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THIRD REPORT TO CONGRESS

ON THE

DISTANCE EDUCATION DEMONSTRATION PROGRAM

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**THIRD REPORT TO CONGRESS
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DISTANCE EDUCATION DEMONSTRATION PROGRAM**

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EXECUTIVE SUMMARY

This is the third report to Congress on the results of the Distance Education Demonstration Program, which was authorized by Congress in the 1998 amendments to the Higher Education Act of 1965 (HEA). The purposes of the demonstration program are to: (1) test the quality and viability of expanded distance education programs currently restricted under the HEA; (2) provide for increased student access to higher education through distance education; and (3) help determine the most effective means of delivering quality education via distance education, the specific statutory and regulatory requirements that should be altered to provide greater access to distance education, and the appropriate level of HEA Title IV student financial assistance for students enrolled in distance education programs.

The Department initiated the program in July 1999 with fifteen participants. Nine participants were added in the third year of the program. A third cohort, consisting of five institutions, began participation in December 2003. Since its inception, four participants have voluntarily left the program and one was removed. The twenty-four current participants include nine private, for-profit institutions, of which five are owned by publicly-traded corporations; seven private, non-profit institutions; four public universities; three consortia; and one public system.

Data reported by the first two cohorts of participants make it clear that distance education does provide for increased student access to higher education programs. The eight participants that have provided data for six years experienced enrollment growth over the period of nearly 700 percent, with the total number of students increasing from 7,930 in 1998-99 to 63,350 in 2003-04. Similarly, enrollment of distance education students at the seven institutions in the second cohort that provided data for all four years of their participation grew nearly 400 percent, with enrollments increasing from 45,997 in 2000-01 to 223,404 in 2003-04. Institutions that serve primarily adult students reported the greatest growth. Twelve participants require waivers of the 50 percent rules to retain eligibility to participate in Title IV student financial aid programs. Seven have no on-site students. Of the twelve that require waivers, three are public, four-year institutions; three are private, non-profit institutions; and six are private, for-profit institutions. The typical student served by demonstration program participants is older than traditional college populations, female and studying part-time. Several institutions have experienced growth in the percentage of minorities in their distance education programs.

Title IV student financial aid appears to be a factor in increasing access. All seven institutions that enrolled over 5,000 students in their distance education programs in the most recent academic year reported an increase in the percentage of students receiving Title IV student financial aid in the four year period from 2000-01 to 2003-04. All but two of these institutions provide Title IV aid to at least half of their distance students; five provide aid to over two-thirds.

An examination of the cohort default rates for institutions in the demonstration program showed that twenty-six institutions had FY 2002 cohort default rates that were

below average for their sector, while fifteen had rates that were above average for their sector. Based on these data, there is no evidence of any relationship between distance education and default rates.

Several possible risk factors have become apparent through the Department's experience with the demonstration program. The Department learned from the experience with the one participating institution it removed from the demonstration program in the first year that the need for capital can be a risk factor. It is imperative to look closely at the financial situation of institutions that are experiencing rapid growth, as well as their administrative capacity to support large increases in enrollments. Five years of experience working with demonstration program participants indicates that the potential risk to Title IV student financial aid programs has more to do with the integrity of the institution than with the way in which the education is offered.

Many participants have experienced difficulties in administering Title IV student financial aid for the non-traditional academic program structures that are most appropriate for the populations they serve. Financial aid rules evolved in an environment where the traditional student was the norm, degree-granting institutions offered programs in semesters or quarters, with summers off, and other academic structures were the province of vocational and technical programs. The assumptions undergirding the law are no longer valid and a strong argument can be made that the time has come for a major overhaul to better address current and emerging instructional models, and new patterns of attendance.

Recommendations

- Expand the distance education demonstration program to increase the number and type of participants (including correspondence schools) and extend the Secretary's waiver authority to include waivers of program-specific rules. This will allow for fuller experimentation with approaches to Title IV student financial aid administration that better serve non-traditional educational models.
- Eliminate the 50 percent rules for distance education (both telecommunications and correspondence), but retain the other limits on correspondence study. The estimated cost of eliminating the 50 percent rules is \$697 million over ten years, beginning July 1, 2006.
- Incorporate a definition of a "telecommunications course" into the HEA amendments, replacing the current definition. The new definition would specify that there be regular and substantive interaction between students and the instructor.
- Make up to two Pell Grants available for students who are attending year-round at eligible two- and four-year degree-granting institutions, giving students a more convenient option for accelerating their studies and completing their education.

INTRODUCTION

The Distance Education Demonstration Program was authorized by Congress in the 1998 reauthorization of the Higher Education Act of 1965 (HEA) in section 486. The purpose of the demonstration program is to: (1) test the quality and viability of expanded distance education programs currently restricted under the HEA; (2) provide for increased student access to higher education through distance education; and (3) help determine the most effective means of delivering quality education via distance education, the specific statutory and regulatory requirements that should be altered to provide greater access to distance education, and the appropriate level of Title IV student financial assistance for students enrolled in distance education programs. For the purpose of this program, distance education is defined as an educational process that is characterized by the separation, in time or place, between instructor and student.

The legislation creating this program authorized the Secretary of Education to select, from among eligible applicants, up to a total of fifteen institutions, systems of institutions, or consortia of institutions, to begin participation in the first year of the program. The fifteen participants for the first year of the program were selected in May of 1999 and began participation on July 1, 1999. The legislation also authorized the Secretary to select up to a total of thirty-five additional participants to begin participation in the third year of the program. Eight institutions and one consortium were selected in June 2001 and began participation on July 1, 2001.

On November 1, 2002, the Department of Education (Department) published regulations that modified 34 CFR 668.2, 668.3, and 668.8¹ that limited institutions in the area of distance learning. These changes were based, in part, on the experiences gained from the Distance Education Demonstration Program. In 2003, the Department decided that it would be appropriate to accept additional applications for participation in the demonstration program to determine what other barriers continue to exist and to increase the diversity of the types of participants in the program, particularly to include a greater number of institutions that exclusively provide instruction online. Five institutions were selected from among thirteen applicants to begin participation in December 2003. This third cohort includes three institutions that offer only online instruction, with no on-site courses.

