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Refocusing Higher Education Aid on Those Who Need It

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Under the Higher Education Act of 1965 (HEA), \$103.6 billion in grants and loans was made available to students in 2003.¹ The law, which is due for reauthorization, offers guaranteed loans, grants, and support services to students and their families, as well as aid to institutions. Over half of the full-time undergraduates attending four-year colleges and universities received aid under one of these programs. (This percentage is higher for those attending private schools.)² While participation in federal higher education programs was greater among low-income students, one quarter of undergraduates from families with incomes over \$100,000 also received financial aid.³ When reauthorizing the HEA, Congress should restore the purpose of the original law by awarding taxpayer subsidies and grants only to those who cannot afford higher education.

Since the HEA's inception, Congress has added numerous programs, expanded eligibility to middle- and upper-income students, and increased institutional aid. The rising usage of federal higher education programs by middle-class and wealthy students is costly to taxpayers, contributes to student indebtedness, and fosters greater

Talking Points

- The increasing use of federal higher education aid by middle-class and wealthy students is costly to taxpayers, contributes to student indebtedness, and fosters greater individual and institutional dependency.
- Congress should restore the Higher Education Act's (HEA) original intent by awarding taxpayer subsidies and grants to those who cannot otherwise afford higher education.
- Congress should significantly reform the HEA during this reauthorization by ending outdated and duplicative programs, eliminating subsidies to middle-class and wealthy families, and creating a public database to encourage smart consumer decision making.

1. This figure includes federal funds and non-federal matching funds. See U.S. Department of Education, "Student Financial Assistance," *Fiscal Year 2005 Budget Summary*, February 2, 2004, at www.ed.gov/about/overview/budget/budget05/summary/edlite-section2d.html (February 20, 2004).
2. U.S. Department of Education, National Center for Education Statistics, "Fast Facts: Financial Aid," at nces.ed.gov/fastfacts/display.asp?id=31 (April 15, 2004).
3. *Ibid.*

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dependency on the federal government by individuals and institutions. Even more alarming, some researchers have found a link between government loan usage and the rising cost of education.⁴

The HEA was enacted to help low-income students gain access to higher education, but it now subsidizes institutions and higher-income students. Taxpayers—three out of four of whom do not have a bachelor's degree—should not have to subsidize wealthy and middle-class students and college graduates.⁵ Additional changes to the act could reduce education costs for consumers and taxpayers.

Federal Aid and Rising Tuition Costs

Higher Education Act programs cost taxpayers \$22.7 billion in 2003. (See the Appendix for a description of the various aid programs.) Ironically, these subsidies are largely borne by those without college degrees. Three out of four Americans do not hold a bachelor's degree. Those who do, make—on average—\$21,800 more per year than those who do not, which translates into almost \$1 million of additional lifetime income that accrues to the college graduate.⁶

Equally troubling is the impact of federal aid on college prices. There is evidence that federal loans have contributed to the rise of tuition.⁷ Tuition and fees at public and private four-year institutions have risen 38 percent in the past 10 years. In the past 22 years the cost of a four-year public college education has increased by 202 percent.⁸

Forbes writer Ira Carnahan puts it this way,

2003 Federal Funding for Postsecondary Education	
Item	Amount
Regular Federal Pell Grants	\$11,364,646,000
Federal Supplemental Educational Opportunity Grants	\$760,028,000
Federal Work-Study	\$1,004,428,000
Federal Perkins Loans	\$166,411,000
Federal Direct Student Loan Program	\$4,224,527,000
Federal Family Education Loans	\$2,676,002,000
Aid for Institutional Development	\$388,869,000
Federal TRIO Programs	\$827,089,000
Scholarships and Fellowships	\$81,467,000
Howard University	\$238,440,000
Other	\$944,411,000
Total	\$22,676,318,000
Discretionary	\$15,861,863,000
Mandatory	\$6,814,455,000

Source: U.S. Department of Education, "Education Department Budget History Table: FY 1980–Present," updated February 5, 2004, at www.ed.gov/about/overview/budget/history/edhistory.pdf

