



**[DAN KLOCK:]** Okay, let's get into this. There were a number of changes as a result of the passage of the Higher Education Opportunity Act, or HEOA, signed into law on August 14, 2008, and one of those changes was a refinement in the cost of attendance definition shown on this slide, and you can go through the bullets there. Effective July 1, 2010, for students living in military housing which is known generally as base allowance for housing, and you heard one of the questioners this morning, as a matter of fact, at the general session, asking about BAH. Anyway, effective July 1, students living in military housing either on base or those who are living off base and receiving the housing allowance, that their costs of attendance will include an allowance for board only. The BAH or the portion of the allowance for housing that is being provided by the military will not be included in cost of attendance. So, the operational question for you, if you have not already thought about this, and one of the things I always like to do with the session is, you should be thinking about those ideas that you want to go back to your campus, talking about with your staff, with other administrators on your campus, and this is definitely going to be one of those questions, how do we identify those families that are going to receive these BAH benefits and how are we going to identify them so we can eliminate housing costs from their cost of attendance.

There were a number of technical corrections made to the Higher Education Act through HR1777, which was signed into law as Public Law 111-39 on July 1, 2009. As you know, expected family contribution is defined in section 473 of the HEOA; however, the change brought about by the technical corrections deemed the EFC to be zero for Federal Pell Grant-eligible students who meet the conditions on this slide, and we are going to talk pretty much in great detail about some of the things that have been going on behind the scenes to enable us to identify these students for you in the next series of slides. We should add, often I have heard people mention, when they are talking about this program, they are talking about parents or guardians who have died in Iraq or Afghanistan, and this law is much broader than that. It is those who have died as a result of their service in Iraq or Afghanistan post 9/11. So, this is something that is going to be with us for many, many years because those people are service men and women who served in both of those theaters of war who may have medical situations that last many, many years, so we are going to see that there are dependents far down the road, and part of what we have been working on are ways to get information about those dependents. Again we will talk to you about that in detail in a few minutes as we go through the additional slides. The other thing I want you to note, is please note that their EFC is reduced to zero for all Title IV programs. Again, this is as of July 1 for students that meet the conditions on this slide, and who are Pell eligible; so, the next logical question is, well, what about those who are not Pell eligible. For the 2009-2010 year, they are going to award them using the calculated EFC, so there isn't going to be any additional or higher Title IV eligibility for those students who are not Pell eligible for the 2009-2010 award year; but, as we march through these slides, you will see how that changes over time.

We have been working closely with the Department of Defense to establish a computer matching agreement that will identify children of certain deceased members of the U. S. military that died as a result of their post-9/11 service in either Iraq or Afghanistan. I



don't know how many of you pay close attention to the Federal Register postings, but on November 19th, as a matter of fact, there was a posting out there about an upcoming computer matching agreement between the Department of Defense and the Department of Education that will establish the means that we are going to use to identify these students. The folks at Department of Defense have been outstanding--really, really great to work with. The office that tracks all these benefits for the military members is located out in California, and when they heard about this program, of course they have been tracking it very closely. Much of their work is working with surviving members of the family, so anytime they can provide a new type of benefit or new service to them, they are really ready to go, so it has been exciting to work with them. We are very close on completing that matching agreement. There is a long clearance process involved through our 2 agencies that is kind of complex and takes a fair amount of time, but we are very close to completing that entire process. As a result, we expect sometime in this month, December, or early next month, that we will have our very first match. We have looked at some of the data, and we expect that in the whole universe of students there probably aren't more than somewhere in the range of 4300 to 6400 people that would meet the conditions to be able to receive these benefits, and of course all of them aren't going to college, all of them aren't of age to go to college, and literally we expect there will only be a handful in this first year that would be eligible for benefits; and as with the implementation of any new system, it goes through a development phase, it works one way at inception and then it generally improves upon a product curve, and you are going to see the same thing here. In the first year, for example, it won't be all that automated. In subsequent years, though, it will be more automated. So, in this first year, as we bring it up early into the next calendar year, late in the award-year process, what will happen is that there will be individual contact, there will be a letter that will go from the Secretary of Education to the individual beneficiary, and then there will be contact from the Department of Education staff to the schools that the student has listed on their FAFSA, so we would be contacting you directly. Next year, and in subsequent award years, this will be a more automated process, so that you would look for comment codes and various codes out on your system or on the ISIR or SAR. One of the things that I want to direct your attention to, and you might want to make a note, there is one of them mentioned in the last slide here, there was an electronic announcement with operational guidance on November 6th which is very important. There were also some details provided on June 24th, so you might want to write that down. On June 24th there was an initial electronic announcement. In both of these, what they talk about are settings and COD with regard to the new post-9/11 Deceased Veteran Dependent Indicator. The effect of this indicator in the first year you would set it to yes. What that allows, if someone could have a very high EFC and they would be Pell eligible in that range, but they wouldn't be close to zero, perhaps, it would allow you to pay the maximum amount of Pell without a zero EFC. That's the effect of setting the post-9/11 Deceased Veteran Indicator.

