

# The Campus-Based Financial Aid Programs: Background and Issues

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## Summary

Three need-based student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (HEA)—Federal Supplemental Educational Opportunity Grant (FSEOG) program, the Federal Work-Study (FWS) program, and the Federal Perkins Loan program—are collectively referred to as the “campus-based” programs. These programs are considered campus-based because federal funds are awarded directly to institutions of higher education (IHEs) that administer the programs and provide institutional funds to match the federal funds they receive for them.

The campus-based programs are among the oldest of the federal student financial aid programs. As federal aid has largely transitioned to a system that allows for “portability” in receipt of student aid, meaning that most forms of aid are made available to students at whichever participating institution a student chooses to attend, the campus-based programs have come to play a relatively smaller role in the federal student aid effort.

The campus-based programs’ authorizations of appropriations, along with many other provisions under the HEA, were set to expire at the end of FY2014, and were automatically extended through FY2015 under Section 422 of the General Education Provisions Act (GEPA). The FSEOG and FWS programs have continued to be funded through annual appropriation bills, most recently through the Continuing Appropriations Act 2018 (P.L. 115-56), which extended the programs through December 8, 2017. The Perkins Loan program was amended and extended through FY2017 under the Federal Perkins Loan Program Extension Act of 2015 (Extension Act; P.L. 114-105). The Extension Act prohibits future appropriations for the Perkins Loan program and prohibits an automatic extension of it under GEPA.

During consideration of reauthorization of the HEA, several issues related to the campus-based programs may be considered. These include the extent to which the campus-based programs provide types of aid to students that are not provided via other postsecondary aid programs, whether the current formula for allocating funds to institutions is optimal, and the potential role of the campus-based aid programs in a redesigned federal aid system. Provisions specific to each program, such as requirements for community service under FWS and terms and conditions of Perkins Loans, are also likely to be considered.

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## Introduction

Three need-based student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (HEA)—Federal Supplemental Educational Opportunity Grant (FSEOG) program, the Federal Work-Study (FWS) program, and the Federal Perkins Loan program—are collectively referred to as the “campus-based” programs. These programs are considered campus-based because federal funds are awarded directly to institutions of higher education (IHEs) that administer the programs and provide institutional funds to match the federal funds they receive for them. The campus-based programs are unique in that the mix and amount of aid awarded to students are determined according to institution-specific award criteria, rather than according to non-discretionary award criteria such as those applicable to Pell Grants<sup>1</sup> and Direct Loans.<sup>2</sup>

The campus-based programs’ authorizations of appropriations, along with many other provisions under the HEA, expired at the end of FY2015.<sup>3</sup> The FSEOG and FWS programs have continued to be funded through annual appropriation bills, most recently through the Continuing Appropriations Act 2018 (P.L. 115-56), which extended funding for the programs through December 8, 2017. The Perkins Loan program was amended and extended through FY2017 under the Federal Perkins Loan Program Extension Act of 2015 (Extension Act; P.L. 114-105). The Extension Act prohibits future appropriations for the Perkins Loan program and prohibits an automatic extension of it under the General Education Provisions Act (GEPA; P.L. 90-247, as amended).<sup>4</sup>

The campus-based programs are among the oldest of the federal financial aid programs. As federal aid has largely transitioned to a system that allows for “portability” in receipt of student aid, meaning that most forms of aid are made available to students at whichever participating institution a student chooses to attend, the campus-based programs have come to play a relatively smaller role in the federal student aid effort. For example, of the approximately \$125 billion of federal aid that was made available to students through programs authorized under the HEA in FY2016, 76% was through the Direct Loan program, 21% through the Pell Grant program, and 2% through the campus-based aid programs.<sup>5</sup> The HEA authorizes most of the federal programs that provide direct financial aid to postsecondary students.<sup>6</sup>

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<sup>1</sup> For more information on the award criteria applicable for Pell Grants, see CRS Report R42446, *Federal Pell Grant Program of the Higher Education Act: How the Program Works and Recent Legislative Changes*.

<sup>2</sup> For more information on the administration of the Direct Loan program, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*.

<sup>3</sup> The authorizations of appropriations for the programs expired in FY2014, but the programs were automatically extended through FY2015 under the General Education Provisions Act (GEPA; P.L. 90-247, as amended). For additional information on GEPA, see CRS Report R41119, *General Education Provisions Act (GEPA): Overview and Issues*.

<sup>4</sup> For additional information on the Perkins Loan Program Extension Act, see CRS Report R44343, *The Federal Perkins Loan Program Extension Act of 2015: In Brief*.

<sup>5</sup> The remaining 1% of HEA aid includes Teach Grants and Iraq and Afghanistan Service Grants. See Department of Education FY2018 Budget Request, <https://www2.ed.gov/about/overview/budget/budget18/justifications/n-sao.pdf>.

<sup>6</sup> Additional support for postsecondary students is provided through tax benefits and targeted benefits such as veterans’ educational benefits. For more information on each, see CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*; CRS Report R42785, *GI Bills Enacted Prior to 2008 and Related Veterans’ Educational Assistance Programs: A Primer*; and CRS Report R42755, *The Post-9/11 Veterans’ Educational Assistance Act of 2008 (Post-9/11 GI Bill): A Primer*.

As lawmakers consider reauthorization of the HEA, several issues related to the campus-based programs may be considered. These include the extent to which the campus-based programs provide types of aid to students that are not provided via other postsecondary aid programs, whether the current formula for allocating funds to institutions is optimal, and the potential role of the campus-based aid programs in a redesigned federal aid system. Provisions specific to each program, such as requirements for community service under FWS and terms and conditions of Perkins Loans, are also likely to be considered.

This report begins with a brief discussion of the history of each of the campus-based programs and the formula used to allocate funds among IHEs participating in them. This is followed by a discussion of institutional and student participation in the programs relative to participation in other federal aid programs. The report concludes with a discussion of issues related to the campus-based programs that might garner attention as the 115<sup>th</sup> Congress considers reauthorization of the HEA. For a more complete description of the campus-based programs and trends in participation, refer to CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*.

## History and Allocation Formulas of the Campus-Based Aid Programs

The campus-based aid programs were among the first of the federally funded student aid programs. Each of the programs was designed to increase access to higher education for students who demonstrated financial need. This section of the report discusses the history of each program and the formula for allocating funds to the institutions.

### Federal Perkins Loan Program

The Federal Perkins Loan program is the oldest of the campus-based aid programs. It was originally enacted under Title II of the National Defense Education Act of 1958 (NDEA; P.L. 85-864), and was established in part as a response to the space-race between the United States and the Soviet Union and concerns over national security.<sup>7</sup> The program authorized participating IHEs to award low-interest rate loans (fixed at 3%)<sup>8</sup> to undergraduate, graduate, and professional students who were enrolled full-time and who demonstrated financial need. These loans were originally known as National Defense Student Loans (NDSLs), and were later known as National Direct Student Loans. When selecting award recipients, IHEs were required to give “special consideration” to those students who demonstrated “superior academic backgrounds” in mathematics, science, engineering, or modern foreign language, or who intended to teach in any elementary or secondary school.<sup>9</sup> NDSL loan amounts, which were also determined by the IHE, could not exceed \$1,000 in any academic year or \$5,000 over the student’s entire postsecondary education career. Loan repayments were deferred for as long as the student attended the institution full-time<sup>10</sup> and for up to three years while the borrower served in the military. Borrowers who worked full-time as teachers in a public elementary or secondary school could

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<sup>7</sup> See Lawrence E. Gladieux, *Federal Student Aid Policy: A History and an Assessment*, October 1995, <https://www2.ed.gov/offices/OPE/PPI/FinPostSecEd/gladieux.html>.

<sup>8</sup> Interest on the loans began to accrue one year after the borrower fell below full-time student status.

<sup>9</sup> P.L. 85-864, §204.

<sup>10</sup> Student borrowers were required to repay the loans after a one-year initial grace period, and loan repayment was to be completed within 10 years.

have 50% of their loan principal and interest repayments cancelled. Repayments were also cancelled for borrowers who died or became permanently and totally disabled. The program was incorporated into the HEA through the Education Amendments of 1972 (P.L. 92-318) and was later renamed the Federal Perkins Loan program by amendments made through the Higher Education Amendments of 1986 (P.L. 99-498).

