



9-1-1994

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Recommended Citation

McKeown, Mary P. (1994) "Federal Student Financial Aid In The 1990s: Crisis And Change?," *Educational Considerations*: Vol. 22: No. 1. <https://doi.org/10.4148/0146-9282.1442>

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It appears likely that the rest of this century will witness continued erosion to the goals of access and choice [to higher education student aid]. The implications of this . . . are overwhelmingly negative.

FEDERAL STUDENT FINANCIAL AID IN THE 1990s: Crisis And Change?

Mary P. McKeown

Although the federal government has provided support for higher education since the early days of the republic, federally supported student financial aid is a 20th century phenomenon, dating from the end of World War II. In the 1940s, 1950s, and 1960s, the majority of federal aid was in the form of grants. In the 1970s and 1980s, millions of students attended postsecondary institutions, assisted by federal financial aid predominantly in the form of loans from banks and other financial institutions guaranteed by the federal government.¹ In academic year 1991-92, federal programs provided over \$20 billion in student aid to over 6 million students.² In the mid-1990s, loans from financial institutions are to be phased out and replaced by direct loans from postsecondary institutions.

It would appear that the philosophy that has guided federal student financial aid programs has undergone remarkable change in fifty years. The first federal student financial aid programs were entitlements that promoted increased access to postsecondary education.³ The next federal programs involved loans that provided access but were directed at disciplines perceived to be in the national interest. The 1965 programs focused on providing access for low-income, needy students through campus loans.

Changes in 1972 shifted the focus of programs to choice, and expanded entitlements, grants, and loans to students from families with higher incomes.⁴ Campus, or institutional, delivery of aid was downplayed. In 1978, loan programs were ex-

panded further to include students from all income levels, de-emphasizing grants and focusing on access, choice, and persistence to a degree. Programs of the 1980s further de-emphasized choice and persistence as goals of federal aid programs, that were delivered through banks and other financial agencies, and limited eligibility for the programs. The remainder of the 1990s appear to augur continued erosion of choice, an emphasis on access through loan programs, and a re-focus on institutional delivery of aid.⁵

What has happened to change the philosophy that guided the federal government's entry into student financial aid over a half century ago? Has the underlying theory changed over time to guide practice? In which direction will federal, postsecondary student financial aid go in the remainder of the 20th century? What are the implications of these changes for students and for postsecondary institutions? This paper will address each of these issues, identify the current federal student financial aid programs, provide additional information on historical and current funding levels, and project expected funding for the rest of the century.

Historical Background

Three hundred and sixty years ago, in 1640, the first student financial aid program began at a United States college when Lady Ann Moulson presented Harvard College with an endowment for needy students.⁶ Despite this long history of student financial aid programs, the federal involvement has been relatively very recent.

If the history of student financial aid since 1640 were interpreted as though it were a 24-hour day or clock,⁷ then the federal entry into student aid programs occurred at about 8:20 p.m., with the passage of the G.I. Bill (the Servicemen's Readjustment Act) at the end of World War II. Aid was given to returning service men and women in the form of tuition assistance and subsistence funds; aid went directly to students after verification of enrollment by a university and was conceived of as an "entitlement." Returning service personnel were given access to postsecondary education through financial aid based on particular characteristics rather than financial need.

Contemporary federal student financial aid programs began at 9:15 p.m. (on the 24-hour, postsecondary student aid clock) with passage of the National Defense Education Act in 1958.⁸ This act created the National Defense Student Loan program, later called National Direct Student Loans, and currently called Perkins Student Loans. By 1964 (approximately 9:45 p.m. in this analogy), federal student financial aid totalled about \$100 million,⁹ and was directed to colleges and universities to loan to needy students. In this post-Sputnik era, the federal government funded aid as a matter of national security. The legislation specifically addressed the issue of opportunity to a higher education: ". . . no student of ability will be denied an opportunity for higher education because of financial need,"¹⁰ but the program was not perceived to be an entitlement like the G.I. Bill.

In the post-Sputnik era, the federal government became concerned with the under-supply of scientists and engineers and allocated approximately \$30 million to fund 8,000 graduate fellowships and traineeships. Support was allocated to institutions to fund students who met specific criteria, in keeping with the apparent federal philosophy of access for needy students by aid delivered through institutions. Graduate aid reached its highest point during 1968-69 when 51,400 fellowships and traineeships totalling \$270 million were awarded to institutions for graduate financial aid.¹¹ Funding for fellowships and traineeships has declined significantly since 1970, as federal priorities have shifted.

In 1965 (after 10 p.m. on the 24-hour financial aid clock), Congress passed the landmark Higher Education Act (HEA), one of the most prominent of Lyndon Johnson's "Great

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Society" programs. The Higher Education Act (HEA) under Title IV authorized the programs that comprise the foundation of federal financial aid today: the Guaranteed Student Loan (GSL), Educational Opportunity Grant (EOG), and College-Work-Study programs. The HEA of 1965 also reauthorized the NDSL program. Each of these aid programs distributed aid to institutions for re-distribution to needy students, primarily through loans. Entitlements were not a component of Title IV aid; rather, aid was delivered through institutions to the "needy." Nevertheless, each of the aid programs was intended to promote access to a higher education.¹² Over the next eight years, federal student aid grew by 900 percent.¹³

At approximately 10:30 p.m. on the 24-hour student aid clock, Congress in 1972 reauthorized the Higher Education Act, making minor adjustments to existing programs and adding the State Student Incentive Grant (SSIG) and the Basic Education Opportunity Grant (BEOG, now called Pell Grant) programs. The SSIG program provided federal funds on a one-to-one match with state dollars to create additional aid for needy students within that state.

