994 where 642 schools nationwide were subject to penalties that arose from unacceptable default rates. However, this particular year there were no schools that faced such penalties. The fact that around 6,200 postsecondary schools participate in the two loan programs through which default rates are measured made this an incredible accomplishment (Cavanaugh, 2003). These are certainly striking numbers. Nine years ago, there were 642 schools penalized for having inflated default rates, yet this year there was none. It is remarkable that not one school out of 6,200 schools that participate in the Title IV Financial Aid program was penalized for an inflated default rate last year.

The United States Department of Education's Secretary, Roderick Paige was pleased with the current default rate. He applauded the efforts of the Financial Aid community in their ability to inform and counsel borrowers on their various repayment options (Cavanaugh, 2003). Fundamentally, it comes down to communication with borrowers, as there are so many ways to keep borrowers in a healthy repayment status on their student loans.

Paige also made the point that has seemed to escape many in the Financial Aid industry. This point being that the current interest rate on Federal Stafford Loans is also at an all time low of 3.42 percent. This incredibly low interest rate makes loan payments more affordable. In contrast, just three years ago the interest rate on the federal Stafford loan was 8.19 percent. This was just shy of the cap rate of 8.25 percent (The Student Guide, 2003). So, over the life of the loans, students will be paying much less money overall as well as lower student payments. As a

result, fewer students default on their student loans, which helps to lead to an effective lending program.

Improved Default Techniques -Expectations of Schools-Consequences for schools

In order to fully understand the importance and advancements in improved default management techniques, one must first understand the expectations for all schools as well as the consequences for schools with poor default rates. One of the problems with default techniques in the mid-nineties was that the Department of Education did not clearly outline the expectations for schools to properly counsel as well as follow-up with borrowers to ensure low default rates (National Default Prevention Day, 2002).

This lack of communication changed in the mid-to-late nineties when the Department of Education began to clearly outline the expectations of schools to maintain proper default management. Schools were made aware of the expectations that the Department of Education placed on them as well as possible consequences if they did not meet those expectations (National Default Prevention Day, 2002).

The Department of Education expected institutions to assist in the prevention of student loan default. Thus, the Department of Education required schools to construct a default management plan. This plan should consist of strategies and practices that will effectively improve the default rate (Student Financial Aid Handbook, 2003).

As with the students, there are also consequences for institutions with poor default rates. These consequences can even result in an institution of higher education losing its right to participate in the Title IV Financial Aid program as mentioned earlier (Student Financial Aid Handbook, 2003). Simply stated, a school can severely hinder its ability to exist should it not

have a sound default management plan. If a school is not able to construct this default management plan on its own, then there are many lending organizations that are willing to provide help and support with implementing default management strategies and developing a solid default management plan (National Default Prevention Day, 2002). The resources are certainly there if one takes the time to look. The Department of Education makes it very clear that schools need to take responsibility for their borrowers and follow through with their default management procedures.

Now, since the Department of Education has outlined expectations of schools, there needed to be consequences for those schools that do not conduct proper default management. In order to fully understand motivational tools for default management strategies, one must first examine consequences for poor default rates. These consequences are, after all, a driving force to successful default management plans. The first possible consequence pertains to a school having a default rate of 25% or higher for three consecutive years. The Department of Education looks at default rates in three year increments and should a school have a rate of 25% or higher, then that schools will lose its Financial Aid privileges (Student Financial Aid Handbook, 2003). Now, the Department of Education is very fair in the sense that it allows these schools to challenge default and has a very well defined appeal process. It also allows schools to improve their default rates when the school has bad trends that are emerging. In theory, a school could have consecutive cohort default rates of 27%, 28%, 24%, and 26%. Now, these are pretty bad default rates. In fact, they average to about a 26% default rate per year. Interestingly, this school would no lose its Title IV Financial Aid eligibility because of the structure of this regulation. It states

that a school must have a default rate of 25% or higher for three consecutive years. In the example above, this did not occur.

Now, there is a way that a school can lose its Title IV eligibility in one year. This occurs when a school has a default rate of 40% or greater for one year (Student Financial Aid Handbook, 2003). This is considered an extremely high default rate, so a school that reaches this rate of 40% really does not deserve to maintain Title IV privileges. It is rare for a school in to have this type of default rate anymore, but it has happened in the past. There have been schools that have lost their Title IV privileges due to a default rate over 40%. Too often, it was because a school really had no default management procedures at all.

In summary, a school can actually lose its right to participate in these Financial Aid programs if it does not maintain proper default management. Now, these are extremely high percentages for either one year or three consecutive years. A school would really have to do a poor job of default management as well as have a poor quality of students in order to lose financial aid privileges. However, it is still a looming possibility and fear for some schools. Today's students rely so heavily on the financial aid programs that if a school could not offer these programs to their student population, then they could probably not remain in business (National Default Prevention Day, 2002). If it did remain in business, it would certainly have a greatly diminished population of students.

Furthermore, a school that fully understands expectations of the Department of Education as well as consequences for poor default rates can clearly put procedures in place to avoid this. A school simply needs to construct a default management plan and stick to this plan. The Department of Education has outlined key areas that should be included in any default

management plan. Among these are improved contact with borrowers, improved entrance and exit counseling, proper letter and phone campaigns. These techniques can assist a school in maintaining an acceptable default rate.

Reasons for Increase in the National Default Rate

When the default finally increased to 5.9% for the fiscal year of 2000 (Briefing on National Default Rates, 2003), many in the Financial Aid community were alarmed by this. The Department of Education attributed this to economic decline in recent years. In fact, after the default rate was released for the fiscal year of 1999, Department of Education officials warned that if economic conditions in the country continued to worsen, then the default rate could go up in future years (Burd, 2001). This prediction proved to be prophetic as the default rate did indeed go up the next year. Cavanagh (2002) reported that some federal officials described the rise as statistically irrelevant.

The director of research and policy analysis at the national Association of Student Financial Aid Administrators believed that anything could have caused an increase that small (Cavanagh, 2002). So, there was a bit of a divide among those that considered this a statistical anomaly and those who were seriously concerned with this increase.

In fact, a representative in congress sent a letter to the Secretary of Education, Roderick Paige asking for an explanation. Mr. Paige's response was that that increase in the default rate could be linked with the poor economy's impact on borrowers (Cavanagh, 2002).

Examination of the Literature -New Initiatives for Guarantee Agencies

The Department of Education also turned to the Guarantee Agencies for lowering the cohort default rate. The Department did so by changing the way of thinking among the

Guarantee agencies (Briefing on the National Default Rates, 2003). These agencies used to profit from default. If a student went into default, not only did the entire loan become due in full, but also additional penalties and late fees would be assessed. Then, the guarantee agencies would have deals with collection agencies to aggressively collect these balances. This was all done with the backing of the Department of Education, so they did have the proper tools to collect these funds. Thus, it could be extremely profitable to have students go into default and then collect on these large balances. During this time period, individuals that worked for Guarantee Agencies generally would not come right out and say that they hoped students defaulted on their loans. However, the system was designed in a way that made it more profitable for them if students defaulted, thus some individuals are going to want to see these loan defaults. If loan defaults add to the profitability of the business, then one may be inclined to let this happen.

This works against some of the basic principles that the Department of Education attempts to instill into others. The Department of Education does not want to encourage students to default on their student loans. On the same note, the Department of Education does not want to encourage Guarantee Agencies to greatly profit from default. So, the Department of Education opted for a program that would encourage guarantee agencies to actively pursue low default rates. The way that they accomplished this was by simply rewarding Guarantee Agencies for healthy loans. This program was called FFELP Wellness. In this program, the Guarantee Agencies are paid for their number of healthy loans (Student Financial Aid Handbook, 2003). This completely changed the way of thinking among Guarantee Agencies. They could be profitable agencies without depending on students defaulting on their loans.

Examination of the Literature -Improvement for Two-Year Colleges

The negative trends for default management among two-year colleges have seemed to lessen in the past few years. This was a welcomed sight in the Financial Aid Community after of the trouble that two-year colleges experienced with default rates in the nineties. It was reported that two-year colleges were making more progress in reducing student loan defaults. This information came from a federal report that finds higher repayment rates among students from all types of post-secondary institutions (Dervarics, 2001). In previous years, two-year colleges have not necessary shared the overall success of a decreased national default rate as the default rate for two-year schools has not gone down as quickly as other institutions.

Bush administration officials lauded the progress made by such institutions. They cited increased accountability measures by colleges and also by lenders to monitor those students at risk of defaulting (Dervarics, 2001). The key word here is "accountability." It is interesting that the Bush administration chose to credit both lenders as well as schools for the improved default rate. It is clear that the standard has been raised for lenders to ensure that they do everything that they can to keep students from defaulting on their loans. The schools themselves have to be more accountable with the quality of students that they bring in and ultimately the willingness of students to keep their loans healthy (National Default Prevention Day, 2002). In previous years, schools simply did not want to take responsibility for their default rates. This attitude finally seems to be changing. More is expected of the two-year schools, as they have been behind the curve in previous years. So, even through the two-year schools have made improvements, there is certainly still room for more improvement.

Examination of the Literature - Improvements for Community Colleges

Default rates at Community Colleges have also continued to improve. Fewer than 10 percent of students at community colleges defaulted on their education loans for the second consecutive year. This came from federal officials who cite long-term progress on the default issue that has plagued schools for years (Dervarics, 2002). This is certainly a step in the right direction for community colleges compared to previous years. Even as default rates for two-year colleges began to show significant improvement, community colleges often lingered behind and are only now showing significant improvements.

This improvement was shown by the fact that default rates for the year 2000 were 9 percent among students at two-year public institutions and 7 percent for students at two-year private institutions. Both of these rates are up from the previous year, but these rates are far below the double-digit rates that two-year public institutions experienced through most of the 1990's (Dervarics, 2002). It is clear that significant improvements have been made in default management at community colleges as the default rate continues to remain under ten percent.

Some have given perspectives as to why community college default rates have been high in the past. Due to the fact that tuition prices at community colleges are generally kept fairly low, a number of students attending these colleges do not take out loans. Therefore, the population of borrowers is much smaller than it might be at a proprietary two-year college of equal size (Dervarics, 2002). Therefore, the population of borrowers that goes into repayment really has to be monitored closely. A small population of borrowers can work for or against the school depending on the default managements strategies employed. For instance, if a school has a cohort of ten borrowers and the school keeps all of those borrowers healthy, then the school will

have a zero prevent default rate. Now, if that same institution were to have three defaulters, then all of a sudden the school would be faced with a default rate of 30%, which would put them in the danger of experiencing Department of Education sanctions. Larger institutions that have cohort borrowers in the thousands have the law of averages on their side that overall default trends will even out and be representative of the school. This is not necessarily true for two-year schools with smaller cohorts so they have to work that much harder to ensure that the best possible default rate is achieved.

Best Practices In the Financial Aid Community

In order to fully understand the improvements made in default management, one must first examine the best practices of default management. "Best practices" is a term often used in the Financial Aid community to signify the accepted practices of the profession that have proven to be effective in the past. In the context of default management, there are a number of practices that can be looked at. It begins with a sound default management plan. In order to be effective, one must first have a solid plan in place. In fact, the Department of Education mandates that schools develop a default management plan (Student Financial Aid Handbook, 2003). The next obvious step would be to effectively execute the plan. The following is a quick list of some of the practices that have proven to improve default rates: quality entrance and exit counseling, frequent borrower correspondence, good reference information for borrowers, and a well trained staff on repayment, deferment, and forbearance options for borrowers (National Default Prevention Day, 2002). Now, another important part of effective default management is not simply looking at what has been effective in the past, but looking at some of the practices, or

lack-there-of, that have led to poor default rates. A school may be able to avoid repeating some of the mistakes of the past if that school is aware of what has not worked in the past.

There were two types of institutions that received a great deal of criticism in the mid to late nineties for poor default rates. These institutions were trade schools and community colleges (National Default Prevention Day, 2002). The national default rate reached an all-time high of 22.4 for the Fiscal Year of 1990 (Briefing on National Default Rates, 2003). Now, immediately following these years of poor default management, many schools changed their practices and indeed greatly improved their default rates for subsequent years.

Trade schools, unfortunately, did not implement the same improvements as other schools and remained at the bottom of the pack with extremely poor default rates. Mittelstadt (1997) wrote an article entitled: "A look at trade schools' 'horrible' default rates." There was more than a bit of sarcasm in the title. It was reported that 269 schools nationwide that were in danger of losing their Title IV eligibility. These are staggering numbers considering the improvements that have been made in default management at other institutions.

However, it was one unique school that set a record high for their default rate. The school, Star College of Cosmetology in Longview, posted a 100% default rate in 1995. Ironically, the school's poor rating was the result of one student enrolled in the Federal Student Loan Program who later failed to repay back her student loan (Mittelstadt, 1997). This type of incident is mind-boggling for those in the Financial Aid community. First, it is highly irregular for a school to have only one student go into repayment for a given Fiscal Year. It makes one wonder about the total population for this school. Second, any Financial Aid Administrator could tell you that having one student in repayment for a Fiscal Year should have the complete

attention of the Financial Aid staff, even if that staff is also only one person. All that you would have to do is counsel that one student thoroughly and offer deferment or forbearance options if the student could not afford to pay back the loan at any given time. Maintaining a low default rate does not mean that most of the borrowers pay back their loans. It means that most of the borrowers keep their loans in a healthy status (Student Financial Aid Handbook, 2003). One call per month may have kept that student in healthy repayment of his/her loan. That same school would have easily had a 0 percent default rate, rather than a 100 percent default rate. Although this is a unique example, it is a good example of how trade schools have traditionally failed to live up to the demands of being participants in the Federal Financial Aid Program.

In addition to trade schools, the same difficulties in default management can be found in community, technical, and junior colleges. It was reported that more than 30 two-year institutions could lose access to the Federal Loan and Grant programs due to high default rates. This included twelve community, technical, and junior colleges (Dervarics, 1997). This is certainly an excessive amount of schools for one year alone. This occurred during a time when many schools faced sanctions or expulsion from the Title IV Financial Aid Programs. The reality of the situation was that many of these schools were either trade schools or community colleges. It is not a surprise that so much attention was being paid to these schools when they did such a poor job of default management.

Default rates for two-year institutions were nearly double the rate for four-year institutions (Dervarics, 1997). This number left many individuals asking why these types of institutions were doing such poor jobs of default management when four-year institutions were making great strides in the areas of default management and the national default rate was

improving. It raised the question as to the quality of students in two-year schools. As a result, the late nineties created a large hole for trade schools and community colleges to build out of. The reputation of such schools was greatly tarnished and many are still struggling to change the attitudes and perceptions that many individuals still maintain today pertaining to the practices of these institutions.