Over the past three decades the Federal Government has poured three-quarters of a trillion dollars into financial aid for college students.... So why is college getting less—not more—affordable? One answer seems to be that all those federal dollars have given colleges more room to jack up tuition.... The more cash the government pumps into parents' pockets, the more the schools siphon from them.⁹

- National Commission on the Cost of Higher Education, "Straight Talk about College Costs and Prices," American Institutes for Research, 1998, p. 11.
- Bachelor's degree holders make an average of \$21,800 more than those with only a high school diploma and \$14,000 more than those with an associate's degree. Figures are for full-time, year-round employment. See Jennifer Cheeseman Day and Eric C. Newburger, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," U.S. Census Bureau, July 2002, at www.census.gov/prod/2002pubs/p23-210.pdf (February 20, 2004).
- Ibid.*
- National Commission on the Cost of Higher Education, "Straight Talk," p. 11.
- Committee on Education and the Workforce, U.S. House of Representatives, "Fact Sheet: The Skyrocketing Cost of Higher Education," October 10, 2003, at edworkforce.house.gov/issues/108th/education/highereducation/factsheetcost101003.htm (February 20, 2004).

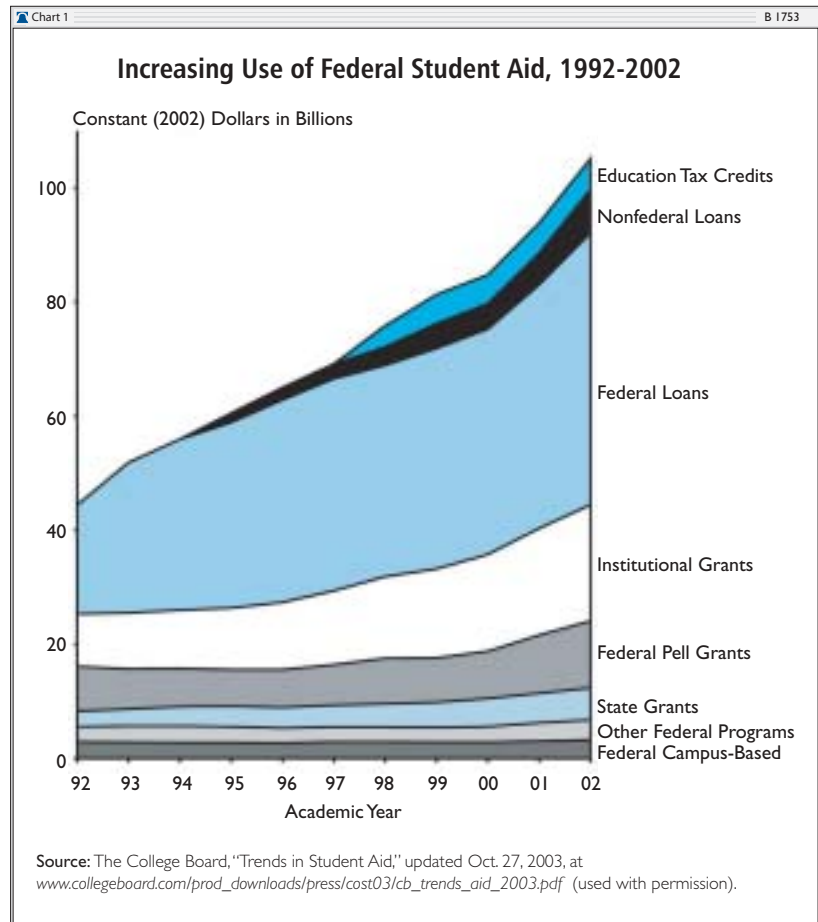
Dependency on government aid affects students and their families. Such programs encourage borrowing rather than saving. A Hart Research Associates poll found that half of parents surveyed had saved less than \$1,000 for college.¹⁰ Programs can also promote a sense of entitlement among students and special interest groups who continuously push Congress to increase loan limits and enact new programs. Moreover, high loan limits—\$23,000 for dependent undergraduates, \$46,000 for independent students, and \$138,500 for professional students—encourage students to take on large amounts of debt and may discourage wise shopping and saving.