Okay, I mentioned we have a difference here, a differential, between the treatment for the students who meet the conditions, or the recipients, rather, who meet the conditions in the 2009-2010 year, we are focused on student applicants who are Pell eligible, and then from the 2010-2011 year and beyond we are looking at both categories of



students; those who are Pell eligible would operate as we are doing now in 2009-2010, except that the selection or the identification, rather, of those individuals, would become more automated; but for 2010-2011 there is a new program, the Iraq and Afghanistan service grants, and this Congress has written into law, again under Public Law 111-39, to provide the same type of benefit in terms of a grant equal to the maximum amount of Pell for someone who is not Pell eligible. Now, unlike the earlier slide, we said for 2009-2010 and beyond for everyone that meets the conditions who is Pell eligible, you would use a zero EFC for all Title IV programs. The difference with those students who do not receive a Pell-eligible EFC is they're going to receive an Iraq and Afghanistan service grant equal to the maximum amount of Pell, but you're going to use the calculated EFC for all their other awarding, and that is very important. So again, these are the kinds of issues that I know you're going to want to make note of, if you haven't already started to have those conversations with your computer staff, and thinking about how your awarding software operates. As I said, the amount of Iraq and Afghanistan service grant would equal the maximum Pell grant for the award year, so each year as that Pell grant goes up, folks who meet these conditions and are not Pell eligible, their Iraq and Afghanistan service grant will match the maximum amount of Pell, and beginning with the 2010-2011 award year, probably starting in March 2010, the COD system will be populated by the DoD match. So, as you can imagine, because students are coming in and filling out the FAFSA from January 1 on for that entire 18-month cycle, each time, I think it will be on a weekly cycle, we will go out to DoD and take all the records and make a determination whether there is a match between our system and their system, and in 2010-2011, in March, is when that will be much more automated, so you can expect to receive indicators from us in an automated fashion.

Okay. Just a reminder, the College Cost Reduction and Access Act, or CCRAA, made clarifications to the language indicating that only 1 parent or 1 family member of an independent married student's household needed to be a dislocated worker in order for the means-tested alternative to be in effect. When you think about those means-tested programs that are out there, and we're looking at simplified need tests or auto-zero EFC, this was just a slight technical adjustment that was made. Also, if you look at your slide, the 3rd bullet, I want you to make a correction on your handout there. Currently you will see on your handout, probably it says "See AVG for application verification guide 34-35 of the Handbook." Please change that to 35-36, that update. I made that after this got submitted, so it's just a change where you'd find this information. Make that correction in bullet 3. Also, you may want to note that the maximum AGI for auto-zero EFC increased from \$20,000 to \$30,000 for the 2009-2010 award year. So that means that's just a broader net. There are that many more people that are going to be found eligible through our simplified tests as a result.

Okay. Some of the other recent changes: Effective July 1, 2010, so for the upcoming award year, as amended by the HEOA, the definition of total income was modified to permit the use from the 2nd preceding tax year, which is sometimes referred to as prior, prior year, and here's another one of those things, you know, we have been talking about IRS match for years and years, and we've all talked about prior, prior year, and the effect that that could have. So, the key point is that it is in the law, it's in our law, so



it allows for a pilot. So, hopefully many of you will attend or have attended session 24, that's the IRS Data Retrieval Process, and in that session you will hear all about the immediate changes that are being made to populate some questions on the FAFSA with IRS data, which we're all pretty excited and happy about. Using the authority above, the department may conduct a pilot study in the future to determine the impact of prior, prior year. With all the other changes going on, the recent changes, the ones that Carney is going to talk about, the proposed changes, we thought adding a study now with prior, prior year, this probably wasn't the right timing. So, it's just to let you know, there's this place marker in the law that allows for it, and there is some potential that in the future we will be doing a pilot study; and, as you can all imagine, should we find that the results of that study, that prior, prior year, would work, are valid, then you think about the match with IRS and some of the timing issues that we currently have, they go away. So that's why it's important, and we wanted to mention it today. The third bullet here is a reminder that no portion of VA educational benefits are to be considered income, and the final bullet clarifies again that base allowance for housing, whether it is for on-base or off-base housing, is no longer considered as untaxed income in the needs analysis. Again, the effective date for that is July 1, 2010.

Now we're going to take a look at the definition of independent student changes, and as you know, there were many changes as a result of the modifications created by CCRAA. Some of those were to include foster children and to make 13 the effective age. I suspect, when we get to the Q&A section here, many of you are going to have comments about these particular changes and the definitions, and what you're encountering, so we look forward to some of that feedback. A student who is an orphan, when 13 or older, is independent even if that child is subsequently adopted, and we have been receiving a number of calls and questions about that because there are some interesting things going on out in the field. Likewise, a student who was at any time since the age of 13 a foster child or a ward of the court is independent even if the status changed later. Here again, depending on how a state statute works from state to state, there are many interesting things going on. A student is a ward of the court if the court has assumed custody of that student. In some states, the court may impose its authority over a juvenile who remains in the legal custody of the parent, which you would think is a little bit odd, but that's the way it can work in some states. Such a student in that condition is not a ward of the court. Also, we want to remind you that incarceration of a student does not qualify that student as a ward of the court. In some states the phrase "ward of the state" is used instead of ward of the court, and don't let that trip you up. We look at those as being interchangeable. This is considered the same as a ward of the court for dependency status as long as the student is a ward of the state and the reason that they are a ward of the state is not due to incarceration.

Emancipated minor. Anybody have any interesting situations out there with that one? Ahah. CCRAA added these categories for 2009-2010, and then the HEOA clarified them. Students are independent if they are, or were upon reaching age of majority, emancipated minors released from control of their parent or guardian, or in legal guardianship, both as adjudicated by a court in their legal state of residence. We found that in a number of states there is no statutory provision for emancipation; however,