Proposed Default Management Strategy

An effective default management strategy would first consist of having a well-defined cohort of borrowers and knowing that cohort well. Some schools struggle with reporting mechanisms from their software packages and are not able to run accurate reports to define their cohort. For any effective default management plan, there has to be a good starting point and that means effectively defining the cohort. The default management specialist has to have a defined group to work with (National Default Prevention Day, 2002).

Next, a school must have an effective letter campaign. Students sometimes need to be reminded of their obligations and made aware of the consequences should they not live up to these obligations. That is the main point for having a series of effective letters. These need to be sent at various times of the borrower's delinquency period. For example, there may be a fifteen-day letter, thirty-day letter, forty five-day letter, and sixty-day letter. These letters must be written in a way that they get progressively more serious. A borrower that is fifteen days late may simply have delayed writing out monthly checks and needs a friendly reminder. A student that is sixty days late is already one-third of the way to default. This student needs a letter that is much more serious in nature (National Default Prevention Day, 2002).

A school also needs to have individuals who are willing to make weekly calls to delinquent borrowers. Some people respond to letters, but others do not. Some people need a phone call to remind them of their obligations and assist them with any problem that they might be having. This person might be able to suggest deferment or forbearance options or put them in touch with loan consolidation companies if they have multiple lenders and are struggling to make multiple payments (National Default Prevention Day, 2002). Overall, the human touch can be all that is necessary to effectively sway a student from possible default.

A school must have a good relationship with the preferred lenders and guarantors that they use. Some people simply look at all lenders and guarantors in the Title IV Loan program as being the same, but they are not. They are all different and distinct in their own way. Therefore, it is up to the school to choose these organizations wisely and to ensure that they are working for the best interest of the student (National Default Prevention Day, 2002).

The involvement of all individuals at the school is critical for an effective default management plan. It cannot simply be the Financial Aid Office. Every department should be assisting to ensure that students are successful. Often times, it is not directly, but indirectly. For example, a school that has an effective Education team with good retention numbers would be likely to have a reduced default rate. Students who graduate from their program of study are more likely to pay back their loans than students who drop out of school. The Career Services Office of schools can also play a big part as graduates placed in jobs are going to be more likely to pay back their loans than those that are not able to find jobs. These are just two examples, but it is certainly clear that all employees of an institution, not just those in the Financial Aid office, can play a part in achieving an effective default rate (National Default Prevention Day, 2002).

A final key piece for an effective default management plan is not always utilized properly. This involves the option for a school to challenge the default rate released by the United States Department of Education. Federal guidelines allow a school to challenge their cohort default rates (Student Financial Aid Handbook, 2003). A school should have one individual designated to review each defaulted account and make a case that a particular defaulted student or defaulted students should not be counted in the default calculation. There cannot be enough said about this process. Not only does the Department of Education allow schools to appeal the initial draft of a default rate for a given cohort group, but they actually anticipate that many schools will challenge their default rate. The Department of Education does make mistakes and errors can be found if one knows where to look. The reality is that the school generally knows their cohort population much better than anyone else. So, it is certainly in the best interest of the school to thoroughly examine each student that may count against their default rate. Even if one default is reversed, that can really make a difference in the overall default rate (National Default Prevention Day, 2002).

Conclusion

Overall, when studying trends in default management, one must look at a number of factors. The Department of Education experienced a number of years of prosperity where the federal cohort default rate decreased. While there was a slight increase in the default rate in 2002, that is not necessarily an indication that default management is lacking. In fact, the literature pertaining to default management points to the fact many strides have been made in the field. The Department of Education believes that schools can experience respectable default rates with a sound default management plan in place. The proposed default management plan laid out

in the previous section is a good guide for schools to effectively manage their population of borrowers.

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QUESTION 3

The Higher Education Act of 1965 has certainly changed the face of American education, as we know it today. This Act was a legislative document designed to strengthen education resources for colleges and universities and to provide financial assistance to students. It has made college affordable to individuals that may have not otherwise been able to attend. Review the origins of this Act from the immediate results to the current state of higher education. Summarize the influence that this Act has had on the shaping of institutions of higher education since 1965. Critically evaluate the three most significant aspects of higher education that have changed as a result of this Act.

Introduction

The Higher Education Act of 1965 was a legislative document that covered many facets of higher education. In total, there were seven titles that covered areas such as teacher quality, international education, institutional aid programs, and other areas of education (National TRIO Clearinghouse, 2003). It was an important document in the history of higher education in the United States.

The title that received the most attention is Title IV, which authorized student assistance in the Federal Loan, Grant, and Work-study Programs. The object of the Title IV Financial Aid Program was to create opportunities for students to be able to attend college who may not have been afforded those opportunities otherwise (National TRIO Clearinghouse, 2003).

*The Higher Education Act of 1965 - Origins**History of the Higher Education Act of 1965*

The first documented student loan program was established at Harvard University in 1840 (History of Student Financial Aid, 2004). This Harvard loan program, like other loan

programs subsequently set up at private colleges and universities throughout the United States had no federal regulations. The terms were set forth by the institution granting the loans.

In 1935, the first state-level financial aid association was established in the state of Indiana indicating an increasing level of concern at least at the state-level of providing assistance to individual student to attend institutions of higher education (History of Student Financial Aid, 2004). As the country moved out of the Depression, there continued to be an increasing need to educate the population. The Indiana Loan Program served as a model for other states.

In 1944, the federal government passed the GI Bill of Rights. This piece of legislation provided educational as well as other benefits to the veterans of World War II (History of Student Financial Aid, 2004). While the need to recognize veterans for their service and sacrifice was certainly a primary reason for this legislation, perhaps a more important secondary reason for this bill was to reintegrate the millions of returning servicemen back into the civilian population and national life (Barger, 2004). The success of the GI Bill proved to be instrumental in the ultimate development of the Higher Education Act of 1965.

National Defense Act of 1958

The final pre-cursor to the Higher Education Act of 1965 was the National Defense Act of 1958. This legislation came out of a time many Americans refer to as the Sputnik Era. The United States found itself locked in fierce competition with the Soviet Union for supremacy in technology and science. Sparked by the Soviet Union's successful launch of a small orbital body named Sputnik, the United States Congress pushed for legislation that would provide more funding for math and science curriculums (Barger, 2004).

This led to the development of the Higher Education Act of 1965. This was a legislative document that contained seven pillars. These pillars dealt with issues such as teacher quality, institutional aid, student assistance, graduate fellowships, and international education. The fourth pillar, Title IV, deals with the administration of the Financial Aid Programs. The year 1965 marked the beginning of the Federal Financial Aid Programs in the United States. It is also worth noting that twelve years before this Act was passed, John Monro of Harvard developed the first needs analysis formula (History of Student Financial Aid, 2004). This proved to be a crucial factor to the distribution of funds in the Federal Financial Aid Program. It was through this mathematical formula that the Expected Family Contribution (EFC) would be calculated. Ultimately, the Higher Education Act of 1965 led to significant funding opportunities for millions of students over the past 40 years and thus changed the face of education in the United States.

It is clear that the Higher Education Act of 1965 had origins that began years before the Act was ever passed. The HEA of 1965 was created in order to strengthen the educational resources of the nation's colleges and universities as well as to provide financial assistance for students in postsecondary schools and higher education (What is the Higher Education Act? Answers and Issues, 2004).

Introduction to Federal Financial Aid Fund Sources

The Title IV Financial Aid Programs have made college a viable option for millions of potential students throughout the years. It provided several types of programs to assist students financially. These programs ranged from grants that do not have to be repaid, loans that do have to be repaid, and opportunities to earn money through working (Mullen, 2003). In order to

understand the impact that this program has had on students, one must first understand the different fund sources afforded to students. The following is a summary of the different types of fund sources made available to students. These fund sources collectively make up the Title IV Financial Aid Programs. It is these fund sources that have made it possible for all students to pursue a quality education. Although the names have changed over the years, these loan, grant, and work-study programs have had a positive impact on making college affordable to all students. The fund sources are core to the Title IV Financial Aid Programs that came out of the Higher Education Act of 1965. These programs have certainly changed the face of higher education over the past forty years (National TRIO Clearinghouse, 2003).

Fund Source - Federal Pell Grant

The Federal Pell Grant is considered "gift aid" as it is money that is given by the government that does not have to be repaid. This is the largest source of free money used for educational purposes that comes from the federal government. These grants are need-based meaning that the student has to show financial need. These grants do not need to be paid back and are awarded to every undergraduate student who qualifies by filling out the proper documentation and showing financial need (Mullen, 2004).

Fund Source - Federal Stafford Loan

The Federal Stafford Loan Program is one of the most important Title IV Financial Aid Programs in the United States. It may indeed be the most important Financial Aid Program. This program is the largest source of federal student aid for undergraduate, graduate, career and professional students. This loan is for individuals who meet certain qualifications and it does need to be repaid (Mullen, 2004).

Fund Source - Federal Plus Loan

The next prevalent source of funding in higher education is the Federal PLUS loan or parent loan. This loan source greatly differs from the Stafford Loan, as the parent of the qualifying students is the individual that is borrowing the loan, not the student. The Federal PLUS loan is a loan for parents and stepparents who chose to borrow funds to finance the education of their undergraduate child. Parents are allowed to borrow up to the costs of their dependent's education, minus any other types of financial aid that their child receives (Mullen, 2004).

Fund Source - Federal Perkins Loan

Another source of the Federal Loan Program is the Federal Perkins Loan Program. This is a low-interest loan that may be appropriate for some students. Unfortunately, it is not available at all schools. The Perkins Loan Program is low-interest loans for both graduate and undergraduate students with exceptional financial need. Undergraduate students can borrow up to \$4,000 per year. Graduate students can borrow up to \$6,000 per year (Mullen, 2004).

Fund Source - Federal Supplemental Educational Opportunity Grant

In addition to the Federal Pell Grant, there is another type of federal grant called the Federal Supplemental Educational Opportunity Grant (FSEOG Grant). As with the Federal Pell Grant, this is a form of gift aid that does not have to be repaid. The FSEOG Grant is a grant that colleges award to students. The award can be between \$100 and \$4,000 per year. This grant is for undergraduate students with exceptional financial need and priority is given to Pell Grant recipients. Like all grants, they do not have to be repaid (Mullen, 2004).

Fund Source - Federal Work-Study

The final Federal Financial Aid Program is the Federal Work-Study Program. This is a unique program as it allows students to earn money by working on-campus or off-campus jobs. The Federal Work-Study Program is a program for some students that are offered as part of their financial aid package. Their college will help them find a job on or off campus. This program is subsidized in part by the government and in part by the institution that the student is attending. If possible, they will be placed in work related to their studies or in community service (Mullen, 2004).

*The Higher Education Act of 1965 – Influence on Higher Education**Summary of the Influence of the HEA on Higher Education*

The Higher Education Act of 1965 certainly had an influence on the face of American Education over the past 40 years. More than two-thirds of students in the United States received some type of Financial Aid to assist in their education (What is the Higher Education Act? Answers and Issues, 2004). The funding that the title IV Financial Aid program provided not only has helped to increase the number of institutions of higher learning, but also significantly increased the number of students.

Leef (2000) hypothesized that the United States will not get a more educated population by putting money into the education machine. He believed that the overindulgence of students undermines academic standards. Student populations have drastically gone up from roughly 1.5 million student enrolled in 1700 colleges and universities in the Pre-World War II era to the late 1990's which yielded roughly 14.4 million students in 3,700 college and universities. Some may view this increase in students as a positive and a testament that society as a whole is becoming

more educated. However, some individuals see this as a negative and simply view the educational system as becoming watered down by the number of students that currently attend institutions of higher education.

There are certainly alternative ways to look at the Federal Loan Program that originated from the Higher Education Act of 1965. The spirit of the original Higher Education Act of 1965 was to provide a program that created opportunities for individuals to be able to attend school who may have not been able to attend otherwise (The Early History of the Higher Education Act of 1965, 2003). However, Leef (2000) feels that we are building unnecessary debt for students and financial burdens that will follow them for many years to come. He believes that members of the higher education community should be worried about developments in the different college loan programs. He is not alone in this stance. Another individual familiar with this topic believes that the day may be come when not just trade school students but large number of graduates at colleges and universities will not be able to pay back their loans (Fossey, 1998). Aside from the obvious job at procedures from trade schools, the author warns of possible problems in the future that may arise from students not being able to pay back their student loans. The accumulated debt resulting from student loan has certainly become a concern for those who work in the Financial Aid industry as default rates are ultimately used to gage the success of the Title IV Financial Aid Programs.

The Department of Education recognized the influence that the Title IV Financial Aid program has had on higher education. The Title IV Financial Aid Program has grown out of the Higher Education Act of 1965. As with any document, time has a way of dating it and sometimes taking away from the original intentions of those that developed this document.

The Need for Reauthorization

As a result of the original Higher Education Act of 1965 becoming outdated, there has been a need to revise this document or reauthorize this document at appropriate times. There have been seven Reauthorizations since the original document of 1965. These Reauthorizations occurred the following years: 1968, 1972, 1976, 1980, 1986, 1992, and 1998. Congress amended certain programs in the various Reauthorization years. In addition, Congress changed the language and policies of existing programs and made other necessary changes (National TRIO Clearinghouse, 2003). This is the overall purpose of the reauthorization process, to make necessary updates and changes. This process ensures that the Higher Education Act remains current with the times.

The Impact of Reauthorization on the Higher Education Act of 1965

In a Capital Hill Testimony Hearing, Merisotis (2003) spoke about the Reauthorization process and did well to summarize the spirit of the Higher Education Act. The ongoing challenge in reauthorizing the Higher Education Amendment is promoting access for individuals who have an interest in attending college. Again, the spirit of the original Act was to provide access to higher education to individuals committed to bettering themselves through education.

In addition, improving access to higher education continued to be one of the primary concerns for the federal government. The fact remains that increasing educational opportunities for all Americans creates tremendous public, private, social and economic benefits (Merisotis, 2003). The author made two important points here. First, improving access to higher education becomes critically important for the future of the country. The Department of Education has done a good job in the past of making these fund sources available to students, but there is

always room for improvement. With the escalating costs of a college education in 2004, the Title IV Financial Aid Program needs to keep pace with these trends. Congress must seriously look at increasing the annual limits for the Federal Pell Grant Program as well as the Federal Loan Program.

The next point made is simply that increasing educational opportunities for individuals will result in social and economic benefits (Merisotis, 2003). Some people just fail to comprehend this. Leef and Fossey would argue that adding more money to the system simply creates a watered down product.

