



**Federal Restrictions on State Student Financial
Aid Report
Part II**

Prepared by:

Maryland Higher Education Commission

Office of Student Financial Assistance

December 2006

As Requested by the

Report of the Chairmen of the

Senate Budget and Taxation Committee

And

House Appropriations Committee

2006 Session

Page 173

MARYLAND HIGHER EDUCATION COMMISSION

839 Bestgate Rd. • Suite 400 • Annapolis, MD 21401-3013

MARYLAND HIGHER EDUCATION COMMISSION

Kevin M. O’Keefe, Chairman

Donald J. Slowinski, Sr., Vice Chairman

Victor E. Bernson, Jr.

Joann A. Boughman

Anne Osborn Emery

Ilona Modly Hogan

James G. Morgan

Kurt A. Musser

Emmett Paige, Jr.

Sherman L. Ragland, II

Paul L. Saval

Mario F. VillaSanta

**Calvin W. Burnett
Secretary of Higher Education**

**Robert L. Ehrlich, Jr.
Governor**

**Michael S. Steele
Lt. Governor**

Table of Contents

Introduction.....	2
Background.....	2
Data Analysis.....	3
Overview.....	3
Selective Service.....	4
Loan Defaults.....	4
Non-Citizens.....	4
Convicted of Drug Offenses.....	4
FAFSA.....	4
Table 1: Number of Awards Cancelled Due to Federal Restrictions.....	5
Conclusions.....	5

Introduction

Legislation was introduced during the 2006 Maryland General Assembly session, HB 1310 Higher Education – State Student Financial Assistance – Eligibility, to change how the Maryland Higher Education Commission’s Office of Student Financial Assistance (OSFA) defines eligibility for State financial aid. This legislation would have authorized OSFA’s use of the Free Application for Federal Student Aid (FAFSA) for determining eligibility for need-based aid programs and at the same time, it would have prohibited OSFA from canceling a student’s need-based aid award if federal eligibility is not met. Under the bill, a need-based aid award could not be cancelled due to federal restrictions that are more restrictive than the Maryland statute governing the financial aid program. In addition, OSFA would have also been required to implement a process to determine the reasons why students are denied federal aid, to compare these students to students who receive State aid, and to ensure that those students denied federal aid would be considered for State aid.

Although the legislation did not become law, the budget committees requested that the Maryland Higher Education Commission (MHEC) submit a report on the number of students denied State financial assistance due to federal student aid restrictions. The request asked that the report focus on the following categories of students denied assistance due to federal restrictions:

1. students who are not registered for Selective Service;
2. students who are in default of federal student loans;
3. students who do not qualify as eligible non-citizens; and
4. students who have been convicted of drug offenses.

Due to the financial aid awarding cycle, the request asked that information be provided in two reports. The first report was provided September 1, 2006 reporting on cancelled awards from FY 2004 to FY 2006. The first report explained OSFA’s current awarding process, discussed why federal student aid restrictions have been followed by OSFA, and summarized the number of students whose awards were cancelled from FY 2004 through FY 2006 due to federal restrictions. This report, due December 1, 2006, reports on cancellations from initial awards in the fall 2006 semester.

Background

OSFA currently administers 28 State financial assistance programs, many of which require a separate application process. However, the Free Application for Federal Student Aid (FAFSA) is used to determine or assist with determining eligibility in several of OSFA’s programs, including the Guaranteed Access Grant, Educational Assistance Grant, Part-Time Grant, Graduate and Professional Scholarship Program, Senatorial Scholarship, Nursing Scholarship Living Expenses Grant, Jack F. Tolbert Student Grant, and the William Donald Schaefer Scholarship program. The Part-Time Grant and the

Graduate and Professional Scholarship programs are campus-based while the other programs are administered by OSFA.

Title 18, Subtitle 2, of the Education Article establishes OSFA and enumerates the powers and duties of the Office. Section 18-204 gives OSFA the authority to adopt any rule or regulation necessary to carry out its powers and duties, and with respect to federal scholarship and grant programs, do anything necessary to comply with any federal law relating to federal scholarships or grants. Overarching guidelines and program specific guidelines have been developed to guide OSFA and higher education institutions in making and verifying awards made in these programs. While some of these guidelines relate specifically to federal requirements, most of them relate to Maryland residency and specific program eligibility criteria. Since the eight programs listed above use the FAFSA to determine award eligibility, Title IV federal eligibility requirements are used by OSFA and Maryland's higher education institutions for ease of program administration.