there is case law in many states that is being used to make these determinations for granting emancipation. One very useful tool that I found is provided by Northeastern University School of Law, and I will give you a reference here that you might want to write down. They had some of their more-senior law students do some research and put together a listing of all 50 states and the District of Columbia. So what this does is provide you a list of the state statute, which is very helpful when you're dealing with one of these situations. Oftentimes a student is coming to you from a state other than yours, and you might not be familiar with that state statute, so this gives you a ready reference of where you can go look it up, or in those cases where there is no state statute, because you'll hear that sometimes. However, while there might not be state statute that covers emancipation, and this is usually reflected in the area of family law within a state statute, there can be case law that is being used by the courts to adjudicate the status change. So the easiest way to find this listing is by going out on your favorite web search engine and typing in the following, and I'll repeat this 2 or 3 times so you can get it: Statutory and judicial emancipation of minors in the United States. If you will type that into the search engine, one of the listings there will be from the Boston Northeastern University School of Law. It's really quite handy. Looks something like this. I know you in the back can read this real easy, this is your eye test, but it's what you can do, as I say, it gives it credit for all the people that did the work, and then it lists by state whether or not there is state statute; if there is, the citation. In most cases, like we'll take Colorado here, emancipation is not part of their state statute; however, there is case law, and it's provided here. Again, you can go right to that, and it's very helpful about informing your decision when you have questions. The other thing you can always do, of course, is contact us. I have had numerous cases where colleges have contacted me, and then Carney and I and others, often members of our Office of General Counsel, have discussed these, and quite honestly what we're seeing, of course, when Congress wrote this into the statute, I don't know how aware they were of the diversity of state statute around this particular concept of emancipation, but we had cases, in one state for example, where the only provision that they have is in chancery court. Well, chancery court is generally about minors who are emancipated for the purpose of entering into contracts, buying or selling real estate, or marriage, and it's really only those purposes. We had a case where a student went to the chancery court and became emancipated so he would have the capability of purchasing or selling real estate. That was his primary purpose, and that was the purpose for which the court found him to be an emancipated minor; however, it met all the tests of our statute, so in the end we had to tell the financial aid office yes, this student meets the definition of an emancipated minor, and go ahead and award him or her such. Now, what I expect over time is that we'll continue to collect those phone calls and cases that you provide to us, I'm not looking for thousands, but we'll collect those over time and we'll use that to inform further discussion with the Hill, with our own leadership, and continue to monitor this situation. Obviously, I don't think anyone intended, certainly Congress didn't intend, for it to be an end-around, to make people independent students. What it meant to be, for those students who are in a very difficult situation, have to get out of their family situation, and they do so through emancipation, is to recognize that they need to be treated as an independent student, not perhaps in the case I just cited with the



chancellery court, where it just so happened that the father was a very well-paid lawyer who knew about these things. So we'll see how that progresses.

Okay, legal guardianship, and that's pretty much as you can see on the slide there. Another very significant change through CCRAA was the expansion of independent student definition to include the homeless. We talk about lacking fixed regular adequate housing, and folks have asked us to give them a little bit more information about that. We define fixed as stationary, permanent, and not subject to change; regular, used on a predictable routine or consistent basis; adequate, sufficient for meeting both the physical and psychological needs typically met in a home. We want to remind you again that verification is not required; however, you are required to verify the answers to these homeless youth questions if you have conflicting information. Again, there are probably many interesting encounters that you have had on your campuses regarding this issue. So, as you can see from this slide, we go on to describe the homeless definition, include self-supporting student who is paying for his own living expenses, using regular, fixed, adequate housing; an unaccompanied youth who is not living in the physical custody of a parent or guardian; and youth, while generally is 21 years or younger, there are some special conditions for those who are 21 years or older, and we'll talk about those in a moment.

So, states of homelessness. Another result of CCRAA was that a student is independent if, at any time on or after July 1, 2008, the student is determined to be an unaccompanied homeless youth by a school district homeless liaison, or the director or designee of an emergency shelter program funded by the Housing and Urban Development, or HUD, the director or designee of a runaway or homeless youth basic center, or a transitional living program, and they can make that determination as well. Plus, whether a student is independent because he or she is an unaccompanied youth who is self-supporting and at risk of being homeless. So, you have a number of the authorities here who can make that determination, and they should be able to provide you with a copy of something in writing of that determination, again if you're trying to resolve this because you're concerned about perhaps resolving some discrepant information. The other individual, and I'm sure you're all aware of this, when we listed the designees or those that can make this determination, it includes the last bullet there, financial aid administrator. You, too, can make the determination that the student is an unaccompanied youth who is either homeless or self-supporting or at risk of being homeless. It is important that you examine the student's living situation and claims on a case-by-case basis. This is not a dependency override or an exercise in professional judgment. If a student does not have and cannot get documentation from any of the above authorities, you must determine if the student is an unaccompanied youth who is homeless or self-supporting or at risk of being homeless. So, what we wanted to talk about here, that making this determination, it is broader than, a student is considered homeless if they lack, again, fixed, regular, and adequate housing. It's broader than just living on the street. It does include temporarily living with other people because they had nowhere else to live. They were living in substandard housing, even if it doesn't meet the building codes or the utilities are turned off, or is generally not adequate. Living in emergency or transitional shelters; for example, trailers provided by FEMA after



disasters, or living in motels, campgrounds, cars, parks, abandoned buildings, bus or train stations, or any other public or private place not designated for humans to live. It also includes living in school dormitory if the student would otherwise be homeless. A student living in any of these situations and fleeing an abusive parent may be considered homeless even if the parent would provide support and a place to live. So, again, this is, when we think back to why did Congress go in this direction, what was their motivation. We all know, just in our own family situations, if you have children growing up through high school, each one of your kids probably knows somebody that's living at somebody else's house, perhaps at one of your houses or a relative's house, because they're in an untenable situation, and this was a way to recognize these factors in homelessness and to deal with them as an independent student, so it expanded that whole definition.

A couple of other things about other recent changes in definitions. Section 480 in the Higher Education Act is where you're going to find the definition of excludable income, and that's been expanded to include any income from work under a cooperative education program that is offered by an institution of higher education, so that would not be counted. And then, we mentioned earlier, other financial assistance excludes VA educational benefits. Again, originally HEOA excluded the VA educational benefits, for which the effective date was going to be July 1, 2010, but that was then moved up to an effective date of July 1, 2009, as a result of HR1777.