When the government subsidizes activities, people are more likely to engage in them. The National Commission on the Cost of Higher Education, established by the 1998 HEA reauthorization to examine the rising cost of higher education, found that higher loan limits, the “unsubsidized” Stafford loan program, and an increasing preference for borrowing rather than saving had contributed to the increase in student borrowing.¹¹

The constant influx of funding has other consequences, such as dulling universities’ sensitivity to costs. According to Chester Finn, president of the Thomas B. Fordham Foundation, costs continue to rise because of “administrative bloat; costs of recruitment, remediation, and attrition of unprepared students; reduction in faculty teaching loads; and a weak governance structure that creates inefficiencies, prevents tradeoffs, and treats any change—a new academic program, different student service, technology upgrade—as an added

expense rather than a substitution.”¹²

A course manual reveals some of these inefficient practices. Courses of dubious academic value like the University of Iowa’s “Elvis as Anthology” course, “Ecofeminism” offered by the University of Florida, “Philosophy and Star Trek” at Georgetown University, “Environmental Justice” at the University of Colorado, and “Queering American History” at the University of California, Los Angeles, are not uncommon.¹³ Extravagant facility improvements are also on the rise. *New York Times* journalist Greg Winter wrote recently of the grow-



9. Ira Carnahan, “Back to School: Why Federal College Aid Makes School More Expensive,” *Forbes*, September 1, 2003, p. 60.

10. Robin Wallace, “College Tuition Scare: Don’t Believe All the Hype,” Fox News, September 26, 2003.

11. National Commission on the Cost of Higher Education, “Straight Talk,” p. 11.

12. Chester E. Finn Jr., “A Different Future for Higher Education?” *American Outlook*, Spring 1998.

13. Young America’s Foundation, *Comedy & Tragedy 2003–2004: College Course Descriptions and What They Tell Us About Higher Education Today*, 2003, at www.yaf.org/publications/C&T/print/c&t_04.pdf (February 20, 2004).

ing practice of providing students with lavish perks like hot tubs, pools, manicures, climbing walls, and movie theatres. He states, “[T]he competition for students is yielding amenities once unimaginable on college campuses, spurring a national debate over the difference between educational necessity and excess.”¹⁴

Taxpayers should not be required to subsidize higher education for middle-class and wealthy students and their families. As Chester Finn states, it is a “common-sense notion that the primary beneficiaries of higher education are the students and that they should pay for it. Only the needy should receive tuition subsidies as a matter of course.”¹⁵

During this reauthorization, Congress should return the HEA to its original purpose of serving those who could not otherwise afford an education. Subsidies to students from middle-class and wealthy families should be phased out. Congress should also reduce fraud and abuse, cut duplicative and outdated programs, enable universities to become self-sufficient, and reform accountability provisions.

Recommendations for Reforming Higher Education

Congress can enact a number of reforms that would return federal higher education aid to its original purpose.

Phase Out Subsidies to Middle-Class and Wealthy Americans. Congress should end the PLUS Loan program and remove the subsidies from the Stafford Loan program by bringing the interest rate closer to the market rate. The student interest rate, currently linked to the Treasury Bill, is 2.82 percent (in school) and 3.42 percent (in repayment), far lower than the rate charged to students

using private education loans.¹⁶ Taxpayers make up for the difference between what the student pays and what the bank receives. Taxpayers also pay for administration, default insurance, and other costs not covered by the small origination fee paid by students. Congress should change the mechanism for calculating the interest rate and the origination fee structure so that the “unsubsidized” program becomes truly unsubsidized and imposes little or no cost on the taxpayer. Students would still receive the loan guarantee and a rate that is lower than the maximum 14.2 percent interest rate charged for unsecured loans (to individuals with no credit history), a benefit that saves them \$8,900—or more—in interest on a \$10,000 loan.¹⁷

Additionally, Congress should amend the consolidation loan program so that interest rates fluctuate according to the market. At present, borrowers may consolidate their loans at a fixed rate for up to 30 years. When interest rates rise, taxpayers pay the difference. According to a recent study, subsidies on current and future loans could cost taxpayers \$35 billion or more between 2005 and 2011 if no legislative changes are made.¹⁸