When originally enacted, the appropriations for the program were authorized through FY1966. Funds for the program were allocated to participating institutions as a Federal Capital Contribution (FCC) that could not exceed \$250,000 during any fiscal year. Institutions were required to provide an institutional capital contribution (ICC) of at least \$1 for each \$9 the IHE received in FCC. After FY1966, it was hoped the program would become self-sustaining because institutions would be required to use repayments on loans awarded to students before 1966 to fund loans in future years. The idea was that funds from loan repayments would provide sufficient amounts, without additional FCCs, for loans to future students.<sup>11</sup> However, the number of postsecondary institutions participating in the program grew, and the number of students receiving Perkins Loans increased faster than most institutions could build up loan funds. Thus, the Perkins Loan FCCs continued to be provided beyond FY1966 and were last provided in FY2004.

The NDEA also required that the Commissioner of Education reimburse institutions for Perkins Loans cancellations for students engaged in public service. Initially, funding for the loan cancellation reimbursements was taken from appropriations designated for Perkins Loan FCCs. However, under the 1972 amendments to the HEA, the loan cancellation reimbursement provisions were amended to require that funds for the reimbursement of Perkins Loan cancellation be appropriated under an authorization separate from that for funds for Perkins Loan FCCs.<sup>12</sup> Funding for Perkins Loan cancellations was last provided in FY2009.

In subsequent years after the original enactment of the program, several notable revisions were made to the program itself and loans provided through it, including the following:

- the requirement that institutions give special consideration to students in certain majors when selecting award recipients was repealed;<sup>13</sup>
- the ICC was increased to require that institutions eventually provide \$1 for every \$3 in FCC;<sup>14</sup>
- the loan cancellation and deferment provisions were amended and expanded;<sup>15</sup>

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<sup>11</sup> U.S. Congress, House Committee on Education and Labor, *National Defense Education Act of 1958*, Report to Accompany H.R. 13247, House Rept. No. 2157, 85<sup>th</sup> Congress, 2<sup>nd</sup> Sess. (Washington, DC: U.S. Govt. Print. Off., 1958), p. 8.

<sup>12</sup> The Education Amendments of 1972 (P.L. 92-318), §465(b).

<sup>13</sup> The special consideration provision was initially amended under the National Defense Education Act Amendments of 1964 (P.L. 88-665) to allow students with superior academic backgrounds in any field to be eligible to receive a loan. The entire special consideration provision was repealed by the Higher Education Amendments of 1968 (P.L. 90-575).

<sup>14</sup> Under the Higher Education Amendments of 1992 (P.L. 102-325), institutions were required to provide an ICC of \$3 for every \$7 FCC for AY1993-1994, and an ICC of \$1 for every \$3 FCC for each succeeding year.

<sup>15</sup> For example, P.L. 90-575 amended the loan repayment cancellation provisions so that teachers of students in low-income school districts were eligible for loan cancellations. For a full list of the types of service activities that are eligible for Perkins Loan cancellation, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*.

- students attending an IHE on a less than full-time basis were deemed eligible to receive a loan;<sup>16</sup>
- institutions were permitted to use a portion of the Perkins allocation to cover the costs of administering the program;<sup>17</sup>
- institutions were required to make loans first to students with exceptional need;<sup>18</sup>
- interest rates were gradually increased to 5%;<sup>19</sup> and
- the annual loan limit on Perkins Loans was gradually increased to \$5,500 for undergraduate students and \$8,000 for graduate students.<sup>20</sup>

The authorizations of appropriations for the Secretary of Education (the Secretary) to make new FCCs to institutional revolving loan funds and for IHEs to award new Perkins Loans to students expired at the end of FY2014. However, Section 422 of GEPA automatically extended the programs' authorizations through FY2015. On October 1, 2015, the program's operations were significantly curtailed. Several months later, Congress passed The Extension Act, which extended IHEs' ability to make new Perkins Loans to eligible graduate students through October 1, 2016, and to eligible undergraduate students through September 30, 2017. The Extension Act prohibits additional appropriations beyond FY2015 for the purpose of enabling the Secretary to make new FCCs. It also prohibits an automatic extension of the program under GEPA. In addition, the Extension Act amended several Perkins Loan program provisions relating to student eligibility to receive new Perkins Loans and the distribution of Perkins Loan fund assets upon the program's conclusion.<sup>21</sup>

## **Federal Work-Study Program**

The Federal Work-Study (FWS) program is the second oldest of the campus-based programs. It was originally authorized as the College Work Study program under the Economic Opportunity Act of 1964 (P.L. 88-452). The purpose of the program as originally enacted was:

to stimulate and promote the part-time employment of students in institutions of higher education who are from low-income families and are in need of the earnings from such employment to pursue courses of study at such institutions.<sup>22</sup>

The law authorized two types of student employment: on-campus work at the IHE and off-campus work for a public or private organization. The law further required that the off-campus work be related to the student's educational interest or serve a public interest.

IHEs that participated in the original work study program were required to provide an institutional match of 10% for the initial year of the program and 25% each subsequent year. The program was incorporated into the HEA in 1968, and the institutional match was changed to 20%.

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<sup>16</sup> P.L. 88-665 included a provision to allow students attending on a half-time basis to receive loans. The Higher Education Amendments of 1986 (P.L. 99-948) allowed students enrolled less than half time to receive loans.

<sup>17</sup> The Higher Education Act of 1965 (P.L. 89-320).

<sup>18</sup> P.L. 99-498.

<sup>19</sup> The interest rate on Perkins Loans made between July 1, 1981, and September 30, 1981, was 4%; the interest rate on loans made on or after October 1, 1981, was 5%.

<sup>20</sup> P.L. 110-315.

<sup>21</sup> For more information on the provisions of the Extension Act, see CRS Report R44343, *The Federal Perkins Loan Program Extension Act of 2015: In Brief*.

<sup>22</sup> Economic Opportunity Act of 1964 (P.L. 88-452), §121.



Several notable revisions were made to the FWS program through subsequent amendments to the HEA, including the following:

- The Job Location and Development program was created, allowing institutions to use a portion of their FWS allocation to locate and develop off-campus student jobs.<sup>23</sup>
- The Work Colleges program was created to support comprehensive work-learning-service programs at select institutions called “work colleges.”<sup>24</sup>
- The purpose of the FWS program was amended to include community service as an explicit purpose, and institutions were required to use at least 5% of their Work-Study allocation for community service.<sup>25</sup> Under current law, institutions are required to use at least 7% of their FWS allocation for community service. In meeting the 7% requirements, institutions must ensure that they are operating at least one tutoring or family literacy project in service to the community.<sup>26</sup>
- The institutional match was increased to 25% for most FWS jobs.<sup>27</sup>

## **Federal Supplemental Educational Opportunity Grant**

Title IV of the Higher Education Act of 1965 authorized Education Opportunity Grants, the predecessor to the current Federal Supplemental Educational Opportunity Grant (FSEOG). The purpose of the program was to assist students with exceptional financial need in attending institutions of higher education. Under the Higher Education Amendments of 1972 (P.L. 92-318), the program was extended and renamed as the FSEOG program, serving as a supplement to the Basic Educational Opportunity Grant program (BEOG) (later renamed the Pell Grant program). As originally enacted, the purpose of the FSEOG program was:

to provide, through institutions of higher education, supplemental grants to assist in making available the benefits of postsecondary education to qualified students who, for lack of financial means, would be unable to obtain such benefits without such a grant.<sup>28</sup>

The law required that institutions give priority first to students who received financial aid under the Pell Grant program, and then to students with exceptional need who did not receive a Pell Grant award. The minimum award amount was \$200 and the maximum amount was \$1,500. Students could receive no more than \$4,000 in total aid over a four-year period. In order to participate, students had to be undergraduate students enrolled at least half-time and could not have previously received a bachelor’s degree.

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<sup>23</sup> The Education Amendments of 1976 (P.L. 94-482); originally, institutions were permitted to use the lesser of 10% or \$15,000 of their FWS allocation for job location and development programs. Under current law, institutions can use the lesser of 10% of their FWS allocation or \$75,000 to establish or expand a job location and development program.

<sup>24</sup> Higher Education Amendments of 1992 (P.L. 102-325).

<sup>25</sup> Ibid.

<sup>26</sup> The community service requirement was increased to 7% under the Higher Education Amendments of 1998 (P.L. 105-244).

<sup>27</sup> The Higher Education Amendments of 1998 (P.L. 105-244). Examples of FWS jobs for which an institution is not required to provide an institutional match of 25% are tutoring and family literacy projects and certain jobs at nonprofit organizations.

