

**Strengthening State Student Financial Aid Programs in Texas
How to Make College Access and Success Attainable for Needy Texans**

**The Texas Association of Student Financial Aid Administrators
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The Texas Association of Student Financial Aid Administrators (“TASFAA”) is a professional association representing hundreds of financial aid officers at Texas colleges and universities. TASFAA members are dedicated to encouraging qualified students to pursue higher education, and to helping such students obtain the financial aid they need to succeed in this endeavor. TASFAA members are also committed to promoting the effectiveness of the student financial aid programs that serve Texas and its students.

The professionals of TASFAA are at the tip of the spear when it comes to higher education access, choice, and affordability. More than anyone, these professionals know how difficult it is to achieve these goals.

The Almanac of Higher Education points out that tuition and fees in all sectors of the Texas higher education remain below the national average¹. Nonetheless, there is no denying that Texas colleges and universities have found it necessary to increase tuition and fees during the last decade, and these are not the only price increases being born by Texas students. Prices also continue to rise for rent, groceries, utilities, and other expenses students incur to live while in college.

According to the Bureau of Labor Statistics, the spiraling price of a college education comes at a time when our state’s unemployment rate has almost doubled, from 4.3% in June 2007 to 8.2% in June 2010². This leaves an increasing number of Texas families without sufficient incomes to cover college expenses. But even employed Texans do not necessarily generate earnings sufficient to make college affordable. Data from the U.S. Census Bureau demonstrate that median family income in Texas is \$55,742, 9% lower than the national average of \$61,173³, and that 12.8% of Texas families live below the poverty level, much higher than the national average of 9.5%⁴. Creusere, Fletcher, and Shook state that, sadly, nearly one out of every four Texas children – the future students for our state’s higher education system -- lives at or below the poverty level⁵.

Low incomes and high poverty rates in Texas are not surprising. Employers depend upon well-educated workers to compete in today’s knowledge-based economy. But Cahn recently reported our state ranks 40th in the nation for the number of people ages 25 to 34 who hold at least a college associate degree, and only 27% of Texans in this age group have any postsecondary degree -- far below the national average of 41% and only slightly ahead of Arkansas, which ranks last at 22.5%⁶.

Under these circumstances, it is understandable that Texas students depend heavily upon financial aid to help pay their college expenses. Ironically, loans comprise the vast majority of the financial aid available to them. Creusere, Fletcher, and Shook document that, in academic year 2007-08, 65% of the financial aid in Texas came in the form of loans – 97% of which were originated through federal programs -- while grants provided only 34%.

There is nothing inherently wrong with assuming some debt to help finance a college degree. Doing so constitutes a productive investment for most students. But Texas’ inordinately heavy reliance on debt-

based financial aid appears to be leading to some unfortunate outcomes, especially as our state struggles to meet its laudable public policy goal of “Closing the Gaps” by 2015:

- Students who borrow federal student loans to attend Texas colleges, universities, and trade and technical schools default at the second highest rate in the nation⁷.
- In certain racial and ethnic groups – especially Asian and Hispanic-Americans – cultural and familial perspectives on debt may discourage student borrowing. Absent sufficient financial assistance from other sources, needy students in these groups often employ alternative strategies to make college affordable – including part-time attendance and/or taking on excessive employment commitments – strategies that can have negative effects on persistence and degree attainment⁸.

All this makes clear the necessity of effective, well-funded financial aid programs to the future of Texas. With this in mind, TASFAA respectfully offers the following recommendations regarding our state’s financial aid programs.

1. No new state financial aid programs should be created until existing programs are adequately funded.

The 81st Texas legislature generously appropriated an additional \$210.9 million for student financial aid, raising the biennial appropriation for all state financial aid programs to \$1 billion. Nonetheless, the need for financial aid continues to outpace the supply.

Appropriations for the TEXAS Grant program, for example, increased by \$186.4 million, or 43.5%, for the 2010-11 biennium. The Coordinating Board estimates that this will raise the number of TEXAS Grant recipients by 16,856 students (18.9%) in this biennium⁹. Still, the program lacks sufficient funding to provide assistance to all TEXAS Grant-eligible students and, as the Coordinating Board has observed, it “would need to be funded at a significantly higher level in order to serve the increasingly poor Texas student population.”