Reduce or Maintain Total Loan Limits for Stafford Loans. A January 2004 study by the Congressional Budget Office found that “the majority of students from low-income families are able to finance their college costs without exhausting the government-subsidized loans for which they are eligible.”¹⁹ The loan limits on Stafford loans for dependent students are \$2,625 for the freshman year, \$3,500 for the sophomore year, and \$5,550 for junior and senior years. Total debt from all Stafford loans is \$23,000 for dependent undergraduates, \$46,000 for independent undergraduates, and \$138,500 for graduate and profes-

14. Greg Winter, “Jacuzzi U.? A Battle of Perks to Lure Students,” *The New York Times*, October 5, 2003, p. 1.

15. Finn, “A Different Future for Higher Education?”

16. The private loan market is linked to the prime rate, which is the rate that banks give to corporations with good credit (roughly 8 percent). Congressional Budget Office, *Private and Public Contributions to Financing College Education*, January 2004, p. 17.

17. America’s Student Loan Providers, “Student Loan Fact Book 2003,” at www.studentloanfacts.org/NR/rdonlyres/97FD743A-8F38-4641-916A-C4D907A84EE5/0/factbook.pdf (February 20, 2004).

18. Kevin A. Hassett and Robert J. Shapiro, “The Fiscal and Social Costs of Consolidating Student Loans at Fixed Interest Rates,” March 9, 2004, at www.techcentralstation.com/images/studentloanconsolidation.pdf (February 20, 2004).

19. Congressional Budget Office, *Private and Public Contributions*, p. 17.

sional students.²⁰ In any event, Congress should not raise the loan limits. Higher limits will encourage more borrowing. Higher rates of borrowing will increase student indebtedness and could further inflate college costs.

Ensure That Subsidized Loans and Other Benefits Are Given to Needy Students. This can be accomplished by including home equity in the determination of benefits, as was done prior to 1992.

Eliminate Loan Forgiveness. The government should not favor one profession over another. Additionally, Congress should eliminate loan cancellation in the Direct Loan program. These are intended to be loans, not grants.

Phase Out Campus-Based Programs: Perkins Loans, Supplemental Educational Opportunity Grants (SEOG), and the Work-Study Program.

The savings from this phase out should be used to increase grant awards under the Pell Grant program. The Perkins program is outdated, duplicative, and less efficient than the other loan programs. Congress should end the program but allow universities to keep existing funds in their revolving accounts. The SEOG program is also redundant. The Work-Study program subsidizes up to 75 percent of student salaries for jobs that are often located on the university campus. Institutions make up the rest. The public should not subsidize the labor costs of institutions. By replacing campus-based programs with more direct aid to students, Congress will eliminate the middleman.

Reduce Fraud in the Pell Grant Program. The U.S. General Accounting Office (GAO) recently reported that Pell Grant fraud cost \$600 million from fiscal year (FY) 2001 to FY 2002. Funds were given to students who were not eligible and submitted incorrect information on their applications. To reduce fraud, Congress should authorize the Internal Revenue Service and the Department of Education to share information about applicants'

eligibility.²¹ Representative Sam Johnson (R-TX) has proposed such cooperation in H.R. 3613.

Treat Institutions and Programs Equally. Congress should help minority-serving institutions become self-supporting by establishing endowments and by phasing out yearly funding. The default cohort rate system should be the same for all institutions. Congress should also end Title II teacher education programs that duplicate programs in the No Child Left Behind Act (NCLB) and should transfer reporting requirements to NCLB.

Reform Accountability Provisions and Make Reporting Transparent and Useful to Students, Parents, and the Public. The current system is costly, provides little public accountability, and does not adequately measure quality. According to the National Commission on the Cost of Higher Education,

Institutions of higher education, even to most people in the academy, are financially opaque. Academic institutions have made little effort, either on campus or off, to make themselves more transparent, to explain their finances. As a result, there is no readily available information about college costs and prices nor is there a common national reporting standard for either.²²

Congress should create a system to collect information or to use information that is already being collected about college and university costs and quality outcomes. This information should be disseminated in a way that parents, students, and the public can easily understand. Representative Howard P. "Buck" McKeon (R-CA), Chairman of the House Subcommittee on 21st Century Competitiveness, is spearheading an effort to create an information database for parents and the public. However, information availability alone is unlikely to change the behavior of institutions and individuals if the government continues to pay out billions of dollars in aid.