<sup>28</sup> Education Amendments of 1972 (P.L. 92-318).



In subsequent years, many of the original provisions of the FSEOG were maintained; however, there have been a few notable revisions to the program. Under the Higher Education Amendments of 1986 (P.L. 99-498), the following revisions were made:

- For the first time, institutions were required to match federal funds received. Under the 1986 amendments, institutions were required to provide at least 5% of funding for award year (AY) 1989-1990; at least 10% for AY1990-1991; and at least 15% in AY1991-1992 and each succeeding year.<sup>29</sup>
- Students enrolled less than half-time were deemed eligible to receive awards.<sup>30</sup>
- The award limits were changed to their current minimum level of \$100 and maximum level of \$4,400.<sup>31</sup>
- Institutions were required to provide a nonfederal share of 25% of total FSEOG funds.<sup>32</sup>
- Students participating in study abroad programs were deemed eligible to receive awards.<sup>33</sup>

## Allocation Methodology

When each campus-based aid program was originally authorized, funds for it were allocated to institutions using a two-stage, state distribution formula. First, funds were allocated to each state based on the population of students in the state. In the second stage, funds received by each state were sub-allocated to IHEs within the state based on the financial need of the IHE's students. In order for an IHE to receive a share of the state allocated funds, it was required to submit an application of the projected financial need of its students to a regional panel, which then reviewed the application and determined the amount of funding each IHE would receive. In the mid-1970s, the panel review process was criticized as too complex, time consuming, and inequitable.<sup>34</sup> As a result, a panel of experts was brought together to recommend new allocation procedures.<sup>35</sup> Over time, the procedures recommended by the panel have been slightly modified; however, the same basic structure still remains.

Under the current formula, funds for each of the campus-based programs are allocated to IHEs through a two-stage process.<sup>36</sup> Although allocation procedures for each of the programs vary somewhat from one another, they share a basic framework.<sup>37</sup> First, each participating IHE is

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<sup>29</sup> Higher Education Amendments of 1986, §413C.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid., §413B.

<sup>32</sup> Section 413C of Higher Education Amendments of 1992 (P.L. 102-325). The law allows for the nonfederal share to be reduced if the Secretary determines that a larger federal share is necessary to further the purpose of the program.

<sup>33</sup> Section 413B of the Higher Education Amendments of 1992 (P.L. 102-325). The law also allowed the maximum award amount to be increased to \$4,400 for students studying abroad if the cost of studying abroad exceeds the cost of studying at the student's home institution.

<sup>34</sup> See, for example, General Accounting Office, Report to the Special Subcommittee on Education, House Committee on Education and Labor, Administration of the Office of Education's Student Financial Aid Program, April 4, 1974, pp. 26-34, <http://161.203.16.4/f0302/095923.pdf>.

<sup>35</sup> U.S. Office of Education, Final Report of the Panel of Experts to Design a New Funding Process to Commissioner Ernest L. Boyer, June 1979.

<sup>36</sup> The Perkins FCC was last provided in 2004. Therefore, funds are no longer allocated to IHEs through this process.

<sup>37</sup> A full description of each program's varying procedures is beyond the scope of this report. For additional information, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education*

allocated a base guarantee (discussed below), which in most cases is equal to a portion of the amount of program funds it received in prior award years. In the second stage, any funds that are remaining after the allocation of base guarantees are allocated to institutions according to formula-based procedures. This is known as the fair share (discussed below). If an IHE's fair share is greater than its base guarantee, it has a shortfall in funding and is eligible to receive additional funding—a fair share increase—to help reduce the shortfall between its base guarantee and its fair share. If an institution's base guarantee is greater than its fair share, it receives only the base guarantee amount. The sum of the IHE's base guarantee and fair share amount accounts for nearly all of the IHE's allocation.<sup>38</sup>

## **Base Guarantee**

Under the current formula, an IHE's base guarantee is determined based on the year it began participating in each of the campus-based programs. If an IHE participated in a particular program in FY1999, it receives a base guarantee equal to 100% of the sum of its FY1999 base guarantee and its FY1999 *pro rata* share.<sup>39</sup> If an IHE began participation after FY1999 but is not a first- or second-time participant, it receives a base guarantee that is the greater of \$5,000 or 90% of the amount it received in its second year of participation. For an IHE that is a first- or second-time participant, it receives a base guarantee equal to the greatest of (1) \$5,000, (2) 90% of its allocation from its first year of participation, or (3) 90% of an amount proportional to that received by comparable institutions.<sup>40</sup>

For AY2016-2017, the total of the base guarantees allotted to IHEs comprised more than 60% of total amounts allotted under both the FSEOG and FWS programs.<sup>41</sup> Given that the base guarantee is based on prior-year participation, it is often stated that the current allocation procedures favor long-term participants over new participants. More specifically, the base guarantee provides a funding advantage for institutions with a base guarantee that is greater than their fair share.<sup>42</sup>

## **Fair Share Allocation Procedures**

Under each of the programs, any funds remaining from the annual appropriation after the allocation of base guarantees are allocated to IHEs for fair share increases according to formula-based procedures. The first step in the fair share allocation procedures involves determining each IHE's institutional need. While the calculation of institutional need differs slightly across programs, it is generally an expression of the relationship between the institution's average cost of attendance (COA) and the average expected family contribution (EFC) of students who attend it.

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*Act.*

<sup>38</sup> If schools return funds, the Department of Education (ED) reallocates funds to institutions using a separate formula.

<sup>39</sup> Prior to the enactment of the Higher Education Amendments of 1998 (P.L. 105-244), IHEs received (in addition to a base guarantee) a *pro rata* share, which was an amount proportional to their base guarantee, allocated from one-quarter of the funds that remained from the annual appropriation after the allocation of all base guarantees.

<sup>40</sup> However, if an IHE began participating in FWS after FY1999 and received a larger allocation in its second year than in its first, its base guarantee equals 90% of the amount it received in its second year.

<sup>41</sup> CRS calculations using AY2016-2017 Campus Based Program Allocation data provided to CRS by the Department of Education.

<sup>42</sup> For a detailed analysis of the allocations of funds under current law, see CRS Report RL32775, *The Campus-Based Financial Aid Programs: A Review and Analysis of the Allocation of Funds to Institutions and the Distribution of Aid to Students*.

For purposes of the campus-based programs' allocation procedures, an IHE's COA is calculated by first dividing the total tuition and fees received by the IHE by the total number of students in attendance at the institution, and then adding to that amount an allowance for living costs and books and supplies.<sup>43</sup> In AY2016-2017, on a per-student basis, the living cost allowance was \$11,370, and the books and supplies allowance was \$600.

For purposes of calculating institutional fair share amounts, each student at an IHE is assigned an EFC based on his or her dependency status and class level. A discussion of the EFC procedures is provided below.

### Expected Family Contribution

When the fair share formulas were developed, a *uniform methodology* was adopted (and is still used today) in which average EFCs are calculated for categories of students grouped by income bands and dependency status, in lieu of using actual EFCs of the students at each institution.<sup>44</sup> This procedure was adopted, in part, because it could be administratively burdensome for institutions to collect and report EFCs for each student in attendance, and because it was presumed that students with the same dependency status and comparable incomes will have similar EFCs.<sup>45</sup> In implementing the fair-share formulas, ED calculates average EFCs for students categorized into 14 income bands. **Table 1** provides the income bands and EFCs for AY2017-2018. The income bands used in the Table of EFCs (shown in **Table 1**) are determined administratively by ED and have been adjusted only a few times since the formulas were first implemented. The last revision to the income bands occurred in 1994 for AY1995-1996.

**Table 1. Expected Family Contribution Amounts Used in the Campus-Based Programs' Allocation Procedures**  
AY2017-2018

Undergraduate				Graduate and Professional (Independent)	
Dependent		Independent			
Income category	EFC	Income category	EFC	Income category	EFC
Automatic zero	\$0	Automatic zero	\$0	Automatic zero	\$0
\$0 to \$2,999	\$411	\$0 to \$999	\$8	\$0 to \$999	\$99
\$3,000 to \$5,999	\$207	\$1,000 to \$1,999	\$15	\$1,000 to \$1,999	\$163
\$6,000 to \$8,999	\$187	\$2,000 to \$2,999	\$19	\$2,000 to \$2,999	\$147
\$9,000 to \$11,999	\$178	\$3,000 to \$3,999	\$17	\$3,000 to \$3,999	\$154
\$12,000 to \$14,999	\$135	\$4,000 to \$4,999	\$15	\$4,000 to \$4,999	\$198
\$15,000 to \$17,999	\$183	\$5,000 to \$5,999	\$22	\$5,000 to \$5,999	\$203

<sup>43</sup> While the cost of tuition and fees is institution specific, the allowances for living costs and books and supplies are determined according to statutory provisions and are common for all participating IHEs.

