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March 19, 2008

The Honorable Edward M. Kennedy  
Chairman  
Senate Committee on Health, Education, Labor and Pensions  
United States Senate  
428 Senate Dirksen Building  
Washington, DC 20510

Dear Senator Kennedy:

On behalf of more than 430 member institutions of the American Association of State Colleges and Universities (AASCU), I write to offer comments on the inclusion of a deficit-neutral reserve fund to raise the federal student loan limits in S. CON. RES 70. Attached to this letter is a policy alternative to raising federal student loan limits.

First, AASCU **applauds the incredible efforts of this Congress to address college affordability and access** through the most recent budget reconciliation bill that redirected billions of federal dollars into need-based student aid programs. In addition, AASCU is pleased that this Congress has included **improvements to student loan counseling and regulation of the private loan market** in the House and Senate bills to reauthorize the Higher Education Act (HEA). We hope these important provisions will remain strong in the final HEA bill. These improvements to current law would go a long way in addressing concerns related to student loan debt and college affordability.

**We are greatly concerned, however, that the Senate budget resolution for fiscal year 2009 includes a reserve fund that would allow for the increase of federal student loan limits.** While we understand, and share, in the concerns that have prompted this provision, we believe an increase to the aggregate loan limit at this time is a misguided policy that will have long-term negative, unintended consequences. **While undoubtedly born from good intent, this proposal would in fact facilitate major tuition increases, and result in even greater student debt.**

**AASCU does not support the authorization of aggregate increases to federal student loans** that allows for the further debt financing of student attendance at high cost institutions, **especially when this Congress has made college costs the center of the**

**reauthorization of HEA. The federal student loan program was created to be, and should remain first and foremost, a college access program.** The federal student loan programs were not created to be choice programs financed by federal taxpayers to pay for tuition at the highest cost institutions or for students to finance a standard of living beyond necessary while incurring unmanageable debt burden.

The average student loan debt upon graduation is approximately \$19,200 for all sectors and \$17,250 for public four-year institutions. Meanwhile, the current maximum aggregate student loan limit is \$23,000 for dependent students, and \$46,000 for independent students. Furthermore, **financial aid officers have the authority to offer additional federal loans to dependent students of parents whose credit does not allow them to qualify for a federal education loan** under the Parent Loans to Undergraduate Students (PLUS) program.

While well intentioned, this proposal is a “one-size fits all” approach that addresses a problem that is only affecting a smaller group of undergraduate students. **Congress should put forth a proposal that narrowly targets changes to the federal student loan programs and allows for the better utilization of current law** rather than implementing a blanket increase to aggregate loan limits for all undergraduate students.

For example, families have access to student loans through the Parent Loans to Undergraduate Students (PLUS) program, which allows for the borrowing of up to total cost of attendance minus other financial aid. **Some of the problems we are seeing in the private loan market are partly an issue of students and their families not exhausting current loan options before turning to private loans.** Congress could better address this problem through other changes to law than by simply increasing undergraduate student debt-financing levels.

In addition, **the proposal to increase student loan limits conflicts with this Congress’s concern regarding the rising cost of college.** Just as governors should not use tuition as a “safety valve” for state budget deficits, **the federal government should not use student loan programs as a “safety valve” for increasing tuition at high cost institutions.** When the federal government authorizes an increased reliance on the debt financing of a college education, it becomes too easy for other critical partners – states and institutions—to use this greater access to student loan financing as an excuse to neglect or weaken their role in keeping college affordable. The federal government should not be in the business of keeping states and institutions off the hook for maintaining more affordable tuition. **Raising loan limits is a slippery slope - any increase only temporarily meets demand and as costs go up, the demand will go up again and the clamor for increases will occur. Meanwhile, debt burden will naturally increase with the higher limits.**

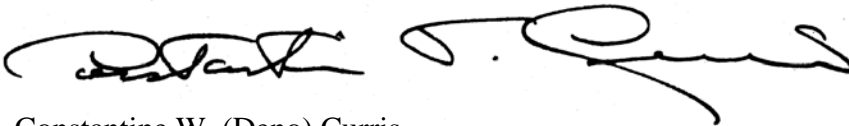
Student aid professionals have expressed little to no concern that students will not have access to low-interest, federally-guaranteed loans to help go to college. In fact, **the market appears to be self-correcting by ensuring that students attending high-cost institutions are not taking out high-risk loans that they will inevitably have a**

**difficult time repaying.** Our nation is currently experiencing the negative ramifications of practices in the mortgage-lending world when the market was willing to debt finance the purchase of a home to people who ended up not being able to afford repayment, and are now in financial ruin. Similarly, **we should be very cautious in shifting federal higher education finance policy towards a debt-finance model** for students who may not be able to handle repayment- whether in the federal loan programs or in the private educational loan market.

**What student aid professionals have expressed concern about is the financial literacy of colleges students and their families,** as well as the **increasing unwillingness of parents of dependent students to contribute “expected family contribution” (EFC)** combined with an increasing willingness to allow unnecessary student debt burden. Congress should narrowly focus on these issues, rather than focus on a broad-brushed approach that increases student loan limits. While Congress and student aid officials cannot force parents to contribute EFC, certain **incentives or targeted policies** would better help students and their families.

