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H.R. 2669 – The College Cost Reduction Act of 2007

Executive Summary
Section 601 of the Conference Report S.Con.Res. 21 to the FY2008 Budget requires the Committee on Education and Labor to "report to the House of Representatives changes in laws to reduce the deficit by $750 million for the period of fiscal years 2007 through 2012." Pursuant to this, the House Committee on Education and Labor has produced the College Cost Reduction Act of 2007 to provide for the required deficit reduction. The bill is being considered under the expedited procedure of budget reconciliation (which prevents a filibuster in the Senate).

House Democrats have touted this bill as a historic investment to student aid programs. The bill provides $18.58 billion in cuts to loan providers over 5 years, but then at the same time spends roughly $17.13 billion in that same time period, which amounts to less than a 9% savings. Ironically, only close to a third of the new spending will be directed to Pell Grants, the highly successful student aid program. The rest of the spending goes towards 9 new entitlement programs and graduates of college. If the new entitlement programs continue to be funded, it is estimate that they could cost the taxpayers at least $15 billion and maybe even $30 billion within 10 years.

This bill represents a change in entitlement spending by the government. Historically, entitlement spending has been directed at individuals, such as Medicare, Social Security, and students. This bill changes that focus from the individual to universities and private organizations.

Floor Situation
H.R. 2669 is being considered on the House Floor pursuant to a restricted rule. The rule:

Provides 1 hour of debate equally divided and controlled by the Chairman and Ranking Member of the Committee on Education and Labor.

Waives all points of consideration of the bill except those arising under clauses 9 (earmarks) and 10 (PAYGO) of Rule XXI.

Makes in order only the amendment in the nature of a substitute printed in part B of the Rules Committee report accompanying the resolution.

Provides one motion to recommit with or without instructions.

This legislation was introduced by Representative George Miller (D-CA) on June 12, 2007. The bill was ordered to be reported as amended from the Committee on Education and Labor, by a recorded vote of 30-16, on June 13, 2007.

H.R. 2669 is expected to be considered on the House floor on July 11, 2007.

Legislative Background

On May 17, 2007, the House passed the Conference Report S.Con.Res. 21 to the FY2008 Budget by a recorded vote of 214 - 209 (Roll no. 377). On the same day, the Senate passed the Conference Report by a recorded vote of 52 - 40 (Record Vote Number: 172).

Section 601 of the Conference Report requires the Committee on Education and Labor to "report to the House of Representatives changes in laws to reduce the deficit by $750 million for the period of fiscal years 2007 through 2012." At times when the federal deficit is expected to be large, budget resolutions frequently stipulate mandatory spending reductions.

In response to this requirement, Chairman George Miller (D-CA) moved H.R. 2669 through the Committee to produce the required reduction in the deficit. According to the Committee Report, this bill "achieves nearly $19 billion in savings."

The House has been concerned about the rising cost of college and has passed a handful of bills to lift the burden off students and parents to make college more affordable. During the rush of the first 100 hours of the 110TH Congress, the House passed the College Student Relief Act of 2007 (H.R. 5) on January 17, 2007, by a recorded vote of 356 - 71 (Roll no. 32). H.R. 5 contained many of the same provisions as H.R. 2669, including cutting interest rates for Stafford loans over the same 6 year period. The Senate received the bill but has not taken any further action.

During the FY 06 budget process, Congress considered ways to achieve savings from entitlement spending. The Deficit Reduction Act of 2005, signed into law on February 8, 2006 (Public Law No: 109-171), reduced entitlement spending by $39 billion over five years. $11.9 billion of this savings, or approximately 30 percent of the total savings from the Deficit Reduction Act, came from student loan provisions.

Background

The Federal Family Education Loan (FFEL) program was created as part of the Higher Education Act of 1965. This program provides loans to students from private sources of capital. It was created to give students access to loans at an interest rate lower than what the market would otherwise provide.

In 1993, amendments to the Higher Education Act created a second student loan program, the William D. Ford Direct Loan program. Unlike the FFEL program, the Direct Loan program provides loans to students using capital directly from the U.S. Treasury.

More students receive loans from the FFEL program than from the Direct Loan program. In 2004, for example, the FFEL program provided loans to slightly more than 9.5 million students while the Direct Loan program provided loans to a little more than 3 million students. Both programs are entitlements.