<sup>44</sup> U.S. Office of Education, Final Report of the Panel of Experts to Design a New Funding Process to Commissioner Ernest L. Boyer, June 1979.

<sup>45</sup> Presumably it might now be feasible for IHEs to collect and report information on students' actual EFCs. However, the current practice of determining campus-based funding allocations prior to the start of each award year still necessitates that fair share allocations be based on the characteristics of the students that attended participating IHEs in prior award years.

Undergraduate					
Dependent		Independent		Graduate and Professional (Independent)	
Income category	EFC	Income category	EFC	Income category	EFC
\$18,000 to \$23,999	\$248	\$6,000 to \$7,999	\$20	\$6,000 to \$7,999	\$241
\$24,000 to \$29,999	\$693	\$8,000 to \$9,999	\$23	\$8,000 to \$9,999	\$298
\$30,000 to \$35,999	\$1,304	\$10,000 to \$11,999	\$77	\$10,000 to \$11,999	\$405
\$36,000 to \$41,999	\$2,122	\$12,000 to \$13,999	\$357	\$12,000 to \$13,999	\$893
\$42,000 to \$47,999	\$3,076	\$14,000 to \$15,999	\$684	\$14,000 to \$15,999	\$1,532
\$48,000 to \$53,999	\$4,215	\$16,000 to \$17,999	\$1,028	\$16,000 to \$17,999	\$2,079
\$54,000 to \$59,999	\$5,371	\$18,000 to \$19,999	\$1,399	\$18,000 to \$19,999	\$2,613
\$60,000 and above	\$28,874	\$20,000 and above	\$5,298	\$20,000 and above	\$11,736

**Source:** Department of Education, Tentative 2017-2018 Funding Levels for the Campus Based Programs. Attachment: Expected Family Contribution Procedures and Standard EFC. Retrieved from <https://ifap.ed.gov/eannouncements/010917Tentative20172018FundingLevels4theCampusBasedPrgrms.html>.

## Transfer of Funds and Administrative Costs Allowance under the Campus-Based Programs

Institutions have flexibility to transfer funds between the campus-based programs in which they participate. They may transfer up to a total of 25% of their allotment under the Federal Perkins Loan program for use in the FSEOG and/or FWS programs.<sup>46</sup> Institutions may transfer up to 25% of their allotment under the FWS program for use in the FSEOG and/or Federal Perkins Loan programs. Institutions may also transfer up to 25% of their FSEOG allocation for use in the FWS program. Work Colleges may transfer up to 100% of their Perkins Loan FCC or FWS allocation to their Work Colleges program.

Institutions participating in the campus-based programs are also entitled to an administrative cost allowance (ACA) to cover the expenses of administering the programs. An institution's ACA is calculated as follows:

- 5% of the institution's first \$2.75 million in campus-based expenditures; plus
- 4% of the institution's campus-based expenditures greater than \$2.75 million and less than \$5.5 million; plus
- 3% of the institution's campus-based expenditures in excess of \$5.5 million.

When calculating the ACA, institutions are required to include both federal and institutional expenditures. The ACA may be taken from the annual authorization the institution receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan funds. An institution can withdraw its ACA from any combination of the campus-based programs for which it disbursed funds to students during the award year.

<sup>46</sup> Institutions appear to be able to transfer funds from the Perkins Loan program only if there is an authorized FCC appropriation.

## Participation in the Campus-Based Programs and Related Federal Programs

This section of the report discusses institutional and student participation in the campus-based programs relative to other federal aid programs. These data may be useful as Congress considers reauthorizing and/or amending the campus-based programs.

### Institutional Participation

In AY2016-2017, approximately 6,733 postsecondary institutions in the United States participated in Title IV programs authorized under the HEA.<sup>47</sup> Approximately 56% of these institutions awarded FSEOG aid, 49% employed students in FWS, and 21% made loans under the Perkins Loan program. **Table 2** provides the percentage of U.S. Title IV institutions that have participated in the campus-based programs over the last 10 years. From AY2007-2008 to AY2015-2016, there was an overall decline in the proportion of U.S. Title IV institutions that participated in the campus-based programs. In AY2016-2017, there was an uptick in participation in the FSEOG and FWS programs.

**Table 2. Percentage of U.S. Title IV Institutions that Participate in the Campus-Based Programs**

AY2007-2008 through AY2016-2017

Award Year	Number of Institutions <sup>a</sup>	Percentage that Participated in FSEOG	Percentage that Participated in FWS	Percentage that Participated in Perkins
2007-2008	6,693	56.8%	49.2%	24.6%
2008-2009	6,741	55.8%	48.0%	24.0%
2009-2010	6,897	54.7%	47.8%	22.4%
2010-2011	7,140	53.2%	46.1%	21.4%
2011-2012	7,303	51.5%	45.3%	20.8%
2012-2013	7,342	51.3%	45.0%	20.5%
2013-2014	7,375	51.7%	45.9%	21.2%
2014-2015	7,276	52.1%	46.2%	20.9%
2015-2016	7,117	52.8%	46.7%	20.9%
2016-2017	6,733	55.7%	49.3%	21.3%

**Source:** Data on number of institutions are from the U.S. Department of Education, *Integrated Postsecondary Education Data System*, and program participation rates are from the U.S. Department of Education, *Federal Campus-Based Programs Data Book*, various years.

- a. Foreign institutions are not eligible to participate in the campus-based programs and were thus excluded from these totals.

<sup>47</sup> U.S. Department of Education, National Center for Education Statistics, *Integrated Postsecondary Education Data System*, <http://nces.ed.gov/ipeds/>.

## Student Participation

In FY2015, nearly 12 million students received aid through Title IV federal student aid programs.<sup>48</sup> Students who participate in the campus-based programs comprise a relatively small proportion of those participating in the federal student aid programs. In AY2015-2016, approximately 1.5 million students received aid through the FSEOG program; approximately 635,000 received aid through the FWS program; and approximately 422,000 received a Perkins Loan.<sup>49</sup>

The tables below present an analysis of the characteristics of campus-based aid recipients and the extent to which campus-based aid has assisted students in covering the cost of higher education. The analysis is based on data retrieved from the National Postsecondary Student Aid Study for AY2011-2012 (NPSAS:12), which is the most recent year for which the data are available. The analysis focuses exclusively on undergraduate students and explores some of the major factors that can account for variation in aid received, such as type of institution, dependency status, income, and cost of attendance.

**Table 3** provides the proportion of undergraduate students who received aid through the campus-based programs and through all federal student aid programs in AY2011-2012. Overall, 10% of undergraduate students received campus-based aid compared to 57% of undergraduate students who received any federal student aid. In terms of each campus-based program, 5% of all undergraduates received FSEOG awards, 5% received FWS awards, and 2% participated in the Perkins Loan program.

**Table 3** also shows that students attending a private nonprofit institution were much more likely to receive campus-based aid than students attending other sector schools. For instance, 28% of students attending private nonprofit institutions received some form of campus-based aid in AY2011-2012, while 10% of students attending public four-year institutions, 4% of students attending public two-year institutions, and 13% of students attending proprietary institutions received some form of campus-based aid in the same year.

In terms of income, 16% of dependent students with incomes less than \$20,000 received FSEOG, while 10% received FWS, and 4% received a Perkins Loan. Students attending institutions with high COAs were much more likely to receive a campus-based award than students attending institutions with lower COA.

Finally, the average FSEOG award was \$541, the average FWS award was \$2,213, and the average borrowed Perkins loan amount was \$1,824. The average award amount across all the campus-based programs was \$1,676, while average total federal student aid was \$8,233.<sup>50</sup>

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<sup>48</sup> U.S. Department of Education, Federal Student Aid Annual Report for FY 2016, [https://studentaid.ed.gov/sa/sites/default/files/FY\\_2016\\_Annual\\_Report\\_508.pdf](https://studentaid.ed.gov/sa/sites/default/files/FY_2016_Annual_Report_508.pdf).