The fact remains that filtering more dollars into the Financial Aid programs does not hurt the economy. In fact, it helps the economy tremendously as individuals are able to use these federal funds to obtain a quality education that will lead to a better career and a better life. Ultimately, these are the individuals that give back to society (Merisotis, 2003).

In the end, going to college involves a great deal more than just a process of enhancing one's personal economic status. The combination of societal as well as individual benefits of higher education must continue to motivate the important work done on the Higher Education Act (Merisotis, 2003). Going to college is much more than advancing the individual; it is crucial to the advancement of society. Ultimately, The Higher Education Act has changed the face of higher education in today's society. It is crucial to keep the spirit of the original HEA of 1965, but to also improve upon it so that eventually no student will be left out.

Another critical point brought up by Merisotis (2003) pertained to campus-based aid. This is a point that is of particular interest to schools. It seems that the schools that effectively use the campus-based aid are the most successful in the Title IV Financial Aid Programs. The

different forms of campus-based aid create positive incentives from the federal government. This includes the Supplemental Educational Opportunity Grant Program, the Federal Work-Study Program, and the Federal Perkins Loan Program. These are the three programs that can be utilized to effectively fund the educational costs of students.

In addition, unlike the Pell Grant Program and the Federal Stafford Loan Programs, which are awarded directly to the students, the campus-based programs are based on allocations given to institutions and thus are limited (Merisotis, 2003). Basically, the procedure for awarding these campus-based funds is for Financial Aid Professionals to make decisions based upon standards set by the federal government. So, the financial package is actually customized for the student. It allows for schools to wisely use their allocations of these fund sources based upon need.

Presidential Perspective on the State of the Financial Aid Programs

In 1997, during his second term of President, William J. Clinton gave a unique perspective on the Financial Aid Programs that arose from the Higher Education Act of 1965. He also gave commentary on how these programs helped him personally when he was in college and law school, which helped to show the importance of these programs. He stated that his intentions for improving higher education was to open doors of college education wider by establishing a loan program that allows students to pay their college loans back as a percentage of their income. In addition, students would have more options to pay their college loans back so that college would be a viable option to all students. The goal was that no young person fear going to college because of the burden of debt on them in the early years after they get out. This would ultimately

improve the cohort default rate (Clinton, 1997). The President certainly hit three critical issues that were prevalent in 1997 and are still prevalent today.

The first item that he discussed was a proposal that borrowers in repayment be required to repay their student loan back based upon a percentage of their annual salary (Clinton, 1997). One of the main reasons that students default on the loans that they take out is because of an inability to afford their monthly payments. The reality of this situation is that individuals would borrow a great deal of money to earn their degrees. Now, even those that finished their degrees were not guaranteed well paying jobs in their fields of study. Often times, graduates would have to take entry-level jobs that may not have paid a great deal of money. The problem was that expensive degrees translate into high student loan debt and large monthly payments. This proposal would solve this problem. Borrowers would make monthly payments that they could afford based upon their salary. The borrowers would make larger student loan payments as they progressed in their careers and their salaries increased. This was a very noble intention by President Clinton, unfortunately it never happened. This proposal was from 1997 and it is now 2004, yet this plan never came to fruition, although it does still remain a possibility. One of the main reasons is the lending institution's inability to take drastic cuts on the intake of student payments. Over the course of a fiscal year, they would probably see a reduction in millions of dollars. Now these same institutions might be able to save millions over improved default rates and larger interest accumulation over the life of loans. Unfortunately, these lending institutions failed to see this side of the argument. The important thing to take from this scenario is that Clinton could truly see the bigger picture. He had a real sense of the spirit of the Higher

education Act and how it was ultimately designed to assist individuals in pursuing their goals, not hindering individuals and setting them up for failure.

The next item addressed pertained to having more flexible repayment options so that students do not fear going to school and building up debt from student loans (Clinton, 1997). Ultimately, the goal is for students to better themselves and find higher paying career jobs. For this reason, the Department of Education paid close attention to graduation rates as well as placement rates (Student Financial Aid Handbook, 2003). This was precisely the model that these programs were built upon. If a prospective student fears debt, then change never occurs and the programs are not successful. The key to success is to allow flexible repayment options for students upon graduation.

The final item addressed pertained to more responsibility with default management and achieving improved default rates (Clinton, 1997). Again, he certainly understood the nature of the Higher Education Act and that default rates are ultimately great indicators of the success of the Student loan Program. If the program is working successfully, then borrowers should pay back their loans and default rates should be low. President Clinton recognized early on in his eight years of presidency that that the default rates on student loans had to improve. He began his presidency at a time where student loans defaults were reaching all-time highs (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). As a result, he put in place appropriate policies to achieve improved default rates. By the end of his presidency, he clearly achieved this with a lower national default rate as well as many improvements to the Financial Aid Programs.

*Three Significant Aspects of Change from the Higher Education Act of 1965**Three Significant Changes - Introduction*

The Higher Education Act of 1965 was a remarkable document in many ways. It is really hard to measure the impact that it has had on higher education over the past forty years. The following is an attempt to point out three ways that this Act changed the face of higher education. First, the HEA led the way for the emergence of a new type of school: the community college. It could now be affordable for students to attain an Associates Degree by attending a community college and receiving Financial Aid from the federal government. As these schools emerged, they served many educational needs in the communities (National TRIO Clearinghouse, 2003).

The next important occurrence that emerged from the Higher Education Act was that it was now affordable for individuals to attend traditional public and private schools that they would not have been able to attend otherwise. Prior to 1965, prospective students really had to have funding in place in order to attend colleges and universities. Getting accepted was simply not enough, one had to have the means to pay for the education (National Default Prevention Day, 2002). With the emergence of the Financial Aid Programs, students could now achieve what may not have been possible before the HEA was passed.

The final occurrence that grew out of the Higher education Act of 1965 was the emergence of trade schools and proprietary schools. Some people in the academic community look down on this type of institution and the role that it plays in the higher education system. However, the reality is that trade schools and proprietary schools serve a great number of students and do fill a need. These schools tend to have high numbers of Financial Aid Students

(National Default Prevention Day, 2002). As these institutions receive the majority of funding through tuition revenue that generates from a great deal of Title IV dollars. It is clear that the trade schools and proprietary institutions are an indirect product of the Higher Education Act (Student Financial Aid Handbook, 2003).

Three Significant Changes - Community Colleges

The growth of the community college system in the United States can be tied to the Higher Education Act of 1965. The oldest documented community college was a school called Joliet Junior College founded in Illinois in the year 1901 (Historical Information on Community Colleges, 2004). With this beginning, community colleges started to establish themselves in the 1930's as an avenue for job training programs as a result of the Depression and in the 1940's and 1950's as an avenue for former soldiers to utilize the GI Bill (Barger, 2004).

However, it was not until the Higher Education Act of 1965 was passed that the community colleges experienced unprecedented growth. At the end of the 1940's, there were 330 community colleges. By the end of the 1950's, there were 412 community colleges. By the end of the 1960's, there were 909 community colleges (Historical Information on Community Colleges, 2004). This unprecedented growth can be tied to the tremendous funding opportunities that resulted from Title IV of the Higher Education Act of 1965.

Three Significant Changes - Public and Private Schools – Affordability

One of the important developments that arose from the Higher education Act of 1965 was the ability for a variety of students to afford the more expensive public and private colleges with the assistance of the title IV Financial Aid program. Prior to World War II, there were approximately 1.5 million students enrolled at some 1,700 colleges and universities throughout

the United States. By the year 2000, that number had grown to 14.4 million students enrolled at some 3,700 college and universities throughout the United States (Leef, 2000).

It is clear that there has been extraordinary growth in the education industry over the last sixty years. This growth occurred despite increasing educational costs over the years. Prior to World War II, the average cost per student was about \$450.00 each year. By the year 2000, the cost had grown to roughly \$15,000 per student (Leef, 2000). This is a significant rise in tuition prices over the years. However, the Title IV Financial Aid Programs made it possible to increase tuition costs, but still keep education affordable to a variety of individuals. Prior to World War II, students were expected to pay cash for the cost of their education. There was a limited number of scholarships or Financial Aid opportunities available to students, but none on the national level. The Higher Education Act of 1965 changed all of that as the title IV Financial Aid Programs that arose from it made education affordable to all students. Rather than pay cash for the cost of their education, students could utilize the Federal Loan Program to borrow government-backed loans at low interest rates. In addition, the Federal Grant Programs provided students with gift aid that did not have to be repaid. Finally, the Federal Work-study Program allowed students to either work on or off campus and utilize earnings to help subsidize their education. Thus, the Federal Loan, Grant, and Work-Study Programs made it possible for a variety of individuals to economically be able to attend their college of choice should they meet the academic requirements. This would not have been possible if students still were expected to pay cash for their education without the assistance of the Federal Financial Aid Programs.

Three Significant Changes - Emergence of Trade Schools

In addition to community colleges, the Higher education Act of 1965 also opened up opportunities for another type of school, trade schools and proprietary schools. The two-year for-profit schools currently make up 28% of the two-year colleges market. In addition, the four-year private schools make up 8% of the four-year college market (For-profit Schools and Colleges, 2004). The emergence of the trade schools and proprietary institutions can be dually linked to the Federal Financial Aid Programs. After all, public schools rely heavily on state funding and private not-for-profit institutions rely heavily on endowments. The for-profit institutions do not have the same funding options and are forced to rely heavily on the Title IV Financial Aid Programs.

One of the provisions that the government made as part of the Title IV Financial Aid programs is that for-profit institutions use no more than 90% of their total revenue from federal sources (Student Financial Aid Handbook, 2003). This was used as a tool for the government to limit the amount of Title IV funds that private for-profit institutions are allowed to use. As the private for-profit sector of higher education is so heavily dependent on funding for the Title IV Financial Aid Programs, it is clear that these types of institutions could not have experienced the growth that they have without the Title IV Financial Aid Programs.

Conclusion

Overall, it is clear that the Higher Education Act of 1965 is an important document in American history. It has shaped the state of higher education, as we know it today, through allocating funds that enable millions of students to attend schools, colleges, and universities on a yearly basis. More importantly, it has provided educational opportunities to countless individuals

who may not otherwise have had an opportunity to receive a quality education. Even as the document is reauthorized approximately every six years, it is critically important to keep the original spirit of the document. It has truly changed lives and will continue to do so for years to come.

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QUESTION 4.

Along with the Higher Education Act of 1965, Reauthorization has had a profound effect on higher education over the past forty years. Reauthorization is the process where Congress amends and changes the language and policies of existing programs for the Higher Education Act. The first Reauthorization occurred in 1968 and the most recent Reauthorization occurred in 1998. Assess to what degree these two Reauthorizations as well as the other five has had on the shaping of higher education in the United States today. Critically evaluate the impact by considering the research on this topic and assess to what degree these changes have benefited the student population in the United States. Summarize previous research on the benefits of the Reauthorization process for students as well as institutions of higher education in the United States.

Introduction

The Higher Education Act of 1965 opened up avenues for many individuals to receive a quality education. The Title IV Financial Aid Programs assist individuals financially in achieving their educational goals. However, schools, colleges, and universities have changed a great deal over the past 40 years. As a result, the Higher Education Act of 1965 needs to be reauthorized periodically. The Reauthorization process really allows this document to keep pace with the times and has occurred in the following years: 1968, 1972, 1976, 1980, 1986, 1992, and 1998 (National TRIO Clearinghouse, 2003). This process also ensures that vital issues are looked at and that appropriate changes are made.

*Impact of the Reauthorization Process on Higher Education**Reauthorization - Introduction*

There are many items on the agenda for the upcoming Reauthorization of 2004. In each Reauthorization year, there are several key points that are addressed in order to maintain the original spirit of the Higher Education Act of 1965 as well as to make necessary changes to this

document. One of the more controversial issues pertained to helping children of low-income families. The question was posed as to whether the Reauthorization of the Higher Education Act would give poor students more tuition help or less help. In addition, the question was posed as to whether colleges would soon find themselves scrambling to justify their costs and graduation rates to government auditors (Lane, 2003). The last Reauthorization occurred in 1998 and the tuition has continued to escalate since then (Student Financial Aid Handbook, 2003).

Fundamentally, the purpose of the Title IV Financial Aid Program is to give opportunities to those who may not otherwise have been afforded those opportunities (National TRIO Clearinghouse, 2003). One of the most important topics for debate is the escalating tuition costs and the failure of the Title IV Financial Aid Programs to keep pace with these escalating costs. Obviously, the tuition rates of 1965 and subsequent years have been much different than they are today. Thus, this becomes an issue that needs to be addressed as to whether Financial Aid allocations are keeping pace with tuition increases. Many schools raise their tuition on a yearly basis and this makes it difficult for many students to be able to attend school. This is true even with students who receive Title IV Financial Aid assistance, as Title IV funding can be limited. Schools must justify their escalating costs along with graduation rates and placement rates (Student Financial Aid Handbook, 2003). . The Department of Education requires all schools that participate in the Title IV Financial Aid Programs to post current tuition costs as well as graduation rates on a website called Integrated Postsecondary Educational Data Systems (IPEDS). The Department of Education clearly wants to guard against schools charging high tuition prices and not delivering a quality education where an acceptable number of students graduate from the programs of study. The ultimate goal is a quality, affordable educational

product that produces successful graduates. It is during the Reauthorization process that individuals really examine if this system is working to its fullest potential.

One of the primary goals of Reauthorization will be related to the need for greater opportunities for disadvantaged students. As Reauthorization takes shape, most agree that the ultimate goal is to increase access to higher education for disadvantaged students. This is particularly true for those from low-income families. The soaring cost of higher education is preventing many students from completing their college degrees (Lane, 2003). The availability of Financial Aid funds in comparison to tuition rates has not been as strong an issue in previous Reauthorization years. However, it has become an issue in recent years as these programs are failing to do what they were originally intended to do, which is to provide opportunities for disadvantaged students. One of the clear failures of these programs is that they have failed to keep pace with inflation and the escalating costs of a college education. In addition, low-income families often are only able to make a small family contribution to a child's education, if any at all. In these cases, the student may be excluded from attending a school that he/she has been accepted into for financial reasons. The reality is that the amount that a student can receive in a Pell Grant or Supplemental Educational Opportunity Grant is extremely limited (Mullen, 2003). While the allocations have gone up a bit each year, they have certainly not kept pace with raised tuition costs. In previous years, the potential Pell Grant award was much closer to the average tuition cost. This has not been the case in recent years. The amount that a student can borrow in a Stafford loan is also limited. So, it becomes the student's responsibility to fill any gap in funding and often times that just simply is not an option. Unfortunately, students do get left behind in this process.

