

Financial Aid Debt Report

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for Los Angeles Court Scholars
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Draft Report to Court Scholars Committee: Handling Student Financial Aid Debt

Acknowledgements and Disclaimer

Many people have helped me gather the information in this report, but I alone am responsible for any errors in it. I am a volunteer with CASA of Los Angeles, a Court Appointed Special Advocate, but neither CASA of LA nor any court appointed me to do this research, and no judge or CASA official has checked or approved any of my work.

If there are errors of fact, or if you disagree with the opinions in it, your issues are with me, not with the Court or with CASA of LA.

However, I certainly could not have done the work involved in preparing this report without a lot of help. It starts with Louise Bieschke of CASA of LA, who ably supervised my work on the case that got me interested in the problem of financial aid debt. Judge Veronica McBeth heard that case, and when I volunteered to do this work, it was Judge McBeth who referred me to the Court Scholars Committee. Commissioner Marilyn Mackel, then chair of the Committee, kindly agendized the project, and all attendees at the March 19 meeting provided valuable input. I especially appreciate the information provided by Jenny Serrano of the DCFS regarding the Department's ethical concerns and the fact that financial aid debt is a recurring problem among foster youth.

The following college and university officials contributed essential knowledge by granting an interview and/or by referring me to experts who could describe their school's policies: Sara Gamez and Marcia Starcher of Cal Poly Pomona, Andy Espinoza and Nick Valdivia of Long Beach State, Greg Ryan and Laurie Schwiebert of Fullerton College, Martha Clavelle, Mark McKellip, Nicholas Novello and Brian Thiele of Cal State Dominguez Hills, Claire Davis and Elizabeth Arias of Cal State Northridge, Alfreda Iglehart, Simone Rahotep, Mary Horne and Lawrence Persky of UCLA, Karen Nelson and Patrick Moore of USC, Omar Maldonado, Joann Hinojosa, and Lilia Medina of Citrus College, Linda Carrasco and Patricia Hurley of Glendale Community College, Veronica Garcia of Los Angeles City College, Rosalie Hilger and Dennis Schroeder of Los Angeles Mission College, Kim Miles of Pasadena City College, Glenn Schenck and Ludwig Perez of West LA College, Kim Westby of Cerritos College, and Sheila Millman of Los Angeles Harbor College. I've probably forgotten someone who was a great help, and I apologize for that.

I especially thank Martha Clavelle, who pointed me in the right direction when I knew absolutely nothing about financial aid debt, and Assistant Dean Miles, who not only told me about Pasadena CC's policies, but introduced me to officers from many other community colleges, some of whom also contributed to this report.

I hope this product justifies the work of all these people, and I thank them all for it.

Respectfully submitted,

Bob Perkins

INTRODUCTION – THE IMPORTANCE OF CSW ASSISTANCE

Foster youth attending colleges and universities rely heavily on financial aid, and especially on Title IV aid (including Pell Grants, Federal Work Study, FSEOG, LEAP, SLEAP, TEACH grants and direct and Perkins Loans), which are administered under the federal Department of Education (DoE). This report focuses on Title IV grants, not student loans (which typically are repaid after the student finishes school)¹.

Sometimes students receive more Title IV grant money than they earn. When they do, they must repay it. Unless properly managed, that debt can impact, even end their studies, and may even affect their right to housing and other foster care system benefits.

These severe impacts, however, can almost always be avoided. I believe the key lies with Department of Children and Family Services (DCFS) involvement – if the social worker (CSW) has the tools and takes the time to help the student, schools have considerable flexibility and will try hard to minimize the impact on the youth. This report attempts to give the DCFS and its CSWs the tools to make that happen.

One tool is so vital that I'm going to tell you it now. If you, the CSW, don't read anything else, but do read and remember this, you'll be ready to do a lot for your foster kid and save both of you a lot of headaches downstream. Here it is:

If your foster youths have a financial aid debt, take them to meet with their school's financial aid officer (and other involved officers, including the Educational Opportunity Program [EOP] representative if the school has an EOP program), explain why they can't easily and quickly repay the debt, and work out a repayment agreement that allows them to continue in school and to receive financial aid. It's almost always possible, but making it happen may require more experience, sophistication, and negotiating skills than most youths have. That's why you have to be there.

EVERY CASE IS DIFFERENT

All schools must comply with the DoE's policies regarding overpaid financial aid.² However, those policies change, and they allow schools considerable flexibility. This means each case can be handled differently within the guidelines, and the final word on handling your case lies with the financial aid officers of the school your student attends.³ The student, with help from the CSW, must work out the problems with them.