<sup>49</sup> U.S. Department of Education, Federal Student Aid Data Center Campus-Based Volume, <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/2015-16CampusBased.xls>. Note that these are not necessarily unique individuals. It is possible that a student could receive assistance through more than one of the campus-based programs during a single award year.

<sup>50</sup> For a discussion of how average campus-based award amounts have changed over time, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*.

**Table 3. Proportion of Undergraduates Receiving Campus-Based Aid and Title IV Federal Student Aid and Amount Received, by Selected Institution and Student Characteristics**

AY2011-2012

	FSEOG		FWS		Perkins Loans		Campus-Based Programs (combined)		Federal Aid <sup>a</sup>	
	% Rec'd Aid	Avg. Award	% Rec'd Aid	Avg. Award	% Rec'd Aid	Avg. Award	% Rec'd Aid	Avg. Award	% Rec'd Aid	Avg. Award
All Undergraduates	5%	\$541	5%	\$2,213	2%	\$1,824	10%	\$1,676	57%	\$8,233
<b>Sector</b>										
Public 2-year or less than 2-year	3%	\$377	2%	\$2,718	0%	— <sup>b</sup>	4%	\$1,259	44%	\$4,575
Public 4-year	5%	\$596	5%	\$2,243	3%	\$1,782	10%	\$1,871	61%	\$9,182
Private nonprofit	10%	\$930	21%	\$2,018	7%	\$1,950	28%	\$2,306	67%	\$11,624
Proprietary	14%	\$342	1%	\$3,354	2%	\$1,727	13%	\$738	80%	\$9,700
Other <sup>c</sup>	5%	\$576	5%	\$2,022	3%	\$1,620	10%	\$1,691	60%	\$8,794
<b>Cost of attendance</b>										
Less than \$7,000	1%	\$289	<1%	\$1,316	<1% <sup>d</sup>	\$1,475	1%	\$561	24%	\$2,516
\$7,001-\$13,999	5%	\$354	2%	\$2,427	<1%	\$1,294	6%	\$1,048	57%	\$5,146
\$14,000-\$20,999	8%	\$449	4%	\$2,477	2%	\$1,848	12%	\$1,484	72%	\$8,608
\$21,000 or more	12%	\$685	14%	\$2,160	6%	\$1,904	23%	\$1,992	75%	\$11,920
<b>Income</b>										
<i>Dependent Students</i>										
Less than \$20,000	16%	\$669	10%	\$2,066	4%	\$1,829	21%	\$1,703	83%	\$8,109
\$20,000-39,999	12%	\$707	11%	\$2,136	5%	\$1,790	19%	\$1,952	74%	\$8,270
\$40,000-59,999	7%	\$744	10%	\$2,071	4%	\$1,723	15%	\$2,097	69%	\$8,217
\$60,000-79,999	2%	\$789	9%	\$2,138	4%	\$1,645	11%	\$2,333	49%	\$8,599



	<b>FSEOG</b>		<b>FWS</b>		<b>Perkins Loans</b>		<b>Campus-Based Programs (combined)</b>		<b>Federal Aid<sup>a</sup></b>	
\$80,000 and above	<1%	\$454	7%	\$2,211	1%	\$2,021	8%	\$2,356	40%	\$10,006
<i>Independent Students</i>										
Less than \$20,000	10%	\$413	3%	\$2,396	2%	\$1,854	12%	\$1,131	70%	\$7,898
\$20,000-39,999	6%	\$420	1%	\$2,881	1%	\$2,003	7%	\$1,124	55%	\$7,588
\$40,000-59,999	2%	\$390	<1%	\$3,027	<1%	\$1,492	3%	\$1,227	42%	\$7,109
\$60,000 and above	<1% <sup>d</sup>	\$422	<1%	— <sup>b</sup>	<1%	\$1,737	1%	\$1,654	28%	\$7,634

**Source:** CRS analysis of U.S. Department of Education, National Postsecondary Student Aid Study data: 2012 Undergraduates (NPSAS:12).

- a. Federal student aid includes federal student grants, federal loans (including Parent PLUS loans) and federal work-study, and excludes veterans' benefits and Department of Defense aid.
- b. Too few cases for a reliable estimate.
- c. The "other" category represents students who attended more than one institution.
- d. Caution should be exercised when interpreting estimate due to high standard errors.

**Table 4** shows the average percentage of COA that was covered by aid received through each of the campus-based programs for recipients of such aid in AY2011-2012. In general, each of the campus-based programs covered less than 10% of COA for campus-based aid recipients. A few notable exceptions were campus-based aid recipients attending public two-year or less than two-year institutions, whose average FWS award covered 22% of their COA, and independent students with incomes between \$20,000 and \$40,000, whose average FWS award covered 16% of their COA.

**Table 4. Campus-Based Aid as a Percentage of Student Cost of Attendance (COA) for Undergraduate Recipients**  
AY2011-2012

	Percentage of COA Covered, by Source of Aid			
	FSEOG	FWS	Perkins	Total Campus-Based Aid
<i>All Undergraduate Recipients<sup>a</sup></i>	2%	8%	7%	6%
<b>Sector<sup>b</sup></b>				
Public 2 year or less-than-2-year	3%	22%	— <sup>c</sup>	10%
Public 4-year	3%	10%	8%	8%
Private nonprofit	2%	5%	5%	6%
Private for-profit	1%	14%	7%	3%
<b>Income</b>				
<i>Dependent Students</i>				
Less than \$20,000	3%	8%	7%	7%
\$20,000-39,999	3%	8%	6%	7%
\$40,000-59,999	2%	6%	5%	6%
\$60,000-79,999	2%	6%	5%	7%
\$80,000 and above	1%	5%	5%	6%
<i>Independent Students</i>				
Less than \$20,000	2%	12%	9%	5%
\$20,000-39,999	2%	16%	11%	6%
\$40,000-59,999	2%	15%	7%	6%
\$60,000 and above	2%	— <sup>c</sup>	9%	9%

**Source:** CRS analysis of U.S. Department of Education, National Postsecondary Student Aid Study: 2012 Undergraduates (NPSAS: 12).

- The percentage of COA is reported only for those undergraduates who received each respective type of campus-based aid except in the final column, which reports on those receiving any campus-based aid.
- Excludes students who attended more than one institution.
- Too few cases for a reliable estimate.

## Issues for Reauthorization<sup>51</sup>

Over the past few decades, there has been growing interest in reforming aspects of federal student financial aid programs so that students and parents may be better served. Some policy options that have been suggested include simplifying the student aid programs, increasing transparency with regard to how aid is awarded and the amounts that likely may be received by students and prospective students, targeting aid to the student populations with the highest levels of financial need, and linking financial aid eligibility to measures of programmatic or institutional quality.<sup>52</sup> The discussion around redesigning federal aid has brought to light a number of considerations pertaining to the future of the campus-based programs. For instance, the President's FY2018 budget proposes to eliminate the FSEOG program, allow for the wind-down of the Perkins Loan program to occur, and decrease funding for the FWS program by nearly half of its current level.<sup>53</sup> In debating HEA reauthorization, Congress may consider a number of issues related to the campus-based programs, including the extent to which they serve a distinctive purpose that sets them apart from other federal aid programs and whether the formula for allocating funds to institutions is optimal. Other program specific issues are also likely to be considered during reauthorization. Several topics that may garner attention are discussed below.

## Continuation of Distinctive Campus-Based Programs

When the campus-based programs were created, they were designed to provide students who demonstrated financial need with aid to help meet the costs of postsecondary education. The programs now operate amidst a host of other financial aid programs and tax benefits that are available for postsecondary students. The other federal student financial aid programs and benefits generally make available “portable aid,” which allows students to shop among institutions that participate in the federal student aid programs. These programs are characterized by having statutorily specified methods for determining the levels of assistance available to students. In contrast, under the campus-based programs, federal funds are first allocated to IHEs, which are afforded some discretion with regard to the awarding of aid among eligible students. Possibly because of this difference in approach, debate sometimes surfaces about whether it is optimal to sustain a smaller set of federal student aid programs through which aid may be awarded in a different manner than most other federal student aid programs.

<sup>51</sup> Policy issues and options discussed in this section of the report are based on existing and prior congressional legislative proposals, proposals forwarded by presidential administrations, topics addressed at congressional hearings, and issues and options identified by external researchers, think tanks, and practitioner groups. An effort is made to describe policy issues and options and what they are aiming to address so as to provide some context for their consideration. No attempt is made to evaluate the policy issues and options discussed.

