RSC Republican Study Committee
Rep. Jeb Hensarling (R-TX), Chairman
Russ Vought, Executive Director
132 Cannon House Office Building
Washington, DC 20515
www.house.gov/hensarling/rsc
ph (202) 226-9717 / fax (202) 226-1633

Legislative Bulletin…………………………….………September 7, 2007

Contents:

Summary of the Bills Under Consideration Today:

Total Number of New Government Programs: 5 new entitlement programs

Total Cost of Discretionary Authorizations: Unknown

Effect on Revenue: No CBO statement on revenue available at press time.

Total Change in Mandatory Spending: According to the CBO score, a reduction of $752 million over five years compared to current law. The version originally passed by the House had a net $1.67 billion mandatory spending reduction over five years compared to current law.

The net amount of mandatory savings provided by the conference report represents only 3.*4 percent* of the $22.3 billion worth of provisions that save money; the remaining 96.4 percent is used to pay for new entitlement spending.

In addition, one costly provision included in the bill, the reduction in the fixed student loan rate expires after 2012. If that provision were extended, that would cause this legislation to increase the federal deficit.

Total New State & Local Government Mandates: No CBO statement on mandates available at press time.

Total New Private Sector Mandates: No CBO statement on mandates available at press time.

H.R. 2669 — College Cost Reduction Act of 2007
CONFERENCE REPORT *(Miller, D-CA)*

Order of Business: H.R. 2669 is expected to be considered on the floor on Friday, September 7, 2007 under a closed rule that waives all points of order.

Reconciliation Background: The budget resolution (S. Con. Res. 21) instructed the House Education and Labor Committee to find $750 million in savings over five years. The reconciliation process is intended to reduce the growth in entitlement spending; however, Democrats have chosen to use reconciliation as a method to create five new entitlement programs and to ensure that these education policy changes do not need to garner the 60 votes necessary for cloture under regular order in the Senate.

Student Loan Programs Background: The federal government provides subsidized and unsubsidized loans to parents and students of higher education (both undergraduate and graduate) using two major programs: the FFEL and the DL program. The FFEL loan program offers subsidized loans provided to students from private lenders. Conversely, in the DL program, the federal government acts as the lender itself and provides the capital for all loans. In FY 2005, these two programs provided $56.2 billion in *new* loans.

In those loans which are subsidized by the federal government, the government pays the interest while the student is enrolled as at least a part-time student. The government does not pay the interest on unsubsidized loans. Currently the interest charged on federal student loans varies among the different types of loans offered—ranging from 6.8% to 8.5%. As of July 1, 2006, all Stafford loans have a fixed interest rate of 6.8%.

The government guarantees a fixed return to lenders providing federal loans. As such, by reducing costs incurred upon the student by decreasing the interest rate, the federal government—i.e. taxpayers—must make up the shortfall to the lender.

Summary by Title:

Title I—Grants to Students in Attendance at Institutions of Higher Education

- Creates a new mandatory funding stream to the Pell Grant program amounting to $33.6 billion over ten years, as follows:
    - $2.03 billion in FY 2008—compared to $840 million in House bill;
    - $2.09 billion in FY 2009—compared to $870 million in House bill;
    - $3.03 billion in FY 2010—compared to $1.34 billion in House bill;
    - $3.09 billion in FY 2011—compared to $2.28 billion in House bill;
    - $5.05 billion in FY 2012—compared to $2.35 billion in House bill;
    - $105 million in FY 2013—compared to $2.4 billion in House bill;
    - $4.305 billion in FY 2014—compared to $2.45 billion in House bill;
    - $4.4 billion in FY 2015—compared to $2.51 billion in House bill;
    - $4.6 billion in FY 2016—compared to $2.55 billion in House bill; and
    - $4.9 billion in FY 2017—compared to $2.57 billion in House bill.

Of these amounts, the bill stipulates that the new mandatory spending for the Pell program would be used to *further increase* the maximum award made available to students in the program. The increase in the maximum annual award would be implemented as follows:

- $490 increase—Academic Year (AY) 2008-2009 and AY 2009-2010 (compared to $200 in House bill for both years);
- $690 increase—AY 2010-2011 (compared to $300 in House bill) and 2011-2012 (compared to $500 in House bill); and
- $1,090 increase—AY 2012-2013 (the House bill provided $500 in this year and all subsequent ones).

Some conservatives may be concerned that reconciliation, which is intended for deficit reduction, is being used to aid passage of Section 102 of this legislation (as described above) which actually increases entitlement spending by more than *$30 billion* over ten years.