SSIG can be perceived to have been a continuation and expansion of the apparent federal policy of granting need-based aid to students that would be delivered through existing institutions or agencies. The creation of the Pell Grant program, on the other hand, signalled a major change in federal student financial aid policy.

Basic Educational Opportunity Grant (BEOGs) or Pell Grants, were, at their conception, entitlements for needy students that replaced, or at least were intended to mitigate the need for, loans. Pell Grants were intended to be the base for packaging aid to needy students, would not have to be repaid, and would follow the student to whichever institution the student chose.¹⁴ Because Pell Grants were an entitlement program, Congress would appropriate each year funds sufficient to cover program costs as determined by formula.

Pell Grants were a program that focused on student choice, but did provide access, since the aid was directed to the student and supported his/her choice of an institution. Thus, the 1972 Reauthorization of the Higher Education Act altered the federal role in student aid from a policy focus on access to a policy that focused on choice, with aid delivered through a combination of grants, loans, and work from institutions, but primarily delivered directly to the student. Federal appropriations for student financial aid increased over 50 percent during the next five years.

The 1978 Reauthorization of the Higher Education Act ushered in a new era of federal student financial aid. Congress passed the Middle Income Student Assistance Act of 1978, greatly expanding eligibility for Pell Grants and Guaranteed Student Loans to students from middle and upper income families. Removal of the income cap from the GSL program, increases in college enrollments and costs, and soaring inflation contributed to significant increases in federally funded student aid. Between 1978 and 1981, aid grew 200 percent from \$1.6 billion to \$4.8 billion.¹⁵ Aid, predominantly in the form of loans delivered to students instead of through institutions, became focused on middle income and upper income students, moving away from low income or needy students. The huge cost of GSLs shifted funds away from the entitlement program (Pell Grants) that was to have been the federal government's primary student aid vehicle. By 1981-82, only 24 percent of the combined Pell and GSL funding came through Pell Grants.¹⁶

During the 1980s, despite significant initiatives by the Reagan and Bush administrations to curtail aid, actual federal student financial aid funding increased. The federal government did retreat from the policies that made nearly every student eligible for GSLs by placing restrictions on the program. The focus of aid continued to be loans directly to students;

however, the concept of attendance at any college of choice was undermined for low income students because they were less likely to attend a university than a local community college or proprietary school.

During the 1980s, several entitlement programs were eliminated or severely restricted. As the majority of Vietnam War veterans completed college, veterans' educational benefits were phased down. Social security survivors' benefits for college were eliminated entirely. Thus, the focus of federal student financial aid moved away from entitlement programs and grant programs for the needy to loans with expanded eligibility. The shift to loans appeared to be consistent with the Reagan and Bush administration policy of returning financial responsibility for higher education to students and their families.¹⁷ Of course, this shift also made it inevitable that many needy students were confronted with an additional barrier to continuing their education.

Current Programs

In the 23rd hour of the financial aid clock, the Higher Education Amendments of 1992 were signed into law by President Bush, extending authorization for the Title IV programs until 1997. Several changes were made in programs, including a change in the maximum amount of the Pell award. Technical amendments to the 1992 amendments and to the Higher Education Act itself were passed in 1993. In addition, a major change in the delivery of student loans was enacted as part of the Omnibus Budget Reconciliation Act of 1993, signalling a bellwether change in federal student aid policy. These amendments and the major current programs are detailed below. Table 1 displays information on federal student financial aid appropriations since 1965, and Table 2 arrays average aid amounts awarded.

Pell Grants (Title IV, part A, subpart 1, Higher Education Act of 1965, as amended)

The Basic Educational Opportunity Grant (BEOG) program, now called Pell Grants, is the largest of the need based grant programs of the federal government and originally was intended to be an entitlement and the centerpiece of federal student financial aid.¹⁸ Grants were to be made to students who were determined to be eligible under an assessment that evaluated the family's ability to provide for the student's college education.

Like all of the financial aid programs authorized under Title IV of the Higher Education Act, Pell Grants were designed to provide access to a postsecondary education for needy students. Grants are awarded directly to undergraduate students based upon need, and eligibility for the program is determined by a federally determined needs test. Prior to the 1992 amendments to the HEA, the maximum Pell Grant awarded to a student could not exceed 60 percent of the total cost of attendance at the student's institution of choice, or the maximum Pell for that year, whichever was less. In 1992-93, the maximum award was \$2,300, a reduction from the previous year's appropriated amount of \$2,400. Pell Grants represent approximately 15 percent of all revenues received as part of tuition and fees¹⁹ and totalled \$5.2 billion during academic year 1991-92.