Reauthorization – Unmet Need

One of the key points of the disadvantaged students inability to attend college results from a financial aid term called "unmet need." This is one of the important Financial Aid topics to explore. The annual unmet need is simply a gap between the costs of a college education and the amount that Financial Aid covers (Student Financial Aid Handbook, 2003). This is also referred to sometimes as the "out-of-pocket expense." It is simply not always viable for disadvantaged students to cover these gaps. On average, the annual unmet need for low-income families has reached the following totals: \$3,200 at two-year public colleges, \$3,800 at four-year public colleges, and \$6,200 at four-year private colleges (Lane, 2003). This can discourage many high-school graduates from enrolling and persisting to degree completion. In previous Reauthorization years, the tuition costs were lower and thus the unmet need was lower. It is really unfortunate, but many individuals cannot meet that gap in funds. Although some may look at these amounts as not extraordinary amounts of money, they certainly can be for disadvantaged students. For those that do not have a great deal of money to begin with, this unmet need can certainly prevent individuals from being able to attend college.

Reauthorization – Federal Pell Grant

The key to financial viability for disadvantaged student lies with the Federal Pell Grant. The Department of Education describes the Federal Pell Grant as a grant that does not have to be repaid (Student Financial Aid Handbook, 2003). This is what makes it different from a loan. Pell Grants are generally awarded to undergraduate students pursuing higher education who have not earned a Bachelor's or professional degree. There are some cases that a student may receive a Pell Grant for attending a post-baccalaureate teacher certificate program. Pell Grants are viewed

as a foundation for Financial Aid. From this, other sources of federal and non-federal financial aid are generally added (The Student Guide, 2003).

The Department of Education issues three critical points when describing the Federal Pell Grant. First, it is a form of Financial Aid that does not have to be repaid. It is really a gift from the government, which is why it is sometimes referred to as gift aid. It is also a need-based program. This simply means that all students do not automatically get a Federal Pell Grant. Some students get the maximum Pell award, others get a partial Pell award, and others do not get any Pell funds at all. This is dependent on the student's financial need as defined by the Department of Education. The next point that the Department of Education makes is that the Pell Grant is generally for undergraduate students that have not received a Bachelor's or professional degree. The idea is that Pell Grants are for students that are seeking to better their lives through a quality education. Individuals will have more opportunities with a degree than they would without a degree. If a student already has a Bachelor's Degree, then the government will exclude that student from receiving Pell funds. The government feels that with a Bachelor's Degree or higher, these individuals can become productive members of the workforce. Now, an exception is made for those attending a post-baccalaureate teacher certificate programs. Although these students already possess a Bachelor's degree, they generally are not able to teach until they become certified. So, the Department of Education will allow this type of student to continue receiving a Federal Pell Grant while working through the certification process. The final point that the Department of Education makes is that the Federal Pell Grant is really the foundation to a financial package. Grant funds have always been an important part of a student's financial package. However, these funds rarely cover all of the costs related to attending school and it

often times needs to be supplemented with other types of fund sources. These fund sources can be both federal and non-federal such a Federal Stafford Loan or a private student loan. The Federal Pell Grant lays down a quality foundation, but it is up to the individual student to ensure that all of the appropriate funding is in place.

Reauthorization – Federal Pell Grant Proposal for Increase

As mentioned previously, the Federal Pell Grant is the foundation for a student to build a quality financial package (Mullen, 2003). However, there are some individuals, particularly many Democrats that feel that the maximum Pell Grant award must be increased (Cavanagh, 2003). The maximum Pell Grant award that can be awarded on an annual basis is \$4,050 (The Student Guide, 2003). However, the authorized level is \$5,100. There are currently about 4.4 Million students currently receiving these grants (Lane, 2003). This just simply is not enough grant money for students to be able to apply towards the cost of a college education on an annual basis.

In previous Reauthorization years, the Department of Education has raised the Federal Pell Grant allocation, but it has not necessarily kept pace with tuition increases. The Democratic Party has proposed some radical changes to the maximum Pell Grant award that a student can receive. Democrats propose raising the maximum yearly Pell Grant award to \$11,600 by 2011. This would raise the Federal Pell Grant from the current level of \$4,050 (Cavanagh, 2003). Now, of course tuition costs will escalate by the year 2011. However, this does seem to be a very progressive move. It at least makes a conscious effort of keeping available Pell Grant funds reasonably in line with the cost of education.

Reauthorization – Origination Fee Proposal

Another proposed change by the democrats has to do with the origination fee on a student loan. All lenders charge an origination fee to start up a federal student loan. This fee is three percent of the total federal student loan. Democrats posed eliminating the origination fees. The lawmakers say such fees cost many borrowers hundreds of dollars throughout the life of their loans (Cavanagh, 2003). The purpose of eliminating the origination fee by the Democrats is two-fold. First, it would save borrowers in the short-term as they would receive all of the money that they borrowed, not simply 97% of what they borrowed. Second, it would save them hundreds of dollars over the life of their loan by the interest that accumulates on those origination fees. Now, of course there is going to be a great deal of resistance from the lenders as this is an administrative fee that they are used to collecting and have been for quite a while. This three percent fee for each student loan translates into hundreds of millions of dollars throughout the course of a Financial Aid year (Cavanagh, 2003). If lenders were asked to give this up, than they would certainly ask for some compensations from the government in return. The Reauthorization of 1998 addressed a similar issue where the Guarantee fee of 1% was eliminated. This has not been a successful endeavor as many Guarantee agencies are reinstating this fee. Thus, one has to wonder if this proposal will be successful, as this issue has not been successfully addressed in previous years.

The issue with the three percent origination fee is similar the abolition of the Guarantee Fee about five years ago (National Default Prevention Day, 2002). Prior to 1999, the Guarantee Agencies charged one percent to start up a loan. This was a way for them to make money on every single loan that they guaranteed. Then, in July of 1999 many Guarantee Agencies stopped charging the one percent origination fee. A small amount still change the origination fee, but all

of the major Guarantee Agencies have completely done away with this fee. The Guarantee Agencies have found other methods of earnings, particularly by being paid by the government for every loan that they keep healthy. These changes can be very positive, but often they require agencies to reinvent themselves and explore alternative ways of thinking.

Reauthorization – Loan Forgiveness Proposal

The Republicans also have some proposed changes as we move into the Reauthorization process. The first proposed change pertains to loan forgiveness. Republicans proposed to raise the federal student-loan forgiveness for teachers in certain subjects. These include mathematics, science, and special education in certain Title I schools (Cavanagh, 2003).

Loan forgiveness is a program in which the government forgives the student loan debt for teachers in certain types of schools as well as disciplines of teaching. This program was actually started during the Clinton administration in a Previous Reauthorization year. The purpose of the program is to alleviate the problem of teacher shortages that has been prevalent in the United States over the past few years (Cavanagh, 2003). The government is willing to absorb the cost for student loans if this means getting quality teachers in areas where there are teacher shortages. If this proposal by the republicans were successful, then the government would increase the number of students that are eligible to take part in this program.

Reauthorization of 2004 – Control of Tuition Increases Proposal

Another change proposed by Republicans pertains to the need to control tuition increases among schools, colleges, and universities. Republicans plan on setting several guidelines that would impose strict penalties on colleges and universities that fail to adequately control tuition hikes (Cavanagh, 2003).

This is simply a way to combat the problems discussed earlier. This particular issue has not been successfully addressed in previous Reauthorization years. In the past, schools have been allowed to increase tuition as they have seen fit to do so. The educational costs at many colleges, schools, and universities have escalated over the years. Some of the increases have been justified. However, the Republicans feel that other schools have increased tuition costs unjustly. They feel that the best way to combat this would be to create federal guidelines for controlling tuition increases as well as impose penalties for those schools that fail to control tuition increases (Cavanagh, 2003). It would really put pressure on schools with high tuition rates to ensure that they are producing a quality educational product.

One of the prevalent dilemmas entering the Reauthorization of 2004 is that schools simply do not make strides to ensure that needy students can find a way to attend. If prospective students cannot find a way to meet the unmet need of a program, then these students probably will not be able to attend college. This is unfortunate, but the reality is that many students are not able to attend their school of choice due to financial reasons.

Reauthorization of 2004 – Recruiting Policies

One of the critical issues that seems to surface in every Reauthorization period pertains to admissions recruiting practices, particularly at proprietary institutions. Borrego & Carnevale (2002) addressed this issue of whether colleges should be able to compensate recruiters based on the number of students that they recruit. This is an issue that has been raised in the previous two Reauthorization years when student loan default rates were extremely high. This has generated a great deal of controversy in recent years. The Department of Education has cracked down on the practice of compensating admissions recruiters in such a manner. Many feel that in higher

education, recruiters should not be paid commission or bonuses based upon the number of students that they enroll. Many people feel that this devalues the educational product. It creates uncomfortable situations for students as they are being pressured to make a decision that may affect them for the rest of their lives.

Ultimately, it costs the taxpayer if these students are Title IV loan recipients and do not pay back their loans because of unpleasant experiences that they may have received in the recruitment process. The rule-making committee is fairly set on how they stand on this issue. Borrego and Carnevale (2002) described the most recent proposal as a proposal that compensate recruiters based on the recruitment of students who enroll in the programs that are not eligible for federal student aid. The fact that no Title IV dollars are used is the key. In addition the proposal would pay recruiters who arrange contracts with a company where that employer pays directly or by reimbursement for all or most of the tuition and fees for the program of study. These are very fair and reasonable proposals. The Department of Education does not want to see the default rates return to the heights of the mid-nineties. If recruiters are paid bonuses and commission based upon how many students that they enroll who are Title IV Financial Aid recipients, then one can expect that abuse will happen. People will be enrolled into programs when they really are not suitable for those programs. It would certainly be in the best interest of the federal government as well as the taxpayer to implement a system that does not abuse federal dollars. In these proposals, federal dollars are not at stake. If a student enrolled in a program that is not eligible for Title IV funding then it is assumed that the student will be financing his/her education through private funds. The second example had the employer of the student paying for all related expenses, not the federal government.

*Evaluation of the Reauthorization Process Based on Previous Research**Evaluation of Previous Research - Introduction*

In examining the Reauthorization process, the goal for researchers has been to find a successful model that other institutions can branch off from. This model institution would effectively use the resources that it has been granted through the Higher Education Act of 1965 as well as the Reauthorization process. In examining the literature, one particular school, Carleton College, has a process in place to create a successful model.

The Successful Model of Carleton College

In the current Reauthorization process, many lawmakers have struggled for ways to make college a viable option for potential students. The current literature points to one college that seems to have developed a successful model. The school that did find a way to make it financially viable for students to attend is named Carleton College. At this institution, the perception is that even the neediest students are pretty fortunate at this institution. This pricey liberal arts college offers a top-notch education, but it also ensures that students from low-and moderate-income families can attend school without having to take on a particularly heavy debt load (Burd, 2003). Generally, private colleges with high tuitions cannot meet the needs of the more disadvantaged students. The natural question that one would need to raise would be to inquire how this particular school is able to maintain a competitive to high tuition rate and still meet the needs of disadvantaged students.

Carleton is one of only several-dozen selective private colleges that continue to meet the full financial need of every student that they admit. This is not always the case in today's market. After taking into account the expected contribution of families, the college comes up with a

viable financial plan for each student that they admit (Burd, 2003). So, this private school clearly has an organized admissions process where they accept a certain amount of student per year. Then, this institution looks at the expected family contribution for each student and develops a financially viable plan for each student based on financial need.

There is an explanation as to how this college is able to maintain these policies. The college spends more than 15 million a year of its own money on student financial aid. In addition to this, the college effectively utilizes the federal government's campus based student-aid programs. It is these programs that enable these institutions to effectively accomplish the mission that it has established (Burd, 2003).

So, Carleton does indeed have a unique solution to this dilemma of providing options for disadvantaged students. First, they effectively utilize the campus-based programs such as College Work-study, Perkins Loans, and Supplemental Educational Opportunity Grants. Those sources are meant to supplement the Federal Pell Grant for low-income families and disadvantaged students. In addition, these programs also provide relief for middle-income families that miss the cut-off for grants. As a whole, this is a very progressive and effective way to combat the inability to fully fund disadvantaged students. However, it is important to remember that this institution used a great deal of its own money in order to be able to properly fund students. All institutions may not have a great deal of budgeted institutional grants for students, but with good planning and effectively using the campus-based aid, other schools can follow the successful model of Carleton College (Burd, 2003).

So, entering a Reauthorization period, lawmakers are faced with some very tough decisions. On one hand, simply allocating more money to the Federal Financial Aid Programs

may seem like the right thing to do. However, if one digs deeper into the issues, then you can see that there are successful models such as Carleton College. There may be more viable alternatives for making college affordable to all students than simply putting more money into the Federal Financial Aid Programs.

Coalition of Student Loan Advocates

It is interesting to look at the involvement of the Financial Aid Professionals when it comes to the Reauthorization process. These individuals spend a great deal of time lobbying on various Financial Aid issues that will benefit institutions of higher education as well as student borrowers. Sometimes, the changes proposed as part of the Reauthorization process can go unnoticed, even by the people that the processes are affecting. This is certainly not the case with Financial Aid Professionals during the Reauthorization of the Higher Education Act. Financial Aid administrators are greatly affected by the decisions of Congress as these decisions ultimately affect the way that Financial Aid Awards can be given to students (Fishman, 2003). This is why it is so critical for Financial Aid professionals to be involved in the process and they do have a high level of involvement.

This involvement comes in the form of a coalition of student loan advocates that is lobbying Congress for changes in the administration of funding in the Title IV Financial Aid Program (Fishman, 2003). This group also receives a great deal of feedback from student organizations because, after all, it is the students that are ultimately being affected by this process.

This coalition for Better Student Loans is a group of Financial Aid Professionals, loan providers, and other organizations. This group represents more than 2,000 colleges and

universities across the United States (Fishman, 2003). This statement alone speaks volumes as it shows the tremendous amount of support for the organization.

The coalition has sent Congress its proposals and recommendations for the Reauthorization process. It stated that its recommendations would improve the federal student loan program as well as to increase the access to higher education to a wider variety of students (Fishman, 2003). It is not a secret to anyone that this coalition seeks to increase Financial Aid fund sources to students. There is a completely separate campaign pertaining to increases of annual limits on the Federal Pell Grant, but that is a different initiative.