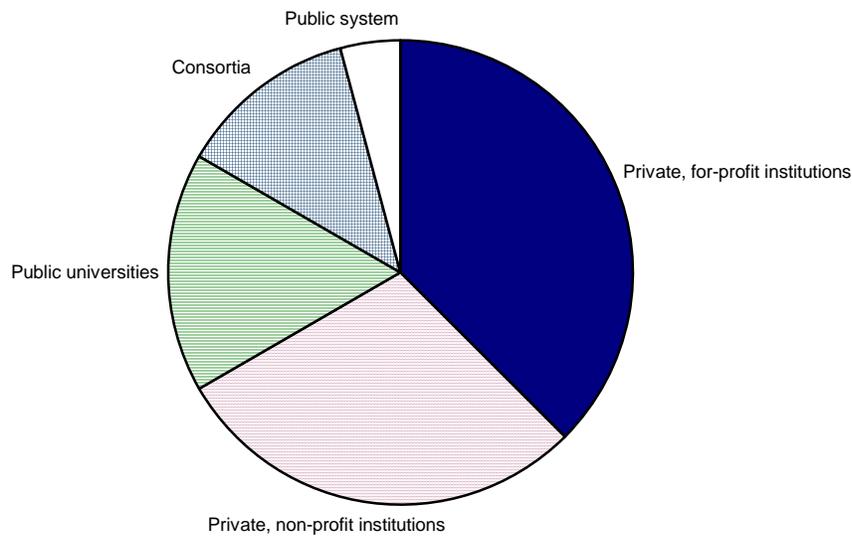
There has been some attrition over the past five years. Four participants have elected to discontinue their participation and one was removed from the program.² The twenty-four current participants include:

¹ Changes resulted in replacing the “12 hour rule” for non-standard and nonterm program structures with the “one day rule” and adding a requirement that a calendar time element must be met before subsequent disbursement of Title IV funds could be made.

² The Community Colleges of Colorado, Florida State University, New York University, and Brevard Community College voluntarily left the program. Masters Institute was removed from the program for improperly administering Title IV programs. In addition, the Washington State consortium dissolved; the community and technical colleges left the program, but Washington State University remained.

- Nine private, for-profit institutions including five publicly-traded institutions – American InterContinental University (parent company CEC Corp.), Kaplan University (parent company Washington Post, Inc.), National Technological University and Walden University (parent company Laureate, Inc.), and University of Phoenix (parent company Apollo, Inc.) and four others -- Capella University, Post University³, College of Court Reporting, Jones International University, and Northcentral University.
- Seven private, non-profit institutions – Franklin University, Graceland University, Marlboro College, Regis University, Southern Christian University, United States Sports Academy, and Western Governors University.
- Four public universities – Eastern Oregon University, Texas Tech University, University of Maryland University College, and Washington State University.
- Three consortia – Connecticut Distance Learning Consortium, Latter Day Saints Church Education System, and JesuitNET Consortium.
- One public system – North Dakota University System

Institutional Type of Program Participants



Participants have received waivers of certain statutory and regulatory provisions governing the HEA Title IV student financial assistance programs to enable them to provide Title IV aid to distance education students more efficiently and, in some instances, to expand their distance education programs beyond otherwise applicable statutory limits. The waiver authority granted to the Secretary is limited to:

³ Post University has undergone a change in status from private, non-profit to private, for-profit.

- the requirements of section 472(5) as the section relates to computer costs⁴;
- sections 481(a) and 481(b) as they relate to requirements for a minimum number of weeks of instruction;
- sections 102(a)(3)(A) and 102(a)(3)(B) – the 50 percent institutional eligibility requirements⁵;
- section 484(1)(1) as it relates to the definition of a telecommunications student as a correspondence student;
- one or more of the regulations prescribed under parts F⁶ and G of the statute that inhibit the operation of quality distance education programs; and
- additional waivers for Western Governors University because of its unique educational model.

Detailed information about waivers provided to the first two cohorts of participants was included in the *Second Report to Congress* dated July 2003. The five new participants were granted the following waivers:

College of Court Reporting – none

Graceland University -- 50 percent rules; telecommunications student defined as correspondence; definition of a full-time student to allow correspondence students to be considered full-time.

Jones International University, National Technological University, Northcentral University -- 50 percent rules; telecommunications student defined as correspondence.

Twelve participants are currently using the waivers of the 50 percent rules to retain eligibility to participate in the Federal student aid programs: Capella University, Eastern Oregon University, Jones International University, National Technological University, Northcentral University, Southern Christian University, United States Sports Academy, University of Maryland University College, Walden University, Western Governors University, and two members of the Connecticut Distance Learning Consortium – Charter Oak State College and Post University (previously named Teikyo Post University). Of these, three are public 4-year institutions; three are private, non-profit institutions; and six are private, for-profit institutions, including two publicly-traded institutions.

⁴ The 1998 Amendments to the HEA removed the restriction on including the cost to rent or purchase computer equipment for students receiving instruction by telecommunications. Effective October 1, 1998, the law specifies that there is no distinction made in the cost of attendance regarding the mode of instruction.

⁵ An institution becomes ineligible to participate in Title IV programs if, for the latest complete award year, more than 50 percent of the courses offered were correspondence or telecommunication courses, or 50 percent or more of its regular students were correspondence students. A regular student enrolled in one or more telecommunications courses is considered a correspondence student when (1) the institution exceeds the above limit on courses, or (2) the institution does not offer an associate, bachelor, or graduate degree program or offers more certificate programs than degree programs.

⁶ The HEA prohibits the U.S. Department of Education from regulating in this area.

Each participant signed an “Agreement to Participate in the Distance Education Demonstration Program,” which stipulates which waivers they were granted, the reporting requirements, and the length of the agreement. These agreements for the first two cohorts were set to expire on June 30, 2004, the last day of the 2003-04 award year. This date was chosen based on the expectation that the Higher Education Act would be reauthorized in 2003.