- **TEACH Grants.** **Creates a new entitlement program**, the Teacher Education Assistance for College and Higher (TEACH) Education Grants, which would provide grants to institutions of higher education to provide $4,000 annual scholarships to students that teach in a high-need subject area for four years after graduation. Undergraduate students could receive up to $16,000 total in scholarship money from this program. Graduate students could receive up to $8,000 total in scholarships.

  In order to qualify, students would be required to agree to serve as a full-time teacher for not less than four years, within eight years of completing the required coursework, and to teach in one of the following fields: math, science, foreign language, bilingual education, special education, as a reading specialist, or in another field documented as high-need by the federal government, a state government or a local education agency and approved by the Secretary. In addition, a student has to maintain a 3.25 GPA.

  This provision is similar to the bill that originally passed the House.

- **Upward Bound.** H.R. 2669 provides $57 million a year from 2008 to 2011 in entitlement funding to the **Upward Bound program.**

Title II—Student Loan Benefits, Terms, and Conditions

- Reduces gradually (over four years) the interest rate on subsidized Stafford loans provided to undergraduate students through both the Federal Family Education Loan (FFEL) and the William D. Ford Direct Loan (DL) programs. As of July 1, 2006, Stafford loans have a fixed interest rate of 6.8%. H.R. 2669 would decrease this fixed interest rate as follows:

  - July 1, 2006 – June 30, 2008: 6.8%
  - July 1, 2008 – June 30, 2009: 6.0%
  - July 1, 2009 – June 30, 2010: 5.6%
  - July 1, 2010 – June 30, 2011: 4.5%

- July 1, 2011 – June 30, 2012: 3.4%
- After July 1, 2012: 6.8%

This provision is similar to what was included in the House-passed version, though the scheduled reduction takes place over four years instead of five and with a modified rate reduction schedule. In addition, the provision expires a year earlier than was the case in the version that originally passed the House.

NOTE: The 3.40% interest rate would be available to students for loans that originate between July 1, 2011 and June 30, 2012. As of July 1, 2012, the interest rate would revert back to 6.8%. Some conservatives may be concerned that this provision would lower the interest rate on loans being paid back by students who have already graduated from college and would not actually benefit students entering college.

- The conference report includes a provision from the Senate bill that eliminates the three-year limitation on the period certain members of the armed forces may receive deferments on their student loan payments.

- Creates a new income-based repayment plan for all borrowers that would allow borrowers to have their monthly payments limited to no more than 15 percent of their calculated income. When a borrower is able to pay 100 percent of their payment, both interest and principal, they would return to a 10-year repayment plan. If after 25 years the principal portion of the loan (including capitalized interest) was not fully paid off, the government would pay off the remainder of the loan if it is a FFEL loan, and would forgive the loan if it is handled by the Direct Loan program.

- Allows members of the National Guard and other reserve components of the Armed Forces, and veterans, who were enrolled in or left college within six months of deployment, to receive extended repayment on loan terms of up to 13 months when returning from active duty.

Title III—Federal Family Education Loan Program

- Reduces from 23% to 16%, the amount a guaranty agency can retain on payments collected on defaulted loans. This provision was included in the House version of the bill.

- Eliminates the "exceptional performance" designation that the Secretary gives to lenders, loan servicers and guaranty agencies with high performance levels, effective October 1, 2007. However, those entities designated as exceptional performers at that time could retain their statues for the rest of the year. This provision was included in the Senate version.

- Beginning in 2013, reduces from 97% to 95%, the amount paid by the federal government to lenders if a borrower defaults on a loan. A similar provision was included in the House version.

- Loosens the definition of “economic hardship” in current law, which is used to determine if a borrower has the means to repay their loan or if they should be granted an economic hardship deferment. Currently, economic hardship is defined as individual with an income level below 100 percent of poverty for a family of two, or below 220 percent of poverty for a family of two with debt payments exceeding 20 percent of their income. H.R. 2669 would increase the family income level to 150 percent of poverty, based on family size. This provision was included in the House version.

- Decreases the special allowance payment by .4 percent for non-profit lenders and by .55 percent for all other lenders. This provision is slightly amended from both the House and Senate versions of the bill.

- Increases from .05% to 1%, the loan origination fee charged to all lenders, both non-profit, profit, and small lenders. The House version eliminated this fee for non-profit lenders and small lenders. The provision in the Conference Report was included in the Senate version.