Although current state financial aid programs in Texas are generally of sound design, TASFAA urges the legislature resist the temptation to slice the state’s financial aid appropriations even thinner by proliferating the number of programs those appropriations fund.

2. Keep the TEXAS Grant program the state's premier financial aid program, but modify it so grant amounts are fixed rather than indexed to average tuition and fees.

TEXAS Grants have proven remarkably successful in encouraging needy Texas students to earn high school diplomas under the state’s recommended and distinguished curriculums. But the terms and conditions of TEXAS Grant eligibility must remain consistent so needy students know the circumstances under which they can count on financial support from their state. To help the state continue making progress toward the goals of the Closing the Gaps initiative, TASFAA recommends that the program remain true to its original enabling statute.

However, TASFAA believes the Texas Grant program should be modified so grants are awarded at each institution in dollar amounts that would be capped at the lesser of the statewide average of tuition and fees for full-time public college and university undergraduates or the average tuition and required fees for the institution’s full-time undergraduates. It is probably safe to assume that most

public institutions will find it necessary to continue raising tuition and fees in future years – perhaps at a faster rate if their support from general revenue continues to be reduced. So absent massive increases in TEXAS Grant appropriations, award amounts capped in this manner would appear the only way to maximize the number of TEXAS Grant recipients.

TASFAA also recommends that Texas’ 4-year public colleges and universities be permitted to set aside a certain percentage of their initial TEXAS Grant allocations for students who transfer to such institutions from the state’s community colleges without first having earned associate degrees. More and more needy students are transferring from community colleges without associate degrees, so this would support the state’s policy of encouraging students to begin higher education in community colleges before moving on to 4-year colleges and universities.

3. *If state wants to recognize merit, it should use the new Top 10% Scholarship program to do so.*

TASFAA recognizes that merit-based aid is increasingly popular among public policy makers. However, we urge the legislature not to take too narrow a view of merit. Large numbers of Texas students come from low-income families that cannot afford the advantages of tutors, test preparation coaches, and summer academic camps. Even so, many such students work hard to maximize their performance while in high school and college, and significant numbers work hard enough to graduate in the top 10% of their high school classes, thus gaining admission to the Texas public college or university of their choice.

The Top 10% Scholarship program, which provides tuition discounts of \$2,000 per fall semester for such students, got off to an outstanding start in 2009, when more than 11,000 freshmen qualified for it. Still, large numbers of hard-working students who will benefit from going to college do not necessarily end up appearing to be “meritorious” under the traditional and overly simplistic outcomes-based definitions of that term. TASFAA therefore recommends that the legislature resist the temptation to add additional merit criteria to other state financial aid programs.

4. *The Texas College Work-Study program should be expanded.*

Needy Texas students are willing to work hard in order to earn college degrees, not only at their studies but in part-time employment opportunities when such opportunities exist. Part-time on-campus jobs can be particularly positive. They are truly part-time, generally requiring 10 to 15 hours of work per week. They help students avoid debt and acquire practical workplace and time management skills. Often, they help students become more engaged in the college and university communities. Small wonder that research has consistently shown working 1-15 hours per week – ideally on-campus or in positions related to their academic interests – to have positive effects on persistence and degree completion^{10 11}.

The federal government is the primary funder of work-study employment in Texas. However, the growing population of needy students attending our state’s colleges and universities are not well-served by the Federal Work-Study program’s statutory allocation formula. It includes “hold harmless” provisions forcing the U.S. Department of Education (“ED”) to allocate today’s work-study funds largely on the basis of past institutional allocations. This benefits colleges and

universities in the Northeast and Midwest that, many years ago, captured larger federal allocations because they were high in price, enrolled large numbers of needy students, or both.