When it became clear that the HEA would not be reauthorized during 2003, the Department offered all participants in these two cohorts the option of extending their participation by one year.⁷ These participants were told that they would be required to submit a narrative report covering the period of their participation in the program rather than submitting another data report. These narrative reports were due September 30, 2004.

In order to obtain the same in-depth information from the cohort that joined the program in December 2003 that had been derived from the previous cohorts, the Department required institutions in the third cohort to submit the detailed data reports that the first two groups of participants had submitted for five and three years, respectively. Since the HEA reauthorization was not completed in 2004, the Department recently informed all participants of the option to extend their participation for an additional year.⁸

⁷ Washington Community and Technical Colleges (part of the Washington State consortium), Florida State University, Brevard Community College, and two schools in the Connecticut Distance Learning Consortium opted not to extend their participation.

⁸ More detailed information about the participants is available on the demonstration program website <http://www.ed.gov/programs/disted>.

INCREASING ACCESS

A primary purpose of the Distance Education Demonstration Program is to provide for increased student access to higher education programs through distance education programs. The *Second Report to Congress* contained detailed information about the various distance education delivery modes used by program participants, and some indication of the extent to which they address constraints posed by geography, student resources, time, academic program structures and institutional policies. This report focuses more specifically on data reported by participants.

Distance Education Program Enrollments

The following chart shows the change in number of enrollments in the distance education programs offered by participants that joined the demonstration program as part of the initial cohort.

Distance Education Program Enrollments – First Cohort

Participant	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<i>Capella University</i>	883	1,542	2,346	4,298	7,448	10,500
Community Colleges of Colorado	54	159	271			
CT Distance Learning Consortium	269	380	678	974	1,036	N/A
Florida State University	128	381	175			
<i>Franklin University</i>	46	296	649	1,145	1,793	2,722
<i>Kaplan University</i>	12	61	193	1,896	8,069	12,127
<i>LDS Church Education System</i>	22	187	865	1,206	1,480	1,800
Masters Institute	235	1,274				
New York University	61	166	233	251		
<i>North Dakota University System</i>	2,310	3,215	4,921	6,643	10,380	11,215
<i>Southern Christian University</i>	73	156	435	613	732	911
Texas Tech University		184	138	186	411	475
<i>University of MD University College</i>	4,543	7,955	12,186	16,422	19,057	21,706 ⁹
Washington State University	951	1,042	1,228	1,590	1,636	N/A
Wash. Community & Tech Colleges	412	1,395	2,061	2,867	3,824	
<i>Western Governors University</i>	41	208	236	594	950	2,369

With the possible exception of Florida State University,¹⁰ all the participants in the original cohort experienced considerable growth in enrollments in their distance education programs. The eight participants that have provided data for all six years (in italics in the table above) experienced growth in enrollment over the period of nearly 700 percent, with the number of students increasing from 7,930 in 1998-99 to 63,350 in 2003-04.

⁹ These numbers reflect only the enrollments in UMUC's Maryland-based campus. It does not include the two overseas divisions that serve a large number of active duty military and their dependents.

¹⁰ Florida State University had difficulties extracting information from its databases to meet the reporting requirements of the demonstration program. The data provided by FSU may not be accurate.

In absolute terms, University of Maryland University College (UMUC) experienced the largest increase, followed by Capella University and Kaplan University. Interestingly, these three institutions serve somewhat different populations. Capella offers primarily graduate programs, while UMUC enrolls a large majority of its students in undergraduate programs. Kaplan, until recently, offered primarily vocational and technical degrees. During its one year of participation in the program, Masters Institute reported a larger increase in the number of students in its distance education programs than did any of the other participants. Subsequent experience with Master’s Institute made it clear that rapid growth may be a significant risk factor.

In the past five years, the first cohort of participants added substantially to their distance education program offerings. Most of this development was in full degree programs, offered online. However, Capella University and University of Maryland University College increased the number of online certificate program offerings, primarily by dividing up their degree programs into smaller components.

Like the initial cohort, the second cohort of program participants reported significant growth in their distance education program enrollments during the years of their involvement in the demonstration program. Enrollment of distance education students at the seven institutions in the second cohort that provided data for all four years of their participation grew nearly 400 percent, with enrollments increasing from 45,997 in 2000-01 to 223,404 in 2003-04.¹¹

Distance Education Program Enrollments – Second Cohort

Participant	2000-01	2001-02	2002-03	2003-04
American InterContinental Univ.	30	912	6,844	15,000
Brevard Community College	758	845		
Eastern Oregon University	1,252	1,338	1,607	N/A
JesuitNET Consortium	none	none	12	12
Marlboro College	14	17	17	43
Regis University	2,028	2,865	3,605	5,705
University of Phoenix	42,756	78,873	130,960	190,317
United States Sports Academy	348	359	482	708
Walden University	821	2,814	6,014	11,619

American InterContinental University (AIU), the University of Phoenix, and Walden University, all publicly-traded institutions, reported exceptional growth in the past four years. Walden University received waivers of the 50 percent rules, which it needs to retain its eligibility to participate in Title IV student aid programs. Walden offers no on-site courses. Neither AIU nor University of Phoenix currently needs these waivers. This is because the statute is written so that the effect of the 50 percent rules

¹¹ The most recent data from NCES show that about a quarter (22 percent) of institutions that offered distance education in 2000–2001 had 100 or fewer distance education enrollments, and 30 percent had 101 to 500 enrollments. In addition, 16 percent had 501 to 1,000 enrollments, 17 percent reported enrollments of 1,001 to 2,500, and 15 percent reported more than 2,500 enrollments for the 2000–2001 academic year.

differs depending upon the type of institution. For institutions that offer more degree programs than certificate programs, telecommunications courses and students are not considered correspondence courses and students if the number of the institution's residential courses exceeds the sum of its correspondence and telecommunications courses. Both AIU and University of Phoenix offer more degree programs than certificate programs and have at least one more on-site course than online course, so their telecommunications courses and students are treated the same as residential courses and students.