¹ Chafee grants, which are also important to foster youth, are not discussed, both because they are not Title IV funds and because students don't have to repay them if they drop classes.

² They are available on line – google the IFAP website and look under “Publications” for the (huge) Federal Student Aid Handbook, or if you just want to see the 2012-13 Handbook's chapter on “Overawards and Overpayments” go to <http://www.ifap.ed.gov/fsahandbook/attachments/1213FSAHdbkVol4Ch3.pdf>.

³ Officers of 14 schools provided information for this report, (and all received a draft for review and correction.) The schools, in alphabetical order, are Cerritos College, Cal State Polytechnic University Pomona, Citrus College, CSU Northridge, CSU Long Beach, CSU Dominguez Hills, Fullerton College, Glendale Community

BUT ALL CASES SHARE IMPORTANT POINTS

Though details vary, the broad outlines of how students get into debt from aid overpayments, their obligations in debt, the schools' response to that debt, and the options and steps which will allow students to stay in school and repay the debts are fairly consistent at all the colleges and universities that have discussed them with me.

This means that if CSWs (and, through them, students) learn the basic principles and bring that knowledge to meetings with the school officials, they can generally (maybe always) avoid catastrophic results from Title IV overpayments. This report attempts to provide guidance on these major issues:

- (1) How do students get into federal Financial Aid debt, and how can they avoid it?
- (2) How do local Community Colleges and Universities handle Financial Aid debt?
- (3) What are the "worst case" consequences of that debt?
- (4) How can we avoid those consequences?
- (5) What are realistic goals for students who cannot easily repay their debt?

Let's address each of those issues:

(1) HOW DO STUDENTS GET INTO FEDERAL FINANCIAL AID DEBT, AND HOW CAN THEY AVOID IT?

Students incur Title IV debt if they get an "overpayment" of Federal Student Aid (FSA) – meaning they receive more money than they earn. That can happen in several ways. One is by a school error – if, for example, the school miscalculates the amount they should receive, when the error comes to light the school must repay the DoE, but the student must repay the school.

Probably the most common way, however, is that a student withdraws from school or drops classes. FSA is calculated based on what the student signs up to take, but it is "earned" by actually going to school. If the money is disbursed, and the student then drops some or all classes, that may create an overpayment which the student must pay back.

Not always, for at least two reasons.

College, L.A. Harbor College, L. A. Mission College, Pasadena City College, West L.A. College, UCLA, and USC. They tell me that other schools' policies are likely to vary in detail (as indeed these 14 do) but will have much in common (as do these 14).

First, FSA is not “all or nothing.” It is awarded in steps, so a student may be able to drop some courses without FSA consequences. For example, students who complete 8 units earn less aid than those with a full load, but they do earn some, and (under current DoE guidelines) won’t incur a debt if they drop 1 or 2 units⁴. Similarly, under DoE guidelines, the students earn their FSA gradually over the term, and all the FSA is earned if they complete 60% of the course – even if they get an “F” in the class⁵.

Second, some schools (especially Community Colleges) pay the FSA in two or more installments, so that, depending on when students withdraw, they may have earned as much as they received.

So, to avoid most Title IV debt, all students have to do is complete classes. Even completing 60% of a class will do.⁶

If FSA debt were the only consideration, I’d advise students to postpone a decision to drop as long as possible (because they earn FSA while they stay in class), consider taking an F instead of dropping, and watch the financial aid cutoff points. However, as one College official told me, that’s “like playing with fire,” because it may jeopardize overall success in several ways, among them missing the school’s “drop” deadline and/or lowering students’ gpa.

To remain eligible for future financial aid, and to stay in school, students must show “Satisfactory Academic Progress” (SAP).⁷ SAP is a twofold test based on overall progress – the student must maintain both a satisfactory gpa and rate of passing units – so for a good student an F may not affect SAP more than a drop. However, it may have other effects – e.g., on employability or graduate school admission. These are hard choices, and again students should be encouraged to meet the Financial Aid advisors before they drop or fail classes – and, where possible, EOP or other counselors who specialize in foster students, as well.

(2) HOW DO LOCAL COMMUNITY COLLEGES AND UNIVERSITIES HANDLE FINANCIAL AID DEBT?

Every institution is a little bit different, but there are important similarities in all the schools I’ve researched, especially among Community Colleges.

Every school requires repayment of Financial Aid debt. Every school’s *initial* reaction to such debt is to put a hold on enrollment and on transcripts. The DoE authorizes every school to lift

⁴ Currently, for example, students qualify as $\frac{3}{4}$ time by taking 9 or more units and $\frac{1}{2}$ time with 6 units, so dropping from 8 to 6 has no FSA debt consequence at all, though of course it affects academic progress.