Texas institutions, at which prices have recently and dramatically risen, and which now have a high percentage of needy undergraduates, must get along with whatever is left. This is not much because federal appropriations for work-study have actually shrunk. Congress appropriated \$990,257,000 for work-study in federal fiscal year 2005, but only \$980,492,000 for work study in federal fiscal years 2008 and 2009¹².

Texas needs to grow part-time employment opportunities for needy students who are willing to work. For this goal to be achieved, it will be up to the legislature to expand funding for the Texas College Work-Study program.

5. *Funding for the Texas Educational Opportunity Grant program should be increased.*

The Texas Educational Opportunity Grant (“TEOG”) program provides funding for needy Texas residents enrolled in the first 30 credit hours of the certificate and associate degree programs offered by our state’s community and public technical colleges.

The 81st legislature increased TEOG appropriations by 71% for the current biennium. Nonetheless, approximately 600,000 Texas undergraduates attend TEOG-eligible institutions, and the Coordinating Board reports that less than 5% of students eligible for TEOG will receive such grants in 2010 and 2011. By underfunding TEOG, Texas misses opportunities to increase its population of workers the mechanical and scientific skills required by today’s high-tech economy.

6. *B-on-Time loan servicing should be improved.*

The B-on-Time (“BOT”) loan program provides interest free loans to eligible Texas residents attending both public and independent institutions of higher education in Texas. These loans are forgiven if their borrowers graduate within four years, or within six credits of the minimum number required to earn their degrees, and with B grade point averages.

TASFAA recommends the legislature take appropriate steps to improve the servicing of BOT loans. The Coordinating Board says a large percentage of students who receive these loans are TEXAS Grant-eligible, but do not receive such grants due to that program’s funding shortfalls. This means large numbers of BOT borrowers are from low-income families with little or no sophistication in managing credit and debt. If such students are to successfully repay even interest free loans, it is essential that they receive the best possible customer service from the entity collecting their loans.

7. *A common calendar should be mandated for the establishment of state student aid regulations.*

Even well-funded financial aid programs become ineffective when their terms and conditions are unstable and unpredictable. Frequent, sudden changes in rules weaken the reliability and consistency of such programs. This triggers student confusion, increases institutional compliance risk, and undermines public confidence.

Many years ago, Congress recognized these to be problems in the federal student aid programs. As a result, it wrote provisions into the Higher Education Act requiring ED to publish these programs’

regulatory changes in final form in the *Federal Register* by November 1 in order for such changes to take effect the following July 1. For more than 15 years, these “master calendar” requirements have worked well at the national level. TASFAA recommends the legislature add similar provisions to the Texas Education Code.

8. *Allocation letters for state financial aid programs should be sent to participating Texas institutions by no later than the February 15.*

Texas colleges and universities generally try to begin offering financial aid “packages” to prospective freshmen in March. The timing of such offers is critical, as needy students depend upon them when choosing the institutions they will attend by May 1, the date through which all U.S. institutions of higher education must allow students newly admitted for the fall to make such decisions¹³.

In order to provide reliable financial aid offers, institutions must know the amounts available to them for the upcoming academic year. Far too often, Texas institutions have been notified of their B-on-Time, College Access Loan, TEOG, TEXAS Grant, Tuition Equalization Grant, and other allocations in late March or thereafter. This is usually the case even in the second year of a biennium, when the legislative appropriations for state programs were established nine months earlier.

TASFAA therefore recommends that the legislature seek a way to “forward fund” state financial aid programs so appropriations and allocations for each biennium are set well before that biennium begins. This was done, perhaps in an unintended way, with the Top 10% Scholarship program in its first year, 2009. Forward funding would put the Coordinating Board in a position to make allocations to institutions in time to support financial aid packaging in March.

9. *The Texas Guaranteed Student Loan Corporation should be charged with the responsibility of providing default aversion assistance to Texas borrowers and institutions.*

With the on-set of the Federal Direct Loan program, many of the services and functions previously performed by private sector lenders will now be carried out by low-bid federal contractors servicing loans under the supervision of career ED employees. None of these contractors is Texas-based and ED, focused on national issues regarding direct loan administration, is not likely to dedicate resources to preventing defaults in any particular state.