All of the institutions in the cohort that joined the demonstration program in December 2003 had modest growth in their distance education program enrollments, as shown in the following table. Three of these institutions – Jones International University (JIU), National Technological University (NTU) and Northcentral University – have only recently begun offering Federal student aid to their students. It is too early to see the impact of this on these institution's enrollments.

Distance Education Program Enrollments – Third Cohort

Participant	2002-03	2003-04
College of Court Reporting	73	104
Graceland University	1,005	1,009
Jones International University	653	839
National Technological University	383	459
Northcentral University	1,262	1,662

An examination of the annual percentage increase in distance education program enrollments for all participants shows significant surges in the early years when the numbers were relatively small, with smaller, but still robust, increases in the most recent years.

Annual Percentage Increase in DE Program Enrollments – All Participants

Participant	1998-99 to 1999-00	1999-00 to 2000-01	2000-01 to 2001-02	2001-02 to 2002-03	2002-03 to 2003-04
American InterContinental Univ			2940%	650%	119%
Brevard Community College			12%		
Capella University	75%	52%	83%	73%	41%
College of Court Reporting					42%
Community Colleges of Colorado	194%	70%			
CT Distance Learning Consortium	41%	78%	44%	6%	N/A
Eastern Oregon University			7%	20%	N/A
Florida State University	198%	-54%			
Franklin University	543%	119%	76%	57%	52%
Graceland University					0%
JesuitNET Consortium					0%
Jones International University					28%
Kaplan University	408%	216%	882%	326%	50%

Participant	1998-99 to 1999-00	1999-00 to 2000-01	2000-01 to 2001-02	2001-02 to 2002-03	2002-03 to 2003-04
LDS Church Education System	750%	363%	39%	23%	22%
Marlboro College			21%	0%	153%
Masters Institute	442%				
National Technological University					20%
New York University	172%	40%	8%		
Northcentral University					32%
North Dakota University System	39%	53%	35%	56%	8%
Regis University			41%	26%	58%
Texas Tech University		-25%	35%	121%	16%
University of Phoenix			85%	66%	45%
United States Sports Academy			3%	34%	47%
Walden University			243%	114%	93%
Washington State University	10%	18%	30%	3%	N/A
Wash. Community & Tech Colleges	239%	48%	39%	33%	
Western Governors University	407%	14%	152%	60%	149%

The surge in enrollments experienced by Western Governors University in the most recent year is attributable, in large part, to WGU's teacher education programs. Similarly, Walden University's masters degrees in education account for most of the growth in that institution's enrollments in recent years.

Types of Programs

The range in types of distance education degree programs offered by participants is broad, but most are in career-related disciplines. The most popular offerings are in various aspects of business and management, computer information systems, psychology, nursing, criminal justice and education. In addition to these types of programs, public institutions also offer degrees in liberal arts disciplines.

A few participants specialize by offering degrees that serve a particular niche market. The College of Court Reporting is one example. Its associate's degree equips students for careers as court reporters, broadcast captioners, or CART¹² reporters, who serve deaf and hard-of-hearing students and clients. In addition to completing online coursework, students are required to do 60 hours of internship and to pass several proficiency exams. Other examples include the United States Sports Academy and Southern Christian University.

Student Characteristics

Data for this section is based on the 2002-03 academic year, the most recent year for which all participants were required to report on characteristics of students enrolled in their distance education programs.

¹² Computer-Aided Realtime Translation

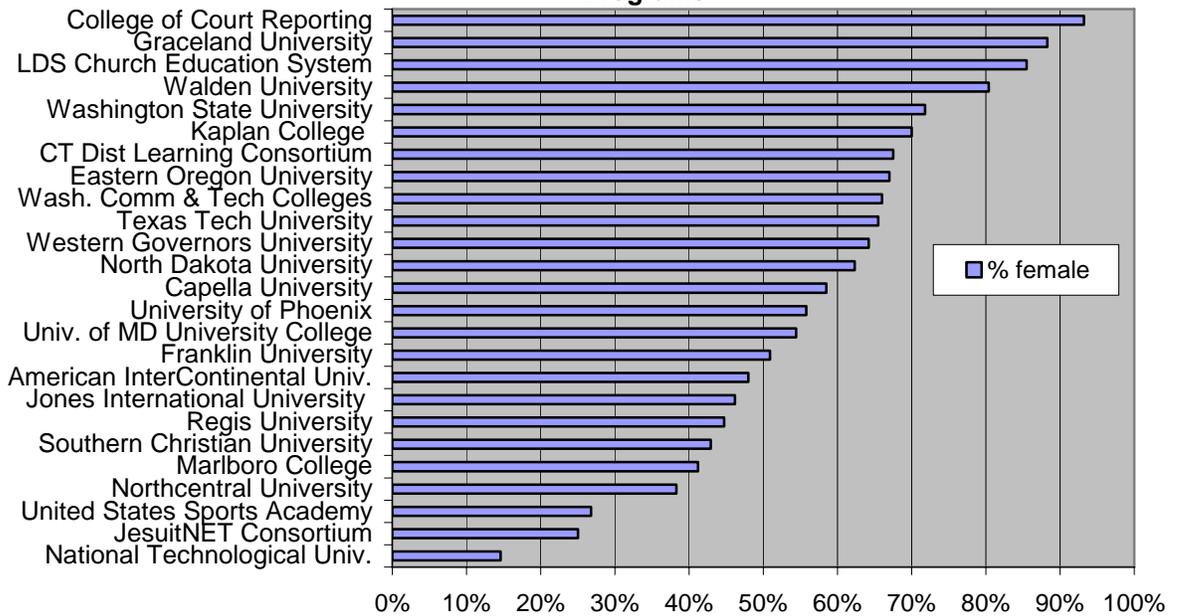
Age

Over half (56 percent) of the participants reported that a majority of their students are in the 25-34 year age range and another 28 percent enroll a majority of students who are aged 35-44. Those that enroll a majority of younger students include two public systems – North Dakota University System and Washington Community and Technical Colleges. Graceland University and Marlboro College have a majority of older students in the 45 to 54 age range.