Title IV—Loan Forgiveness

- **Public-Sector Loan Forgiveness. Creates a new entitlement loan forgiveness program** that would forgive the loans of public sector workers who agree to repay their loan through the income-contingent plan under the Federal Direct Loan Program (DL), have worked in the public sector for 10 years, and have made 120 payments on their loan. If an individual meets all three requirements, the new program would pay off the balance of their student loan. Individuals employed full-time in the following professions would be eligible full loan forgiveness under this new program: emergency management, government, public safety, law enforcement, public health, education, social work in a public child or family service agency, and public interest legal service, including prosecution or public defense. This new program was included in the House version of the bill.

Title V—Loan Forgiveness

- Includes a Senate provision which postpones the date institutions must return late collections on Perkins loans to the Secretary. The date is postponed from March 31, 2012 to October 1, 2012.

Title VI—Need Analysis

- Increases from $20,000 to $30,000, the family income level below which a family is not expected to contribute to their child’s educations costs. Under current law, families with an income of $20,000 or less, are not expected to contribute to education costs, and typically students from these families receive the maximum Pell grant award each year. H.R. 2669 would increase this amount to $30,000, and would also direct the Secretary to increase annually this threshold periodically by the rate of inflation. This provision would

- Increases the income protection allowance for dependent students from $2,200 to the following:

    - $3,750—AY 2009-2010;
    - $4,500—AY 2011-2012;
    - $5,250—AY 2012-2013; and
    - $6,000—AY 2012-2013.

  Under current law, certain considerations are taken into account when calculating the award amount for each individual student. Part of this calculation includes an estimate of the student's contribution to their education to be made from their available income. In determining a student's available income, $2,200 in an "income protection allowance" is deducted from the student's expected contribution to their education. This provision would increase the deduction for married, independent students and those with dependants, based on the number of individuals in the family and the number of family members attending college. A similar provision was included in the House version of the bill.

- Exempts certain federal benefits, including child support, workman's compensation, interest on tax-free bonds, untaxed portion of pensions, housing, food and other allowances (including rent subsidies for low-income housing) for military and others, from the calculation of income when determining a family's need and expected family contribution to the cost of higher education.

Title VII—Competitive Loan Auction Pilot Program

- Directs the Secretaries of Education to **establish a pilot program** under which a mechanism would be established for an auction of certain federal PLUS loans. The Secretary would be required to administer one auction in each state in which eligible lenders would compete to originate PLUS loans at all institutions of higher education in the state. This provision was included in the Senate version of the bill. The House-passed version of the bill required the Secretary of Education to conduct a planning study to determine market-based mechanisms for auctioning the rights to federal student loans, and then to create a pilot program implementing those mechanisms regardless of the study's actual findings.

Title VIII—Partnership Grants

- **College Access Challenge Grants.** H.R. 2669 **creates a new entitlement program**, College Access Challenge Grants, to provide federal funding to philanthropic organizations in the form of matching grants, to encourage these entities to assist low-income students enter and complete college. The bill authorizes $66 million for each of fiscal years 2008 and 2009 for this new entitlement program. This new program was included in the House-passed version of the bill.

- **Investment in Historically Black Colleges and Universities and Minority-Serving Institution.** H.R. 2669 would **create a new entitlement program** that would provide $510 million over two years to certain types of institutions, distributing the funds as follows for the five year period:

    - $200 million for Hispanic-serving institutions to increase the number of students attaining degrees in math, science, and technology;
    - $170 million for Historically Black Colleges and Universities (HBCU) to purchase lab equipment and materials and to pay teachers for the establishment or development of a teacher education program, or to increase the institution's capacity to prepare students for careers in science, technology, engineering, and other similar fields;
    - $30 million for Predominately Black Intuitions to award ten $600,000 grants for science, technology, math and engineering programs to "improved the educational outcomes of African American males;"
    - $60 million for Tribal Colleges and Universities for the purchase lab equipment and materials and to pay teachers for the establishment or enhancement of teacher education and outreach programs;
    - $30 million for Alaska/ Native Hawaiian institutions for the purchase of lab equipment and the creation of academic tutoring programs; and
    - $10 million for Asian American and Pacific Islander Institutions for the purchase of lab equipment and the creation of academic tutoring programs.