Pell Grants are now a discretionary program, with award levels dependent on appropriations. In tight federal budgets, the maximum award amount has been reduced to fit the available appropriations, as it was in 1992-93. In addition, when the estimation of needed funds is low, ED borrows from the following year's appropriation, creating a shortfall. The Pell shortfall was estimated to be \$1.2 billion during budget negotiations in 1993.²⁰ Maximum Pell awards authorized in the Higher Education Act have not been appropriated. During the 1992 reauthorization, provisions to return the Pell program to

Table 1. Appropriations for Major Federal Student Financial Aid Programs 1958-1994

	(dollars in thousands)					
	Pells	SEOG	SSIG	GSL(FFEL)	CWS	Perkins
1959	*	*	*	*	*	10,000
1966	*		*	62,000	33,000	115,000
1971	*	144,000	*			
1973			n/a			
1975	840,200	240,300		580,000	420,000	329,449
1978						
1980	2,441,328	370,000	76,750	1,609,344	550,000	300,800
1983	2,419,040	355,400	60,000	3,100,500	590,000	193,360
1986	3,579,716	394,762	72,732	3,265,941	567,023	208,626
1989	4,483,915	437,972	71,889	4,066,828	610,097	205,507
1991	4,915,000	520,155	63,531	5,381,422	594,689	156,144
1992	5,242,000	415,000	63,000	2,285,036	616,000	180,000
1994	6,574,000	583,407	72,429	2,273,335	616,508	158,000

*indicates program not yet started, and no appropriations made.

Table 2. Average Amounts per Recipient in Major Federal Student Financial Aid Programs 1958-1992

	Pells	SEOG	SSIG	GSL(FFEL)	CWS	Perkins
1959	*	*	*	*	*	*
1966	*		*			
1971						
1972						
1975	631	506	280	1,215	518	647
1978	746	489	553	1,580	555	773
1980	868	555	592	1,976	650	679
1983	937	535	530	2,238	854	884
1986	1,269	550	500	2,307	880	880
1989						
1991						
1992						

an entitlement with a maximum award level consistent with increased costs of attendance were omitted from the final legislation.²¹

The 1992 Amendments to the HEA increased the maximum Pell Grant authorized for the 1993-94 academic year to \$3,700, with increases of \$200 each year until the maximum Pell reaches \$4,500 for the 1997-98 academic year. The minimum amount to be awarded to a student as a Pell Grant was set at \$400, and students eligible for awards between \$200 and \$400 were authorized to receive \$400. Although the maximum Pell amount of 1993-94 was authorized at \$3,700, appropriations support a maximum Pell Award of \$2,300, and a total Pell outlay of \$6.6 billion during the 1993-94 federal fiscal year. The average award in 1980-81 paid approximately 25 percent of the costs of attendance at a four-year public institution but had dropped to less than 20 percent of the cost in 1992-93.

The 60 percent of cost of attendance limit on maximum awards was amended in 1993 to enable the poorest students attending low-cost institutions to receive up to the maximum award amount appropriated. Additionally, when the maximum award appropriated exceeds \$2,400, awards above \$2,400 will reflect increases in the cost of living allowance. Although these two provisions appear to assist needy students, it is unlikely that either will have much impact in the foreseeable future since Pell Grant appropriations are not expected to support an amount greater than \$2,300. (In fact, it is likely that this amount will decline as the amount appropriated for FFEL increases.)

One change that will impact the program is extension of eligibility to part-time students. Prior to 1993, eligibility for the program was limited to full-time students. This requirement was perceived to discriminate against non-traditional students

(i.e., those who were over 24, attended part-time, or were independent) and students attending community colleges, who are more likely to be part-time.

Supplemental Educational Opportunity Grants (Title IV, part A, subpart 2, Higher Education Act of 1965, as amended)

Supplemental Educational Opportunity Grants (SEOGs) were established as "Educational Opportunity Grants" as part of the original Higher Education Act of 1965. The College Work-Study program, Perkins Loans, and SEOGs make up what are called the "campus-based" federal student financial aid programs. Federal funds are received by institutions who administer the programs and determine which students should receive awards. Each of these three programs was designed originally to extend access to a postsecondary education to needy students.

SEOGs were designed explicitly to aid the neediest of low-income students who could not enter or continue college without grant assistance. Institutions that made these awards were required to target program funds on students from the lowest income families. As a result, SEOGs were perceived to be the most effective program in recruiting and retaining minority and economically disadvantaged students during the 1960s, and these efforts led to marked increases in minority enrollments.²² Originally, the program required full-time enrollment, but was modified to include students who attended half-time.

Financial aid administrators at each institution participating in the SEOG program determine within federal guidelines which students will receive awards, and the amount of the award. Students may receive between \$100 and \$4,000 in any academic year. The federal government provided all the funds for this program until FY 1990, when participating institutions

were required to fund 10 percent. The institutional share increased to 15 percent in 1991.

The SEOG program has grown from \$370 million in 1980-81 and 717,000 students to \$415 million for 728,000 students in 1991-92. The Reagan administration targeted SEOGs for elimination in every budget proposal from 1983 to 1988. However, Congressional proponents of this program were able to overcome the administration's proposals but relaxed the rigid targeting of funds to the very needy to consider increased costs of attendance at private institutions.

State Student Financial Incentive Grants (Title IV, part A, subpart 3, Higher Education Act of 1965, as amended)

The State Student Financial Incentive Grant (SSIG) program was created as part of the 1972 Reauthorization of the HEA to enhance state scholarship or grant programs in states that had such programs, or to encourage creation of programs in other states. Federal funds were to be allocated to meet up to 50 percent of the awards in each state for needy students. Amounts allocated to each state were determined by a formula relating higher education enrollments in the state to total national higher education enrollment. Grants were renewable only until the baccalaureate degree was awarded.