In closing, the federal government should be **focusing limited federal resources towards access programs, such as Pell Grants,** and narrowly targeting any changes to the federal student loan programs, while addressing the real policy problems affecting the financing of a college education. After all, if we could put more towards federal grants to students from low-income families, they might not borrow, or borrow as much. **That would go a long way in taking some of the risk out of the federal loan programs.** Our proposal, therefore, also includes a recommendation for how to utilize the reserve fund in the Senate budget resolution for increasing Pell Grants.

Sincerely,



Constantine W. (Deno) Curris  
President

cc: Ranking Member Michael B. Enzi, Senate Committee on Health, Education,  
Labor and Pensions  
Chairman George Miller, House Committee on Education and Labor  
Ranking Member Howard P. McKeon, House Committee on Education and Labor  
Chairman Kent Conrad, Senate Budget Committee  
Ranking Member Judd Gregg, Senate Budget Committee  
Chairman John Spratt, House Budget Committee  
Ranking Member Paul Ryan, House Budget Committee

Attachments: Alternatives to Raising Student Loan Limits

## **AASCU Proposals to Make Additional Funds Available for Students Without Increasing Federal Student Loan Limits**

### **Modify the Parent Loans to Undergraduate Students (PLUS) to make PLUS more useful and appealing to parents of dependent undergraduate students:**

1. Many parents refuse to use PLUS because the Higher Education Act requires parents to go into repayment of principal within 60 days of loan disbursement. Modify Sec. 428B(d)(1) in current law to allow repayment of principal within 60 days of certain changes in enrollment status of the student, rather than just disbursement:

Sec. 428B(d)(1) COMMENCEMENT OF REPAYMENT.—Repayment of principal on loans made under this section shall commence not later than 60 days after the date such loan is disbursed by the lender, subject to deferral *until the student, in the case of an undergraduate student, ceases to be enrolled on at least a half-time basis, or* during any period during which the graduate or professional student or the parent meets the conditions required for a deferral under section 427(a)(2)(C) or 428(b)(1)(M).

2. Congress should clarify that institutions do not have to require parents to use the FAFSA if the parent is applying only for a PLUS. Some institutions and states do require use of the FAFSA to get immediate confirmation of immigration and social security status, but this requirement causes some parents to refuse PLUS because they do not want to reveal financial information to the Department of Education.

### **Utilize the Pell Grant reserve fund in the fiscal year 2009 Senate budget resolution to increase Pell Grant support for the lowest-income students:**

1. Authorize a “negative Expected Family Contribution” to allow the maximum Pell Grant to be augmented for the lowest income students without negatively affecting higher income Pell-eligible students.
  - While increases to the Maximum Pell Grant award are definitely beneficial, the lowest income students have not received the same kind of additional benefits in comparison to their higher income Pell-eligible peers.
  - When maximum awards are increased, all awards are increased by the same amount and the recipient pool expands to include higher income families.
  - The authorization of a negative EFC would more proportionately enhance the benefits of increased funding in the Pell Grant program to the students who need it the most. With recent increases to the maximum Pell Grant awards, this would be an appropriate policy to implement at this point.
  - Lower income students borrow at higher rates. Providing larger Pell awards for the lowest income would decrease borrowing among the borrowers that demonstrate the greatest risk- thereby bringing more stability to the student loan program.

Legislative Language for Negative EFC proposal:

- (a) Dependent Students. – Section 475 (20 U.S.C. 1087oo) is amended –
  - (1) in subsection (b) by striking “except the amount determined under this subsection shall not be less than zero”
  - (2) in paragraph (b)(3) by inserting “positive” after “the” and before “assessment”
  - (3) in paragraph (g)(6) by inserting after “exceeds” “by more than the absolute value of the lowest AAI assessed in the table in section 475(e), as adjusted,”
- (b) Independent Students Without Dependents Other Than A Spouse – Section 476 (20 U.S.C. 1087pp) is amended –
  - (1) in Subsection (a) by striking “zero” and inserting “the lowest EFC provided for in the table in section 477(d), as adjusted,”
  - (2) in paragraph (a)(2) by inserting “positive” after “the” and before “sum”
  - (3) in paragraph (b)(5) by inserting at the end before the period “except that the resultant amount shall not be less than the lowest EFC provided for in the table in section 477(d), as adjusted,”
- (c) Independent Students With Dependents Other Than A Spouse – Section 477 (20 U.S.C. 1087qq) is amended –
  - (1) in subsection (a) by striking “except the amount determined under this subsection shall not be less than zero”
  - (2) in paragraph (a)(3) by inserting “positive” after “the” and before “assessment”
- (d) Simplified Needs Tests – Section 479 (20 U.S.C.1087ss) is amended –
  - (1) in subsection (c) by striking “Zero Expected Family Contribution” and inserting “Maximum Need Eligibility”
  - (2) in subsection (c) by striking “zero” and inserting “the lowest EFC provided for in the table in section 475(e), as adjusted”
- (e) Assessment Schedules and Rates - Section 478(20 U.S.C. 1087rr) is amended by-
  - (1) In paragraph (e)(1) by striking “increasing” and inserting “adjusting”
- (f) Section 601 of P.L. 110-84 is repealed.
- (g) Effective Date – The amendments made by this section shall be effective July 1, 2009.