We're going to talk a little bit about treatment of veterans' educational benefits for 2009-2010 and beyond. As I mentioned a couple of times, it's not counted in the calculation of EFC, so you will recall probably that we've set, I think the date was July 2nd, the President signed the law on July 1st, and it was July 2nd or July 4th. We sent an electronic announcement July 2nd from Danny Manzelan reminding you of this change, and said that if you had already awarded people for the 2009-2010 year, it was important to go back and recalculate with this new information, and that you would not count the veterans' benefits as EFA. And this applies to not only veterans, but their spouses and their dependents who are recipients of certain types of veterans' educational benefits. The exclusion of veterans' benefits from EFA applies to all of the benefits provided under the designated programs, and if you need to see that list, just make a note, you want to go to section 480C of the Higher Education Act, and see lists, they're all right there. If you need to, if you have a question about a specific one, whether it is on the list or not on the list, I have that list with me so you can come up and see me later. It's regardless of whether the assistance was for tuition and fees, books or supplies, or is a monthly housing allowance. We have had a number of questions where people thought, well, if it's specifically for tuition and fees, we exclude it, yeah, we understand that, but certainly we don't exclude it if it's used for some other purpose, and we have said no. If it's on this list, basically, it's excluded. An interesting thing about the list, it goes beyond programs that are administered by purely the VA. There are 2 programs on there that are administered by the Department of Defense, they are ROTC programs, and again, the list is very handy, because it's a bright line. If it's on the list, you exclude them. If it's not on their list, you include them, and that's what you want to remember, that's the message you want to take back to your campus. So, it's going to



be important for you to continue to coordinate with the Veterans Affairs Office on your campus, so you ensure whether you're doing the inclusion or exclusion.

**[CARNEY MCCULLOUGH:]** A little changing of the guard there. Okay, I get to talk a little bit about changes beyond 2010-11, and you heard a little bit about that this morning. The first thing I want to say is that back in September the National Economic Council and the Council of Economic Advisors in the White House issued a report, and it was called "Simplifying Student Aid: The case for an easier, faster, and more accurate FAFSA," and it sort of outlined the President's plans for simplification. If you think about it, in the President's 2010 budget request he proposed expansion of the Title IV aid programs to the tune of a 12% increase as part of the budget request. This report goes on to say that the expansion in federal aid only is effective if students know that the aid is available and they are not discouraged from applying for them. So one of the key components of the Administration's college opportunity agenda is to reform the student aid need analysis formula and thereby simplify the FAFSA. For me, one of the important points there is recognizing that simplification of the FAFSA isn't going to happen without simplifying the need analysis formula because, as you all know, all of the questions right now on the FAFSA serve a purpose in the need analysis formula or in establishing student eligibility. In order to simplify it, we're going to have to do something with the formula. Each year more than 16 million students and their families complete the FAFSA, and as we all know and have heard over and over again, the current process is complicated, it's burdensome, and it's difficult to verify. More than 1 million students each year who likely qualify for federal aid have failed to complete the FAFSA, and that's really a very discouraging statistic. They get form freeze. They just can't go on. They're too confused about it to continue, and that's very unfortunate because that means that those students likely will not continue their education and go on to school. It's also difficult to verify. A lot of the data is unverifiable. So the Administration proposed taking 3 steps that would make the application process easier and to make college more accessible, and these are the 3 steps.

The first one is the online application is being streamlined, and we'll be using a shorter, simplified form. There is going to be additional skip logic that will be included in place. There are going to be status indicators, and there is improved help text that is going to be available. Beginning in January, some students and parents are going to be able to electronically retrieve their tax information from the IRS and transfer it directly to the on-line FAFSA on the Web, and you'll hear more about this, I'm sure, tomorrow at the application processing system update. It is going to start being in effect for the 2009-10 FAFSAs, even though it's in January, because remember the timing on things in terms of when the database is available for the base year incomes, so it will be for applicants for 2009-10 in January, not 2010-11. Even though it's the beginning of the 2010-11 processing cycle, we have to wait until the IRS data is available, but like I said there will be much more detail about that, I'm sure, at tomorrow's session. And Congress is considering the Administration's proposal to simplify the actual need analysis eligibility formula. HR3221, which is the Budget Reconciliation Bill, has passed the House. The Senate is still working on their particular version of the Budget Reconciliation Bill. We were hoping we would have more information to give you on both of those, but alas, 'tis