All fifty states participate in the SSIG program, and most provide state funds considerably over the federal contribution. Between 1980 and 1991, federal appropriations for the SSIG program fell from \$77 million to \$64 million, although the total amount of student aid available through SSIGs increased from \$840 million during FY 1980 to \$1.6 billion in FY 1990.

Because of the success of the program in meeting the original goal of encouraging states to have state scholarship programs, during the 1980s, the Reagan and Bush Administrations proposed elimination of the SSIG from the federal budget. The program continues because of its popularity with Congress (every Congressperson has a SSIG program that grants scholarships to constituents), and current provisions permit a maximum award of \$2,500.

Guaranteed Student Loans (Title IV, part B, Higher Education Act of 1965, as amended)

The Guaranteed Student Loan Program (GSL), renamed the Federal Family Education Loan (FFEL) in 1992, provides the majority of all federal student financial aid through three different types of loan programs. Loans available to support student expenses include subsidized and unsubsidized loans for graduates and undergraduates, loans for parents of dependent students, and consolidated loans. Expenditures shown in the federal budget are for appropriations that assume loan interest, pay lenders and guarantee agencies, and repay defaulted loans. These payments are considered to be an entitlement program of the federal government.²³ Average loan amounts are shown in Table 3.

FFEL loans are made by nearly 8,000 private lenders, who use their own funds to make loans. The federal government "insures" lenders for loss resulting from borrower default, death, disability, and bankruptcy; as well as "assures" a minimum rate of return on money loaned. "Insurance" is made through guaranty agencies, most of which are state corporations like the Massachusetts Higher Education Assistance Corporation. The guaranty agencies reimburse lenders for default claims.

Stafford Loans, the original GSLs, provide loan funds to needy undergraduate, graduate, and first professional (medical, dental, veterinary, pharmacy, etc.) students at a low interest rate guaranteed and subsidized by the Federal Government. Students must demonstrate financial need, and no interest or principal payments are due while the individual is a student. Annual borrowing limits are \$2,625 for the first two years of undergraduate study, \$4,000 for the next three years, with a cumulative undergraduate limit of \$17,250. In addition, students may borrow up to \$7,000 per year for up to five years of graduate study, with a cumulative limit of \$54,750 for all Stafford Loans.

Supplementary Loans for Students (SLS) and PLUS loans also are guaranteed by the Federal Government but are not need tested, have a variable interest rate, and are not subsidized unless the variable rate exceeds 12 percent. SLS generally are available to students who are defined under the HEA as "independent," while PLUS loans are available to parents of students who are under age 24 but still considered "dependent." Independent students and parents of dependent students may borrow up to \$4,000 per year, up to a cumulative total of \$20,000, with some exceptions for programs of short duration. SLS are not available to students at institutions whose default rates exceed 30 percent. Students or parents who borrow under the SLS or PLUS programs must begin repayment of the loans within 60 days of loan disbursement, but repayment of principal may be deferred while the student is enrolled.

In 1986, Congress made available a loan consolidation program that permitted merging of existing student loans and longer periods for repayment. Actually, the longer repayment period results in a larger total payment, and the possibility looms that the next generation will be attending college before this generation's loans have been repaid.

The GSL program is the most criticized of all the federal student aid programs. At various times, it has been labeled as too costly, as wasteful because subsidies go to middle and upper income students, as a disincentive to college saving, and as an incentive to colleges to raise tuition.²⁴ However, in spite of all these criticisms, loans are the most politically popular and widely used of all federal aid programs. In 1991-92, almost \$11 billion in loans were made available through the Stafford Loan Program. An additional \$3 billion were provided through SLS and PLUS programs.²⁵

Table 3. Number of Recipients of Major Federal Student Financial Aid Programs 1958-1994

	Pells	SEOG	SSIG	GSL(FFEL)	CWS	Perkins
1959	n/a	n/a	n/a	n/a	n/a	
1965			n/a	515,400		429,000
1971			n/a	1,256,300		614,200
1974	176,000	331,000	n/a	1,030,000	556,000	655,000
1975	557,000	395,000	136,000	938,000	570,000	680,000
1978	2,027,000	499,000	217,000	973,000	845,000	795,000
1980	2,716,000	606,000	259,000	1,510,000	926,000	958,000
1983	2,579,000	641,000	278,000	2,788,000	720,000	675,000
1986	2,954,000	720,000	304,000	3,852,000	786,000	853,000
1991	3,300,000	678,000	320,000	4,502,000	876,000	804,000
1992	4,027,000	728,000	320,000	4,872,000	841,000	660,000

Note: Numbers are duplicated counts.