20. U.S. Department of Education, *The Student Guide 2003–2004*, p. 19, at www.studentaid.ed.gov/students/publications/student_guide/2003_2004/english/types-campusbased.htm (April 12, 2004).

21. For more information, see Kirk A. Johnson, Ph.D., "Data Sharing Can Reduce Fraud in the Pell Grant Program," Heritage Foundation *Background* No. 1714, December 17, 2003, at www.heritage.org/Research/Education/bg1714.cfm (April 12, 2004).

22. National Commission on the Cost of Higher Education, "Straight Talk," p. 16.

At present, to participate in loans and grant programs, higher education institutions must meet three standards—state licensing, accreditation by agencies recognized by the Department of Education, and certification by the Secretary of Education that the institution has the administrative and financial capacity to participate.

There are six regional, and approximately 60 specialized, accrediting agencies that evaluate higher education institutions based on a set of standards regarding its mission, resources, practices, and other criteria. Institutions submit a lengthy “self-study” document and submit to campus inspections. After 10 years, the institution must seek reaccreditation, which requires another self-study and a campus visit.²³ The public does not have access to the reports.

However, even if they did, the information might not be useful. According to the American Council of Trustees and Alumni (ACTA), “[T]he accreditation system does not attempt to gauge academic quality directly, but only judges institutions as either acceptable or not acceptable based on inputs and processes.”²⁴ Process is a poor proxy for academic quality. By focusing on process, the accreditation system has done little to stop grade inflation, the decline in academic standards, the erosion of core curriculums, and the proliferation of courses with dubious educational value. According to ACTA “If accreditation ever served as a reliable proxy for acceptable educational quality, it no longer does.”²⁵ University accreditation is rarely revoked. Similarly, the U.S. Department of Education has never ceased to recognize an accrediting body.

Accreditation is also very costly. The National

Commission on the Cost of Higher Education found that “The time-consuming self-study procedures involved with specialized accreditation, the focus on additional resources without regard to their connection to student learning or the welfare of the larger institution, and the expensive duplication involved with different entities, increase red tape and drive up costs.”²⁶ ACTA estimated that the average accreditation cost is \$63,000 in staff time, fees, and other resources. Accreditation recommendations can also add costs. “Accreditors have a tendency to recommend actions by schools that will require them to use scarce resources to little or no purpose,” according to ACTA experts.²⁷ Not all costs are financial: Controversial requirements can affect the culture and mission of colleges and universities. For example, the Accrediting Council on Education in Journalism and Mass Communications (ACEJMC) recently adopted a standard for accreditation mandating that a school’s “curriculum fosters understanding of issues and perspectives that are inclusive in terms of gender, race, ethnicity and sexual orientation.”²⁸

Given the cost and inadequacy of accreditation as a gatekeeper for the HEA, Congress should delink accreditation from HEA eligibility. Institutions would still be free to seek accreditation, but it would not be required for participation in federal programs or to admit students carrying federal aid. Accountability would be maintained through state and U.S. Department of Education certification and the public database. Representative Thomas E. Petri (R-WI) has introduced H.R. 838, a bill that would achieve this reform.

Colleges and universities would be required to obtain certification by the Secretary of Education demonstrating that the institutions are legitimate

23. George C. Leef and Roxana D. Burris, *Can College Accreditation Live Up to Its Promise?* (Washington, D.C.: American Council of Trustees and Alumni, 2002), at www.goacta.org/publications/Reports/accrediting.pdf (February 20, 2004), and *National Commission on the Cost of Higher Education*, “Straight Talk,” p. 31.