<sup>52</sup> For examples of proposals forwarded and/or discussions related to some or several of these policy options, see U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Higher Education and Workforce Development, *Improving Federal Student Aid to Better Meet the Needs of Students*, 115<sup>th</sup> Cong., 1<sup>st</sup> sess. March 21, 2017; Bill and Melinda Gates Foundation, *Reimagining Aid Design and Delivery Reports*, available at <http://postsecondary.gatesfoundation.org/areas-of-focus/incentives/financial-aid/reimagining/>; U.S. Department of Education, F2017 Budget Request, <https://www2.ed.gov/about/overview/budget/budget17/justifications/n-sao.pdf>; U.S. Congress, Senate Committee on Health, Education, Labor, and Pensions, *Ensuring Access to Higher Education: Simplifying Federal Student Aid for Today's College Student*, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., November 14, 2013; U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Higher Education and Workforce Training, *Keeping College Within Reach: The Role of Federal Student Aid Programs*, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., April 16, 2013.

<sup>53</sup> See Office of Management and Budget, “America First: A Budget Blueprint to Make America Great Again,” [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018\\_blueprint.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf).

Given the complexities of the federal student aid system, some have proposed eliminating one or more of the campus-based programs that could be considered to be duplicative of or overlapping with other aid programs. These proposals sometimes identify the FSEOG program and the Perkins Loan program as candidates for elimination.<sup>54</sup>

In considering whether overlap may exist, it can be noted that when making FSEOG awards, IHEs are required to give priority to Pell Grant recipients. Hence, it can be argued that the FSEOG program serves a student population similar to that of the Pell Grant program. This line of thought suggests that once an aggregate amount of grant aid is determined to be made available to students at the federal level, a more streamlined approach might be to disburse the aid through only one program. In AY2011-2012, the most recent year for which data are available, 99% of FSEOG recipients had also received a Pell Grant.<sup>55</sup>

Similar arguments can be made in relation to the Perkins Loan program. There are several federal loan programs available for students, and many offer terms that are similar to those offered by the Perkins Loans. For example, during AY2017-2018 the interest rate on Direct Subsidized Loans and Direct Unsubsidized Loans being disbursed to undergraduate students is 4.45%,<sup>56</sup> which is 0.55 percentage points lower than the 5% interest rate on Perkins Loans.<sup>57</sup> In addition, no interest accrues on Direct Loans or Perkins Loans while the student is enrolled in school.<sup>58</sup> If individual borrowing limits would not be adversely affected, it could be argued that streamlining loan programs may be advantageous for students from a transparency standpoint and streamlining may simplify IHE administrative work and loan servicing.

There have been proposals in recent years to eliminate or wind down the FSEOG and/or Perkins programs.<sup>59</sup> Some legislative proposals, and proposals forwarded by groups, researchers, and organizations outside of Congress, have promoted adoption of a one-grant, one-loan approach to federal student aid.<sup>60</sup> Simplification is an aim under such proposals, and it is seemingly assumed that the FWS program would be the only remaining campus-based program.

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<sup>54</sup> See, for example, Office of Management and Budget, “America First: A Budget Blueprint to Make America Great Again,” [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018\\_blueprint.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf); the Financial Aid Simplification and Transparency Act (S. 108), 114<sup>th</sup> Congress; Institute for a Competitive Workforce, *Redesigning Federal Financial Aid*, January 2013; Jen Mishory and Rory O’Sullivan, *The Student Perspective on Federal Financial Aid Reform*, Young Invincibles, November 2012; and Stephen Burd, Kevin Carey, and Jason Delisle, et al., *Rebalancing Resources and Incentives in Federal Student Aid*, New America Foundation, January 2013.

<sup>55</sup> CRS calculations using NPSAS:12.

<sup>56</sup> This is the applicable interest rate for Direct Subsidized and Unsubsidized Loans first disbursed on or after July 1, 2017, and before July 1, 2018.

<sup>57</sup> Prior to the Extension Act, the stated purpose of the Perkins Loan program was to make low-interest loans to students. Under the Extension Act, “low-interest” was removed from the purpose, largely in recognition that Perkins Loans no longer have interest rates that are low compared to other federal student loans.

<sup>58</sup> Some Perkins Loan benefits are more favorable than benefits on other loans. For instance, cancellation benefits available under the Perkins Loan program are more favorable to borrowers than those available under other federal loans. Also, depending on the type of borrowing a student would do in place of a Perkins Loan, the Perkins in-school interest benefits may be more favorable as well.

<sup>59</sup> For example, the Extension Act includes provisions for curtailing new loan-making under the Perkins Loan program, and the President’s 2018 budget proposal calls for elimination of the FSEOG program.

<sup>60</sup> For examples, see Financial Aid Simplification and Transparency Act (S. 108), 114<sup>th</sup> Congress; Jen Mishory and Rory O’Sullivan, *The Student Perspective on Federal Financial Aid Reform*, Young Invincibles, November 2012; Stephen Burd, Kevin Carey, and Jason Delisle, et al., *Rebalancing Resources and Incentives in Federal Student Aid*, New America Foundation, January 2013; and Bill and Melinda Gates Foundation, “Reimagining Aid Design and Delivery Reports,” available at <http://postsecondary.gatesfoundation.org/areas-of-focus/incentives/financial-aid/reimagining/>.

Eliminating the FSEOG and Perkins Loan programs could support the goal of simplifying the federal aid programs, which could help students to navigate the different forms of aid available to them more easily. It could also reduce the burden on financial aid administrators at institutions by reducing the number of aid programs the institutions have to administer. Should the consolidation or elimination of programs be pursued, one policy question to be addressed might be whether the aggregate amount of aid made available to individual students should be affected by a new aid configuration consisting of fewer programs. Another policy question might be whether an effort to eliminate and/or consolidate programs could lead to budgetary savings.

Proponents of the campus-based programs note that despite the similarities that exist between them and some of the other federal student aid programs, the campus-based programs are unique in some important ways. For instance, institutions participating in the programs are required to provide a partial match of the federal funds received. The institutional match means that more aid is made available to students for each federal dollar provided.

With regard to the Perkins Loan program, the requirement that institutions make capital contributions to the funding of Perkins Loans means that institutions incur a financial risk when they lend to student borrowers. By being required to contribute some of their own funds to the capitalizing of Perkins Loans, institutions may have more incentive to ensure that students repay their Perkins Loans because the institution suffers a loss of its own funds if borrowers do not repay their loans.

If one or more of the campus-based programs were eliminated, students could lose access to the aid currently made available through them. Students could also become eligible to receive a lower total amount of aid. This could occur under a new aid configuration if amounts of aid currently available through campus-based programs were not made available through another source.

If the campus-based programs were eliminated, institutions might also lose the flexibility in awarding aid to help meet students' need that is available to them under the campus-based programs. An argument could be made that financial aid administrators are uniquely situated to determine which students could benefit the most from some types of aid such as campus-based aid.<sup>61</sup> A counterpoint to this is that institutions allocate aid in different ways, not all of which target students with the highest level of need to the same degree,<sup>62</sup> and that statutory specification of targeting procedures for the other student aid programs allows for consistency in targeting and alignment with congressional priorities.

Some limitations of the campus-based aid approach are the lack of portability of the aid and more-limited availability of campus-based aid funds.<sup>63</sup> The amount of campus-based aid available

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<sup>61</sup> This is often brought up in the context of being helpful in meeting the needs of students whose personal or family circumstances or family economic circumstances change during a school year. For example, see Andrew Kreighbaum, "Tough Options After Perkins," *Inside Higher ED*, October 24, 2017; and Letter from Members of Congress to Speaker of the House, House Minority Leader, and Chairman and Ranking Member of the Education and the Workforce Committee, September 27, 2017.

<sup>62</sup> For example, while institutions are required to give priority to students with exceptional financial need and Pell Grant recipients when awarding FSEOG, institutions can establish categories of students when packaging aid. According to the U.S. Department of Education, *2017-2018 Federal Student Aid Handbook*, vol. 3—*Calculating Awards & Packaging*, categorization can be "based on class standing, enrollment status, program, date of application, or a combination of factors."

