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STUDENT FINANCIAL AID

Monitoring Aid Greater Than Federally Defined Need Could Help Address Student Loan Indebtedness

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Highlights

Highlights of GAO-03-508, a report to the Honorable Rod Paige, Secretary of Education

Why GAO Did This Study

Over half of the $80.4 billion in financial aid provided to college students in the 2000-01 school year came from the federal government in the form of grants and loans provided under Title IV of the Higher Education Act (HEA). To help finance their education, students and families may have received other funds from states, private groups or lenders, and/or the schools themselves.

We initiated this study to, among other things, determine how often federal financial aid recipients received aid that was greater than their federally defined need and what cost or other implications might result from changing HEA to limit such aid.

What GAO Recommends

To ensure that substitutable loans will not lead to unmanageable student loan indebtedness, we recommend that the Secretary of Education monitor the impact of substitutable loans on student loan debt burden and, if debt burden associated with substitutable loans rises substantially, develop alternatives to help students manage student loan debt burden.

In commenting on a draft of this report, Education noted that while student indebtedness is of concern, loans to parents should be excluded from our analysis. We modified the report to more clearly detail when nonstudents were responsible for the loans.

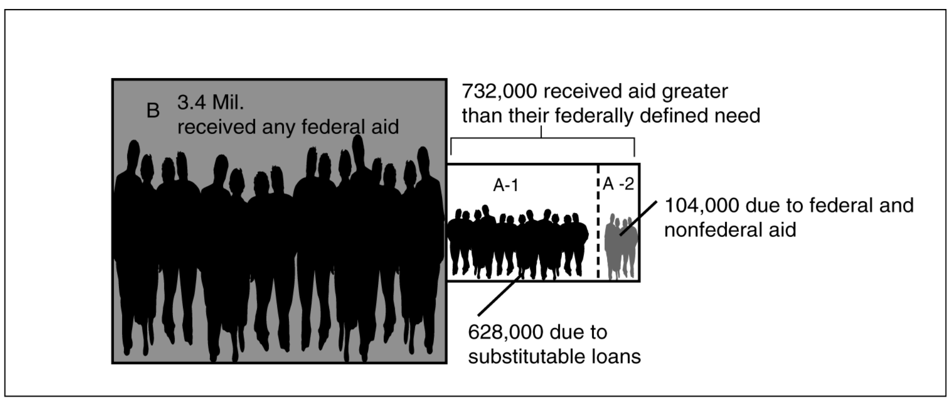
www.gao.gov/cgi-bin/getrpt?GAO-03-508.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Cornelia M. Ashby at (202) 512-8403 or ashbyc@gao.gov.

What GAO Found

We found that in school year 1999-2000, of the 3.4 million full-time/full-year federal aid recipients, 22 percent (732,000) received a total of $2.96 billion in financial aid that was greater than their federally defined financial need. Of these, 628,000 received an estimated $2.72 billion in such aid by obtaining non-need-based loans—which we identify as substitutable loans—that families borrow to meet their expected family contribution (i.e., what the federal government determines the family can afford to pay for college). Title IV allows for students and families to obtain these non-need-based loans to meet their expected family contribution. Another 104,000 federal aid recipients received an estimated $238 million in such aid as a result of receiving a combination of aid from federal and nonfederal sources.

Proportion of Federal Aid Recipients Receiving Aid Greater Than Federally Defined Need in Relation to All Federal Aid Recipients, Full-time/Full-year Undergraduates, 1999-2000



Source: GAO analysis of 1999-2000 NPSAS data.

Changing the HEA to limit the receipt of aid that is greater than students' federally defined financial need is not likely to achieve significant federal savings, although, the use of substitutable loans may increase overall student indebtedness. In terms of cost implications, limiting those instances where federal aid recipients receive substitutable loans—which is the main reason why students received aid greater than their federally defined need—will not likely result in significant savings. While the government will not have to pay default claims or special allowance payments on loans it guarantees, it would forego any interest earnings on loans it makes directly. Any savings from limiting these loans would be substantially less than the total amount of the loans made—the $2.72 billion. However, the widespread use of substitutable loans may increase the average debt of borrowers and may affect Education's ability to help students and their families maintain their loan debt at manageable levels.