The student loan initiative seeks a number of things. First, the coalition seeks to increase the annual borrowing limits on a Federal Stafford Loan or William D. Ford Direct Loan (Fishman, 2003). Now, it is obvious with inflation and a raised cost of living, tuition prices have increasing gone up. Amazingly, the annual borrowing amounts on a Federal Student Loan have remained the same for a number of years. Many individuals believe that this must change in order to allow students to borrow more money on federal student loans.

The term “unmet need” often comes up in this lobbying process. Unmet need, to put it simply, is the gap between the costs of attendance for a given school minus any Financial Aid received (Student Financial Aid Handbook, 2003). The gap that we refer to as unmet need has continued to grow over the years, primarily because annual federal borrowing limits have not keep pace with increased tuition costs (Fishman, 2003). This is not acceptable to members of the coalition and they feel that it is an area that must be improved upon.

The coalition also seeks to attend more flexible repayment options for graduates (Fishman, 2003). Sometimes, students borrow a great deal of money, as it may be their only

option to attend college. Once their studies are complete, these students may not have the means to pay back all the money that he/she borrowed while they are early in the repayment process. This is especially true for graduate students. They can borrow upwards of \$100,000 or even more (Student Financial Aid Handbook, 2003). These borrowers need flexible repayment options. Borrowers want to keep healthy loans, just as the Guarantee agencies, lenders, and schools do. The Department of Education certainly does not want to see default levels reach the heights which they did in the early to mid-nineties of nearly 25% for the national default rate (Briefing on the National Default Rates, 2003). Furthermore, they do not want to see students defaulting on loans that are this high. Although the methodology for calculating default rates is simply looks are borrowers in repayment versus borrowers defaulted, the amount of money that this would cost the taxpayers will be enormous. The reality of this situation is that borrowers sometimes need help. That is precisely the reason that the Coalition is pushing so hard for more flexible repayment options for borrowers. If borrowers are given the proper options, then this will certainly be a deterrent for defaults.

The final item that the Coalition is pushing pertains to an extension of loan forgiveness to those working in certain highly needed occupations (Fishman, 2003). Loan forgiveness is a process whereby the loans are forgiven; they do not have to be repaid (Student Financial Aid Handbook, 2003). This generally occurs for teachers in a certain area of the country. This area may be a rural area in need of teachers or it may an inner city area in need of teachers. In each instance, the Department of Education has identified and labeled the areas of the country that qualify for the student loan forgiveness program. This program also extends to teachers in certain

subject areas. These subjects are also determined by the Department of Education as subject areas in need of qualified teachers.

The purpose of the loan forgiveness program is to combat some of the problems related to teacher shortages in the United States, but it is also an important program for borrowers as it gives them opportunities to free themselves from the debt of a student loan (Student Financial Aid Handbook, 2003). Now, the bad thing is that the criteria for acceptance in this program is not very well defined and can often be confusing for individuals seeking to utilize this program. In addition, some feel that the criteria for acceptance are very stringent and needs to be changed. For these reasons, this remains one of the top three issues on tap for the Coalition.

In summary, the following issues are first priority for the Coalition: First, the Coalition seeks to raise the annual borrowing limits in the Federal Student Loan Program. Second, the Coalition seeks more flexible repayment options for graduates. Third, the Coalition seeks an extension and improvement of the loan forgiveness program. The Coalition will be pushing hard on these issues as we move into the Reauthorization process.

Benefits of the Reauthorization Process for Students and Institutions

Summary of Benefits – Introduction

The Reauthorization process was designed to keep the Higher Education Act of 1965 updated and to be certain that it keeps pace with the changing times. As the spirit of the original document was to provide quality education to those who may not have otherwise been able to afford it, the Reauthorization process hopes to attain the same spirit. Thus, the goal for lawmakers through this process is to address needs and examine initiatives that will ultimately

work in the best interest of the student. Past Reauthorizations have certainly addressed the needs of students and the current Reauthorization process remains no different.

As mentioned previously, the following items have been addressed in previous Reauthorization years and will continue to be addressed in the most current Reauthorization period: escalating unmet need, Federal Pell Grant allocation, origination fee proposal, loan forgiveness, and the control of tuition increases. These particular issues can have enormous benefits for students as well as institutions of higher education if they are successfully addressed in the Reauthorization process.

Elimination of the 90/10 Rule

As part of the Reauthorization process, one of the topics up for debate is whether or not to repeal the 90/10 Rule. This is a rule that can have an adverse effect on students as well as institutions of higher education. This was a rule that was put into effect that applies only to for-profit institutions, and this becomes a major source of debate at these institutions. Basically, this regulation states that the proprietary institution must receive no more than 90% of its revenue from federal sources, (Heller, 2003). If a school does not adhere to this rule, then the school would be subject to dismissal from the Title IV Financial Aid Program. So, this is a very strict regulation with serious consequences. It certainly punishes schools to the extent that a school could lose eligibility in the Title IV Financial Aid program. Many seek to abolish this rule completely citing that it no longer has relevance. However, there are some opposing viewpoints that firmly believe that the regulation should stay in effect. Dr. Donald E. Heller, an Associate Professor at Pennsylvania State University spoke on this issue at a congressional hearing held on September 11, 2003.

It is reasonable to expect institutions in the for-profit sector to demonstrate an ability to compete in the higher education arena without being dependent upon more than 90% of its revenue from federal sources (Heller, 2003). This perspective is that the regulation is reasonable and should stand. The problem remains in the spirit of the rule. Some have raised the question as to which individuals this rule actually penalizes.

This rule ultimately penalizes the students that are currently attending proprietary institutions as well as penalizing these institutions. These schools, often times, can not offer full Financial Aid packages to all of their students. In fact, some schools will actually ask for the 10 percent of the tuition costs up front. This can be a substantial amount of money depending on the cost of the institution. It is not necessarily fair that other students at different types of institutions can receive full Financial Aid packages, while students at proprietary schools may not receive full Financial Aid packages due to the 90/10 Rule. In fact, eliminating this provision will potentially open the door to more fraud and abuse in the Title IV Programs (Heller, 2003). It is clear that many proprietary schools abused the Title IV Financial Aid Programs in the early to mid-nineties. However, it is also a fact that many schools were expelled from the Title IV Financial Aid Programs (Dervarics, 1997). The most recent national cohort default rate report, issued by the United States Department of Education, showed that no school lost its Title IV privileges based on default rates for the Fiscal Year of 2001 (Secretary's Federal Family Education Loan Program/Federal Direct Loan Program, 2003). So, if all schools, including proprietary schools, are maintaining good status in the Financial Aid Program, then all institutions should have the same privileges. The fear of this rule causes some schools to ask for 10% of the cost of tuition up front, or at the time of the first course. Some students simply do not

have the money to put up front and as a result cannot attend their school of choice. The 90/10 regulation is clear. The Department of Education does not want private for-profit schools earning more than 90% of their tuition revenue from Federal Title IV Financial Aid funding. It just makes one wonder if there is a need for such a rule anymore. Thus, it would be a clear benefit to schools as well as students if this rule were repealed.

Repeal of the 50% Rule

In addition to the 90/10 rule, there is another controversial rule that pertains to schools that offer distance education programs. This is also a rule that can have an adverse effect on schools as well as students. This rule basically restricts the number of distance education courses that can be offered at an institution. It also regulates the number of students enrolled in them in determining what students can be deemed eligible for Title IV grants, loans, and work-study assistance (Heller, 2003).

The Department of Education recognizes the importance of Distance Education Programs, but there has to be a layer of caution when dealing with them. There were a number of correspondence courses that came out in the early nineties that offered Title IV Financial Aid funding, but really gave the students nothing in return in terms of quality education. These types of institutions are sometimes referred to as "Diploma Mills." So, students defaulted on loans and the government was left to pay the price (Heller, 2003). Ultimately, the students of today may be paying for abuses of the past.

Heller (2003) stated that he would encourage Congress to examine ways to ease the burden of the 50 percent rule. At the same time, the rule should not be completely eliminated. While there are many valid Distance Education Programs, there is still the worry that the Title IV

Financial Aid program may be abused as it has been in the past. There are a number of Distance Education Programs at legitimate colleges and universities that offer all or some of their courses through Distance Education and are still able to administer Title IV Financial Aid. However, these programs are considered pilot test programs by the Department of Education and there is no certainty that these programs will be able to continue to administer Title IV Financial Aid in the future. It is really dependent upon the success of Distance Education Programs in the arena of higher education as well as borrowers with healthy loans emerging from these programs. Similar to the 90/10 rule, it is also clear that it would benefit schools as well as students should this rule be repealed.

Conclusion

Overall, the Reauthorization of the Higher Education Act of 1965 is an important occurrence that happens approximately every six years. As we are currently in a Reauthorization period, it is clear that there are many issues that will need to be resolved in the Reauthorization process. The different factions of the government have different initiatives on their agendas. However, it is always important for all parties involved to remember the spirit of the original Higher Education Act of 1965. This document was created to give opportunities for individuals to gain a quality education who may not have otherwise had that opportunity. It is crucial to keep this original intention in mind when examining such topics as increasing annual Pell Grant awards, increasing annual borrowing limits on Stafford Loans, putting new standards for tuition increases, and many other topics. These are all topics that can ultimately help the student to attain his or her educational goals. This is why the Reauthorization process is so critically important. It allows the Department of Education to take a step back and look at all of the

different types of Financial Aid Programs as well as other programs and determine the appropriate areas to address. The current Reauthorization will ultimately be measured by the extent that it has improved the current practices at institutions that take part in the Federal Financial Aid Programs.

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QUESTION 5

Conferences and workshops on default management are held in many states throughout the U.S. Compare and contrast the cohort default rates between different states for the cohort default year of 2000 and 2001. Assess the degree to which these workshops may have had an influence on the default rate by examining the findings of interventions that are aimed at influencing and possibly improving default rates. Discuss strategies implemented to effectively strengthen default management in states or regions with high default rates. What trends can be identified as occurring in different regions of the United States?

Introduction

In an effort to effectively lower the national cohort default rate; the United States Department of Education breaks down default rates by individual states. This allows Guarantee agencies as well as the U.S. Department of Education to develop default prevention strategies that can be customized to individual states. As all states are different and unique, the borrowers in those states are also unique. Therefore, effective strategies in one state may not necessarily work in all states. For this reason, it is critically important to effectively gauge the strengths and weaknesses of all states and regions. There are, however, some default management techniques that have been effective universally and the Department of Education recommends to all schools (National Default Prevention Day, 2002).

The national default rate lowered in the cohort year of 2001 from the previous year. In 2001, the cohort default rate was 5.4%, while in 2000; the cohort default rate was 5.9%. The 2001 cohort proved to be a good year for schools lowering the default rate as a whole. Of the fifty-four states and territories that factor into the national default rate, only twelve had default rates higher than the previous year. Two states had default rates identical while the remaining 40

had default rates that actually went down from the previous year (FY 2001 Cohort Default Rates by State, 2003).

It is not necessarily clear-cut as to what rate is a good default rate for schools. One benchmark can certainly be the national default rate for a given financial year. For the FY of 2001, the default rate was 5.4%. So, it would be reasonable to say that any default rate of 5.4% or less would be a good default rate. Anything over 5.4% would not necessarily be a bad default rate, but it would certainly be above the national average. Interestingly, there were 27 states or territories with a default rate of less than 5.4% and 27 states or territories with a default rate of 5.4% or more and two states with a default rate of exactly 5.4% (FY 2001 Cohort Default Rates by State, 2003). There is usually not such perfect symmetry as the national default rate is not an average of state default rates. It is simply a calculation that takes all borrowers that defaulted on their student loans for a given fiscal year and divides that number by all of the borrowers who are in repayment for that same fiscal year (Student Financial Aid Handbook, 2003). As some states have many more schools and borrowers, it does not always work out with such symmetry.

Comparing and Contrasting Default Rates

The Tracking of Default Rates Among States and Regions

Since the Department of Education began tracking default rates in the late eighties, there have been several ways to group the data collected. For instance, all of the schools in the United States can be grouped in rank order. This data can also be broken down by type of institution, highest degree awarded, accreditation status, etc. In addition to the previous ways mentioned, default rates can be grouped among institutions in a state or region of the country. In the same way that the Department of Education calculates the national default rate, the Department of

Education breaks down the average default rate by states and regions. This allows Department of Education officials as well as members of the Financial Aid community to look trends in default rates among states and address possible needs for improvement among states with poor default rates as well as examining default management practices at states with the lowest default rates.

Default Rates Under 4 Percent

In the Financial Aid community, a default rate under 4% is considered exceptional. There were 9 states or territories with a default rate lower than 4.0%. Each of these states or territories had a unique feature to them. There were six states or territories with a default rate between 3.0% and 3.9%. The state of Massachusetts had a default rate of 3.8%. This was particularly impressive considering the number of schools in the state of Massachusetts (196) and the number of borrowers in repayment (67,119) (FY 2001 Cohort Default Rates by State, 2003).

The state of Minnesota is also another state with a default rate of under 4.0%. The default rate was 3.4% for the FY of 2001. This is also one of the larger states to have such a low default rate. Minnesota has 128 schools and 56,254 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003).

Another state in the Midwest that has an extremely low default rate is Wisconsin. The default rate for this state is only 3.0%. This is another fairly large state with 89 schools and 47,315 borrowers currently in repayment (FY 2001 Cohort Default Rates by State, 2003). This state also does a great job in managing a large number of students (National Default Prevention day, 2002).

The District of Columbia is a territory that had a very low default rate of 3.5%. This territory is much different from the previous three states that had a large number of schools and

large number borrowers in repayment. The entire District of Columbia only has thirty schools in its entirety. From those thirty schools, there are 16,201 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003).

The next cluster of three states all comes from the Pacific Northwest of the United States. Utah had a default rate of 3.8%. South Dakota had a default rate of 3.3%. North Dakota was one of the states to fall below 3.0% with a default rate of 2.9% (FY 2001 Cohort Default Rates by State, 2003).

These three states have an extremely small number of schools and borrowers in repayment. Utah has 37 schools and 20,287 borrowers in repayment. South Dakota has 30 schools and 11,501 borrowers in repayment. North Dakota has 24 schools and 10,669 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003).

There isn't necessarily a correlation between a low number of borrowers and a low default rate. Alaska, for instance, has only 10 schools and 2,228 borrowers in repayment, yet their default rate was 9.2% (FY 2001 Cohort Default Rates by State, 2003).

The final two states with the most impressive default rates of all the 54 states and territories are also states that border one another. The state of Vermont had a default rate of 2.9 and the state of New Hampshire had a default rate of 2.8%. This was the lowest default rate in the nation. Vermont had 28 schools and 8,964 borrowers in repayment. New Hampshire had 39 schools and 16352 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003).