<sup>63</sup> During the debates preceding the 1972 reauthorization of the HEA, concerns were raised about the structure of the campus-based programs. For a discussion of the debates, see Lawrence E. Gladieux and Thomas R. Wolanin, *Congress and the Colleges* (D.C. Heath and Company, 1976), pp. 41-42, 225; and Robert B. Archibald, *Redesigning the Financial Aid System* (Baltimore, MD: The John Hopkins University Press, 2002), p. 38.

to students at an IHE is affected by the institution the student attends and the funding it receives, which is based on annual appropriations and a statutorily defined formula that allocates a substantial portion of funding among IHEs largely based on amounts received decades ago, when the last major change to the funding allocation procedures was enacted.

Institutions that receive a campus-based allocation are afforded some discretion in determining the mix and amount of aid to award to students. A student's eligibility for campus-based aid and potential award amounts thus depend in part on institution-specific award criteria. These features of the campus-based programs are unlike other portable federal aid programs, such as the Pell Grant and Direct Loan programs, under which aid availability is more certain. Students are generally entitled to receive an award, at levels determined by statutorily specified award rules, regardless of the school they attend, if the student and the school meet federal program eligibility requirements.<sup>64</sup>

Under the Pell Grant and Direct Loan programs, fund availability to make awards is not dependent on how a school fares in an allocation formula. Additionally, institutions have no discretion in selecting which students to award Pell Grants and limited discretion regarding whether to originate a Direct Loan or adjust data inputs that may be used to determine the amount of Direct Loans for which a student is eligible.<sup>65</sup> In this way, the Pell Grant and Direct Loan programs operate as entitlement programs, whereas campus-based aid is heavily dependent on institutional discretion and appropriations.

## **Campus-Based Funding Allocation Formula**

Another issue that is likely to be considered during HEA reauthorization is whether the formula for allocating funds to institutions that participate in the campus-based programs is optimal. While the processes for allocating funds differ for each program, they are all similar in that a portion of the program funds are allocated to an institution based on the amount of funds it received in a prior year (base guarantee), and a portion is based on each institution's fair share of unmet need.

A criticism of the campus-based funding formula is that the base guarantee, which accounts for more than 60% of the FSEOG and FWS allocations, does not take into account current student demographics and need.<sup>66</sup> As a result, funds are not distributed across institutions based primarily on student need. Some have also argued that the current allocation procedures favor long-term

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<sup>64</sup> PLUS Loans might be considered an exception to this precept. Parent and graduate student borrowers may obtain PLUS Loans in amounts up to the COA of the IHE attended, less other aid received. Thus, if a student attends a school with a high COA, the student (or the student's parent) may be eligible for a larger PLUS Loan than if the student attended a school with a lower COA.

<sup>65</sup> Section 479A of the HEA gives financial aid administrators (FAAs) limited authority to refuse to originate a Direct Loan to an otherwise eligible student or to originate a Direct Loan for less than the student's maximum eligibility. In addition, HEA Section 479A provides that in special circumstances, FAAs may use professional judgment to make adjustments to certain data points used to determine a student's eligibility for Title IV aid, and thus potentially affect the amount of aid for which a student is eligible. This authorization to use professional judgement is intended to enable FAAs to respond to situations that cannot be fully anticipated in the statutes and regulations. In these circumstances, the administrator is required to document the reason for the denial of loan funds to the student.

<sup>66</sup> For example, see National Association of Student Financial Aid Administrators, *The Campus-Based Formula*, NASFAA Task Force Report, August 24, 2014.



IHE participants over new participants, as institutions are first allocated funds according to their base guarantee, which is largely a function of duration of institutional participation.<sup>67</sup>

There is also concern that campus-based aid may not be adequately targeting low-income students.<sup>68</sup> Under current law, institutional need is generally an expression of the relationship between average COA and average EFC of an IHE's eligible students. The use of COA when calculating need has resulted in a tendency for high-cost IHEs to have higher levels of need per student than low-cost IHEs. In addition, while the uniform methodology for determining EFC (i.e., the income bands developed by ED) was intended to provide a fair way of determining institutional need, the income bands have not kept up with inflation. Therefore, the EFC categories may not provide an accurate reflection of an individual student's EFC, and thus may not accurately reflect an institution's fair share need.

There have been a number of proposals to change the formula for allocating campus-based funds to institutions. While the proposals differ in their approach, a common goal shared across several of them is to allocate funds using a formula that is more reflective of current student demographics and financial need. Some proposals would target funds to institutions that demonstrate positive student outcomes and some would prioritize allocating funds to IHEs enrolling high numbers of low-income students. Some examples of recommended changes to the formula include the following:

- eliminate the base guarantee and allocate all funds based on need;<sup>69</sup>
- reconstruct the income bands for determining EFC;<sup>70</sup>
- develop a need calculation that places greater emphasis on the economic circumstances of students served by the IHE<sup>71</sup> (for example, need could be calculated based on the dollar amount of Pell Grants awarded at the IHE);<sup>72</sup>
- target funds to institutions based on outcome metrics of students, such as graduation rates;<sup>73</sup> and
- limit student eligibility to participate in the FWS programs to undergraduate students.<sup>74</sup>

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<sup>67</sup> For example, see Robert Purnell Huff, "The Evolution of the Process of Allocating Federal Campus-based Student Financial Aid to Postsecondary Education Institutions," *NASFAA Journal of Student Financial Aid*, 34 no. 2, 2004, pp. 35-42.

<sup>68</sup> For example, see Office of Management and Budget, "America First: A Budget Blueprint to Make America Great Again," [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018\\_blueprint.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf) and Department of Education, F2017 Budget Request, <https://www2.ed.gov/about/overview/budget/budget17/justifications/n-sao.pdf>.

<sup>69</sup> For example, see the College for All Act 2017 (S. 806) and the Higher Education Affordability Act (S. 2954).

<sup>70</sup> See National Association of Student Financial Aid Administrators, *The Campus-Based Formula*, NASFAA Task Force Report, 2014.

<sup>71</sup> See the College for All Act 2017 (S. 806) and the Higher Education Affordability Act (S. 2954).

<sup>72</sup> See National Association of Student Financial Aid Administrators, *The Campus-Based Formula*, NASFAA Task Force Report, 2014.

<sup>73</sup> For example, see Department of Education, F2017 Budget Request, <https://www2.ed.gov/about/overview/budget/budget17/justifications/n-sao.pdf>.

<sup>74</sup> For example, see Rory O'Sullivan and Reid Setzer, *A Federal Work Study Reform Agenda to Better Serve Low-Income Students*, Young Invincibles, September 2014.



## Program Specific Issues

A number of issues specific to particular campus-based programs might also be considered during reauthorization; examples are discussed in this section of the report.

### FSEOG

One issue that could be considered is whether FSEOG funds can be better targeted to low-income students. During the 1972 reauthorization of the HEA, the Pell Grant program was created as a way of increasing portability in student aid.<sup>75</sup> The FSEOG program was then retained to serve as a supplement to the Pell Grant program. Under current law, IHEs are required to give priority to Pell Grant recipients when awarding FSEOG; however, financial aid administrators are afforded discretion in determining the amount of aid that students receive. Congress could consider amending FSEOG award rules so that FSEOG funds are only awarded according to statutorily specified targeting preferences.

### FWS

A few issues pertaining to the FWS program could be considered during reauthorization. One is whether community service should continue to be an explicit purpose of the program. Currently, institutions are required to use 7% of their FWS allocation to compensate students employed in community service. Some have argued that the 7% requirement may be too difficult for some institutions to meet.<sup>76</sup> Institutions may request a waiver from the community service requirements. However, the Department of Education (ED) has determined that the fact that it may be difficult for a school to comply with the requirements is not, in and of itself, a basis for granting a waiver.<sup>77</sup> Congress could consider altering or eliminating the community service requirement or redefining what types of employment constitute community service.

Another issue is whether employment provided through the FWS program should be more closely linked with students' career or education goals. HEA Section 443 requires that institutions, to the maximum extent practicable, ensure that FWS employment "complement[s] and reinforce[s] the educational program or vocational goals" of each FWS student participant. Currently, there is no ongoing evaluation of the FWS program. The last national study of it was completed in 2000, and 27% of institutions were able to report the extent to which the FWS jobs related to a student's academic program.<sup>78</sup> Of the institutions that reported data, an average of 51% of FWS students worked in academically related jobs.