Gender

Mirroring national trends, the majority of institutions (16 out of 25) report that they enrolled more women than men during 2002-03. The exceptions include two institutions with very small enrollments in their distance education programs (Marlboro College, and JesuitNET Consortium) and two that offer programs that typically attract more men than women (National Technological University and the United States Sports Academy).

Percentage of Female Students Enrolled in Participants' Distance Education Programs

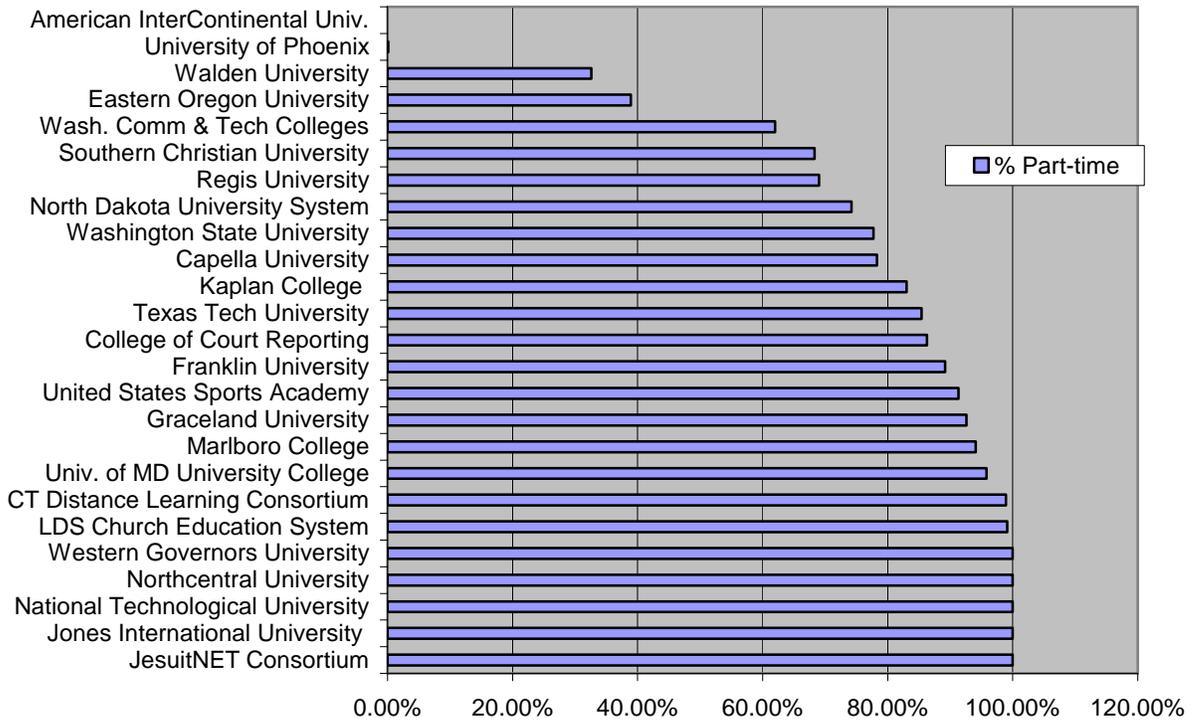


Enrollment Status

A high percentage of participants (21 of 25) report that over 60 percent of their students are studying part-time. The exceptions include AIU and University of Phoenix, whose models require full-time enrollment, and Eastern Oregon University and Walden University. Walden enrolls a large percentage of doctoral students, who pursue their studies full-time. The reason for Eastern Oregon University's relatively low percentage

of part-time students is not clear. The high incidence of part-time enrollment in distance education programs also mirrors national trends.

Percentage of Part-time Students Enrolled in Participants' Distance Education Programs



The population served by these providers of distance education degree programs is essentially the same as that identified in the NCES Report that examined characteristics of students enrolled in distance education courses and programs during 1999-2000.¹³ These are older students, who study part-time and are primarily female.

Race/ethnicity

Data reported by program participants in the annual report for 2002-03 related to the race/ethnicity of students who are enrolled in their distance education programs is compromised by the fact that there are many students in the “race/ethnicity unknown” category. However, in their narrative reports, submitted in September 2004, several participants provided information about enrollment of minorities. Nearly onethird of both Capella University’s (31 percent) and Southern Christian University’s (32 percent) distance education students are minorities. UMUC reports that 53 percent of its undergraduate distance education students are minorities, and that 32 percent are African-

¹³ U.S Department of Education, National Center for Education Statistics, *A Profile of Participation in Distance Education: 1999-2000* (November 2002), by Anna C. Sikora.

American. Walden University has seen the number of minority students increase steadily. In fall 1999, Walden enrolled 434 minority students compared to 1,530 in Fall 2003. The upward trend is continuing into 2004.

DATA RELATED TO TITLE IV FUNDING

Cohort Default

Annually, the Department of Education releases official cohort default rates for institutions that participate in Title IV student aid loan programs (Federal Family Education Loan Program and Federal Direct Loan Program). A cohort default rate is the percentage of an institution's borrowers who enter repayment during a particular Federal fiscal year and default or meet other specified conditions prior to the end of the next fiscal year. The Department publishes default rates approximately two years after the fiscal year that students enter repayment. The most recent rates, for FY 2002, were released in September 2004. Average rates are computed for each major sector of higher education. For each sector the average cohort default rate in 2002 was lower than the 2001 average rate. For FY 2002, the sector average default rates were:

- 8.7 percent for proprietary¹⁴ institutions
- 8.5 percent for public two-year colleges
- 4 percent for public four-year colleges
- 3.1 percent for private, four-year colleges

On the following page is a chart showing the annual cohort default rates for institutions in the demonstration program. Institutions that are part of consortia are listed individually, and only those that offer distance education programs are included. About two-thirds (26 of 41) of the institutions had default rates for FY 2002 that are below average for their sector. Of the fifteen institutions that had above average default rates, one is a public two-year college, nine are public four-year colleges, one is a proprietary institution, and five are private institutions.

