It's official: Colleges can now award federal student aid based on measured "competencies," not credit hours. In a letter sent to colleges on Tuesday, the U.S. Education Department told them they may apply to provide federal student aid to students enrolled in "competency-based" programs and spelled out a process for doing so.

The long-awaited letter was issued as the department is poised to approve an application by Southern New Hampshire University to award aid based on the direct assessment of student learning. The college has served as a test case for the department as it has weighed how to extend aid to new models of learning while guarding against fraud.

At first glance, the letter does not seem all that remarkable; it simply confirms that colleges may apply for aid under the "direct assessment" provision of the Higher Education Act. That authority has existed since 2005, when Congress added the provision to the federal law to benefit Western Governors University.

But Western Governors has never used that authority, opting instead to keep converting its students' competencies into credits. Most other colleges didn't learn about the provision until recently, or assumed it didn't apply to them.

When college leaders finally asked the Education Department about it, they said they received mixed messages from agency leaders. Some colleges hesitated to develop competency-based programs, not knowing if they would be eligible for financial aid.

By clarifying that colleges may apply under the "direct assessment" provision—and encouraging them to do so—the Education Department is signaling a willingness to move beyond "seat time"—the time students spend in class—in awarding aid. That has important implications for new models of education, supporters of the provision say.

"It moves away from time as a proxy for learning, and that is key," said Paul LeBlanc, president of Southern New Hampshire University.
What Will Employers Think?

In the letter, David A. Bergeron, acting assistant secretary for postsecondary education, said competency-based programs "have the potential for assuring the quality and extent of learning, shortening the time to degree/certificate completion, developing stackable credentials ... and reducing the overall cost of education."

Speaking to reporters on Monday, the under secretary of education, Martha J. Kanter, said the department wanted to encourage innovation and experimentation, but she stressed that officials would "be very careful going forward." She said her biggest concern, beyond fraud, was that employers would lack confidence in the new approaches.

"It's a new methodology that really needs to be tested," she said.

As part of the department's approval process, programs will have to map their competencies back to credit hours, and accreditors will have to agree with institutions' assessment of the equivalencies.

Sylvia Manning, president of the Higher Learning Commission of the North Central Association of Colleges and Schools, a regional accreditor, said, "Experience will show how workable this process is."

She said she was encouraged, however, by the department's promise to collaborate with colleges and accreditors on this issue.

In the letter, department officials acknowledged that direct-assessment authority "may not adequately accommodate" all models of competency-based learning, and said the department would work with accreditors and colleges on other ways to recognize new approaches.

Amy Laitinen, deputy director for higher education at the New America Foundation, said she hopes the department will expand its direct-assessment authority to remedial education and test the idea of awarding aid for prior-learning assessments.

"This letter really opens the doors to other things," she said. "They are showing an interest in collaborating, in making this an ongoing conversation."

That conversation will continue next month, when a group of influential philanthropies, including the Bill & Melinda Gates Foundation and the Lumina Foundation, will hold a meeting on the future of competency-based learning. The goal, organizers have said, is to create a "safe space" where accreditors, state regulators, department officials, and colleges can figure out ways to promote the programs, while protecting taxpayer dollars from fraud.