Further information regarding the use of federal restrictions and when they are followed is provided in detail in the initial report on Federal Restrictions on State Student Financial Aid.

In addition, information is provided in the initial report on the eligibility requirements of other states. From the states that responded to an online poll, it would appear that their responses demonstrate the wide-spread use of federal qualifications in state financial aid processes.

Data Analysis

Overview

Specific tracking codes are assigned to document the reasons why an award is cancelled, such as due to defaulted loans, citizenship, drug convictions, not registered for selective service, etc. Institutions are given a specific list of cancellation codes that they may use when canceling student awards. Deviation from this list of codes will cause the cancellation to be rejected. When a student does not meet the federal eligibility criteria, the institution will report the cancellation to OSFA with the appropriate cancellation code. To obtain the data to analyze for this report, cancellation reports were run for all programs. It is noted that the cancellations predominantly occurred in the EAG program.

In the data analyzed, there were very few cases of State financial aid awards cancelled due to federal restrictions. In the first half of FY 2007, only two students were ineligible because they had not registered for selective service, 5 students had defaulted on loans, and 16 students were not citizens or eligible non-citizens. There was no record of any students losing awards due to drug related offenses. Additionally, 28 students lost awards because of other problems with their FAFSA application. Cancellations for the first half of FY 2007 totaled 51. These cancellations are out of a total estimated number

of awards of 57,216 for the full year. Only .0009% of the total awards were cancelled due to those four federal restrictions. Overall federal restrictions were infrequently the cause of award cancellations.

Selective Service

For the fall 2006 semester, there were only two reported financial aid awards that were cancelled because the student had not registered for selective service. This federal requirement has no significant impact on MHEC's award process.

Loan Defaults

For the fall 2006 semester, there were 5 awards cancelled for because of loan defaults. Based on the data, very few awards are cancelled due to loan defaults.

Non-Citizens

For the fall 2006 semester, 16 students were cited for not being United States citizens or eligible non-citizens. The citizenship requirement did not preclude a large number of students from eligibility.

Convicted of Drug Offenses

For the fall 2006 semester, there were no cancellations that cited drug convictions as the reason. The majority of drug-related aid denials are resolved at the institutional level. Some students mistakenly identify themselves as ineligible due to an arrest, but many of those students are, in fact, eligible for aid because they were never convicted. It may also be true that there are few awards cancelled for this reason because the drug-related offenses are self-reported on the FAFSA. The FAFSA has no match with any federal or state entity to verify the accuracy of the responses. Based on the available information, drug-related denials do not appear to be a barrier to state aid.

FAFSA

Problems with the FAFSA form caused the most cancellations in the fall of 2006. There were 28 cancellations due to blank financial information, missing forms, and missing signatures on the FAFSA. Although this study does not focus on the FAFSA's role in determining eligibility, these statistics are good to note as a comparison.

Table 1: Number of Awards Cancelled Due to Federal Restrictions FY 2004 to FY 2007

Reason for Cancelling State Financial Aid	Fiscal Year			
	2004	2005	2006	2007
Failure to Register for Selective Service	0	0	1	2
Loan Default	22	12	4	5
Ineligible (Non)-Citizen	1	4	10	16
Convicted Drug Offender	0	0	0	0
FAFSA-Related	1	15	42	28
Total	24	31	57	51

Conclusions

From the data analyzed for the first semester of FY 2007, along with the data previously analyzed for FY 2004 – FY 2006, it appears that federal restrictions are not a significant factor in the cancellation of State aid awards. Cancellations by fiscal year totaled 24 in FY 2004, 31 in FY 2005, 57 in FY 2006, and 51 in FY 2007. These cancellations are out of a total number of awards made in FY 2004 of 44,851, 47,646 awards in FY 2005, an estimated number of awards in FY 2006 of 52,172, and an estimated number of awards of 57,216 in FY 2007. Only .0008% of the total awards were cancelled due to federal restrictions. Overall, federal restrictions were infrequently the cause of award cancellations among students in Maryland.

Of the 18 states that responded to the NASSGAP poll, all of them use the federal requirements in their awarding processes, and half of those states do not allow students to even apply for state aid if they do not meet federal eligibility requirements. Given the practical use of the Free Application for Federal Student Aid (FAFSA) in determining a student’s Expected Family Contribution (EFC), and given the value that it provides in determining a student’s eligibility for need-based aid, the use of the FAFSA, and the associated federal eligibility requirements, makes sense.