There are four types of loans available under both the FFEL program and the Direct Loan program: subsidized Stafford loans, unsubsidized Stafford loans, PLUS loans, and Consolidation loans.

Both subsidized and unsubsidized Stafford loans have a fixed rate of 6.8 percent and are available to undergraduate as well as graduate students. To qualify for a subsidized Stafford loan, a student must demonstrate financial need. The benefit of a subsidized Stafford loan is that the government covers interest payments while the student is enrolled in school and in deferment. Unsubsidized Stafford loans do not have this benefit and do not require a demonstration of financial need.

Graduate students and parents of dependent students may qualify for PLUS loans regardless of financial need. The fixed interest rate is 7.9 percent under the Direct Loan program and 8.5 percent in the FFEL program. Consolidation loans allow borrowers to consolidate a number of loans and extend their repayment period with a fixed rate based on the weighted average of outstanding loans rounded up to the nearest one-eighth of 1 percent.

H.R. 2669 would impact the interest rate on subsidized Stafford loans for undergraduate students only. The other three types of loans are specifically exempted from an interest rate reduction by the legislation. Extending interest rate reductions to PLUS loans, Stafford unsubsidized, and consolidation loans would have increased the cost of the legislation, which under “PAYGO rules” would require larger offsets.

The table below shows the history of the interest rate for Stafford loans.

Stafford Loan Interest Rates 1965 - 2006

Disbursement period	Interest rate in effect

November 8, 1965 - August 2, 1968	6% fixed rate
August 3, 1968 - December 31, 1981	7% fixed rate
January 1, 1981 - June 30, 1988	9% fixed rate
July 1, 1988 - September 30, 1992	8% fixed rate for first 48 months; 10% fixed rate for remaining repayment period
October 1, 1992 - June 30, 1994	91-day T-bill + 3.1%; capped at 9%
July 1, 1994 - June 30, 1995	91-day T-bill + 3.1%; capped at 8.25%
July 1, 1995 - June 30, 1998	91-day T-bill + 2.5% for in-school, grace or deferment periods; 91-day T-bill + 3.1% for repayment periods; capped at 8.25%
July 1, 1998 - June 30, 2006	91-day T-bill + 1.7% for in-school, grace or deferment periods; 91-day T-bill + 2.3% for repayment periods; capped at 8.25%
On or after July 1, 2006	6.8% fixed rate

Table from CRS Report RL33673

H.R. 2669 would gradually reduce the interest rate for subsidized Stafford loans to 3.4 percent, while leaving the interest rate for unsubsidized Stafford loans unchanged. To qualify for a subsidized Stafford loan, a student must establish financial need, but H.R. 2669 does not means test the rate reduction based on income after college.

Summary

Title I – Investing in Student Aid
<u>Sec. 101 – Mandatory Pell Grant Increases</u>

Please note: This section creates a NEW ENTITLEMENT PROGRAM

H.R. 2669 reauthorizes and increases the total amount of money in the treasury that is available for Pell Grants. $840 million is made available during FY2008 and steadily increases to $2.6 billion in FY2017.

H.R. 2669 increases the maximum Federal Pell Grant award to a student from $5,800 to $7,600 for 2008-2009 and by $1,000 each year thereafter until it reaches $11,600 by 2012-2013.

This legislation would eliminate the tuition sensitivity provision.

**Note: On February 27, 2007, by voice vote, the House agreed to the Pell Grant Equity Act of 2007 (H.R. 990), which eliminated the tuition sensitivity rule. The Senate received the bill but* *took no further action. The current law provides that if a student attends a low-cost university, the student is eligible to receive a Pell Grant based on the cost of the school and not the maximum Pell Grant available.*

The bill would make the Pell Grant available year round for students who attend more than 2 semesters or 3 quarters (depending on the school).

Under this bill, the Academic Competitiveness Grants would be made available to part-time students working towards an advanced degree and to students working towards earning a certificate.

<u>Sec. 102 – Support for Working Students</u>
The bill would increase the Income Protection Allowance for all students by $1,000.

**Note: This is the income that is not considered when considering a student's financial aid package.*

<u>Sec. 103 – Simplified Needs Test and Automatic Zero Improvements</u>
The Simplified Needs Test is expanded to include students who have lost at least one parent who was a dislocated worker. The bill also provides an increased timeframe during which a student or parent may have received a benefit under a means-tested Federal benefit program from 12 months to 24 months in order to be eligible for the simplified needs test.