not the case. So, when we start looking at the simplified FAFSA itself, in general only information that can be obtained from an IRS tax return is going to be collected on the FAFSA. Other income-related questions would be dropped, and that's basically what the proposal is, and assets would be dropped. That's a particularly unverifiable item, as you all know. It's not something that is easy for somebody to verify because really it's a self-certification as of the date the FAFSA is completed. Instead, we will be looking at some sort of a check-off box. So, if you look at what we can get off an IRS tax return, here are the data elements that we could get off an IRS tax return: the type of tax form that's filed, U.S. income taxes paid, adjusted gross income, information about the education tax credits, IRS deductions and payments to retirement plans, tax-exempt interest, untaxed IRA distributions, untaxed portions of pensions, and exemptions, would all be data elements that could come off the tax return. Here are some items that could be removed from the EFC calculation, and you can see, there are a lot of them here: The income earned from work for mother, father, student, and spouse; taxable earnings from need-based employment; information concerning certain assets, your cash, savings, and checking accounts, investments in real estate, and net worth of businesses and investment farms. And then these other types of income fields such as combat pay; your living allowances from military, clergy, and others; other untaxed income such as worker's compensation, child support received and child support paid; payments to tax-deferred pensions and savings plans; grants and scholarship aid that is included in adjusted gross income; veterans' noneducational benefits; and the old "other money received or paid on your behalf" for students only. Those items could be removed from the EFC calculation. Looking at the proposed changes for assets, what we have found is a variety of studies have shown that the reporting of assets actually discourages families saving and runs counter to the whole idea of the family having the primary responsibility for the students to pay for the applicant's higher education. It's discouraging to say that it is not verifiable, as I mentioned before, and it is subject to misreporting. In fact, it's one of the areas where people talk about financial advisors out there trying to talk to people about positioning their assets in a way to make them more eligible for student aid. This is the area where people are able to game the system a little bit, we all know that. Right now the FAFSA asks multiple questions about assets. We ask about net worth of cash, savings, and checking; this is another one about investments in real estate, and then one about business and farms. In general, Pell Grant-eligible students have very low levels of savings and almost no other types of investments, so it's a very low amount, and in 2007-08 only 4% of applicants had assets that exceeded \$150,000. So, if you really think about that, that means that 96% of our applicants had assets less than that, so we're asking an awful lot of questions that apply to only 4% of our students. In fact, only 7% of dependent Pell Grant recipients had a contribution from parental assets, and in only 3.5% of those cases did it make a difference in the students' EFC, so very, very small numbers there. What this proposes as an asset cap is a bright line test that would replace the asset contribution in the calculation with the EFC. It would be a simple check-off question, asking whether the student or the parents have more than X amount in assets, and the current conversations would leave in place the exclusions that currently exist, such as you're not looking at the value of the principal place of residence or home, you're not looking at the assets of a family owned and operated farm, or the family owned and operated



small business, so that would not be considered in the total assets when asking this question. So for a dependent student, if the student's and parents' combined net assets are equal to or greater than X amount, and for the independent student it would be if the student's and spouse's combined net assets are greater than X amount, the House bill that I mentioned before uses a bright line of \$150,000. The Administration proposal in the report I was speaking of talked about \$250,000, and remember the previous slide already said that only 4% of applicants have assets above \$150,000. I can only imagine how few are above \$250,000. So we've heard a number of different amounts discussed in the Senate bill, or the potential Senate bill, that hasn't reached, so we'll have to see what ends up being the final reconciled amount of the asset threshold when it gets out of conference. Now, if an applicant responds yes to the asset question, they have assets more than this amount, then the applicant is only going to be eligible for non-need-based Title IV aid--the unsubsidized Stafford loan; if enacted, the new unsubsidized Direct Perkins loan; and PLUS loans. If the applicant responds no to the asset question, then they will be eligible for consideration for all Title IV aid.

So here is a sample question, and this is just thrown out there because we thought we'd give you a sample. We haven't word sniffed this perfectly, but for dependent students it could be asked pretty early on in the process in terms of an application. The identifier information would already have been asked prior to this, and so if the student indicates that they have assets at or over the threshold, since they would only be receiving non-need-based aid, they would be able to just say yes, sign the certification, and submit it for processing, because they're only going to be eligible for unsubsidized loans. If no, they would continue to complete and submit the FAFSA. A similar question for independent students would read, do you and your spouse have assets and savings investments totaling X or more, in the same type situation, so that they could go ahead and continue with the application, or stop and submit it for processing. It would already have collected the amount of things that would be necessary to test for certain data-based matches, for example. There are other proposed changes with regard to untaxed income and benefits, removing from the definitions of untaxed income a number of things that are currently collected, such as child support received, workman's compensation, veteran's benefits, housing, food, and other allowances, cash support paid on your behalf, and any other untaxed income and benefits. Once again, items that are difficult to verify and difficult for people to complete. It's consistent with the idea that we're collecting data that can be confirmed with IRS data, so we would eliminate those, and what we would end up with for untaxed income and benefits you see on this slide. It would be limited to interest on tax-free bonds, untaxed portions of pensions, and payments to IRAs and KEO accounts excluded from income for federal income tax purposes; and so you can see the student would be able to get this information through the data retrieval process with the IRS, and so it would make it that much simpler to fill out the form, and be less of a problem for students as they're completing the process. Along with this, though, some of the excludable income is proposed to be removed. That would currently include any of your student financial assistance as awarded based on needs showing up in income, income from work under cooperative education program, living allowances under the National and Community Service Act, child



support that has been paid by the student or parents, payments made under Part E of Title IV of the Social Security Act, and special combat pay.

So, that's sort of an overview of what's going on out there, what's being proposed to go on as far as simplifying things from 2010-11 and beyond. A couple of things I wanted to just bring up as we start continuing the conversation and take your questions and comments, one is, and it came up this morning, what does this do for verification, right? What would verification look like under this process? Well, next week, when we get back to the office after this exciting week, we are going through the second week of our new round of negotiated rule-making, and if you're tracking this at all yet, one of the items that's on the agenda for negotiated rule-making is verification. We have not touched the verification regs, really, except for some really minor tinkering, since I think 1991, a long time--1990 or 1991, almost 20 years--and what we're looking at as part of negotiated rule-making is how to simplify verification in a way that will work with the IRS data retrieval and work in the future as we have some of these simplification efforts going forward, because we do realize verification is expensive, it costs a lot for you to do, and hopefully with the data retrieval and some of these other changes, we can make that burden go away for you and for the students, so that I wanted to throw out there. Another question that people have had, or that's already come up, is what happens for some other state aid, for example, because the states frequently run their formula off the federal formula, and some of these vast simplifications will have impacts for states. Well, hopefully the states will come along with the federal formula, but even if they don't, there are some wonderful possibilities with technology today of being able to share data, perhaps have the student push a button, yes, I want my information sent to my state, and then the state could follow up with their own supplemental form that would only ask the questions that they needed to have filled out. So those are just a couple of things I wanted to throw out there for discussion, and with that, we'll take your questions or comments. And please come to the microphone so that we can capture that.