The original goal of all financial aid programs in the Higher Education Act of 1965 was to improve access to a postsecondary education for disadvantaged students, and thus, to reduce or eliminate poverty; GSLs were perceived to have a secondary purpose of providing aid to middle income students at a low cost to the federal government. Judged by the criterion of providing aid to middle income (or above) students, GSLs have been wildly successful, especially after passage of the Middle Income Student Assistance Act (MISAA) in 1978. MISAA removed needs tests for loans, and resulted in an explosion of loan volume from \$1 billion to one million students in 1971 to over \$6 billion loaned to 2.5 million students in 1981. By this time, loans were the predominant federal financial aid program, and the anti-poverty origins of the HEA had faded. In 1981, however, Congress restored the needs test for loan eligibility for students from families with incomes of over \$30,000. Many students with family incomes greater than \$100,000 who attended high cost private colleges remained eligible for student loans. In 1993, student loans were the "foundation" of federal student aid policy, and the federal government paid approximately 11 cents for every dollar loaned.²⁶

Despite their popularity with Congress, parents, and students, federal student loan programs are being significantly revised as this article is being written. Middle class access to loans was expanded under the "unsubsidized" Stafford loan program. To offset costs, students from any income level may borrow, but must pay a 3.0 percent loan origination fee. SLS loan limits for graduate students were increased to \$10,000 per year, and aggregate borrowing limits for Stafford and other SLS loans were also increased. On July 1, 1994, the SLS program will be combined with the unsubsidized Stafford program, with higher loan limits available. The PLUS program in 1994 makes available any amount a parent wishes to borrow, up to the cost of attendance, less any aid the student receives from other sources. Loans are not available through PLUS to parents with an adverse credit history.

The 1993 Budget Reconciliation Act (OBRA 93) also made numerous changes to the maximum interest rates charged to borrowers under each of the loan programs. In addition, numerous changes designed to reduce costs in the FFEL program were enacted, including reductions in the subsidies made by the federal government to lenders. Lenders now must offer graduated repayment schedules designed to reduce default rates. Special deferments on repayment of loans and interest were permitted for disadvantaged students, and certain loans were forgiven for students that attended institutions that closed. The maximum repayment period was extended to 30 years for consolidated loans.

The most important change made in 1993 to FFELs was the shift to **direct loans**. Loans will be made by postsecondary institutions directly, with the federal government providing loan capital, owning the notes, and absorbing defaults as part of the federal government's cost. This change shifts the delivery system for the majority of federal student financial aid back to the institutions, undermining choice because of the greatly reduced number of institutions that may participate in the new program. The underlying theory guiding the program has not shifted, however. This change appears contrary to the major purposes of federal student financial aid.

The 1993 legislation contained in PL 103-66, OBRA 93, directs the Secretary of Education to select schools to participate in the direct loan program so that loans at those schools will comprise 5 percent of new student loan volume for academic year 1994-95. This percentage is increased to 40 percent in 1995-96, 50 percent in 1996-97, and 60 percent in 1997-98. In November, 1993, the Secretary selected 105 schools from the 1,100 who applied to participate in this program.²⁷ Loan volume at these 105 schools is expected to equal the 5 percent requirement of the law, and go to over 300,000 students.

The change in the FFEL program establishes an entitlement program, in that students and their parents are entitled to loans for attendance at a participating school; however, schools do not have a right to program participation. *This provision implies that institutions with specific characteristics, and more importantly, their students, will be excluded from participation.* Loans made under the direct student loan program will be called Federal Direct Stafford Loans (FDSL) and Federal Direct Unsubsidized Stafford Loans (FDUSL), as well as PLUS loans.

A significant change in the program is that different types of repayment plans will be available to direct loan borrowers. Four alternatives must be provided by the Secretary of Education:

- standard repayment terms, under which fixed payments are made over a fixed time;
- extended repayment, under which fixed payments of at least \$50 monthly are made over a longer time;
- graduated repayment, under which borrowers would pay at two or more levels; and
- an income contingent repayment, under which students annually would repay a specific proportion of their income over a period up to 25 years.²⁸

There are significant numbers of proponents and opponents for this legislation. Institutions that have large numbers of out-of-state students and must deal with many guaranty agencies welcome the opportunity to streamline their financial aid burden. Smaller colleges, those whose students are predominantly in-state, and those that do not have computerized student record systems do not believe that this program will simplify the process, but rather will increase the complexity of their programs without reducing costs. The historically black colleges and universities also opposed this legislation; speculation is that default rates at these schools are high enough to exclude many of the institutions from participation. If that is the case, it is likely that this group of minority students would be denied access to the major federal student aid program, and therefore, denied access to a higher education. As could be expected, banks with high volumes of student loans also opposed the legislation.

College Work-Study (Title IV, part C, Higher Education Act of 1965, as amended)

College Work-Study (CWS) is one of the three so-called "campus-based" programs authorized by the HEA of 1965. CWS originally was part of the Economic Opportunity Act of 1964, and was assigned to the Office of Economic Opportunity before transfer in 1965 to the Office of Education. When established, this program provided funding to undergraduate students for part-time (up to 15 hours per week) employment at postsecondary institutions, or through a contract, with a public or non-profit agency. Postsecondary institutions participating in the program were responsible for administration and selection of students. Any undergraduate student showing financial need was eligible for participation.

In 1964-65, over 100,000 students at about 1,100 institutions received \$33 million as work compensation. By 1980-81, 819,000 students participated in the program, and in 1991-92 728,000 students received over \$790 million in compensation through CWS. Currently, any financially needy undergraduate, graduate, or professional student attending a participating institution may receive work assistance through the CWS program. Students may work on campus, in other public or non-profit organizations, or in the for-profit sector. Jobs must pay at least the federal minimum wage, and are supposed to relate to the student's academic goals.

Costs for the program are shared by the institution and the federal government. Currently, for jobs on campus, the federal government contributes 70 percent of salaries; for jobs in community service programs, CWS pays 90 percent, while for jobs in for profit businesses, CWS funds 50 percent. The institu-

tional share may take the form of books, scholarships, supplies, or other educationally related equipment and services. Students attending proprietary schools are eligible for participation in this program, which is thought to be among the best managed of the financial aid programs.