**Note: to qualify for the Simplified Needs Test, a student's parents must have an AGI of less than $50,000.*

The Automatic Zero estimated family contribution is expanded to include students who have lost at least one parent who was a dislocated worker. The Automatic Zero is increased from $20,000 to $30,000 to qualify for the estimated family contribution, and this provision is adjusted annually for inflation.

**Note: If a family qualifies for Automatic Zero, then their estimated family contribution is $0 and thus eligible to receive the maximum federal aid (including the Pell Grant).*

<u>Sec. 111 – Interest Rate Reductions</u>
H.R. 2669 reduces interest rates on subsidized Stafford Loans (FFEL and DL). Please see the chart below:

July 1, 2006 – July 1, 2008 – fixed rate of 6.8%

July 1, 2008 – July 1, 2009 – fixed rate of 6.12%

July 1, 2009 – July 1, 2010 – fixed rate of 5.44%

July 1, 2010 – July 1, 2011 – fixed rate of 4.76%

July 1, 2011 – July 1, 2012 – fixed rate of 4.08%

July 1, 2012 – July 1, 2013 – fixed rate of 3.40%

**Note: This provision was included in H.R. 5. The reduced interest rate does not apply to PLUS loans, consolidation loans, or unsubsidized Stafford loans.*

<u>Sec. 112 – Increase in Loan Limits</u>
This section increases the loan limits for third and fourth year students to $7,500 from $5,500. The bill also provides an increase in the aggregate limit of undergraduates to $30,500 from $23,000, and graduate students to $73,000 from $65,500.

<u>Sec. 113 – Reduction of Lender Special Allowance Payments</u>
The bill reduces by 55 basis points the lender Special Allowance Payments on Stafford Loans and Consolidated loans and reduces by 85 basis points the lender Special Allowance Payments on PLUS loans.

<u>Sec. 114 – Elimination of Exceptional Performance Status for Lenders</u>
This provision would eliminate the exceptional performance status of lenders.

**Note: This provision was included in H.R. 5. The exceptional performance status is given to lenders with high levels of service performance. Currently 18 lenders are designated as such, including 4 of the 5 largest lenders. The Deficit Reduction Act lowered the Exceptional Performer benefit from 100 percent coverage to 99 percent, to go along with the reduction in the lender insurance percentage.*

<u>Sec. 115 – Reduction of Lender Insurance Percentage</u>
H.R. 2669 reduces the lender insurance rate from 97% to 95%. Under current law, the government would repay a private lender 97% of a defaulted loan on owed funds.

**Note: This provision was included in H.R. 5. The House-passed version of the Deficit Reduction Act of 2005 decreased lender insurance percentage from 98 to 96 percent. The final legislation enacted into law reduced the lender insurance percentage from 98 percent to 97 percent.*

<u>Sec. 116 – Guaranty Agency Collection Retention</u>
The bill reduces collection retention from 23% to 16%. Guaranty agencies are allowed to keep 23% of the funds they collect from defaulted loans.

**Note: A similar provision was included in H.R. 5. The House-passed version of the Deficit Reduction Act of 2005 contained a provision to lower from 23 percent to 20 percent.*

<u>Sec. 117 –Account Maintenance Fees</u>

This section changes reduces the amount guarantors are paid for their administration funds from 0.10% to 0.06% of the agency's total outstanding loan volume.

<u>Sec. 118 – Increased Loan Fees from Lenders</u>
This legislation increases the lender paid origination fee to 1% on all loans for large and for-profit lenders (up from 0.5%) and decreases the lender paid origination fee to 0% on all loans for small and non-profit lenders (down from 0.5%).

<u>Section 120. Market-Based Determination of Lender Returns</u>
This section calls for a study on creating an auction system for student loans. Once the study is complete, a pilot program will be implemented to test the findings of the study, regardless of whether the study results indicate that a pilot program would be feasible or within the best interests of taxpayers or students. Once the pilot program is complete, a total auction will be implemented.

<u>Sec. 131 – Loan Forgiveness for Services in Areas of National Need</u>

Please note: This section creates a NEW ENTITLEMENT PROGRAM

H.R. 2669 provides $5,000 in new loan forgiveness to graduates who have been employed for 5 years, are not in default, and are employed in the following fields: early childhood educators; nurses; foreign language specialists; librarians; highly qualified teachers in bilingual education and low-income communities; child welfare workers; speech language pathologists; national service; school counselors; and public sector employees.