The effect of distance education on cohort default rates is not easily discerned from this data. Of the ten institutions requiring the 50 percent waivers to retain their eligibility to participate in Title IV programs, seven have 2002 cohort default rates that are below national averages. Of the three that are above average, one (Western Governors University) had only one student in repayment and one (Kaplan University) could attribute its high default rate, for the most part, to its residential students. Of some concern is the fact that 20 of the 41 institutions saw their cohort default rates increase from 2001 to 2002, contrary to the national trend. Still, one-half of these had rates that were below average for their sector.

¹⁴ This includes for-profit and publicly-traded institutions.

Cohort Default Rates of Institutions in the Demonstration Program¹⁵

* Indicates the percentages represent very small numbers.

Institution	Type	2000	2001	2002
American InterContinental Univ	Prop	6.4%	5.4%	8.3%
Bismarck State College	Public	4.0%	2.5%	3.1%
Brigham Young University	Private	0.6%	0.7%	0.3%
Capella University	Prop	0.0%	0.5%	3.0%
Capital Community College	Public	16.6%	8.1%	11.6% *
Central CT State Univ	Public	5.3%	3.8%	4.8%
Charter Oak State College	Public	N/A	0.0%	0.0%
College of Court Reporting	Prop	2.8%	6.9%	5.7%
Dickinson State University	Public	3.9%	2.5%	3.4%
Eastern CT State Univ	Public	5.8%	7.1%	5.6%
Eastern Oregon University	Public	4.5%	5.6%	3.5%
Franklin University	Private	3.9%	2.9%	2.8%
Graceland University	Private	5.8%	4.4%	3.7%
Kaplan College	Prop	9.5%	17.6%	15.5%
Lake Region State College	Public	4.1%	7.2%	5.8%
Marlboro College	Private	3.6%	1.5%	0.3% *
Mayville State University	Public	3.6%	4.2%	9.3%
Minot State University	Public	3.4%	3.8%	3.4%
Minot State Univ-Bottineau	Public	4.2%	3.7%	6.1%
ND State College of Science	Public	3.2%	4.0%	5.2%
North Dakota State Univ	Public	2.1%	2.3%	1.8%
Northwestern CT Comm College	Public	4.0%	4.0%	3.5%
Regis University	Private	2.0%	2.4%	2.0%
Sacred Heart University	Private	2.9%	1.8%	2.2%
St Joseph College	Private	0.7%	1.0%	1.4%
Southern Christian University	Private	3.5%	1.0%	2.8%
Southern CT State University	Public	5.5%	5.8%	6.7%
Teikyo Post University	Private	7.8%	9.4%	9.0%
Texas Tech University	Public	3.3%	3.7%	3.4%
US Sports Academy	Private	1.1%	0.0%	0.4%
University of Bridgeport	Private	6.2%	4.1%	5.8%
University of Connecticut	Public	2.2%	2.5%	2.9%
University of MD Univ College	Public	4.0%	4.5%	3.8%
University of New Haven	Private	2.6%	3.6%	3.6%
University of North Dakota	Public	2.1%	2.5%	2.2%
University of Phoenix	Prop	5.2%	5.8%	6.4%
Valley City State University	Public	3.2%	4.2%	4.2%
Walden University	Prop	2.3%	2.8%	1.9%
Washington State University	Public	2.8%	2.5%	2.8%
Western Governors University	Private	N/A	0.0%	8.3% *
Williston State College	Public	6.3%	6.0%	3.5%

¹⁵ This list excludes institutions that have left the program; institutions in the Connecticut Consortium that offer no distance education degree programs; and three participants that gained eligibility in 2003-04.

Financial Aid for Distance Education Students

In their annual data reports, participants were asked to indicate how many students enrolled in their distance education programs received some form of Title IV student financial aid during the reporting period. This data is presented in the following table for participants that enroll large numbers of students in their distance education programs. The ones in italics require the 50 percent waivers to maintain eligibility to participate in the Title IV financial aid programs.

Percentage of Students Receiving Title IV Aid in Institutions Enrolling Over 5,000 Students in Distance Education Programs

Participant	Percent Of DE Students Receiving Title IV Aid			
	2000-01	2001-02	2002-03	2003-04
American InterContinental University	75%	75%	80%	76%
<i>Capella University</i>	39%	45%	59%	68%
Kaplan University	66%	67%	70%	79%
Regis University	17%	23%	25%	24%
<i>University of Maryland University College</i>	15%	17%	19%	22%
University of Phoenix	10%	36%	52%	68%
<i>Walden University</i>	50% (est.)	73%	67%	56%

All of these institutions report that a higher percentage of their distance education students received Title IV aid in 2003-04 than in 2000-01. This could be a function of a variety of factors, including higher costs of attendance, a decrease in the availability of employer reimbursement, a change in the population served by the institution, new populations of students who had not been previously served, and a weakening economy. Whatever the cause, if this trend continues, it is apparent that the rapid increases in enrollment at these institutions will result in further increases in the amount of Federal aid going to distance education students.

No trend data is available for the newest cohort of participants, which includes three institutions that offer no on-site programs. It is too early to tell if enrollment growth at these institutions will be as significant as for others in the demonstration program.

RETENTION AND COMPLETION

Participants were asked to report information on enrollment, persistence, and completion for regular students enrolled at their institutions as of the start of each reporting year. They were to report on the following groups of students: (1) students enrolled in distance education programs; (2) students enrolled in on-site programs; (3) students enrolled in programs that are offered both on-site and through distance education and who take courses in both formats (e.g., are physically located near an on-site location). They were to track these cohorts for the duration of their participation in the demonstration program.

For a variety of reasons, a great majority of participants were unable to provide complete and consistent information. While the Department has worked with program participants to improve the quality of the information provided, the data received are too inconsistent to draw any conclusions about comparative retention and completion rates.

However, several participants established goals for course and program retention and completion and reported annually on their progress toward achieving these goals. Others included information about retention and/or completion in the narrative reports submitted in 2004. In reviewing the information it became apparent that there are many different definitions of retention and ways of measuring it

Some institutions use the cohort-tracking method, the approach that is typically used by researchers, but do not put a student into a cohort until after the student has completed one to three courses. The argument for doing so is that many students try out a course or two to determine whether the institution's pedagogy and delivery mode are appropriate for them and that including such students in the calculation results in an artificially low retention rate. Another calculates the percentage of students in a cohort who re-enroll within the following three terms. One institution calculates an "average annual retention rate," which is not based on cohort-tracking. Rather, it is based on the following formula: *Retention percentage = 1 minus student drops during the year / (beginning student population + new starts during the year + re-entries during the year)*.

