

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 231  
Appropriations

(Delegate Stein, *et al.*)

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**Public Institutions of Higher Education - Financial Aid - Reduction Prohibited**

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This bill prohibits a public institution of higher education from reducing institutional financial aid awarded to a student due to the student receiving any other form of financial aid, beginning with the 2016-2017 academic year. In addition, when assembling a student's initial financial aid package, a public institution of higher education may not consider a student's private scholarships. If the total amount of financial aid awarded to a student exceeds the student's cost of attendance, to make the student's total amount of financial aid equal to the student's cost of attendance, the amount of financial aid awarded by the institution may be reduced in the following order: (1) loans; (2) work study; and (3) grants and scholarships.

The bill takes effect July 1, 2016.

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**Fiscal Summary**

**State Effect:** None. It is assumed that public four-year institutions of higher education and Baltimore City Community College can make the required changes using existing resources. The total amount of aid an institution has to distribute among students is not affected; however, individual students' award packages may be affected.

**Local Effect:** None. Local community colleges can make the required changes using existing resources. The total amount of aid an institution has to distribute among students is not affected; however, individual students' award packages may be affected.

**Small Business Effect:** None.

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## Analysis

**Current Law/Background:** Often when a student who is receiving financial aid through an institution of higher education receives a scholarship from another entity, the amount of financial aid a student receives from the institution is reduced. This practice is known as scholarship displacement. In some cases, depending on the type of aid being offered, the displacement is required by U.S. Department of Education regulations to avoid what the department considers “over awarding” based on an individual’s financial need as calculated by the free application for federal student aid (better known as FAFSA). The federal regulations regarding over awarding are [34 CFR 673.5](#).

According to the U.S. Department of Education, an over award exists whenever:

- a school awards aid either to a student who is ineligible for a specific program or to a student who is ineligible for any federal student aid program assistance;
- a student’s award in an individual program exceeds the regulatory maximum, *e.g.*, the annual or aggregate loan limits, the annual limit on Federal Supplementary Educational Opportunity Grant awards, or a Pell Grant award based on the wrong payment schedule/enrollment status;
- a student’s aid package exceeds his or her need (including when the student’s Expected Family Contribution (EFC) is revised upward after initial packaging);
- a student’s award exceeds his or her cost of attendance; or
- a student is receiving a Pell Grant or Iraq and Afghanistan Service Grant at multiple schools for the same period.

In general, unless a school is liable, a student is liable for any overpayment made to him or her.

There are exceptions to when an institution must recalculate financial aid, such as if a student’s Pell Grant award exceeds the cost of attendance by \$300 or less.

An institution that regularly over awards students and does not remedy the situation as required by the U.S. Department of Education may lose access to federal financial aid funds related to Title IV.

The U.S. Department of Education grants institutions latitude in deciding how to remedy an over award situation. According to a survey conducted by the National Scholarship Providers Association, 80% of the institutions surveyed reduce the loans and work requirements in a student’s financial aid package, while 20% reduce their own institutional grants or scholarships.

Award displacement can also happen when there is not an over award under U.S. Department of Education regulations. Some institutions have policies that leave all students with unmet need, for example, requiring every student to have a “minimum student contribution expectation” – regardless of the amount of financial aid, EFC, or income. Many of these institutions do not allow private scholarships to satisfy the student contribution expectation even though the student is not over awarded. Typically the “minimum student contribution expectation” is between \$1,500 and \$3,500, according to a 2013 report by the National Scholarship Providers Association. In such cases, institutions reduce total financial aid until the student has an unmet need that matches their minimum student contribution.

Institutions that do so usually have a minimum student contribution for one of the following reasons:

- a way of rationing limited institutional financial aid funds;
- an assumption that all students are capable of contributing something to their education;
- a method for a for-profit institution to comply with the 90/10 rule, which limits the percentage of the institution’s revenues that can come from Title IV federal student aid;
- a belief by the institution that a student contribution is necessary for the student to appreciate the education; or
- a belief by the institution that a student contribution improves academic performance.

Institutions are not required to inform financial aid providers when they decrease a student’s institutional aid due to award displacement.

According to National Collegiate Athletic Association (NCAA) Manual Bylaw 15, “A student-athlete shall not be eligible to participate in intercollegiate athletics if he or she receives financial aid that exceeds the value of the cost of attendance as defined in Bylaw 15.02.2. A student-athlete may receive institutional financial aid based on athletics ability (per Bylaw 15.02.4.2) and any other financial aid up to the value of his or her cost of attendance.”

During the 2013-2014 academic year, 225,807 undergraduate students attending an institution of postsecondary education in Maryland received financial aid. Since 593,331 financial aid awards were made during that period, many students received more than one type of financial aid. These numbers include awards made at private career schools, which are not covered by the bill. The number of financial aid awards made by institutions is shown in **Exhibit 1**; in total, 103,722 awards were made. However, it is

anticipated that only a small percentage of institutional financial aid will be reduced due to a student receiving more financial aid than the cost of attendance.

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**Exhibit 1**  
**Undergraduate Institutional Aid by Type of Institution and Type of Aid**  
**2013-2014 Academic Year**

	<u>Grant</u>	<u>Loan</u>	<u>Athletic Scholarship</u>	<u>Other Scholarship</u>	<u>Work Study</u>	<u>Total Institutional Aid Numbers (Duplicated)</u>
USM	22,704	-	1,482	20,749	902	45,837
MSU	1,375	-	306	955	133	2,769
SMCM	627	-	-	606	-	1,233
BCCC	613	-	54	323	-	990
Community Colleges	5,215	-	638	9,471	387	15,711
Private Four-year	19,312	515	757	15,831	767	37,182

USM=University System of Maryland  
MSU=Morgan State University  
SMCM=St. Mary's College of Maryland  
BCCC=Baltimore City Community College

Source: Maryland Higher Education Commission; Maryland Student Financial Aid Support 2013-2014

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**State/Local Fiscal Effect:** Public institutions of higher education must remain diligent in preventing over awarding a student to avoid violating federal financial aid regulations and NCAA bylaws. To the extent the bill changes an institution's distribution of financial aid, individual students' financial aid packages are affected, but the total amount of financial aid distributed by institutions is not affected.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 313 (Senator Klausmeier, *et al.*) - Education, Health, and Environmental Affairs.

**Information Source(s):** National Scholarship Providers Association, U.S. Department of Education, National Collegiate Athletic Association, Baltimore City Community College, University System of Maryland, St. Mary's College of Maryland, Maryland Higher Education Commission, Department of Legislative Services

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Analysis by: Caroline L. Boice

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510