**[AUDIENCE:]** One of the big concerns that I have, and a lot of my colleagues have reflected, we all agree that needy students need assistance. We also are all aware, unless we're living in dreamland, that there are a tremendous number of students that this is the barn door opening for gaming the system. I would like to hear somebody from the Department, and I would have loved to have asked Mr. Duncan this this morning, I would like somebody from the Department to remove the onus on financial aid offices because when you give students a check-off, to say we don't have this amount of assets or something, I can assure you that a vast majority that check "no, we don't," if you dig, do.

**[MCCULLOUGH:]** I think you bring up a really good question, and as I mentioned, we're looking at, for example, verification. As I said, there are a lot of ways we can simplify things. One possibility, and I'm just throwing it out there because we're at the very beginning of the process, is that we have a very sophisticated way, believe it or not, of selecting people for verification. So, perhaps we might even in those cases, if something looked funny, you know, somebody saying no, I do not have assets above a certain amount, but you saw certain things on the IRS data retrieval or something,



maybe selecting some subset of those to have things looked at a little further, not everyone, but some.

**[AUDIENCE:]** The other question I have, and Dan, this goes back to what you were talking about with classification for independence as far as homeless or at risk of being homeless. The slide said at risk of homelessness and self-supporting. We have already had this year students, one student in particular leaps to mind, the parents told the student that they had a set of rules for the student to abide by, and if they couldn't they should leave, and the student elected to leave, and then the next thing they're going to their high school counselor and saying gee, I'm homeless, and give me a letter saying that I'm homeless, even though I graduated 3 months ago, and then coming to us and saying, okay, I'm at risk of being homeless because my parents laid down rules that I didn't feel like I could live with, and so I got out. That's an extreme example, but it's one of many examples that we're seeing, and I would just like to get a clarification: Is that at risk of homelessness and self-supporting, is that "and" an underlined word?

**[MCCULLOUGH:]** I think it is.

**[KLOCK:]** We think it is, I'll double check on that. The broader issue that I wanted to address, and I appreciate you bringing these comments forward, is that, and I probably mentioned this when I was talking about emancipated minor, we're looking for some very fundamental changes. How many people have been in the financial-aid business over 20 years? How many over 10 years? We're looking at more change, the potential for more change, than we have ever encountered with these programs since their inception. So, our idea and our training and our background in terms of our focus on compliance, and greater and greater data collection to catch that person, individual, or potential individual that was gaming the system, well that will go on, but it's going to shift. One of the benefits we have, having performed things like verification over years, is we have massive amounts of data. And now we're able to say, really put into the balance, and this is just my own interpretation unofficially, that what I see the Administration doing is looking at, well, for us to get the next percentage, catch the next percentage, we're going to have to add all these factors. But now many needy students is that going to drive away? And, as Carney mentioned earlier, we know from our research that more than a million students a year start the process and never complete it. How many never even start the process? So, when we're looking for that balance, and we're looking to help needy students, we're going to make some bigger cuts. Does that mean the door is open for some other folks? Well, I guess I could look at, I'll go back to and I'm not harping on emancipated students, I just worked with a number of those cases recently, and it seems to me we moved in a direction for a very good purpose, to help some needy students in a very tough situation. Did it open some doors untended? Yes. Will we fix that in the future? I think so. But it's so important for the protection and to provide the help to those poor students that we move forward, and this administration is very clear about the simplification process, to focus on needy kids. So, are we going to get it right 100% of the time? No, we can't. Are we going to make fundamental changes and provide more help and in that way bring in more needy students into the process and get them into your institutions? I think we will.





**[MCCULLOUGH:]** And to answer your question, it is an “and.” They have to be self-supporting AND at risk of being homeless.

**[AUDIENCE:]** Is it an underlined “and” or an ampersand “and”?

**[MCCULLOUGH:]** Underlined with emphasis.

**[AUDIENCE:]** My name is Irigamo and I am from Prairie View A&M University, and I was noticing from the items that were being removed from the EFC calculation, I understand, why I think I speak for all of us, when we say that we are for simplifying the calculations, but don’t you feel by removing the income questions and things like that, that’s over-simplifying? Because we want to make it easier for people to apply, but just like the other gentleman was saying, we might be over-simplifying it too much to where we leave room for ambiguities.

**[MCCULLOUGH:]** I think Dan stated very eloquently what the Administration is trying to do there, and I mentioned, I think, the income earned from work by mother, father, student, and spouse, doesn’t mean that some of the formula things would necessarily change, like the Social Security tax. It would just be maybe applied on the AGI rather than collecting the portions, like we do in the past, so it’s just maybe not getting as precise as we used to on some things.

**[AUDIENCE:]** My name is Krista, I’m from a North Carolina 4-year public school, and I have 2 veterans questions for you. We understand that the Veterans' Education Benefits are no longer counting in the EFC calculation, or counting as EFA; however, if we know, for example, that a Veterans' Education Benefit is covering tuition and fees, should we be adjusting the cost of attendance to reflect that change?

**[KLOCK:]** So we’re definitely talking about a VA Educational Benefit that would be on the list in 480C. That’s the bright line, and those are the programs that are excluded from EFA. The expansion of that question there is, if the benefit being provided is specifically for tuition and fees, should we adjust the cost of attendance? And I’m trying to remember the second electronic announcement. The answer is no. On August 13th, there was an electronic announcement, the author was David Bergeron. We address that specific issue. Congress’s intent, again, was to recognize that these folks are laying down their lives for their country, and when these benefits are provided either to them, their children, or their spouses, they want to get all those benefits without what I call typical kinds of adjustments we’ve done in the past, so for your specific question, no, you would not reduce the cost of attendance to reflect a lower amount of overall cost when the tuition and fee is paid for by this qualified Veterans' Educational Benefit.