Perkins Loans (Title IV, part E, Higher Education Act of 1965, as amended)

Originally authorized as Title II of the National Defense Education Act of 1958, National Defense Student Loans, later called National Direct Student Loans, and currently called Perkins Loans, were the first federal student financial aid program to require a needs test for eligibility. Perkins Loans are one of the so-called "campus based" programs and were also the first program to require a contract or agreement between the institution and the federal government. The federal government provided 90 percent of funds loaned to students with demonstrated need, and the participating institution provided the remaining 10 percent. Funds repaid for interest and principal were redeposited into the fund to make additional loans.

To be eligible for a loan, students originally were required to be enrolled full-time at a participating institution, to demonstrate financial need, and to maintain good academic standing. Students enrolled in science, mathematics, teaching, or foreign languages were given preference for awards, although this provision was later withdrawn. Simple interest of 3 percent, deferred until after completion of a degree, was charged on the loans from their inception until 1980, when the rate increased to 4 percent, and then to 5 percent in 1981. Forgiveness for all or part of the loan may be granted to borrowers who teach in certain fields or in "low income" schools. Until the mid-1970s, cancellation also was granted for military service or for teaching at any level of education.

Currently, any student at a participating institution may borrow up to \$4,500 for the first two years of undergraduate study, up to \$9,000 in total for undergraduate study, and an additional \$9,000 for graduate and professional study. Loan amounts are determined by institutional financial aid officers, within federal guidelines. Borrowers have 10 years after leaving the institution to repay the loan(s) directly to the lending postsecondary institution, unless payments are deferred or forgiven. In 1991-92, over \$800 million was loaned to 660,000 students, down from 813,000 recipients in 1980-81.

Federal appropriations for Perkins Loans decreased from \$300 million in FY 1980 to \$151 million in FY 1990, almost a 50 percent reduction. However, the amounts loaned increased from \$694 million in FY 1980 to about \$860 million in FY 1990. This increase in loan activity occurred because the Perkins Loan program receives funds from three sources: new federal capital contributions, provided by the annual federal appropriation and distributed by the Department of Education to participating institutions; institutional capital contributions of \$1 for every \$9 appropriated by the federal government; and funds from repayment of principal and interest from prior loans.

Throughout its life, the Perkins Loan program has been plagued by high default rates. At one point during the 1970s, the average default rate had reached 20 percent, leading to calls for elimination of the program. The Reagan administration included virtually zero funding in each of its budget proposals during the 1980s; the only funds included in the administration proposals were to replace forgiven loans. Because of perceived high default rates, the 1986 amendments to the HEA revised the formula for allocating funds to participating institutions. Most institutions received at least the funding level of 1985, adjusted by a default penalty if the institutional default rate exceeded 7.5 percent. Institutions that had default rates of 20 percent or higher in 1988, 1989, or 1990, or greater than 15 percent in 1991 and thereafter were ineligible for any new federal capital contributions.

Discussion and Conclusions

Throughout the fifty year history of federal student financial aid programs, critics of these programs have lobbied for reductions and even outright elimination of programs, basing their criticisms on a variety of objections.²⁹ Hearn has charged federal student aid policy with lacking in philosophical coherence, having no programmatic clarity and distinctiveness, and not providing access to managerially needed information.³⁰ There have been ample reasons to criticize federal aid programs; yet, if judged on the basis of increases in appropriations, postsecondary student aid programs have been amazingly successful at both surviving and growing.

If federal student financial aid has specific purposes or goals that are based on a theory of financial aid, such as access, choice, manpower, financial solvency for institutions, quality of institutions, and enrollment concerns,³¹ federal student financial aid "policy" can be credited with success by several criteria. Revisions to the HEA requiring satisfactory progress and accreditation of institutions for eligibility to federal aid have improved the quality of academic programs. Specific manpower needs have been met through provisions of loan programs that targeted aid to students enrolled in areas judged critical to the nation and by forgiveness clauses that eliminated loan indebtedness for employment in particular areas such as science and mathematics.³²

The federal government's entry into the student financial aid world in the 1940s through the Servicemen's Readjustment Act changed forever higher education in the United States. To meet the needs of returning servicemen and women, thousands of new institutions of higher education were created. These institutions offered programs of a different nature than traditional higher education programs provided mainly to "children of privilege." Prior to World War II, postsecondary institutions were fairly uniform in purpose and type. Several million returning veterans with varying needs and desires caused a proliferation of academic programs and types of institutions. This diversity of programs and types of institutions to meet societal needs can be judged as a strength of higher education in the U.S. that came about because of federal student financial aid. In 1947-48, nearly 50 percent of all students enrolled in postsecondary education were veterans.³³ No other program has supported as large a share of the student population.

In the 1960s and 1970s, federal financial aid programs were extremely successful in providing access to higher education for a student population increasingly heterogeneous in terms of educational background, race, ethnicity, age, family status, and employment status. If judged by the criterion of continued success in achieving this goal of access into the 1980s and 1990s, the programs could be viewed as failures. The rest of the 1990s portend continued failure to further the goal of access, but continued existence, congressional popularity, and even growth, for federal financial aid. This issue is amplified later.