**Note: $1,000 is provided to graduates servicing in areas of national need for up to 5 years (thus $5,000 total).*

<u>Sec. 132 – Income-Contingent Repayment for Public Sector Employees</u>
This section allows for the total forgiveness of a loan if the borrower has:

Made 120 payments under the Direct Loan's income contingent repayment plan; and,

Been employed for 10 years in a public sector job (has to be the time during which the 120 payments were made).

Note: A public sector job is defined as a full time job in: emergency management, government, public safety, law enforcement, public health, education, social work in a public child or family service agency, or public interest legal services.

<u>Sec. 133 - Income-Based Repayment</u>
The bill guarantees that borrowers will not have to pay more than 15% of their discretionary income when the borrower is experiencing a "partial financial hardship."

**Note: The bill defines partial financial hardship as 150% of the poverty line applicable to the borrower's family size (Section 134).*

<u>Sec. 135 – Deferrals</u>
This provision eliminates the 3-year time limit on deferrals a borrower can receive interest subsidies on an economic hardship deferment.

<u>Sec. 136 – Maximum Repayment Period</u>
This section expands the types of repayment a borrower's loans may be in and still have the 25 year clock running on an ICR repayment plan. After 25 years, the remainder of the loan is forgiven. The 25-year window now includes periods during which the loan is in deferment due to economic hardship and when payments are being made under the fair payment assurance plans.

<u>Sec. 137 – Deferral of Loan Repayment Following Active Duty</u>
The bill allows veterans who were enrolled in or left college within six months of deployment, to receive extended repayment on loan terms up to 13 months upon return from active duty.

<u>Sec. 141 – Federal Perkins Loans</u>

Please note: This section creates a NEW ENTITLEMENT PROGRAM

H.R. 2669 provides $100 million for the Perkins Loan Federal Contribution program for each of the fiscal years 2008-2012.

Title II – Reducing the Cost of College

<u>Sec. 202 – Consumer Information and Public Accountability in Higher Education</u>
The bill requires the Department of Education to redesign the College Opportunity On-Line (COOL) website. The website must provide easy access to a college consumer profile which lists certain information about fees, financial assistance, and other pertinent information about an institution of higher education.

The COOL website must include, as part of the consumer profile, the following information:

The sticker price of the institution for the past 3 academic years;

The net tuition price (average cost minus average grants) of the institution for the past 3 academic years;

The percentage change in both the sticker price and the net tuition price for the past 3 academic years;

The percentage changes in the higher education price index over the last 3 academic years; and

Whether the institution has been placed on affordability alert status (which is when the percentage change in sticker price is 2 times the rate of change in the higher education price index over the same period).

If an institution increasing its sticker price at a percentage rate for any 3 year interval that exceeds two times the rate of change of the higher education price index, the institution must provide reasons for why the cost of attending the school has increased at a rate greater than the higher education price index.

Sec. 203 – Incentives and Rewards for Low Tuition

Please Note: This section creates a NEW ENTITLEMENT PROGRAM (Sections 203 and 204 are considered 1 new entitlement program)

H.R. 2669 established a new $15 million competitive grant program to induce institutions of higher education to keep the percentage increase in their net tuition price equal to or less than the percentage change in the higher education price index for the academic year. By meeting this requirement, the Secretary of Education may provide grant funds to institutions.

Sec. 204 – Cooperative Education Rewards for Institutions that Retrain Tuition Increases

Please Note: This section creates a NEW ENTITLEMENT PROGRAM (Section 203 and 204 are considered 1 new entitlement program)

This section of the bill creates a new Title VIII to the Higher Education Act (Public Law 89-329,) entitled “Cooperative Education Rewards for Institutions that Restrain Tuition Increases.” This new section encourages and rewards institutions that have restrained their net tuition prices and help promote work experiences for their services.

The bill authorizes $15 million a year for FY2008-2012 for this new title. Within this authorization, the bill creates 2 different types of grants. The first grant would be awarded to institutions to develop cooperative education programs and the second grant for the following projects:

Demonstration projects to show innovative methods of cooperative education;

Conduct training and resource centers to further the development of cooperative education; and,

Conduct research related to cooperative education.