Default Rates of 8 Percent or Higher

In contrast to states with a default rate of 4% or lower, there were four states or territories with extremely high default rates. These four states or territories had default rates of 8.0% or

higher. Of these four, only one state or territory had a default rate of 9.0 or higher. Fortunately, this cohort default rate had no states with a default rate of 10.0% or higher (FY 2001 Cohort Default Rates by State, 2003).

The state of Arkansas had a default rate of 8.1%. This state is one with a student population somewhere in the lower half in comparison to other states. This state had 56 schools and 17,141 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003). This state certainly could benefit from default management counseling.

The next state with a default rate over 8.0% is New Mexico. The number of schools in this state is 39 while the number of borrowers is 13,132 (FY 2001 Cohort Default Rates by State, 2003). The population of borrowers is close to that of Arkansas. Again, both of these states are towards the lower half in terms of student population. Each could certainly benefit from default management seminars.

Puerto Rico is a territory with a default rate over 8.0%. This U.S. territory had 54 schools and 20,094 borrowers in repayment. The default rate was 8.1% (FY 2001 Cohort Default Rates by State, 2003). This territory is obviously separated from the continental 48 states. This disconnect could certainly cause problems in default management techniques as Financial Aid professionals would certainly have more of a problem traveling to conferences and other avenues for professional development (National Default Prevention Day, 2002).

Default Rate of 9 Percent or Higher

Finally, the state or territory with the highest default rate is Alaska. It is also the only state or territory with a default rate of 9.0 or higher. The default rate was 9.2%. There were nine schools and 2368 borrowers in repayment (FY 2001 Cohort Default Rates by State, 2003).

Again, this would be an area with a great disconnect from the continental United States. As a result, this state had an extremely high default rate. The economy and cost of living in Alaska would also certainly contribute to such an inflated default rate compared with other schools for this cohort year. This particular state could certainly use some training in effective default management techniques (National Default Prevention Day, 2002).

The remarkable thing about the cohort fiscal year is that not a single school had a default rate of 10% or higher. As mentioned, Alaska topped in with the highest default rate of 9.2% (FY 2001 Cohort Default Rates by State, 2003). So, it is clear that the future of default management will reach new heights, or actually new lows as standards are being set for appropriate cohort default rates.

Workshops and Interventions that Effect Default Rates

Successful Default Management Practices

It is interesting to look at the regions and states that have been successful in their default management techniques. In the mid 1990's when default rates were in dire need of improving, many pointed to studying default rates of graduates versus non-graduates. It is an important distinction to make. Graduates are obviously more likely to pay back student loans than those that drop out of school. Thus, those looking to develop successful default management techniques would actually separate how one should deal with graduates versus non-graduates (National Default Prevention Day, 2002).

Now, whether a borrower is a graduate or a non-graduate, schools are obligated to provide default management counseling. If a student graduates, then that student has to pay back all of the money that he/she borrowed while attending school. If a student withdraws from

school, then that student needs to pay back only the portion of loan funds that have been disbursed while the student was attending school (Student Financial Aid handbook, 2003). So, in actuality, graduates generally have more money to pay back than those who drop out of a program. Graduates are also the group more likely to pay back their student loans. Students who drop out of programs of study are often times resistant to paying back their loans. This can be due to the fact that they did not have a pleasant experience in school and do not feel obligated to settle their debts (National default Prevention Day, 2002).

Walters (1996) talked about the regulation that disqualified schools with a default rate of 25% or higher for three consecutive years. In order to prevent this, schools would need to have an incentive for doing a better job of counseling student borrowers about the different repayment options available to them. New federal regulations hold various educational institutions partially responsible if too many of their students default on loans (Walters, 1996). The first thing that is clear is that responsibility lies with the schools, not solely, but there has to be an accountability factor there. Schools simply need to counsel their borrowers on their rights and responsibilities pertaining to their student loans. There should never be situations where borrowers default on their student loans and claim that they did not know all of their options.

Entrance/Exit Counseling. The Department of Education requires that schools perform entrance and exit counseling with their student borrowers. This is designed to educate them on their rights and responsibilities as a borrower (Student Financial Aid Handbook, 2003). It varies in how schools fill this requirement. Some schools with a smaller population will actually do one-on-one entrance/exit counseling with the student borrowers. This certainly works well as the student is getting individualized attention. However, not all schools have the staff to do

personalized entrance/exit counseling with all students. Another technique that schools use is to perform group entrance/exit counseling. This is a session that many student borrowers are asked to attend. This session run by a Financial Aid Professional that works for the school or an individual from the outside. Often times, Lending Institutions will send representatives to schools to do entrance/exit counseling as a courtesy to the school for using that Lending Institution as a preferred lender. Either way, the students get an informative session pertaining to their rights and responsibilities as a borrower. This is a very effective method of default prevention that many schools have put into place. Some schools actually mail or give the students entrance/exit packets that they are to complete on their own. The student borrower simply reads through the packet and fills out the forms to the best of his/her ability and hands them in. Now, this procedure satisfies the regulation requiring schools to complete entrance/exit counseling. However, it is not necessarily an effective way of default management. Some students are very intimidated by Financial Aid paperwork and will complete it to fill the requirement, but may not take a whole lot out of the content of those forms. Again, it fills the requirement laid forth by the Department of Education, but schools with high default rates are always encouraged to examine their entrance/exit counseling procedures to ensure that they are effectively informing student borrowers of their rights and responsibilities. The final type of entrance counseling is electronic entrance/exit counseling. There are several websites that provide this service. This type of electronic counseling is somewhere between the personalized counseling and simply mailing forms. These websites can be very interactive with the participants, coaching them through the process. There also may be an option for the student borrower to e-mail the Financial Aid Professional with a question. In addition, this type of

entrance/exit counseling saves paper as everything is done electronically. Many schools colleges and universities have adapted this as an effective method for counseling their population of student borrowers (National Default Prevention Day, 2002).

Default Management Performed by Outside Agencies. Now, schools often have staffing issues and staff members can sometimes be pulled in different directions. You may have situations where the same individual that certifies the student loans and processes them is also in charge of default management initiatives. If this is the case at a given school, it is simply not acceptable to say that the office is too busy to do default management and as a result, none will be done. Schools are mandated to perform this function (Student Financial Aid Handbook, 2003). One solution that the successful schools have begun is to employ a Guarantee agency that does effective default management. Walters (1996) described one such organization as USA Group. This organization is one of the largest guarantors of federal education loans in the entire country. There is over 200 full-time workers in default prevention. It would seem to be a very logical step for a school to take that had trouble doing its own default management. As schools are able to choose the Guarantee agencies that they use, it would make all the sense in the world to employ a Guarantee agency that is going to assist in default management. Guarantee Agencies are constantly looking for new clients, so it is really up to the school to find a Guarantee Agency that best meets the needs of the school. Often times, schools will look for Guarantee Agencies with strong default management practices.

Default Prevention Day. Several of the major default management strategies to improve default rates among various states and regions are presented annually on default prevention day. This event is held simultaneously at various major cities in different areas of the country

(National Default Prevention Day, 2002). The following information comes from the event held in Boston on 08/01/2002.

Viau (2002) presented both a historical perspective as well as current focus to enable schools to develop effective default management strategies. She listed the same key strategies that should be performed as part of any default management strategy. One such strategy would be early intervention calls must be done to ensure that the borrower is well aware of his/her obligations. This cannot be stressed enough. Effective default management must have regular phone calls. These calls should be placed strategically beginning with early intervention all the way through severe delinquency. This method ensures that borrowers are aware of their obligations to their lender.

Another such strategy would be motivational letters. These letters at all stages of delinquency should be developed and sent to students at the appropriate time (Viau, 2002). First, it is important for any good default management plan to have a good series of letters. These letters are often labeled by the day that they will be sent (30 day delinquent letter, 45 day delinquent letter, 60 day delinquent letter). These letters, as one might imagine, get progressively more serious as every letter takes the student one step closer to a possible default. These letters are meant to inform the students that they do have an option, but only if they effectively communicate with their lender. If they choose to ignore the letters as well as the bills and phone calls, there will be severe consequences.

Another effective strategy would be to place calls labeled Promise to pay not received Report calls (Viau, 2002). This strategy is exactly what it sounds like. So many students go into default because of the lack of follow-up by Financial Aid Professionals. This process requires

constant follow-up. To often, a Financial Aid Professional will call a delinquent borrower and that borrower makes a commitment to make a loan payment. Well, if that payment is not made in the specified time frame, then the Financial Aid Professional needs to follow up with that delinquent borrower. An effective default management programs requires constant contact with the borrower. If borrowers fail to meet their obligation, then they need to be aware of this.

Viau (2002) listed another strategy of having extended hours, particularly evenings and weekends, as an important default prevention technique. This may not sound like a lot, but it really goes a long way in default prevention. This is the best time to get borrowers on the phone and speak with them during a time that they are not completely busy. It is also a time to allow the borrowers to call in and have their questions answered. If Financial Aid Professionals make all of their calls during the day, then there is a good chance that they are going to get the borrowers answering machine or voicemail. Not all, but many borrowers work jobs with traditional 9-5 hours. Now, some Financial Aid Professionals will call borrowers at their workplace as part of their default management calls. However, many Financial Aid Professionals will only call the borrower at work if the borrower is in a sever delinquency stage or perhaps nearing default. More often, Financial Aid Professionals will work extended hours to improve their chances of getting borrowers on the phone. These are just a few of the many default management strategies that can be done at the school level to improve default management practices and help the overall national default rate.

Default Prevention Day – Four Characteristics of Defaulters. In order to effectively maintain quality default management, one needs to have a good understanding of the characteristics of defaulters. Sola (2002), an employee of the United States Department of

Education listed the most common four characteristics of defaulters. These are the most prevalent characteristics found in borrowers who default on their student loans. One, a student withdraws from school and does not complete his/her program of study. Many believe that this is the number one reason for students defaulting on their loans. If students do not finish their program of study, then they tend to think that they should not owe anything. Often times, students that drop out of a program of study are dissatisfied with that program for one reason or another. For this reason, they may refuse to pay back their student loan. It is an unfortunate way of thinking, but present none-the-less. For this reason, student loan entrance counseling often contains a statement that clearly tells the student that he/she is responsible for repaying the student loan despite his/her satisfaction with the program.

Second, having bad telephone numbers during the life of the loan often leads to default (Sola, 2002). This is an occurrence that tends to happen more than it should. During the initial counseling session, the school will often ask for multiple phone numbers as well as multiple references. The point of this is to keep contact with the borrower throughout the life of the loan. Unfortunately, students will move and fail to inform their lender. If the references do not help the lender to locate the borrower, then that borrower will have a good chance of going into default. Financial Aid Professionals will often call all of the references listed for the student borrower in the one of the references will know how to contact the borrower.

Third, if the borrower has not been successfully contacted by phone during the collection process, then that borrower has a likelihood of defaulting on his/her student loan, (Sola, 2002). As mentioned, it is critically important to make periodic phone calls to delinquent borrowers. Some borrowers simply need constant contact in order to keep healthy loans. Schools that have

effective default management plans always make periodic phone calls in order to remind students of their obligations. Sometimes all it takes is a friendly reminder call to nudge that student to send in their loan payment. Other times, the Financial Aid professional may discover that the borrower is going through some financial hardship. This borrower may qualify for a postponement of the loan in the form of a deferment or forbearance. The Financial Aid Professional can help to counsel student borrowers on all of their available options. Contacting the borrower is critically important for a successful default management plan. If this technique is not being done on a regular basis, the students are more likely to default on their loans.

Four, if a student does not have the full six month grace period as a result of late enrollment notification, then that student has a more likelihood to default on his/her student loan, (Sola, 2002). This is another unfortunate incident that occurs if the school does not notify the lender of enrollment verification on a timely basis. This can throw off the grace period (the six month time-frame between when the student is no longer enrolled half-time and when the first payment is due). Unfortunately, miscommunication with the lender can lead to this type of occurrence, which leads to a high probability of loan default. It is the responsibility of the institution to notify the lender of accurate school statuses for borrowers on a timely basis. Accurate information will ensure that students receive their full grace period and become less likely to default on their student loans.

Knowing these characteristics of potential defaulters, a school must come up with effective strategies to deal with them. In the past, default prevention was only done by the Financial Aid Office at an institution of higher education. Sola makes it clear that an effective default prevention team should include a variety of individuals. It should include the following

members: Senior Management, Business Office, Admissions, Registrar, Financial Aid, Alumni Affairs, Student Representative, as well as Faculty (Sola, 2002, p. 1). It seems as if the entire school is listed here. It is really a statement that default prevention is everyone's job, not just members of the Financial Aid Office. Each of these offices takes a different perspective to the table and may have pieces of information that can lead to successful default prevention. Often times, members of the Admissions Department will build up a relationship with students as they go through the Admissions process. The representatives may have insights that members of the Financial Aid Office do not have pertaining to certain student borrowers. The Alumni Affairs Office may have current contact with the student borrower as the Alumni Office will often send correspondence to their alumni and keep in contact with them as well as having annual events. This office may be aware of developments in a student's life that the Financial Aid Office is unaware of. These are just two examples of ways that other departments of a school can contribute to a successful default management team. This kind of teamwork can help to effectively build a solid default management plan.

Default Prevention Day – Loan Locator. National Default Prevention Day (2002) is also used as a platform to present tools that may be utilized by Financial Aid Offices. One extremely effective tool that was presented at default prevention day was the loan locator. It is actually a website: www.loanlocator.org. This is a mechanism that was developed to help prevent student loan default. It is a common occurrence for students to not know how to locate their loans. Many individuals are surprised by this, but it actually happens very often with student loans. Students often move around a lot, especially the younger students. A student might live on-campus at a college or have an off-campus apartment. That same student might change his/her address

throughout college and upon graduation. So, the lenders do sometimes lose contact with a student, even though the student is counseled to notify the lender should any changes occur. Often times, a student simply forgets to update all necessary parties of any changes that may have taken place. In addition to this, students do not always keep track of all the loans that they have taken out. So, it is not uncommon for students to fail to meet their responsibilities due to the simple fact that they have not kept track of the different loans that they have taken out while attending college (Loan Locator Fact Sheet, 2002).

So, to combat this occurrence the loan locator was developed. Should students lose contact with their original lender, they could use the Loan Locator to assist them in locating this loan so that it does not go delinquent or any more delinquent than it may already be. The Loan Locator pulls from FFELP, FDSLPL, Perkins, and private loans of Clearinghouse participants (Loan Locator Fact Sheet, 2002). While it does not claim to be all comprehensive, it does pull data from a wide variety of sources to ensure that nearly all student loans will pull up on this website.