As noted above, needy Texas students are heavily dependent upon federal loans to pay for college, and the state’s default rate is high. Texas alums who default on their federal debts suffer a wide range of consequences, from ruined credit ratings to administrative wage garnishment to confiscated income tax refunds. Institutions with high default rates are subject to expulsion from *all* federal student aid programs. Past experience has also shown that colleges and universities with good repayment rates also suffer if default rates increase, for Washington typically imposes unfunded federal mandates designed to avert defaults on *all* postsecondary institutions if default rates rise.

In the Federal Family Education Loan Program now replaced by direct loans, the Texas Guaranteed Student Loan Corporation (“TG”) distinguished itself as an effective default prevention practitioner. When ED releases federal fiscal year 2008 default rates in September 2010, TG’s rate is expected to

be approximately 8.7% -- one and a half percentage points below its federal fiscal year 2007 default rate. The national default for federal fiscal year 2008 is expected to escalate to about 7.2%, an increase of half a percentage point from federal fiscal year 2007. Thus, while the national rate is increasing, TG's rate is decreasing.

Because Texas, its citizens, and its institutions of higher education have a distinct interest in direct loan default prevention, TASFAA recommends that TG be utilized to provide default aversion assistance for students who borrow direct loans to attend our state's colleges and universities, and to help those colleges and universities take appropriate steps to prevent direct loan defaults by their alumni.

10. Tuition and fee waivers and exemptions should be carefully reviewed to determine if they truly serve the interests of our state's citizens.

State law establishes almost three dozen tuition and fee waivers and exemptions that Texas public colleges and universities are required to grant. In state fiscal year 2008, over 75,000 students qualified for more than \$280 million under such waivers and exemptions.

Contrary to popular belief, most of these awards generate no institutional reimbursements from the state. Nonetheless, students who receive them generate instructional and administrative costs for public colleges and universities, forcing such institutions to pass these pupils' costs on to other students in the form of higher tuition and fee charges.

Some mandatory waivers and exemptions clearly benefit other students. For example, one provision in the Texas Education Code obligates institutions to provide unreimbursed waivers of out-of-state tuition for a limited number of non-residents who win scholarship competitions against one another and Texas residents. Another Education Code provision requires similar waivers for citizens of Mexico who earn admission to selected public institutions. These waivers help produce geographically diverse student bodies, enabling futures leaders of Texas business, government, and industry become more familiar with residents of Mexico and other states -- marketplaces in and against which they will one day compete for business opportunities.

Some mandatory waivers and exemptions also bring short and long-term benefits to our state and economy. The waivers described above result in non-residents importing money earned in other states, adding to Texas' gross state product and generating employment opportunities for Texans. A study by the Institute for Economic Development, for example, finds that non-residents enrolled in University of Texas System institutions in the fall of 2003 spent over \$256 million in the localities where these institutions are located. When the second round effects of businesses and employees are factored in, these non-residents helped add more than \$1.4 billion to local economies, with an employment impact of more than 17,000 jobs¹⁴.

NCHEMS data shows Texas to be a net importer of persons aged 22 to 29 with associate degrees and above¹⁵. Many out-of-state students remain in Texas after college and contribute to our social and economic development, so attracting out-of-state students helps bring other states' best and brightest young people to Texas.

Nonetheless, as Texas' fiscal woes worsen, state policy leaders have already reduced appropriations to our state's public colleges and universities, and they may reduce such appropriations again for 2011-12. This makes it increasingly difficult for such institutions to remain affordable to needy Texans while offsetting revenue losses they suffer from required tuition and fee waivers and exemptions. TASFAA therefore recommends that the legislature collaborate with public college and university leaders to carefully assess the value of all mandatory tuition and fee waivers and exemptions. Those that clearly benefit our state's economy and bring educational and financial benefits to its citizens should be preserved. Others should be eliminated or amended to be awarded at the discretion of institutions.

TASFAA is grateful for the opportunity to submit these recommendations on strengthening Texas' student financial aid programs. Its leadership stands ready to discuss them with legislators and/or legislative staff at their convenience. For more information, please contact:

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