24. Leef and Burris, *Can College Accreditation Live Up to Its Promise?*

25. *Ibid.*

26. National Commission on the Cost of Higher Education, “Straight Talk,” p. 31.

27. Leef and Burris, *Can College Accreditation Live Up to Its Promise?*

28. See University of Kansas, “Accrediting Standards,” ACEJMC Standards of Accreditation, September 2003, at www.ukans.edu/~acejmc/BREAKING/New_standards_9-03.pdf (February 20, 2004).

and have the administrative and financial capacity to participate in aid programs. To prevent fraud and “fly by night” operations, the Department of Education should have additional authority to seek out and prosecute fraud. By disseminating information about schools to consumers and actively prosecuting fraudulent operators, Congress could provide consumer and taxpayer protection in a more efficient and less costly manner.

Conclusion

Every year, billions of dollars of federal, state, institutional, and private aid is made available to students. What was once out of reach is now accessible for low-income students. “[F]inancial barriers are not a major obstacle to college attendance” for low-income families, according to a new Congressional Budget Office study.²⁹

Despite success in helping to meet these needs, the Higher Education Act of 1965 still needs reform. Since its inception, the act has shifted from

focusing on meeting the needs of low-income students to subsidizing students of all income levels. The increasing use of federal higher education programs by middle-class and wealthy students is costly to taxpayers, contributes to student indebtedness, fosters greater individual and institutional dependency, increases entitlement spending, and contributes to the rising cost of higher education.

Congress has an opportunity to significantly reform the HEA during the current reauthorization by ending outdated and duplicative programs, eliminating subsidies to middle-class and wealthy families, and creating a public database in place of accreditation to encourage smart consumer decision making. By enacting these reforms, Congress would return the HEA to its original purpose of serving those who could not otherwise afford a higher education.

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29. Nabeel Alsalam, Seth Giertz, and Dennis Zimmerman, “Private and Public Contributions to Financing College Education,” Congressional Budget Office, January 2004, p. 17, at <ftp.cbo.gov/49xx/doc4984/01-23-Education.pdf> (February 20, 2004).

APPENDIX: A PRIMER ON HIGHER EDUCATION AID

The History of Federal Aid to Students

Most federal student aid is given in the form of grants and loans—either directly to students or indirectly through campus-based grants and loans. Other federally funded programs provide eligible students with preparation and support.

The G.I. Bill. Federal aid to students for higher education began in 1944 when Congress passed the Serviceman's Readjustment Act, also known as the Montgomery G.I. Bill. The G.I. Bill was intended to help returning soldiers adjust to civilian life by providing education, training, employment assistance, and other benefits. Veterans received an education voucher worth \$500 per year for tuition, books, and fees.¹ The program continues to this day. The monthly benefit for an individual who has completed at least three years of active duty and attends school full-time is \$985 for college or vocational training or \$738.75 for an apprenticeship program.² In the 2002–2003 school year, veterans and active military personnel received \$3 billion in education and training.³

The Perkins Loan Program. In 1958, Congress initiated the National Defense Student Loan program, the first federal college loan program. Later renamed the Perkins Loan program, it provides low-income students with loans that are disbursed and administered by colleges and universities. The colleges and universities supplement the federal funds and disburse loans to students with financial need. Loan payments are added back into the school's revolving loan account to be used for new loans. The interest

rate on Perkins Loans is 5 percent.⁴

Federal "loan forgiveness" programs provide partial or full debt cancellation to those who enter certain approved professions or participate in government-subsidized work in the non-profit sector (e.g., Americorps).

Other Campus-Based Programs. In 1964, Congress established the Work-Study program, which subsidizes student employment. The Supplemental Educational Opportunity Grants (SEOG) program provides grants of \$100 to \$4,000 per year to low-income students.⁵ The Leveraging Educational Assistance Partnership (LEAP), which began in 1972 as the State Student Incentive Grant program, provides federal matching grants to states for need-based and work-study aid.