The benefits of this service to the students are as follows to help students find out who owns their loans quickly. It provides contact information for easy follow-up by the students. Finally, it identifies all loans applying for loan consolidation (Loan Locator Fact Sheet, 2002, p. 1). These are three really helpful benefits for students. It truly assists the student in effective debt management.

There are also benefits for schools that utilize the loan locator service. These benefits are that it gives schools and students a total picture of the borrowing situation. It assists with overall default management. It provides a comprehensive source of non-commercial student loan

information (Loan Locator Fact Sheet, 2002). This is useful information for a school to have in its default management initiatives. One can certainly understand why the United States Department of Education would endorse this product and include this product in the presentations on default prevention day. It seems to be an effective and worthwhile tool for combating student loan default.

Summary

Default Prevention Day is an event sponsored by the Department of Education each year. It is an important occurrence as several default prevention strategies are presented to Financial Aid Professionals. In addition to this, the Department of Education presents characteristics that are most prevalent among defaulters. This will help individual Financial Aid offices to develop effective default management strategies. Finally, the Department of Education uses Default Prevention day as a platform to present products that may be beneficial to Financial Aid Offices.

Trends in Default Management Found in Different Regions of the United States

Default Rate Trends Among States and Regions

In comparing and contrasting default rates among states, one sees trends emerge among regions. For instance, American Student Assistance, one of the most progressive Guarantee agencies in the country emerged from the state of Massachusetts. Remarkably, this state had a default rate of 3.8% (Default Prevention Day, 2002). In addition, this Guarantee agency is also widely popular in the states of Connecticut and Rhode Island with respective default rates of 4.4% and 5.2%, both very respectable rates for the Fiscal Year of 2001 (FY 2001 Cohort Default Rates by State, 2003).

An organization named Consumer Credit Counseling Service (CCCS) has been widely popular in the states of New Hampshire and Vermont over the past several years. This organization runs several educational programs to both youth as well as adult learners. These programs are designed to educate the general public on proper debt management (National Default Prevention Day, 2002). With this type of service and commitment to education, it is not surprising that New Hampshire and Vermont had the lowest default rates at 2.8% and 2.9% respectively for the fiscal year of 2001 (FY 2001 Cohort Default Rates by State, 2003).

Conversely, a state such as Alaska was cautioned for continuously having a high default rate (Default prevention Day, 2002). For the FY 2001, Alaska had a default rate of 9.2%, which was dangerously close to being the only state with a default rate over 10%. The panel of experts at default Prevention Day highly recommends that states in need of better default management should develop sound default management plans and ask for help if needed (National Default Prevention Day, 2002).

Another state that has had problems in the past with default management is New Mexico. For the FY 2001, this state had a default rate of 8.4% (FY 2001 Cohort Default Rates by State, 2003). In addition to this high default rate, this was one of the few states to post an increase in default rate from the previous year where the default rate had been 8.2% (FY 2000 Cohort Default Rates by State, 2002). It was also recommended that schools in areas of the country where language barriers may be a problem utilize various publication printed in different languages. These include publications by the Department of Education as well as Lenders and Guarantee agencies. These organizations continue to produce publications in English as well as

Spanish and French with the goal of reaching a wider audience and not letting language become a barrier.

Summary

So, in looking at the progress of various states in default management, both successful states as well as those facing challenges, one can see several trends emerging. Communication, both verbal and written, continues to be a major key to success. The states that are able to effectively spread their message of proper debt management are able to be successful with their default rates. Conversely, states that are not able to spread this message have had trouble in effectively managing their default rates. Communication remains the key as well as education. If one can successfully educate the borrower, then that borrower is more likely to pay back his or her student loan (National Default Prevention Day, 2002). When it comes to default management, this is one key that separates the successful states from those not as successful.

Conclusion

As a whole, it is important to look at default prevention strategies on a state-by-state basis. Each state is unique in its own way and thus some states are more successful than others. It is crucial to the national default rate to be able to identify areas of concern and address those areas as needed. It is also important to look at states that have been successful in order to draw out some of the more successful techniques. Default Prevention Day can certainly help in improving default rates. It is an effective way to give information to large groups of individuals in many areas of the country. It also provides a networking opportunity for Financial Aid Professionals to discuss default management strategies and share best practices amongst themselves. In addition, improved technology can help communication between borrowers and

lenders, which will ultimately improve the overall default rate. The advancement of technology will continue to be one of the critical areas of focus for the United States Department of Education.

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QUESTION 6

Compare and contrast qualitative versus quantitative research methodologies. In studying trends in electronic Financial Aid Processing, which would be the more appropriate choice of methodology? Provide justification for the selection by researching the following question: Describe the extent that a fully electronic Financial Aid Process has replaced the more traditional paper process.

Introduction

Qualitative research consists of "Inquiry that is grounded in the assumption that individuals construct social reality in the form of meaning and interpretation, and that these constructions tend to be transitory and situational. The dominant methodology is to discover these meanings and interpretations by studying cases intensely in natural setting and by subjecting the resulting data analysis induction" (Gall, Gall, & Borg, 2002, p. 634). One of the key points made by the authors is that individual cases are studied intensively. So, when a researcher is conducting qualitative research, that individual tends to spend a great deal of time on an individual case. Thus, the number of cases that can be looked at tends to be extremely limited.

Quantitative research consists of "Inquiry that is grounded in the assumption that features of the social environment constitute an objective reality that is relatively constant across time and settings. The dominant methodology is to describe and explain features of this reality by collecting numerical data on observable behaviors of samples and by subjecting these data to statistical analysis," (Gall, Gall, & Borg, 2002, p. 634). Quantitative research tends to look at large sets of data. This greatly differs from qualitative data, as the scope is much wider.

Quantitative data may involve surveys or other tools used to collect a wide range of data. These data are then analyzed and put through several statistical tests.

Comparison of Qualitative versus Quantitative Research

In studying the steps involved in the research process, one should fully weigh both the advantages as well as disadvantages for each type of study. In terms of identifying the research problem, quantitative research is focused on developing an explanation of the relationship among variables as opposed to qualitative research, which tends to explore the understanding of a central phenomenon. So, while quantitative research keys in on variables, qualitative research is focused on a central phenomenon (Creswell, 2002). When an individual takes the important step in identifying a research problem, one can also view the appropriate research types by looking at these research characteristics.

Determining the Appropriate Design

It is crucial for researchers to choose the appropriate design for their studies. There are several designs to choose from, so the researcher would certainly need to have an understanding of the different types of research designs in order to make the most appropriate choice.

Ultimately, the procedures for collecting, analyzing, and reporting research in quantitative as well as qualitative research becomes the basis for the design (Creswell, 2002).

Experimental or Quasi-Experimental Design

One type of design is the Experimental or Quasi-Experimental design. This particular design is generally used in quantitative research where the investigator determines the impact of an intervention on the outcome of participants in a particular study (Creswell, 2002).

The Experimental or Quasi-Experimental design generally consists of five key characteristics. These studies involve participants that are selected and assigned to various groups; one group is the control group while the other group is the experimental group. Second, an intervention is generally applied to one or more groups. Third, at the end of the experiment, the various outcomes are measured. Forth, there are procedures set forth that are designed to identify potential threats to the validity of the experiment as well as the results. Finally, the researcher conducts statistical comparisons of the different groups. These characteristics apply to a single experimental study and guide the researcher through the process (Creswell, 2002).

In the course of an Experimental or Quasi-Experimental design, the researcher seeks to maximize the influence of the independent variable. This is the whole point of the study. In addition, the researcher attempts to minimize the influence of the extraneous or outside factors that may alter the effect of the relationship. The goal is to keep out any possible outside influences that could ultimately change the results of the experiment.

An important step to any research experiment is the measurement of outcomes. The outcome is the dependent variable and the presumed effect of the independent variable (Creswell, 2002). An example o a dependent variable might be standardized test scores on a college admissions examination. There are certain independent variables that cannot be manipulated such as age or gender. However, and independent variable that could potentially be manipulated might be pretest instruction. The level of pre-test instruction could be controlled. Ultimately, the effect that this independent (pre-test instruction) could have on the dependent variable (Test scores) could be measured.

Reliability and Validity - Experimental or Quasi-Experimental Design

In conducting Experimental or Quasi-experimental studies, one must examine potential problems with reliability and validity. One of the potential problems in such a study is the threat of statistical conclusion validity. Examples of this might be low statistical power due to a small sample size or the use of unreliable measures (Creswell, 2002). When dealing with statistics, there are potential hazards such as this one that could bring in question the validity of the experiment and the results.

Other potential hazards are the threats to internal validity. These are problems that threaten the researcher from drawing the correct inferences due to either experimental procedures or the experiences of the participants (Creswell, 2002). These threats to internal validity can be especially dangerous because they can potentially compromise what may have otherwise been a productive experiment (Creswell, 2002).

There are also threats to construct validity. These are problems that threaten to swing the researcher from drawing correct inferences due to measures used for the treatment and the outcome. To avoid this threat, the researcher must use good definitions of measures. In addition, the measures must be complex enough that the participant cannot guess what results the researcher hopes to find (Creswell, 2002). The researcher must give clear and concise instructions to the participants in order to avoid this particular threat.

Finally, there are threats to external validity. These are potentially problems that threaten drawing correct inferences from the sample data. These potential threats are the interaction of selection and treatment, and the interaction of history and treatment. The first threat involves the inability to generalize beyond the group involved in the experiment. The second threat arises

from the inability to generalize from the setting where the experiment has taken place to another setting. The third threat arises when the researcher attempts to generalize findings to past or future situation (Creswell, 2002). Collectively, these three threats can potentially jeopardize the external validity of an experiment.

Correlational Design

A second type of research design involves Correlational designs. This type of design involves procedures in quantitative research where investigators use a correlational statistical technique to describe and measure the relationship between variables for given sets of data (Creswell, 2002).

Correlational designs generally contain three key characteristics. First, the graphing of pairs of scores is used to identify the association or relationship among variables as well as the degree of association. Second, this type of design includes a calculation of the correlation coefficient statistic and assessment of the strength of the association. Finally, this design often contains an extension of the analysis beyond the correlational statistical test to more advanced statistics (Creswell, 2002).

When graphing pairs of scores, one could potentially derive a variety of results. Some examples of results are a positive linear relationship, a negative linear relationship, no correlation, or a curvilinear relationship (Creswell, 2002). For example, a researcher could study the practicing habits of the starting lineup (nine players) for a minor league baseball team. The researcher might determine that he/she is going to look at hours of batting practice per week and compare that to batting average in game situations. The researcher would then measure hours spent in batting practice along with batting average. A positive relationship would be if those

diligent baseball players who spend the most hours in batting practice also maintain the highest batting averages. A negative relationship would be if those that spend the least time taking batting practice have the highest averages. If there was a complete inconsistency of results where the researcher cannot determine a relationship, then there is no correlation involved. A curvilinear or non-relationship yields a U-shaped distribution of scores. This type is more problematic, because it shows that some players that spent a high number of hours at batting practice hit low, while others that spent a high number of hours hit high. Or if the curve is the other way, it could mean that some players that spent a small number of hours at batting practice hit low, while others that spent a small number of hours hit high.

Reliability and Validity - Correlational Design

There are a number of issues to look at when examining the reliability and validity of a correlational design. In such a design, the researcher is collecting at least two sets of data from the individual. However, to understand more complex relationships, the researcher may collect more complex variables (Creswell, 2002). The danger lies in making simple inferences from only two sets of collected data. For example, a researcher might collect data from a college freshman class studying art history. Let's assume that there are 20 students and the dependent variable is first year GPA. That researcher may choose SAT scores as an independent variable yielding a negative linear relationship. The lower that these students scored on the SAT test, the higher the first year GPA that they maintained. However, the danger is that there may be other factors that might have affected the researcher's ability to draw valid inferences from the results. There could potentially have been a number of independent variables that were ignored such as

credits taken by each students, hours worked per week by students, availability of tutorial assistance, etc.

Survey Design

The Survey design is a quantitative form of research in which the researcher administers a survey to a sample or an entire population. This survey collects the attitudes, opinion, or characteristics of the population being surveyed. Ultimately, the researcher collects the response data and uses statistical test to analyze the data (Creswell, 2002).

The Survey design differs from Experimental research in the sense that the research does not involve a treatment given to participants. The researcher in no way manipulates the conditions. The goal is to learn more about a population and less about relating variables or predicting outcomes (Creswell, 2002).

There are six key characteristics of survey designs. First, a sampling from a population needs to be taken. Next, data is collected through either questionnaires or interviews. The researcher determines the instruments to be used for data collection. The research will need a high response rate. The researcher may design and administer a mailed questionnaire to participants. Finally, the researcher may choose to conduct an interview survey with participants (Creswell, 2002).

There are several methods for data collection in a survey design. The most traditional method would be a mailed survey in which the researcher mails a questionnaire to the participants. With today's technology, the researcher may choose to utilize an electronic questionnaire. This is a survey instrument that uses an Internet Web-site or e-mail to conduct a survey. The researcher may choose one-on-one interviews if it is feasible to survey a given

population in such a manner. The researcher must be sure to ask close-ended questions to the participants. Focus groups interviews are an alternative to one-on-one interviews in which the interviewer administers a survey to a small group. Finally, telephone interviews are a way in which the researcher asks survey questions over the phone and records the answers of the participants. Again, these should be closed-ended questions (Creswell, 2002).

Reliability and Validity - Survey Design

There are many potential dangers when conducting a survey design. The first is the response rate. If the response rate is too low, then that potentially puts the validity of the study in question. A researcher conducting a Survey design study would want to take certain steps to ensure a maximum response rate from participants. In addition to this, the manner in which the researcher poses questions to the participants can be crucial to the reliability of the data collected. Often times, the researcher may need to present an introductory statement before the questions to ensure that that participant properly understands what is being asked. This is critical for the integrity of the data. The researcher wants to be certain that the participant fully understands what is being asked in the question.

Grounded Theory Design

The next type of research design involves Grounded Theory design. These particular designs tend to use systematic, qualitative procedures that researchers use to generate a theory. This theory explains a process, action, or interaction about a substantive topic. One could break down Grounded Theory into three smaller pieces or designs: the Systematic design, the emerging design, and the constructivist design (Creswell, 2002).

The Systematic design emphasizes the use of data analysis steps. These include open, axial, and selective coding as well as the development of a logic paradigm. The Emerging design is a process where the researcher simply collects data and immediately analyzes it without waiting until all of the data is collected. Then, the researcher bases the decision on what data to collect next based upon the analysis of the previous data. The constructivist design focuses on the views, values, beliefs, and feelings of participants in the study. This viewpoint also mentions the values and beliefs of the researcher (Creswell, 2002).