Title III – Ensuring a Highly Qualified Teacher in Every Classroom

Sec. 301 – TEACH Grants

Please Note: This section creates a NEW ENTITLEMENT PROGRAM

H.R. 2669 creates new TEACH Grants, which are authorized $4,000 per year for a maximum of 4 years. The TEACH Grants are awarded to high achiever undergraduate and graduate students who commit to teach a high-need subject in a high-need school for 4 years. If the 4 years requirement is not met, then the grant becomes a loan to be paid back.

Sec. 311 – Centers of Excellence

Please Note: This section creates a NEW ENTITLEMENT PROGRAM

This section authorizes $50 million for the creation of competitive grants to establish Centers of Excellence which will provide funds to minority-serving institutions to help recruit and prepare teachers and to increase opportunities for Americans of all educational, ethnic, class, and geographical backgrounds to become highly qualified teachers.

Title IV – Leveraging Funds to Increase College Access

Sec. 401 – Investment in Historically Black Colleges and Universities and Minority Serving Institutions

Please Note: This section creates a NEW ENTITLEMENT PROGRAM

The bill provides $500 million for the next 5 fiscal years which will be distributed to the following institutions:

$200 million to Hispanic-Serving Institutions;

$170 million to Historically Black Colleges and Universities;

$30 million to Predominately Black Institutions to award 10 grants of $600,000 annually for programs in the fields of science, technology, engineering, health education, teacher education, or programs that improve the educational outcomes of African American males;

$60 million to Tribal Colleges and Universities;

$30 million to Alaska/Hawaiian Native Institutions; and,

$10 million to Asian American and Pacific Islander Institutions.

Sec. 411 – College Access Challenge Grants

Please Note: This section creates a NEW ENTITLEMENT PROGRAM

This provision matches Federal funds to grants from philanthropic organizations to increase the number of eligible persons from underserved populations who enter and complete college.

<u>Section 412 – Upward Bound</u>

Please Note: This section creates a NEW ENTITLEMENT PROGRAM

This section prohibits the Secretary of Education from using funds to review and evaluate participants of the Upward Bound program. The bill also authorizes $228 million for FY2008-2011 for unfunded programs of FY2007 that scored higher than a 70 on their grant applications.

Amendment Made in Order Pursuant to the Rule
Rep. McKeon (R-CA) Amendment in the Nature of a Substitute:
The amendment does the following:

- Reduces lender insurance from 97% to 95% and eliminate exceptional performer;
- Reduces collection retention paid to guaranty agencies from 23% to approximately 16%;
- Reduces special allowance payments to lenders by 34 basis points for Stafford loans and by 64 basis points for PLUS and Consolidation loans;
- Modifies the way account maintenance fees are paid to guaranty agencies from a loan volume basis to a per account basis;
- Provides mandatory money in order to increase the Pell Grant maximum by $250 in 2008 and by $100 each year thereafter;
- Eliminates the tuition sensitivity rule;
- Provides our returning soldiers with an extended repayment deferment of 13 months upon concluding their service;
- Equalizes the PLUS loan interest rate by reducing the FFEL rate from 8.5% to 7.9% to match the rate in the Direct Loan program;
- Includes a plan fro improved consumer information and public accountability with respect to college costs, including a college affordability demonstration project; and,
- Reduces the deficit by approximately $5.8 billion over 5 years (more than 1/3 the total savings in the bill).

Additional Views
"The Administration supports reducing excess subsidies in the student loan programs and increasing aid to the neediest students, as proposed in the President's FY 2008 Budget. However, if H.R. 2669, the "College Cost Reduction Act of 2007," were presented to the President in its current form, his senior advisors would recommend that he veto the bill because it fails to target aid to the neediest students currently in college and creates new mandatory Federal programs and policies that are poorly designed and would have significant long-term costs to the taxpayer." Statement of Administration Policy released on July 10, 2007.

Cost Estimate
"CBO estimates that net effects of those changes would reduce direct spending by $1.7 billion over the 2008-2012 period and by $0.9 billion over the 2008-2017 period.

"Implementing the bill also would affect discretionary spending, primarily by increasing Pell grants. Assuming the appropriation of the necessary funds, those discretionary costs would total about $158 billion over the 2008-2012 period." Congressional Budget Office Cost Estimate

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