Criticism over the years has focused on the lack of a formal, enunciated federal higher education policy,³⁴ although the 1972 Amendments to the Higher Education Act have been perceived to set forth the principles or "charter" for federal higher education policy. According to Gladieux and Wolanin,³⁵ the principles related to financial aid were the following: equal opportunity underlies all higher education policy; student needs come before institutional needs; the federal government has national objectives, while states have primary responsibility for higher education; the focus of federal efforts includes non-traditional students and institutions; the federal government will encourage reform and innovation in higher education; and, legislative efforts will build on existing programs.

During debate over reauthorization of the Higher Education Act in 1992, many criticisms of aid programs were raised. These included lack of program integrity, lack of institutional

accountability (including escalating default rates on loans), application complexity, reduced choice, reduction in access and persistence, and inability to achieve program goals. Each of these criticisms can be related to the charter outlined in 1972. The shift to a majority of federal aid going to higher education instead of elementary/secondary education generated significant discussion. All of these were, and continue to be, valid issues; indeed, the 1992 Amendments can be interpreted as increasing the noise level of several of these criticisms, most notably choice and access.

If the 1992 and 1993 changes in federal student financial programs were to be judged by the principles delineated by Gladieux and Wolanin, the 1992 and 1993 changes may be perceived as a retreat from adherence to the principles set down in the 1972 "Charter." Although the theory itself does not appear to have changed, the programs appear to have shifted the priorities of aid.³⁶ Of particular concern are the return to institutional delivery of aid and the erosion of focus on the poorest students and their access to postsecondary education. Unfortunately, this appears to be the direction for the rest of the century: increasing financial aid for middle and upper income students in the form of loans, reductions in grant programs targeted at the neediest, loss of access to federal financial aid programs at institutions that serve minorities and the neediest students, and loss of access to a post-secondary education for the neediest.³⁷

In higher education, "access" and "choice" are code words. In federal financial aid parlance, "access" signifies aid programs that help public institutions and "choice" means programs that assist private institutions. The 1972 federal financial aid charter in the HEA was a major statement that provided both access to attend postsecondary institutions and also choice among types of institutions. Although these are both goals, fiscal constraints have forced these objectives to become competing priorities.

Extension of financial aid to middle and upper income students through MISAA was perceived to be a victory for choice proponents, most notably private and proprietary institutions. MISAA succeeded beyond all expectations; aid amounts skyrocketed. In the period immediately following MISAA, the profile of Pell Grant recipients shifted sharply to those students from families making more than \$25,000.³⁸

Inclusion of a maximum Pell award limited to 50 or 60 percent of the cost of attendance also favored private institutions whose costs were higher than public institutions. Limiting aid to full-time students also favored private institutions whose student bodies were more likely to attend full-time, and discriminated against non-traditional students and the institutions they attended. Each of these provisions were changed in 1993; however, limitations on funding make it appear unlikely that the limits will make a real difference.

The nation has been swept with a wave of nostalgia for the 1950s and 1960s; bell bottoms, love beads, slow dancing, and the Beatles are back in style. Federal student financial aid programs do not seem to be immune to this nostalgia. The primary federal financial aid program in the 1990s will be loans distributed directly by institutions, a return to the policies and programs of the 1950s and 1960s when campus-based loans also were the primary federal financial aid vehicle. This trend is especially troubling to those who perceive need based federal aid programs like Pell Grants as the primary federal financial aid programs. Every additional dollar appropriated for loans seems to mean a reduction of a dollar of need-based aid, because federal student financial aid is now a zero-sum game. Shifts to loans can be demonstrated to channel aid toward middle and upper income students and away from the most disadvantaged, eroding the federal emphasis on equality of opportunity.³⁹

Reliance on loan programs as the primary vehicle for federal financial aid is perceived to discriminate against minority students who are less likely to be willing to borrow.⁴⁰ A recent study⁴¹ concluded that higher education becomes a risky investment for low income students who are less likely to earn the higher incomes after graduation that will enable repayment of loans. For low income students, the prospect of large post-education debts reinserts the cost barriers to higher education that federal financial aid programs were designed to remove. Recent declines in the number of African-American students at U.S. institutions may be seen as the direct result of the shift of federal aid from grants to loans.

Further restrictions to access to the direct loan program for institutions with high default rates exacerbates the shifting of aid from the most needy to middle and upper income students because defaults occur disproportionately among students with the lowest incomes.⁴² This undermining of the goal of access and equality of educational opportunity is troublesome.

It appears likely that the rest of this century will witness continued erosion to the goals of access and choice. Institutional delivery of aid in the form of loans will be the primary federal student financial aid program. The implications of this for the neediest students and for institutions that serve them (like the historically black and Hispanic institutions) are overwhelmingly negative. Has the dream of equal opportunity been lost?