A related issue is whether student participation in FWS adversely affects students' academic performance and ability to complete postsecondary education. The FWS study from 2000 found that less than 10% of FWS students felt that their job had a negative effect on their academic performance. More-recent research on the effects of the FWS program on student academic performance has generated mixed results.<sup>79</sup> In addition, the research has a number of

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<sup>75</sup> Lawrence E. Gladieux and Thomas R. Wolanin, *Congress and the Colleges* (D.C. Heath and Company, 1976), pp. 41-42, 225.

<sup>76</sup> For example, see National Association of Student Financial Aid Administrators, *Federal Work-Study Research: Executive Summary*, June 2016.

<sup>77</sup> See the 2017-2018 *Federal Student Aid Handbook*, vol. 6—*The Campus Based Programs*, pp. 6-58.

<sup>78</sup> U.S. Department of Education, *The National Study of the Operation of the Federal Work-Study Program: 2000*.

<sup>79</sup> For an overview of recent FWS research and findings, see Judith Scott-Clayton and Rachel Yang Zhou, *Does the Federal Work-Study Program Really Work-and for Whom?*, Center for Analysis of Postsecondary Education and

methodological limitations and does not provide a national view of student participants. Ongoing evaluation of the FWS program could provide federal policymakers with a better sense of the extent to which FWS employment supports students' career interests. It could also help to identify the extent to which populations of students may experience any adverse effects on their academic performance.

## **Perkins Loans**

The authorization for IHEs to make new Perkins Loans expired on September 30, 2017. A few institutional and student issues related to the wind-down of the Perkins Loan program may be considered prior to or during HEA reauthorization. Additionally, Congress may consider proposals to extend the Perkins Loan program again, as well as proposals to incorporate certain features of the Perkins Loan program into the Direct Loan program or another federal student loan program.

### ***Institutional Practices***

Upon the expiration of the authorization to make new Perkins Loans under the program, institutions are required to begin the process of distributing the assets of their Perkins Loan funds.<sup>80</sup> Each participating IHE is required to return to the Secretary the federal share of its Perkins Loans funds and the federal share of payments and collections made on outstanding Perkins Loans. The federal share is equal to the amount of the loan fund balance that is proportional to ED's overall FCC as of September 30, 2017. IHEs may retain any remaining amounts (e.g., their ICCs). Under current regulations, when an IHE discontinues its participation in the Perkins Loan program, it is required to assign all loans with outstanding balances to ED. If an institution assigns its loans to ED, it relinquishes all rights to the loan, without recompense, (i.e., ED will not reimburse it for the institutional funds used to make the loan, and it will not receive any future payments made on the outstanding loans).<sup>81</sup> ED has indicated that during the Perkins wind-down, IHEs have the option to assign Perkins Loans to ED or to continue servicing them.<sup>82</sup> Prior to the expiration of the Perkins Loan program, institutions were allowed to use a portion of their Perkins Loan revolving fund to cover the administrative costs of servicing the loans. ED has indicated that during the wind-down, institutions will no longer be permitted to charge an administrative cost allowance against their Perkins Loan funds. Without the administrative cost allowance, some institutions might find it too costly to continue servicing the loans, and thus may decide to assign loans to ED and forgo future payments made on the outstanding loans.

Another wind-down issue relates to IHEs reimbursement for previous or future loan cancellations. Under current law, ED is required to reimburse IHEs for their cancelled Perkins Loans.<sup>83</sup> The law prohibits Perkins Loan cancellations from being funded through the

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Employment, Research Brief, March 2017; and National Association of Student Financial Aid Administrators, *Federal Work-Study Research: Literature Review and Policy Scan*, June 2016.

<sup>80</sup> ED has indicated that IHEs may make final Perkins Loan disbursements to eligible borrowers through June 30, 2018, and that it will begin collecting the federal share of any cash remaining in an IHE's Perkins fund following the submission of the 2019-2020 FISAP, which is due October 1, 2018; ED Dear Colleague Letter, "Perkins Loan Extension Act of 2015" GEN-17-10, October 6, 2017, <https://ifap.ed.gov/dpcletters/GEN1710.html>.

<sup>81</sup> Office of Federal Student Aid, *Federal Perkins Loan Program: Assignment and Liquidation Guide*, December 20, 2016, pp. 7-8, 24.

<sup>82</sup> See ED Dear Colleague Letter, "Perkins Loan Extension Act of 2015" GEN-17-10, October 6, 2017, <https://ifap.ed.gov/dpcletters/GEN1710.html>.

<sup>83</sup> HEA, §465.

appropriation for FCCs; thus, a separate authorization of appropriations is required for Perkins loan cancellations. An appropriation for the Perkins Loan cancellations reimbursements has not been provided since FY2009. ED has indicated that, based on the HEA's prohibition on using FCC funds to cover the cost for cancellation reimbursements, it will not consider unreimbursed cancellations when determining IHEs' FCC. As the program winds down, it is not clear if Congress will authorize funds for Perkins Loan cancellations or allow ED to consider the cancellations when calculating IHEs' FCC.

### ***Perkins Loan Borrowers***

Under the Extension Act, institutions are prohibited from making new loans as of September 30, 2017. However, if an eligible student received a disbursement prior to the expiration of the program for the award year, the student may receive any subsequent disbursements of that Perkins Loan through June 30, 2018. After all the Perkins Loan final disbursements are made, undergraduate students will lose access to aid currently made available under the Perkins Loan program. While the Direct Subsidized Loan has many terms and conditions that are similar to Perkins Loans terms and conditions, annual and cumulative loan limits on Direct Subsidized Loans prevent students from borrowing above a certain amount. Access to Perkins Loans provides students with additional borrowing capacity to help cover their COA. For example, in AY2011-2012, prior to amendments to the program made under the Extension Act, Perkins Loans covered an average of 6% of Perkins Loan borrowers COA.<sup>84</sup> Without the Perkins Loan program, it is not clear whether students will be able to access other forms of aid that could cover the portion of COA currently covered by Perkins Loans.<sup>85</sup> Whether there is a need to provide for additional borrowing capacity may be an issue that receives attention during reauthorization.

### ***Proposals Related to the Perkins Loan Program***

In order to maintain the amount of aid that students could be eligible to borrow, Congress might consider extending the Perkins Loan program for a second time, either as a part of or independent from reauthorization.<sup>86</sup> Extending IHEs' authority to make awards to undergraduate students could enable some students, at the discretion of the IHE, to borrow additional loans to help cover their COA. However, it is not clear what the cost would be to extend the program, and what, if any, offsets could be used to cover that cost. For instance, under the Extension Act, a grandfathering provision that would have allowed students to receive Perkins Loans until FY2020 was eliminated.<sup>87</sup> Eliminating the grandfathering provision provided program savings that were used to offset the cost of the Extension Act. If the program were to be extended again, such offsets may not be available under the current Perkins Loan program provisions.

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<sup>84</sup> CRS Calculations using NPSAS:12.

<sup>85</sup> For any borrowers who have fully maximized Direct Subsidized and Unsubsidized annual loan limits and who receive Perkins Loans as well, the elimination of Perkins Loans seemingly creates a void in federal loan aid that is accessible to them. Although in lieu of Perkins Loans, Direct Unsubsidized Loans may be able to provide additional borrowing capacity for borrowers at IHEs that currently award Perkins Loans prior to Direct Unsubsidized Loans in financial aid packages. It is not possible, however, to precisely predict the extent to which Direct Unsubsidized Loans could fully replace Perkins Loan aid in such instances.

<sup>86</sup> At least one bipartisan bill to extend the provisions of the Extension Act for an additional two years has been introduced in the 115<sup>th</sup> Congress. See the Federal Perkins Loan H.R. 2482).

<sup>87</sup> The grandfathering provision is explained in ED Dear Colleague Letter, "Wind-down of the Federal Perkins Loan Program, GEN-15-03, January 20, 2015, <https://ifap.ed.gov/dpcletters/GEN1503.html>.

In lieu of extending the program, some have suggested creating a new Federal Direct Perkins Loan program that would be managed by ED, with IHEs being given lending authority to make awards to students.<sup>88</sup> These proposals recommend retaining the current interest rate and borrowing limits of Perkins Loans, but the terms and conditions of the loans would be based on those that are applicable for Direct Unsubsidized Loans. The key aim of such a program would essentially be to retain some of the features that currently exist in the Perkins Loan program, but also to place greater emphasis on encouraging IHEs to keep tuition low and rewarding IHEs for graduating Pell Grant recipients.

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<sup>88</sup> See Department of Education, FY2017 Budget Request, and the Student Aid and Financial Responsibility Act of 2009 (H.Rept. 111-232).

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