    Under current law, minority-serving institutions (MSI), such as HBCUs and others, receive discretionary federal funding, which is subject to the appropriation's process. However, H.R. 2669 would provide in addition to this discretionary funding, new mandatory funding, as outlined above. In addition, H.R. 2669 creates two new categories of MSI—the "predominantly black institution," and the "Asian American and Pacific Islander Institutions." The bill defines a predominantly black institution as one with an enrollment of undergraduate students with at least a <u>40%</u> black population, at least 1,000 undergraduate students, and with least 50 percent of the student body low-income or first generation college students. This new program was included in the House-passed version of the bill.

    <u>Possible Conservative Concerns</u>: Some conservatives may be concerned that this section creates a new entitlement program. In addition, some conservatives may be concerned that the expiration date on this program, set at 2009, is a gimmick to fit the total cost of H.R. 2669 within the amount required through the reconciliation process. Some conservatives may also be concerned that Native Hawaiians are a racial group, not a tribe, and dispensing benefits to them would likely be subject to strict scrutiny in federal courts.

<u>Additional Possible Conservative Concerns</u>:

1) Increasing Tuition Costs, Not Lowering Them: While the cost of attending college has risen rapidly in the last decade, federal aid provided for postsecondary education has almost doubled in the same timeframe, reaching $94 billion in FY 2006. Despite the claim that Republicans had conducted a "raid on student aid" in recent years, Congress has substantially increased federal loan limits. Some experts contend that the significant rise in federal aid has actually contributed to increased college tuition. As the federal and state governments absorb and thus stimulate demand, institutions of higher education must ensure enough supply and do so by raising tuition prices at taxpayers' expense.

2) Helping Upper-Income Families, Not Lower-Income Families: A recent Heritage Foundation report suggests that too much federal postsecondary aid is being directed to middle-class families. The essay stated that, "An increasing share of federal grant and loan subsidies are being provided to students from non-economically disadvantaged families. The College Board recently reported that 'changes in student aid policies have benefited those in the upper half of the income distribution more than those in the lower half.' A recent Department of Education report found that 47 percent of students from middle-income families accepted federal loans in 2000, compared to 31 percent in 1993."

3) Direct Loan Program vs. Federal Family Education Loan Program: Some conservatives may also be concerned that enacting H.R. 2669 is part of a larger effort by some lawmakers to breathe new life into the Direct Loan (DL) program, and at the same time, stifle the Federal Family Education Loan (FFEL) program. In the 109th Congress, Senator Kennedy was the primary sponsor of S. 754, the Student Aid Reward Act of 2005, which sought to encourage universities to use the DL program, instead of participating in the FFEL program. As previously noted, in the FFEL program, the loan capital is provided by private lenders. The FFEL program has been extremely successful in efficiently providing students with access to college loans. In fact, according to a report by America's Student Loan Providers, as of 2004, 83% of schools used FFEL program exclusively to provide financial assistance to students. At that same time, only 11% of schools used only the DL program, while the remaining 6% utilized both.

Many of the offsets included in H.R. 2669 to pay for large increases in mandatory spending, will increase the costs for lenders to provide loans through the program. As such, some conservatives may be concerned that this legislation may discourage lenders from participating in the FFEL program, or make the DL program more appealing, as lenders seek to recoup their costs by charging fees.

4) New Entitlement Programs: In addition, some conservatives may be concerned that **the conference report would create five new entitlement programs, spending $21.5 billion over five years.** The reconciliation process has been used in this instance to create new programs and provide for significant increases in federal education spending, instead of applying the achieved savings to deficit reduction.

Earmark Compliance: According to the Joint Explanatory Statement Report, H.R. 2669 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits, as defined in clause 9(d), 9(e), or 9(t) of rule XXI.

<u>Cost to Taxpayer</u>: According to CBO, the net mandatory savings from H.R. 2669 is $752 million over five years, which satisfies the $750 million target set for the Education and Labor Committee as part of the reconciliation process in the FY 2008 budget resolution. The five year net savings total results from $22.3 billion in mandatory savings offset by $21.5 billion in new mandatory spending.

The score for H.R. 2669 relies on some provisions that score as increasing mandatory spending, expiring within the ten year budget window. One such provision is the reduction in subsidized student loans.

<u>Does the Bill Expand the Size and Scope of the Federal Government?:</u> Yes. The bill would create five new entitlement programs.

<u>Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?</u>: No mandates statement by CBO was available at press time.

<u>RSC Staff Contact</u>: Brad Watson; brad.watson@mail.house.gov; 202.226.9719, and Joelle Cannon; joelle.cannon@mail.house.gov, 202.226.0718

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