**[AUDIENCE:]** Okay, my second question about veterans' benefits was in reference to adjusting the room and board portion of the cost of attendance for students who are in base housing? Is that specifically for independent students, or if we have dependent students who are, for example, on campus, but whose families are in base housing?



**[KLOCK:]** Yeah, we covered the dependent scene as well. I'm not sure if we covered that in the August 13th, we may have. Take a look again at that August 13th electronic announcement. It gives you some additional. If you don't find the specific reference there, just shoot me an e-mail and I'll send it back to you.

**[AUDIENCE:]** I'm Megan, I'm from the University of Washington. I feel like I'm beating a dead horse a little bit, but I kind of want to go back to the whole FAFSA simplification, and I just want to make sure as you're going in and having your discussion, that you remember there's a difference between removing questions from the FAFSA and simplifying the application process. I think we all agree that we need to give needy students as much aid as we can. My concern, and you kind of touched on this when you were talking about the states having ways to collect their information, as the parent of a high-school senior I can tell you applying for college is way more complicated than doing a FAFSA. FAFSA is nothing compared to the 20 schools. Anybody have scholarships for children of financial aid officers, let me know. We don't want to have a situation where we have limited funding. We need more information to be able to best allocate those funds to our students, same with the states, and if we're too simple because we're collecting less information, we're making the whole process more difficult for students.

**[AUDIENCE:]** I have a question regarding if the EFC for all aid is going to be zero for Pell-eligible students for the survivors of service members, CPS has the information that these students are Pell eligible. There's a flag on the ISIR. Why don't they just set the automatic zero EFC flag so that way it doesn't make everybody jump through hoops?

**[KLOCK:]** There's a little thing called the date requirements are closed. As you know with your own automated systems, you get to a certain point in time, and you've looked at all your requirements, and there is a date, particularly when you are using a contractor, after which you can't open that up and start making changes to the coding of the software. And that's what we found. As I stated earlier, we're probably going to get our first match this month or next month. So we have to have, and we know that there are a very, very small number of people that we're going to find in that match. So, we could have spent millions of dollars of taxpayers' money to do that hard coding that was necessary, or figure out a more effective, efficient, and cost-effective way to deal with this, one that's very personal. You've got the name of an individual, Marya.Dennis@ed.gov in here, as well as you can contact Carney and me. We're going to walk, we believe that literally it will be just a handful of people for this first year. Then there will be greater automation starting in March. We felt that that was the...

**[AUDIENCE:]** Is that something that would be possibly considered going forward?

**[KLOCK:]** Yes. I have already said, effective March 2010 this will become an automated process, and you won't have to go out and do some of this coding to COD. You will be automatically notified on the ISIR, it will be just one of the other comment



codes that you receive. So you're going to see greater automation. It's just going to take us until March to do that.

**[AUDIENCE:]** And I understand that you guys are going to notify the institutions on the ISIR via comment code, but what I'm suggesting is CPS go ahead and change the EFC to zero so that way the institutions that use other software, the software vendors don't have to go through and figure out how were they going to override all the other information they already have to manually insert a zero EFC when the ISIR has something totally different.

**[KLOCK:]** I've captured the comment. I will take it back to our programmers.

**[MCCULLOUGH:]** As I said, a lot of those changes happened. The changing for it to be EFC at zero for all Title IV programs was enacted on July 1st, so as you can tell it was kind of late in the system for this year and the upcoming year.

**[AUDIENCE:]** And I totally understand. I mean, we've been hearing about this for months, and as I'm sitting there in the chair and listening to you guys, it popped in my mind, why don't they just do this. I didn't think about it before today, either. I just have one other question, and it's regarding the possible removal of the income earned from work questions. My question is, for non-tax filers, what are they going to use? What would they report, and especially since schools are, even though we're not tax professionals, we do have to look at, based off of the income that is reported for a person who is indicating they are a non-tax filer, were they actually required to file a tax return?

**[MCCULLOUGH:]** I don't remember the precision of what is being proposed, but it may be that they just put it in an AGI field. We'll have to look at that, but that's a good question.

**[KLOCK:]** We'll take it back. By all means, we don't have all the answers. This is a process that we're moving forward through, so these are very helpful reminders to say, do we have this covered, and we appreciate your comment.

**[AUDIENCE:]** I would like to echo, first of all, that I think we are moving a little bit towards over-simplification where we're not going to have enough information, and students who should not be eligible are going to be eligible. On the other hand, I see something else that really alarms me. I'm at a private institution with fairly high costs, and we see student families with much more than \$250,000 in assets that are now eligible for a subsidized loan and for other federal aid, and I see, if I heard right, the possibility of disenfranchising a whole population of people who work so hard to save money and put it away for a student's education, or to have other rental property, or whatever they have, that may bring them to a \$250,000 cap, or \$150,000 cap. And so, to have them unable to get a subsidized loan or work study or SEOG, well maybe not SEOG, but, other forms of need-based aid is disenfranchising. We're back to the 1980s when you couldn't get a Stafford loan, and you didn't have the PLUS loan at that point,



and the entire middle class went out to their congressmen, and that's what's going to happen again.

**[KLOCK:]** Appreciate your comment.

**[AUDIENCE:]** I just have a question regarding dependency, and I have an example to offer, so I hope you can clarify this for me. We have a student at our school who was placed in a foster home for protective reasons, after she was 13 years old, and when she was 16 she got into trouble, was arrested, and sent to Oregon Youth Authority until she was 18 and released. What is her dependency status?

**[MCCULLOUGH:]** (To Mr. [KLOCK:] She is independent, isn't she? She was in foster care, I think she's independent.) We think she is independent.

**[KLOCK:]** Because of her foster care at age 13. But if you have more details, for example, and I would offer this as general comment to you. For example, you have some documentation from the court, if you want to send us that, have a discussion about that, we would be glad to engage in that conversation.