College Preparation and Support. In 1964, Congress enacted Upward Bound, a college preparation program and the first TRIO program. (The term trio was adopted after Congress had enacted three college preparation programs.)⁶ There are now six federal TRIO programs providing college preparation and support for completion: Talent Search, Upward Bound, Upward Bound Math/Science, Student Support Services, Ronald E. McNair Post-Baccalaureate Achievement Program, and Education Opportunity Centers. A similar program, Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), provides services and scholarships to select middle school and high school students. The program begins working with these students in the 7th grade and

1. See U.S. Department of Veterans Affairs, "G.I. Bill History," at www.gibill.va.gov/education/GI_Bill.htm (February 20, 2004).
2. The Montgomery G.I. Bill provides benefits up to 36 months for degree and certification programs, correspondence courses, licensing and certification tests, and apprenticeship programs for active duty military up to 10 years after discharge. Benefits are also available for Selected Reservists, certain older veterans, and survivors and dependents of veterans who became significantly disabled or who have died during duty. Payments vary. For more information, see Department of Veterans Affairs Web site, at www.gibill.va.gov.
3. U.S. Congressional Budget Office, *Private and Public Contributions to Financing College Education*, January 2004, at www.cbo.gov/showdoc.cfm?index=4984&sequence=0 (February 20, 2004).
4. America's Student Loan Providers, *Student Loan Fact Book 2003*.
5. U.S. Department of Education, *The Student Guide 2003–2004*, p. 1.
6. FinAid, "History of Student Financial Aid," at www.finaid.org/educators/history.phtml (April 12, 2004).

continues through high school.⁷

Pell Grants. The Higher Education Act of 1965 created the Educational Opportunity Grant Program—the precursor of the Pell Grant. Pell Grants are essentially federal vouchers that low-income students can use at any eligible institution of higher education. Amounts vary according to a needs-based formula and the maximum award is \$4,050. Students received \$11 billion in Pell Grants in 2003.⁸

Stafford and PLUS Loans. The 1965 HEA also created the Guaranteed Student Loan Program, which was later renamed the Stafford Loan Program. Since then, the Guaranteed Loan Program has grown exponentially. In nearly four decades, the government has guaranteed more than \$485 billion in loans.⁹ Federal aid program participation increased after the 1992 reauthorization enabled more middle-income and high-income students to receive “subsidized” and “unsubsidized” loans.¹⁰ The 1992 HEA also raised loan limits. The creation of the “unsubsidized loan” programs and the higher loan limits caused “an explosion in federal student loan volume,” according to the Institute for Higher Education Policy.¹¹ The Higher Education Act includes three loan programs: Stafford Loans, PLUS loans, and Perkins Loans.

There are two kinds of Stafford loans—“subsidized” and “unsubsidized”—and two delivery systems: the Federal Family Education Loan Program (FFELP), and the William D. Ford Federal Direct Loan Program (Direct Loans). The total loan volume of newly originated loans under FFELP and Direct Loans (including

consolidation loans) was \$87 billion in 2003.¹² The total outstanding loan volume is much higher.¹³

For “subsidized loans” under both the FFELP and Direct Loans programs, taxpayers fund the interest while the student is in school. The student pays the interest on “unsubsidized” loans. (The term “unsubsidized loan” is misleading because all guaranteed loans are subsidized by the taxpayer.) Under the FFELP, taxpayers pay subsidies to banks on behalf of the students to keep the interest rate lower than the market rate. With Direct Loans, the loan capital is taken directly from the U.S. Treasury. In both cases, the public pays for defaulted loans. Under Direct Loans, taxpayers also pay off loans that are still outstanding after 25 years. Both the FFELP and Direct Loans programs allow students to consolidate their loans into one payment. The interest rate is fixed at the time the loan is made. The cost of subsidies under the FFELP was \$3.4 billion in 2003. The subsidies will rise when interest rates go up. The Bush Administration is requesting \$7 billion to cover subsidies in 2005.¹⁴ The default rate is around 5 percent, although this is likely a low estimate because the 1998 rules allow the Department of Education to exempt the number of loans in forbearance and deferment. Delinquent borrowers have an additional 90 days (for a total of 180) before they are considered in default.¹⁵

PLUS Loans. In 1980, PLUS Loans—which cover the full cost of tuition minus other financial aid—were made available to the parents of dependent undergraduate students. The interest rate for