Endnotes

1. In the Fall of 1986, nearly 70 percent of all students attending postsecondary institutions received financial aid. The most common source of this aid was the federal government, according to reports from the U.S. Department of Education.
2. M. A. Schenet, "Recent Changes in Federal Student Aid," (Washington, D.C.: U.S. Library of Congress, Congressional Research Service, December 1993).
3. "Entitlements" are federal programs for which appropriations must be made for all who qualify based on specific criteria. "Access" refers to the opportunity to an education or to participation in a program.
4. "Choice" refers to a student's ability to select an institution or academic program.
5. J. C. Hearn, "The Paradox of Growth in Federal Aid for College Students, 1965-1990," in *Higher Education: Handbook of Theory and Research*, Vol. IX, (New York: Agathon Press, 1993).
6. J. Brademas, in R.H. Fenske, R.P. Huff and Associates, *Handbook of Student Financial Aid* (San Francisco: Jossey-Bass, 1983), p. ix.
7. The 24-hour student aid clock is the creation of Robert Fenske.
8. J. W. Moore, "Purposes and Provisions of Federal Programs," in Fenske, Huff and Associates, *Handbook of Student Financial Aid*, p. 28.
9. D.A. Gillespie and N. Carlson, *Trends in Student Aid: 1963 to 1983*. (Washington, DC: College Board, 1983).
10. Public Law 85-864, September 2, 1958, p. 1.
11. Carnegie Council on Policy Studies in Higher Education, *The Federal Role in Postsecondary Education*. (San Francisco: Jossey-Bass, 1975), p. 18.
12. L.E. Gladieux and T.R. Wolanin, *Congress and the Colleges: The National Politics of Higher Education*. (Lexington, MA: Lexington Books, 1976).
13. J. C. Hearn, *Paradox of Growth*.
14. R. H. Fenske and B. D. Gregory, "The Dream Denied: Evaluating the Impact of Student Financial Aid on Low Income/Minority Students," paper presented at the annual meeting of the National Association of Financial Aid Administrators, Washington: October, 1993.

15. U.S. Department of Education, *A Self-Instruction Course in Student Financial Aid Administration*. (Washington: Office of Student Financial Assistant, Department of Education, 1988), pp. 2-4.
16. College Board, *Trends in Student Aid: 1981 to 1991*. (Washington, D.C.: College Board, 1991).
17. R. H. Fenske and B. D. Gregory, "The Dream Denied," p. 20.
18. T. W. Hartle and J. B. Stedman, "Federal Programs: A View of the Higher Education Act," in M. P. McKeown and S. K. Alexander (eds.), *Values in Conflict: Funding Priorities for Higher Education*. (Cambridge, Massachusetts: Ballinger, 1986).
19. P. M. Irwin, "U.S. Department of Education: Major Program Trends." (Washington, D.C.: Congressional Research Service, 1991).
20. J. Zook, "Education Department Given 2.4% Budget Increase, While NIH and NSF Will Fare Well in 1994," *Chronicle of Higher Education*, October 13, 1993, p. 24.
21. This defeat of proponents of returning to grants instead of loans as the primary aid vehicle (and thus to the original intent of the Pell program) has been attributed to failure to conform to the Budget Enforcement Act of 1992. M. A. Schenet, "Recent Changes in Federal Student Aid," p. 5.
22. J. W. Moore, "Purposes and Provisions of Federal Programs."
23. M. A. Schenet, "Recent Changes in Federal Student Aid."
24. M. Mumper and P. Vander Ark, "Evaluating the Stafford Student Loan Program," *Journal of Higher Education*, 62, 1 (January/February 1991).
25. The Editors of the *Chronicle of Higher Education*, *Almanac of Higher Education*, 1993. (Chicago: University of Chicago Press, 1993), p. 23.
26. M. A. Schenet, "Recent Changes in Federal Student Aid."
27. J. Zook, "For 1,100 Administrators, a Leap of Faith," *Chronicle of Higher Education*, October 20, 1993, p. A43.
28. M. A. Schenet, "Recent Changes in Federal Student Aid."
29. For example, every administration budget proposal since 1983 has eliminated funding for the State Student Incentive Grant (SSIG) Program. As late as June 9, 1993, the SSIG program was reported to "Appear Headed for Oblivion." (*Chronicle of Higher Education*, June 9, 1993, p. A20.)
30. J. C. Hearn, "Paradox of Growth."
31. C. E. Finn, Jr., "Why Do We Need Financial Aid? or, Desanctifying Student Assistance," in College Scholarship Service, *An Agenda for the Year 2000* (New York: College Entrance Examination Board, 1985).
32. A. P. Wagner, "Student Financial Aid in the 1980s," in M. P. McKeown and S. K. Alexander, *Values in Conflict*.
33. J. L. Bowman, J. Volkert, and J. V. Hahn, *Educational Assistance to Veterans: A Comparative Study of Three G.I. Bills*. (Princeton, New Jersey: Educational Testing Service, 1973).
34. T. W. Hartle and J. B. Stedman, "Federal Programs."
35. L. E. Gladieux and T. R. Wolanin, *Congress and the Colleges*.
36. Congressional proponents of student financial aid, most notably William Ford, have argued strongly for continued focus on low income or disadvantaged students. *Chronicle of Higher Education*, August 11, 1993, p. A24.
37. These are significant changes, but the underlying theory, as evidenced by the rhetoric surrounding federal student financial aid programs, has not changed substantially.
38. D. A. Gillespie and N. Carlson, *Trends in Student Aid*.
39. M. Mumper and P. Vander Ark, "Evaluating the Stafford Student Loan Program."
40. R. H. Fenske and B. D. Gregory, "The Dream Denied."
41. T. Mortensen, *The Impact of Increased Loan Utilization among Low Family Income Students*. (Iowa City, Iowa: American College Testing Program, 1990).
42. T. Mortensen, *The Impact of Increased Loan Utilization*.