**[AUDIENCE:]** My name is Cathy Campbell, and I know that there is almost no time, and I'll make my story short, but I'm also from the state of Oregon, and I would just like to caution you about not distinguishing between the terms ward of the court and ward of the state. I think they're very different, and we have a large population in our state, and we might not be the only ones who have a lot of students that are in the Oregon Youth Authority. Those students can take courses by distance ed, and they are sometimes in that system until they're age 24, and so we have a big issue brewing in our state right now about whether those students are considered incarcerated or not. Personally, that's not my call. I have sent in for a ruling on that, got that ruling back initially that says they are incarcerated, but they came to our attention because of the question on the FASFA about ward of the court, and they saw themselves as ward of the court rather than wards of the state, and I think it's very different. In one, the kid gets in trouble, and in the other one the parents get in trouble, sort of, and so I wouldn't use those interchangeably and I just wanted to offer that up because it's moving, that topic is moving.

**[KLOCK:]** I'd invite you to send us an e-mail with some further detail on that so that we can take a look at it again.

**[MCCULLOUGH:]** Add it to our list of stuff that we have, resources.

**[AUDIENCE:]** My name is Angelina Gorales, not to be confused with Angelina Jolie everyone, please hold your autograph request. I come from Pima Community College in Tucson, Arizona, and my concern is the yes or no question on investments and savings, in particular the 529 plans. Part of the match could include a 529 overpayment on the IRS form, so what I would like to plead to the Department of Education is that perhaps the 529 plan be also excluded for the purposes that this is the only incentive that we have to encourage parents to save for their college. Right now, if the 529 plan





belongs to the students, it's not a problem, but it is when you have a grandparent or a parent wanting to contribute, but there's no benefit for them, none whatsoever.

**[KLOCK:]** We appreciate your comment, and we'll take it back.

**[AUDIENCE:]** My name is Wiletta Shelby, and I'm from Georgia State University. My question relates back to the independent student homeless definition. In one section it talks about the unaccompanied minor, and says not living in the physical custody of parents, and self-sufficient in paying their own living expenses. Many parents will send their children to out-of-state schools, and those students might live on campus, some will live with family friends who they trust, will live with cousins and siblings. Would we still look at those students the same, because, is there a way to differentiate between the two, because it's definitely different going away from home to live with a relative to go to school than being kicked out of your home and being homeless.

**[MCCULLOUGH:]** To go back to the FASFA question there, I mean, those are certain definitions, because it would have to be an unaccompanied youth who is homeless, or self-supporting and at risk of being homeless, and homeless is lacking fixed, regular, adequate housing definition that we had talked about before, and they also have to be self-supporting, so...

**[AUDIENCE:]** Well, it still kind of falls in a gray area, because again, they are homeless technically, or they could tell us they are. They are living with relatives.

**[KLOCK:]** How are they self-supporting?

**[AUDIENCE:]** They work. They work and they help pay the bills for where they live. So they would fall into that gray area, and I'm trying to find out, is there any clarification on that point?

**[KLOCK:]** We would probably need some more details. I'd invite you to send us some additional information so we can continue the dialogue on that one, but in many of the cases that we've seen thus far, we've found after we scratched on the surface a little bit, in many of those cases they weren't really self-supporting.

**[MCCULLOUGH:]** The definition that they gave us in the statute involved us talking to people in the Department of Education who deal with the McKinney-Vento Act, talking to people in HHS, and talking to the people in Housing and Urban Development, to come up with some of these definitions. They were really very thorough, for once, in Congress in terms of citing specific laws that have specific definitions, and as they said, couch surfing is not necessarily, you know, like, somebody who used to work for me that was young and they graduated from college, and they came down, they had gotten a job, but they were a month away from having their apartment, so they couch surfed with friends, and she said, you know, I wouldn't have considered myself as being homeless in that case, because I could have always gone back home to my parents, so I really did have fixed and adequate housing in that case. I don't know if that helps any or not.



**[AUDIENCE:]** It doesn't really touch the point that I was attempting to make, but that's okay, I can create further dialogue.

**[AUDIENCE:]** Hello. I am concerned that some of us are perhaps reacting rather than acting in regards to simplification of the FASFA, with the ultimate goal being of getting our neediest students applying for aid. When I speak with families about why they didn't complete a FASFA, I get 2 answers. One, "I was afraid that I was going to make a mistake." Sending something in to the government feels very threatening to them. And the other is that, "my parents would not provide me with the information." It's really not that it was too difficult, it was that they were either frightened or they couldn't get it. So, my suggestion would be that you think about having the FASFA available much earlier than it currently is, and putting it out perhaps in October, when families other than those who are self-employed usually have a pretty good idea of what their year end is going to look like, and it can clearly be stated that it is estimated information, and while that won't get at, unless we are able to get the IRS data of the parents regardless of whether or not they're willing to provide it, which will never happen, it will at least get at those who are afraid to make a mistake, and is more of an action than perhaps a reaction to this. So, just a thought.

**[KLOCK:]** Thanks for your comment.

**[AUDIENCE:]** I'll be quick. I'm Deborah Talus, at University of North Carolina, Greensborough. As you go forward with all these changes, which I think are great, I think it's a wonderful thing to reconsider how this whole process works, and it's never easy. We would like you to consider guidance that has been issued in the past that needs to be reviewed in terms of low income, and what is low income, and when do we need to follow up on that as conflicting information. When you cease to collect untaxed income, and if you quit collecting earned income, then all of a sudden we have a very large number of families that appear to be living on nothing, and at this point the guidance from the Department is that we need to follow up, so we end up following up, only to find out that they live on untaxed income, so if you would consider the guidance that's out there on the low income, that would help us support you in making these changes.

**[KLOCK:]** Thanks for all your feedback. We hope this was helpful.