⁵ Fullerton College uses a variation based on a “freeze date:” dropping before the freeze date will create a debt but no bad grades; dropping after it creates no debt but impacts Satisfactory Academic Progress (“SAP”), which is vital to future aid.

⁶ As will most “incomplete” grades.

⁷ And even then they can’t get FSA forever. Currently, DoE will only pay Pell Grants for the equivalent six years – 600% of a year’s grant.

that hold and get the student more Title IV aid if the student makes “arrangements satisfactory to the [school] to pay” the debt.⁸ Every school I surveyed will negotiate such arrangements or allow the student to negotiate directly with the DOE’s debt collectors.

‘Satisfactory arrangements’ do not mean cash, and none of the schools surveyed demand that a student who incurred Financial Aid debt by dropping classes make immediate payment in full as a condition of continuing to study. All will allow the student to continue to enroll and receive Title IV aid before the debt is paid, provided the student has entered a satisfactory repayment plan. (What is “satisfactory” varies, however, from school to school and from case to case. One school told me that they have, on occasion, accepted payments of \$10/month; another said they generally require repayment of 70% of the debt before allowing enrollment).

Most schools will set up the plan themselves; a few refer the debt to the National Student Loan Data System (“NSLDS”), which freezes Title IV aid (but not other aid, apparently including Governor’s Fee Waivers and Chafee grants) until the student enters a repayment plan with DOE’s debt collectors (often private companies). It appears the collectors are fairly flexible, but that process takes time. To avoid interrupting the student’s education, students and their CSWs should make every effort to agree on a repayment plan directly with the school.

Most schools surveyed are willing to use other Title IV financial aid funds to pay off the debt for a continuing student. For example, in most Community Colleges, if the student was overpaid Fall semester, but wishes to continue spring semester, the College will deduct the debt from the Spring Pell Grant distribution, thereby discharging the debt, and will pay the student the balance of the Pell monies.

However, the student must make some repayment agreement, or bad things happen. If the student does nothing about the debt the hold on enrolling, on transcripts, and on more financial aid stands. Moreover, though some schools wait a while, all the Community Colleges and some of the Universities will report the debt to the NSLDS, which will prevent the student from receiving FSA elsewhere. (The student may, however, still be able to attend another Community College, using a Governor’s Fee Waiver and non-FSA funds such as Chafee grants).

A word about the differences between Community Colleges and Universities. Many Universities disburse an entire semester’s Pell Grant at the beginning of the term, in part because the student needs a lot of it for tuition. Community Colleges typically disburse half at the start of the term and the second half midway through the semester. This policy greatly reduces the potential for overpayment – by the time students receive the second half of their money, they’re close to 60% through the semester, and have already earned virtually all of it. On the other hand, some

⁸ “Your school may decide to pay a student’s obligation by returning to the appropriate FSA program account the amount overpaid to the student. Once your school makes the appropriate return, the student will no longer owe an FSA debt, but rather a debt to your school that you can collect according to your procedures. The student’s eligibility for FSA funds is restored as long as the student meets other FSA eligibility criteria.

A student who receives an overpayment ... may reestablish eligibility for FSA program assistance by repaying the excess amount or by making arrangements satisfactory to the holder of the overpayment debt to pay the excess amount.” FSA Handbook, p. 4-55.

Universities haven't felt the current financial crunch quite as badly as the Community Colleges, and express an extremely high institutional interest in seeing their students succeed, so their Financial Aid officers may have a little more flexibility in handling the students' debts than do the Community Colleges.

(3) WHAT ARE THE "WORST CASE" CONSEQUENCES OF FINANCIAL AID DEBT?

If students with financial aid debt do nothing about it, they will not be able to continue at their school. They will not be able to get a transcript, which they need to apply to study at many schools (most Community Colleges being an exception). They will not be able to get FSA funds, though they may remain eligible for other student financial aid. They will of course owe the money, and eventually the government's debt collection practices can get severe, up to and including wage garnishment.

Under AB 12, many foster youth can continue to receive foster care benefits – including a place to live – until (hopefully) they are 21, but only if they meet one of AB 12's five participation conditions. College students do so if they are enrolled at least half time, but students who are barred from continuing because of FSA debt must find another way to qualify, and former foster youth may have trouble qualifying for Transition housing. The worst case consequence I can imagine for a college student who gets into FSA debt is: thrown out of his/her school. Unable to transfer. No funds to start over. Ineligible for housing. Hounded by government creditors. Homeless. Hopeless.