The lack of consistency in measuring retention presents a significant challenge for policymakers and the public. It is also problematic for the institutions themselves, since they have no way to benchmark their performance.

Several institutions have looked at financial aid as a factor in retention and report that distance education students who receive financial aid are more likely to remain in a program than students who enroll without financial assistance. Other correlates of retention identified by one participant that enrolls large numbers of students in its programs, which are offered both on-site and online, include:

- Gender – women are retained at higher rates
- Race – African-Americans are retained at a lower rate

- Class registration date – students who register for courses in the first week of class have lower rates than those that pre-register
- Credit transfers – students who have completed more than 60 credit hours prior to enrolling have higher rates
- Residence – out of state students have lower rates

This research provides a basis for the institution to identify high-risk students and design policies, interventions, and support services to enhance retention. While they have differing levels of success with retaining their distance education (and on-site students), all participants are focusing on improving retention and use a wide variety of information sources to identify areas for improvement. They regularly share information about promising strategies at the bi-annual participants' meetings. Many report that they are seeing positive effects from these efforts.

POLICY PERSPECTIVES

Barriers Identified by Demonstration Program Participants

In their narrative reports, the first two cohorts of participants identified a number of barriers in Federal law and regulations that limit access to distance education and the ability to provide an appropriate level of Title IV student aid for students enrolled in distance education programs. Not surprisingly, the 50 percent rules were most often cited as adversely affecting access for working adults since they require institutions with large distance education programs to restrict enrollment and course offerings in order to retain institutional eligibility to participate in Title IV student aid programs. University of Maryland University College also noted that “the law has unintentionally impacted institutions who primarily offer degree programs because of the trend over the last several years of carving sections of degree programs into certificate programs for students to accomplish milestones on their way towards the degree.”

Several participants mentioned issues arising from the unique characteristics of adult students who typically attend school year-round on a part-time basis and have an educational history that includes attendance at several institutions:

- part-time students who are enrolled less-than-half-time are not eligible for Federal loans;
- the law and regulations assume nine months of full-time enrollment on the traditional academic calendar (allowing for a summer off); many adult students attend year-round in standard term-based schools. Under current law and regulations they must spread their financial aid out over a longer period of time, making it difficult for some students to finance their education;
- students attending year-round may be put into repayment by their lender if they take off a term during the year even though they are continuing in their program;
- many students reach loan limits prior to completing their degrees.

Post University identified a barrier for students who are in accelerated degree programs in annual limits on Pell Grants and loans. A student enrolled in an accelerated degree program can complete a four-year education in two years, but have only 2.3 years of FFELP loan and Pell Grant funds available to them to finance costs that are significantly higher than those incurred by students pursuing a degree at the regular pace. The President’s 2006 budget includes a proposal that will partially address this barrier. Up to two Pell Grants would be made available to students attending year-round at eligible two- and four-year degree-granting institutions, giving students a more convenient option for accelerating their studies and completing their educations.

University of Maryland University College noted that the regulatory restriction on overlapping terms in a traditional semester environment, which appears only in the Pell Grant Program regulations, limits their ability to provide a variety of course start dates that allow students to stagger their enrollment and manage their workload. The regulation stipulates that when a term-based institution has overlapping terms (even if the

overlap is minimal) these are considered to be non-standard terms.¹⁶ For example, a student taking one three-credit course in the first part half of the fall term and one three-credit course that begins mid-fall and overlaps into the spring term would not be able to combine these credits to meet the half-time enrollment threshold for Federal loans. This could result in the student being eligible for less loan aid. It also creates an administrative burden for the institution since aid would need to be calculated manually for students who enroll in courses that overlap into the next term.

Term Structure as a Foundation for Financial Aid Rules

The two previous Reports to Congress contained detailed information about many of the difficulties program participants face in administering Title IV student financial aid for the non-traditional academic program structures that are most appropriate for the populations they serve. They are not alone, however. Department staff regularly field questions from other institutions that face similar challenges. Staff also make presentations at conferences about these issues that are well-attended.¹⁷

Much of this interest is likely generated by the changing nature of the postsecondary student population. NCES reported that in 1999-2000, 73 percent of all undergraduates met only some of the criteria of a “traditional” undergraduate – one who earns a high school diploma, enrolls full time immediately after finishing high school, depends on parents for financial support, and either does not work during the school year or works part time. Greater percentages of undergraduates in 1999-2000 had delayed enrollment (e.g., were older students), worked full time, or had dependents than undergraduates in 1992-93.

Financial aid rules evolved in an environment where the traditional student was the norm, degree-granting institutions offered programs in standard terms, and non-standard term and nonterm programs were the province of vocational and technical programs, and were generally of short duration. The assumptions undergirding the law are no longer valid and a strong argument can be made that the time has come for a major overhaul with student behavior as the foundation, rather than term structures.

Administering aid on a student-by-student basis has the potential ultimately to simplify the delivery of aid to students enrolled in non-standard term and nonterm programs and to those who combine courses with different term structures. This model would provide Federal funds only at the time the student actually requires the funds, and measures student progress prior to the school drawing down funds for additional disbursements.

¹⁶ Quarters, semesters and trimesters are considered to be *standard terms*. A semester or trimester is a term consisting of approximately 15 weeks during which a full-time student is expected to carry at least 12 semester hours. A quarter is a term consisting of approximately 10-12 weeks during which a full-time student is expected to carry at least 12 quarter credit hours. A *non-standard term* has fixed beginning and end dates, and is any term that does not meet the definition of a standard term. A *nonterm* program is not organized in terms and may, or may not, have pre-established beginning and ending dates.