7. See U.S. Department of Education, “Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP),” at www.ed.gov/programs/gearup/index.html (April 12, 2004).
8. See U.S. Department of Education, “Student Financial Assistance.”
9. America’s Student Loan Providers, *Student Loan Fact Book 2003*.
10. U.S. Department of Education, National Center for Education Statistics, “The Condition of Education 2003,” NCES 2003–067, p. 81.
11. Catherine A. Wegmann, Alisa F. Cunningham, and Jamie P. Merisotis, “Financing Higher Education and Choice in Private Loans,” The Institute for Higher Education Policy, July 2003, at www.ihep.com/Pubs/PDF/PvtLoans.pdf (February 20, 2004).
12. U.S. Department of Education, “Student Financial Assistance.”
13. The total outstanding loan volume in 2000 was \$224 billion, of which 20 percent were newly originated funds. U.S. Department of Education and U.S. General Accounting Office, *Alternative Market Mechanism for the Student Loan Program*, GAO–02–84SP, December 18, 2001, at www.gao.gov/new.items/d0284sp.pdf (February 20, 2004).
14. See U.S. Department of Education, “Student Financial Assistance.”

these loans in 2003–2004 is 4.22 percent.¹⁶ Parents may use either Direct Loans or the FFELP.

Federal Aid to Higher Education Institutions

The HEA provides grants to universities for teacher education, foreign language acquisition, and other area studies. The HEA also provides funds to institutions serving large numbers of minority students.

Institutional aid was increased during the 1990s. Currently, Title II of the HEA provides grants for states and partnerships (of education schools, districts, education organizations, and schools of arts and sciences) to improve the training and recruitment of teachers. This title also includes annual reporting requirements for states and education schools to ensure that graduates are of high quality.

Evidence suggests that the reporting requirements have not yielded reliable information about teacher quality.¹⁷ The HEA requires states to report passing rates on the licensure exam for those who complete the program. In some states, program completers include those who have already passed the licensure exam. Such states boast 100 percent passing rates—a statistic that does not show how many students in education programs actually pass the test.¹⁸

The U.S. House of Representatives passed H.R. 2211 on July 9, 2003. This bill would standardize the requirements to provide greater clarity and allow state-by-state and school-by-school comparisons. States and institutions report the percentage of students who

completed at least half of a teaching preparation program and passed the certification or licensure test. The report must include the state's criteria for assessing the quality of education school programs.

Title III and Title V of the HEA provide funding for institutions that serve Alaskan and Hawaiian natives, historically black universities and colleges, and Hispanic-serving and tribally controlled institutions. Titles VI and VII include funding for graduate and undergraduate language and international studies programs, centers for international business education, research, programs for disabled students, and other programs.

The Fund for the Improvement of Post Secondary Education is intended for exemplary local programs and is used during appropriations to fund congressional pork projects.

The HEA is not the only source of federal funding for higher education institutions.¹⁹ The Department of Health and Human Services, for example, provided over \$771 million for “health professions training programs.”²⁰

There are also tax credits and deductions for higher education. President George W. Bush's FY 2004 budget estimates costs of \$3.4 billion for the HOPE tax credit (which benefits mostly middle-class and upper-income students and their families); \$2.2 billion for the Lifetime Learning Credit; \$110 million for education savings accounts with tax-exempt interest; and \$760 million for student loan interest deductions.²¹

15. The Department of Education's Inspector General released a report calling into question the default rate. According to the report, the default rate in 2001 was 5.4 percent. See Michael Cardman, “Inspector General: ED Underestimating Default Rate,” *Education Daily*, January 23, 2004, p. 2–3.

16. U.S. Department of Education, “Student Financial Assistance.”

17. Committee on Education and the Workforce, U.S. House of Representatives, “Bill Summary: The Ready to Teach Act—H.R. 2211,” at edworkforce.house.gov/issues/108th/education/highereducation/2211billsummary.htm (April 12, 2004).

18. Julie Blair, “Ed. Schools Strain to File Report Cards,” *Education Week*, March 28, 2001, p. 16.

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