There are five key characteristics of Grounded Theory designs. One, this design studies a process that is related to a substantive topic. Second, the sampling theoretically involves the simultaneous collection and analysis of data. Third, there is a constant comparison of data with an emerging theory. Forth, this design contains the selection of a core category as the central phenomenon of the theory. Finally, the researcher generates a theory that explains a process about a topic (Creswell, 2002).

Reliability and Validity - Grounded Theory Design

The important aspect to a Grounded Theory design is that ultimately the theoretical explanation makes sense to participants and portrays and accurate rendering of events in the process. Thus, validation becomes a crucial step in grounded theory research. For instance, after developing a theory, the researcher would need to validate the process by comparing it with existing processes that can be found in the literature.

Ethnographic design

The next type of design is the Ethnographic design. These designs are qualitative procedures used for describing, analyzing, and interpreting a cultural groups shared patterns of

behaviors as well as beliefs and language that develops over time. The researcher provides a detailed picture of the cultural sharing group. There are generally three categories that an Ethnographic Design can be broken down to: the realist ethnography, the case study, and the critical ethnography (Creswell, 2002).

The realist ethnography provides an objective account of the situation. This typically is written in the third-person point of view and objectively reports on information that it obtained from participants. Case studies involve researchers that focus on a program, event, or activity involving individuals rather than a group. However, the researcher searches for shared patterns that may develop in a group over time. Finally, critical ethnographies involve a type of research in which the researcher becomes an advocate for the group that he/she believes has become marginalized by society (Creswell, 2002).

There are a number of characteristics that can be found in an ethnographic design. These characteristics include an exploration of cultural themes that are drawn upon from cultural anthropology. It includes the study of a cultural-sharing group. The researcher examines the shared patterns, behaviors, beliefs, and language of a certain group. Data is collected through fieldwork experiences. The researcher provides a description and analysis of themes about the culture-sharing group. The researcher provides a presentation of themes as well as interpretation of the context or setting of the group. Finally, an Ethnographic design contains reflexivity from the researcher about his or her impact on the researcher site and the cultural group that is being studied (Creswell, 2002).

Reliability and Validity - Ethnographic Design

The key to an Ethnographic design study is that researchers ultimately write their reports reflexively. This means that the research is aware of his or her role in the study and ultimately respects the site and the people that are being studied. The researcher may spend a prolonged amount of time at a given site and goal must be entry and exit of the site leaving it as undisturbed as possible. If the researcher does things that may change the attitudes and perceptions of the individuals being studied, the reliability of such a study is being put into question.

Narrative Research design

The next type of Design is the Narrative Research design. These designs are generally qualitative procedures by which researchers describe lives of individuals by collecting stories about their lives as well as writing narratives about experiences of various individuals (Creswell, 2002).

There are seven key characteristics that can be found in Narrative Research designs. First, this type of design focuses in on individual experiences. The researcher reports a chronology of these experiences. Researchers also collect individual sties that have been told to them by participants. Another characteristic is the restorying of the individual stories. The researcher codes these stories for themes. There is a description of the context or setting for the individual stories. Finally, there is collaboration throughout the process of research with those individuals whose stories are being reported (Creswell, 2002).

One of the factors that make narrative research unique is that it generally focuses on studying a single person. The researcher gathers data through a collection of stories and discusses the meaning of those experiences for the individual. Furthermore, the procedure for

retelling or restorying the participant's story remains a unique qualitative approach only used in narrative research (Creswell, 2002).

Reliability and Validity - Narrative Research Design

Ultimately, there are strengths and weakness of Narrative Research designs.

Collaboration can be a strength as well as a weakness found in this type of design. When the researcher is spending a great deal of time with one individual in a particular setting, the individual is bound to establish a close bond with the participant. This bond may or may not have an influence on the study as well as the results (Creswell, 2002)

Another potential hazard is the authenticity of the story. There is always the fear that the participant may exaggerate or outright fake the story. Although the researcher would like to believe that this would not happen, there is always the change that the participant, for whatever reason, may embellish the story or distort facts entirely. This certainly compromises the integrity of the data (Creswell, 2002).

One final potential problem revolves around the ultimate ownership of the story. If a researcher retells a story, then the question is raised as to who owns that story, the researcher or the participant who originally told the story? There are permission levels that must be obtained in the retelling of stories and can ultimately jeopardize the presentation of data if the correct steps are not followed.

Mixed Method Design

The next type of design is a Mixed Method design. These are procedures that collect both quantitative and qualitative data in one study. Furthermore, the analyzing and reporting of such data is based upon priority, sequence, and level of interpretation of information (Creswell, 2002).

A Mixed Method Design can furthermore be broken down into three distinct types of designs: the Triangulation design, the Explanatory design, and the Exploratory design. The Triangulation design has a purpose to simultaneously collect both quantitative and qualitative data, then merge that data and use the results to better understand the research problem that is being addressed. This design is based upon the premise that one data collection form will ultimately provide strengths that helps to offset the weaknesses that may be found in the other data collection form. The Explanatory design is also one where the researcher collects quantitative as well as qualitative data. However, it varies from the Triangulation design in the sense that the researcher collects the quantitative data first and then collects the qualitative data to help elaborate on the results of the quantitative data. The idea behind this is that the quantitative results provide a picture of the research problem, but qualitative data collection is essential to refine and explain the general picture. Finally, the Exploratory Design is the reverse of the Explanatory design. Here, the researcher first gathers qualitative data to explain a phenomenon. Then, the researcher gathers quantitative data in an attempt to explain the relationships found in the qualitative data (Creswell, 2002).

There are six key characteristics to a Mixed Method Design. The first characteristic is a justification by the researcher why both quantitative and qualitative data are being collected. Next, the researcher collects both quantitative as well as qualitative forms of data. The information about priority is given to either the quantitative or qualitative data. In addition, information about the sequencing of the quantitative and qualitative data is given. The researcher gives an analysis of the data shaped by the particular mixed method design. Finally, a visual is given that portrays the procedures for the design (Creswell, 2002).

Reliability and Validity - Mixed Method Design

There are indeed strengths and weaknesses of Mixed Method Research. It provides a good design to build upon the strengths of both qualitative and quantitative data. Ultimately, it helps to provide a more complete picture of the research problem. These are certainly advantages for this research design, but these advantages must be weighed against the disadvantages and possible problems with reliability and validity. This design requires both training in qualitative and quantitative research. Having a weakness in one of these areas may compromise the results of the study. In addition, the researcher may need to educate reviewers who may not be familiar with this type of design (Creswell, 2002). Ultimately, it is the reviewers that are going to be reading this material. If the reviewer does not understand the manner in which the material is being presented, then questions are going to be raised about the validity of such a study.

Action Research Design

The final type of research design is Action Research. These designs are systematic-procedures generally used by teachers or individuals in an educational setting to gather qualitative or quantitative data. These data can subsequently improve the ways in which particular settings operate, how instructors teach, and how students learn (Creswell, 2002).

Fundamentally, Action research has six major points. First, it encourages change in school. It fosters a democratic approach to education. Next, it empowers individuals through collaboration on projects. It positions educators as learners who seek to narrow the gap between practice and the vision of where education should ultimately be. It encourages educators to

reflect on what they have done. Finally, it promotes a process of testing new ideas (Creswell, 2002).

There are generally two types of Action Research designs. The first is Practical Action Research and the second is Participatory Action research. Practical Action research involves teachers who conduct research in their own classroom in order to improve student learning as well as professional performance. This is small-scale type of research that focuses in on a very specific problem. Participatory Action research focuses on the community rather than the classroom. The object is to improve the lives of those in the community (Creswell, 2002).

There are six characteristics found in Action Research. First, the focus is on practical issues. It is a study of the educator-researcher's own practices. There is collaboration between the researcher as well as the participants. This type of research contains a dynamic process of spiraling back and forth between reflection, data collection, and action. The researcher develops a plan of action to respond to a practical issue. Finally, this type of research involves the sharing of a research report with local school or community personnel (Creswell).

Reliability and Validity – Action Research Design

Ultimately the validity of the research relies on a number of things. The researcher must clearly state the problem that is to be addressed. The researcher must provide a sufficient amount of data to address the problem. The goal of the researcher is to enhance the lives of the participants by empowering or changing them, thus the effectiveness of the study can be measured by this. Finally, Action Research should provide information to audiences that might find the information useful (Creswell, 2002).

Summary

It is important to be aware of various designs that a researcher may choose from. Each individual design can have advantages as well as disadvantages, depending on the type of research that is being done. It is critical for the researcher to consider the various types of designs available in order to arrive at the most appropriate choice.

Further Exploration of Quantitative and Qualitative Research Methods

One of the fundamental differences between quantitative and qualitative research methods is that qualitative research tends to deal with natural settings and a relatively small number of subjects. Quantitative research tends to deal with large amounts of numerical data and a much larger number of subjects than qualitative research. This data is put through a variety of statistical tests as part of the research process (Gall, Gall, & Borg, 2002).

In addition to these differences, qualitative research tends to explore a central phenomenon through the collection of detailed views of participants. Through this data, the researcher draws upon personal reflections and past research in the research process. In contrast, quantitative research tends to consist of narrow questions in which the researcher can gather large amounts of data. From there, statistics are used to interpret this data in the development of a final report. Furthermore, the quantitative researcher displays objectivity and lack of bias in the research process (Creswell, 2002).

Design Best Suited for Proposed Financial Aid Study

The most appropriate research methodology for studying trends in Financial Aid processing would be a quantitative study. It would be most effective to survey a number of Financial Aid Directors in order to get a good overview of the extent that Financial Aid Offices

have moved to electronic processing. Therefore, the most appropriate design to use would be the survey design. This would certainly enable the researcher to gather a great deal of data in order to examine trends in electronic Financial Aid Processing.

This would of course be a quantitative methods study in examining trends of electronic processing in Financial Aid Offices. If one wanted to go the route of a qualitative study, then one might conduct interviews with Financial Aid Directors as a means for data collection. These interviewers could examine how Financial Aid Directors have transitioned to electronic processing and the extent to which the Financial Aid Office is electronic. This could be an effective way to examine trends in Financial Aid processing. However, a quantitative study would probably be more indicative of the population of Financial Aid Directors as a whole. It would certainly encompass a much wider population.

Studying Technology Trends in Financial Aid Offices

In studying technology trends in Financial Aid Offices, a quantitative design would be the more logical choice, as it would allow you to survey several Financial Aid Directors to inquire about the current procedures in their offices. Fundamentally, one would want to look at two aspects when creating such a survey. The first aspect would be simply to analyze how many Financial Aid Offices have converted in one way or another to an electronic office. The second aspect that would need to be examined for the schools that have converted to an electronic process would be the extent that the office has become electronic. In 2004, many offices use some type of electronic processing, but often times that does not go beyond the FAFSA application. The FAFSA application is one that must be completed by students either electronically or in paper form in order to be eligible to receive Federal Financial Aid (The Student Guide, 2003).

Ultimately, one would want to look at schools, colleges, and universities that have converted to a fully electronic process.

The survey in a quantitative study such as this would be an important tool to design, as it would need to cover many areas of interest. Some of the possible questions that could be used in such a survey would be as follows: How would you rate your office in its ability to process forms electronically? Does your office encourage students to complete FAFSA on the Web? Does your office participate in Electronic Loan Counseling? Does your office participate in Electronic Loan applications via E-Signature?

These questions are designed to show the extent that a Financial Aid Office has converted to electronic processing. The reality is that Financial Aid Offices have converted to electronic processing to various degrees. For example, a Financial Aid office may encourage FAFSA on the Web and may perform electronic loan counseling. However, that same Financial Aid Office may never use electronic signature with loan applications, always requiring that a student complete an original loan application. It is all relative to the individual Financial Aid Office and the purpose of such a survey would be to get these types of answers.

The remaining two questions are simply questions that the Financial Aid Director would have to answer. They are very direct questions inquiring if the Financial aid Director has any intention of converting to a fully electronic Financial Aid Office and when. These questions are as follows: Do you expect your FA Office to convert to a fully electronic process? If you expect your Financial Aid office to convert to a fully electronic process, when?

The input given by others could be examined in a quantitative manner. The researcher would need to distribute enough of surveys to get a good overview of the population of Financial Aid

Directors. The results of such a study may prove to be insightful in identifying the willingness or lack-there-of, for Financial Aid Directors to convert to a fully electronic process.

Quantitative versus Qualitative Study

It is not to say that a qualitative study could not be employed. An individual could perform qualitative interviews with a limited number of Financial Aid Directors. Someone could get great feedback about how FA Offices are run and how technology is used. However, a qualitative study may not be reflective of the Financial Aid process as a whole. For instance, one could do great qualitative work with four or five Financial Aid Directors, but these results may not be reflective of the Financial Aid community as a whole. This is one of the primary reasons that one may lead to a quantitative study in this case.

Electronic Processing Initiatives for Financial Aid Paperwork

Department initiatives for electronic processing included more than simply processing for colleges and agencies. It also extended to applications and processes for students. Ever since the advent of the Title IV Financial Aid program in 1965, the government has sought ways to improve upon it, (National TRIO Clearinghouse, 2003). This led to the emergence of electronic Financial Aid applications. Now, students are able to conduct all of their federal student loan transactions online, thus eliminating the need for paper applications (Student Financial Aid Handbook, 2003). Many Financial Aid professionals praised this initiative, while some consumer advocates feared that it might leave students vulnerable to fraud (Burd, 2001). The major advantage for the electronic process is the convenience factor, which allows students to complete paperless forms in the privacy of their own homes. One of the major disadvantages with the electronic process is that it does not open up possible avenues for fraud.

Summary

Overall, it would be an interesting study to examine the extent that Financial Aid Directors have converted to a fully electronic process. There are many advantages and disadvantages to the electronic Financial Aid process. However, with the various trends in technology in recent years, it seems inevitable that more and more Financial Aid Offices will convert to a fully electronic process. A survey to various Financial Aid Directors could be developed to accurately measure current trends in the electronic Financial Aid process. A quantitative research design would certainly be an appropriate method to use for this type of study.

Conclusion

Overall, it is clear that choosing the appropriate research methodology as well as the appropriate research design is critical to the success of any research project. In order to make the most appropriate choice, one must have a clear understanding of the different types of research designs. In studying trends in electronic processing for Financial Aid offices, a quantitative study as well as a survey design would appear to be the most appropriate of choices. The type of study would give a good overall view of the willingness of Financial Aid Directors to switch over to electronic processing as well as the extent that Financial Offices have already replaced the traditional paper process with an electronic form of processing.

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