¹⁷ See <http://www.ifap.ed.gov/presentations/04NASFAANontradEDPrgmForm.html>

The Department recommends expanding the Distance Education Demonstration Program to increase the number and type of participants and to allow for fuller experimentation with the student-based model and the emergence of other approaches. Currently, the number of participants is capped at 35 and the Secretary's waiver authority has not allowed full experimentation with promising models. The Department recommends increasing the cap to 100 participants, including some that are accredited, degree-granting correspondence schools, and extending the Secretary's waiver authority to include waivers of program-specific rules.

Eliminating the 50 Percent Rules for Distance Education

The Department supports eliminating the 50 percent rules for distance education (both telecommunications and correspondence), but retaining the other limits on correspondence study, including the definition of full-time student in CFR 668.2 that precludes a correspondence student from being considered a full-time student. The Department also recommends that a definition of a "telecommunications course" be incorporated into the HEA amendments, replacing the current definition.¹⁸ Our concern is that the current definition could be interpreted to allow a correspondence school to qualify for full participation in student financial assistance programs by introducing even a very limited amount of e-mail contact between students and a grader or instructional assistant with or without subject matter expertise into what is essentially a correspondence course. Similarly, a course outline or notes posted to the Web might also meet the current definition. If the broad definition of "telecommunications" remains, we would expect nearly every correspondence school in the nation to incorporate e-mail or Web-based materials into its courses. The Department does not have sufficient recent experience with traditional correspondence schools (none was eligible to participate in the demonstration program) for it to support blurring the distinction between telecommunications and correspondence.

Quality standards for electronically-delivered education emphasize the importance of interaction between the instructor and student. The proposed definition of a telecommunications course acknowledges the importance of interactivity to the viability of electronically-delivered courses.

For the purposes of this subsection, a "telecommunications course" is one that uses one or a combination of technologies to (1) deliver instructional materials to students who are separated from the instructor, and (2) support regular and substantive interaction between these students and the instructor, either synchronously or asynchronously. Technologies may include the Internet; one-

¹⁸ The term "telecommunications" means the use of television, audio, or computer transmission, including open broadcast, closed circuit, cable microwave, or satellite, audio conferencing, computer conferencing, or video cassettes or discs, except that such term does not include a course that is delivered using video cassette or disc recordings at such institution and that is not delivered in person to other students of that institution.

way and two-way transmissions via open broadcast, closed circuit, cable, microwave, broadband lines, fiber optics, satellite or wireless communication devices; and audio conferencing.

Estimated Cost

The cost of eliminating the 50 percent rules for distance education programs is estimated at \$697 million over ten years, beginning July 1, 2006. This includes \$94 million in mandatory funding and \$603 million in discretionary funding. The mandatory funding represents the costs of subsidies for approximately \$1 billion in loans and the discretionary funding represents the cost of Pell Grants.

This estimate reflects the possible expansion of Title IV eligibility to institutions that are accredited by the Distance Education and Training Council (DETC). DETC is recognized by the Secretary for the accreditation of postsecondary institutions that offer programs primarily by distance education up through the first professional degree level. Accreditation by DETC currently does not enable the institutions it accredits to establish eligibility to participate in Title IV student aid programs, primarily because of the 50 percent rules. DETC has submitted a petition for an expansion of its scope of recognition to enable degree-granting postsecondary institutions it accredits to establish eligibility to participate in Title IV student aid programs, including the Distance Education Demonstration Program. If the Secretary approves this expansion of scope, DETC-accredited institutions would be able to apply to participate in the Distance Education Demonstration Program, if a new competition is held. In the event that the law is changed, this expansion of scope would permit Title IV eligibility for some DETC-accredited institutions.¹⁹

Continued Oversight Critical

The Department is committed to ongoing monitoring of distance education providers whether as current participants in the demonstration program or, more generally, once they commence unrestricted participation in the aid programs subsequent to the proposed elimination of the 50 percent rules.

As the data contained in this report suggest, most Distance Education Demonstration Program participants have experienced significant, and appropriate, enrollment increases over the last several years. The increase in enrollment indicates that the program's participants are reaching a population that may not previously have had ready access to postsecondary education. Along with these increases in enrollment, increased amounts of aid have been provided to low-income students. Again, this trend should not be troubling since we hope that the Federal student aid programs positively impact enrollments. It does, however, suggest that close monitoring by the Department's oversight staff is essential.

¹⁹ Many DETC-accredited schools offer programs via correspondence. If the law changes to eliminate the 50 percent rules for telecommunications-delivered education but not for correspondence study, these correspondence schools would still be ineligible to participate in Title IV student aid programs.

CONCLUSION

As the Congress considers the reauthorization of the Higher Education Act, careful consideration should be paid to the dramatic change underway in American higher education. The advent of distance learning has forever changed this critical segment of our educational system. And yet, our Federal student financial aid programs have not kept pace with this change. Indeed, the evidence would suggest that several of the rules that were intended to protect Federal funds have instead protected brick-and-mortar institutions, by limiting Title IV eligibility to institutions that offer primarily on-site courses, and delayed appropriate expansion of this alternative mode of delivery. These rules, most notably the 50 percent rules, should be eliminated during the reauthorization of the Higher Education Act.

The Department's experience working with the demonstration program participants indicates that the potential risk to Title IV student financial aid programs has more to do with the integrity of the institution than with the way in which the education is offered. The integration of technology into all aspects of education makes it very difficult to distinguish between "on-campus" and "distance education."

Since the last HEA reauthorization, accrediting agencies have gained a substantial amount of knowledge about distance education quality assurance. In addition, they have broadened the means by which they assess academic and institutional quality to encompass more outcome measures. While the higher education community still needs to do more work on these challenging issues, it is clear that no particular mode of delivery is inherently superior or inferior in terms of educational quality.

Along with the development of new delivery modes, the changing demographics of postsecondary education students bring into focus the problems arising from the outmoded assumptions that at one time warranted using term structure as a foundation for financial aid rules. Through its experience with demonstration program participants and others providing non-traditional educational programs, the Department has gleaned a great deal of insight into the problems and possible solutions. With additional waiver authority, the Department would have an opportunity to fully test some of these approaches and work with Congress and the community to update the laws and regulations.