That consequence should never happen. The next section of this report suggests a plan of action to make sure it doesn't.

(4) HOW CAN WE AVOID THOSE CONSEQUENCES?

First, of course, avoid the debt through academic success. Success, after all, is the whole point, besides which, nearly all overpayments come from course withdrawals or failures.

CSWs can foster success by encouraging students to use their school's resources – let their counselors and EOP advisors help them enroll in courses they are ready to handle and get tutoring, meetings with professors or TAs, or whatever they need to pass those classes. It's important to involve the school officials – one University officer reports many students "drop classes without seeking all of the assistance they can get to succeed." Moreover, if things still go wrong, the school can help students minimize the SAP and financial damage by advising them about when and what to drop, and possibly helping them pick up other classes.

If, however, such a debt arises, the student's focus needs to be on meeting with school officials and working out a repayment program that allows the student to continue her/his education with a minimum of fuss. Here's where the student most needs help from the DCFS – to get the youth and all the necessary school administrators to the meeting(s), and to be there, backing up the youth and negotiating terms that get the school what it needs (eventual repayment) while getting the student what s/he needs: continued education.

It will help if the CSW is knowledgeable about the school's policies, and many schools have summaries on line at the school's web address. However, since the policies almost invariably allow the school authorities a good deal of flexibility and are intended to help students succeed, it is more important that the CSW bring the experience, patience and skills in bringing people together which are characteristic of social workers. The youths, however smart, are under pressure and inexperienced. They may miss opportunities which their CSW could see. Moreover, the CSW may be able to find funds to help pay off the debt, and any effort to seek funds to do so is more likely to succeed if the CSW knows exactly what happens at the meetings – not just what the youth remembers long after the meeting.⁹

The CSW should certainly be aware of a few things going in to the meetings: (1) students have the right to see how the debt was calculated and to challenge the debt if they think it's a mistake, (2) if the debt is really owed, students must work out a repayment plan to stay in school, (3) sometimes the school's decision-making is split between offices – Financial Aid and Registrar, for example – so that it is very useful to get all the decision-makers in the room for the meeting, (4) the school (or NSLDS and its debt collectors, if the the school has referred the case to the DoE) want to work out a repayment plan and see the student continue in school, and (5) there are many possible sources for helping with repayment, including Title IV funds, non-Title IV scholarships and grants, student loans and (though these can be brutally expensive) non-student loans, work-study pay, funds the Department has access to or can solicit, and even, in a few cases where the student and CSW act quickly enough after the student drops courses, non-monetary reduction of the debt.¹⁰

Neither the CSW nor the student needs to be expert in these repayment possibilities. That's the school's job. But they do need to be aware enough to help the school find a repayment method that works for the student and the school, and they do need to help the student commit to continuing in school.

(5) WHAT ARE REALISTIC GOALS FOR STUDENTS WHO CANNOT EASILY REPAY THEIR DEBT?

Graduation, with some debt.

⁹ This may mean spending or loaning DCFS funds, but it may not. In one recent case, the DCFS found a donor (Rotary, in that case) who helped the student pay the debt.

The DCFS is justifiably concerned that it not misuse its own Federal funds. I do not pretend to know the restrictions on those funds, but I do know that many, maybe most colleges and universities use Federal funds – indeed, other Title IV funds – to discharge FSA debts, as for example Federal Work Study money or when they use the Spring semester Pell Grant money to pay off any overpayment from the Fall semester.

¹⁰ Cerritos College, for example, offers Success Workshop courses which, if taken during the same semester the student dropped classes, count as attendance toward the 60% standard and allow recalculating the student's eligibility for her/his Pell Grants.

If students and their CSWs work with the school involved, a student whose only problem is one semester of FSA debt should be able to continue at the same school, in the same course of study.¹¹

They will have to repay the money, but should be able to do so over time (possibly, at some schools not till after graduation). They may be on probation or otherwise monitored more closely by the school and funding agencies. If they cannot get more Pell Grants, or if they need more help than Pell Grants provide, they may be able to tap other funding sources – Governor’s Fee Waivers, Chafee grants, work-study, even loans. In some cases, a student may find the overall economic picture requires moving from University to Community College, but if they stay on task, FSA debt should never stop a youth from graduating.

Dropping out or giving up will stop them. It’s our job to prevent that.

¹¹ Students who drop classes also may lower their gpas and certainly will slow their pace of completing courses, which may impact their SAP. If they don’t maintain SAP, they initially risk probation, and ultimately risk becoming ineligible for FSA, regardless of whether they have FSA debts.