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Conference Report to 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 wasconsidered 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 Conference Report to H.R. 2669 provides $22.3 billion in cuts to federal spending, over five years, but then at the same time spends roughly $21.57 billion in that same period time period, which amounts to $752 million in deficit reduction. When H.R. 2669 passed in the House of Representatives on July 11, 2007 it was estimated to cut spending by $20.38 billion, and spend $17.58 billion, leaving a remainder of $2.79 billion in deficit reduction. Much of the spending in the Conference Report goes towards 5 new entitlement programs and graduates of college.

Floor Situation

The Conference Report to H.R. 2669 is debatable for one hour equally divided and controlled by the Chairman and the Ranking Member of the Committee on Education and Labor and is being considered on the floor under a closed rule.

The Rule:

- Waives all points of order against the conference report and against its consideration

- Provides that the conference report shall be considered as read

The original bill, H.R. 2669, was introduced by Representative George Miller (D-CA) on June 12, 2007. The bill was ordered reported, as amended, from the Committee on Education and Labor, by a recorded vote of 30-16, on June 13, 2007, was passed in the

House of Representatives by a vote of 273 - 149 (Roll no. 613) on July 11, 2007. (Please see table in Legislative Background below for details)

The Conference Report to H.R. 2669 is expected to be considered on the House floor on September 7, 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.

H.R. 2669 passed in the House of Representatives by a vote of 273 – 149 on July 11, 2007. Please see table below for details:

	AYES	**NOES**	**PRES**	**NV**
DEMOCRATIC	226			4
REPUBLICAN	47	149		5
INDEPENDENT				
TOTALS	**273**	**149**		**9**

The Senate then passed H.R. 2669, as amended, by a vote of Vote. 78 - 18. Record Vote Number: 272, on July 20, 2007.

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 through competition 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.

The Conference Report to 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. The cut in the interest rate is temporary and would be phased in over a four year period. After the four years have passed, the interest rate on the subsidized Stafford loans would jump from 3.4% to 6.8%. Extending interest rate reductions permanently and to PLUS loans, Stafford unsubsidized loans, and consolidation loans would have increased the cost of the legislation, which under "PAYGO rules" would require drastically 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

The Conference Report to 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

	House Proposal	Senate Proposal	Conference Agreement
Deficit Reduction	$2.79 billion	$779 million	$752 million
Cuts	$20.38 billion	$19.46 billion	$22.3 billion
Spends	$17.58 billion	$18.68 billion	$21.568 billion (includes $1.357 billion for

			interactive effect between proposals)

(Courtesy of the Republican Staff at the Committee on Education and Labor)

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

Section 101 – Tuition Sensitivity

This legislation would eliminate the tuition sensitivity provision effective July 1, 2007. The provision that is being eliminated "prevents low-income students attending low-cost institutions, such as community colleges" from benefiting fully from Pell Grants.

**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 Conference Report adds a new effective date that was not included in the House bill that authorizes and appropriates $11 million for FY2008 "to ensure that all eligible students in award year 2007-2008 receive funding."

Section 102 – Mandatory Pell Grant Increases

Please note: This section creates the 1st of 5 NEW ENTITLEMENT PROGRAMS

The Conference Report increases the maximum Pell Grant incrementally to reach $5,400 by the 2012-2013 academic year.

**Note: The House passed bill increased the maximum Pell Grant incrementally to reach $4,810 by the 2012-2013 academic year.*

The Conference Report reauthorizes and increases the amount of money in the treasury that is available for Pell Grants. $2.03 billion is made available in FY2008 and steadily increases to $4.9 billion in FY2017.

Note: The House passed bill made $840 million available during FY2008 and steadily increased available funding to $2.6 billion in FY2017.

***Note: The House passed bill contained a provision that would make the Pell Grant available year round for students who attend more than 2 semesters or 3 quarters (depending on the school), which is not contained in the Conference Report.*

Section 103 – Upward Bound

Please Note: This section creates the 2nd of 5 NEW ENTITLEMENT PROGRAMS

The Conference Report authorizes $228 million for FY2008-2011 for unfunded Upward Bound programs of FY2007 that scored higher than a 70 on their grant applications.

**Note: The House passed provision included language that prohibited the Secretary of Education from using funds to review and evaluate participants of the Upward Bound program.*

<u>Section 104 – Teach Grants</u>

Please Note: This section creates the 3rd of 5 NEW ENTITLEMENT PROGRAMS

The Conference Report contains House language that creates new TEACH Grants, which are authorized at $4,000 per year for a maximum of 4 years. The TEACH Grants are awarded to high achieving 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.

**Note: The Conference Report does not include House language that authorized bonus grants for students that are enrolled in a qualified teacher education program and teach math or science classes.*

Title II – Student Loan Benefits, Terms, and Conditions

<u>Section 201 – Interest Rate Reductions</u>

The Conference Report reduces interest rates on subsidized Stafford Loans (FFEL and DL) for undergraduate students. Please see the chart below for comparisons between the interest rates contained in the House passed version of H.R. 2669 and the Conference Report:

July 1, 2006 – July 1, 2008 – fixed rate of 6.8%	House passed: 6.8%
July 1, 2008 – July 1, 2009 – fixed rate of 6.0%	House passed: 6.12%
July 1, 2009 – July 1, 2010 – fixed rate of 5.6%	House passed: 5.44%
July 1, 2010 – July 1, 2011 – fixed rate of 4.5%	House passed: 4.76%
July 1, 2011 – July 1, 2012 – fixed rate of 3.4%	House passed: 4.08%

*In House passed version only: July 1, 2012 – July 1, 2013 – fixed rate of 3.4%

**Note: On July 1, 2012, the interest rate will jump back up to 6.8%.*

The Conference Report sunsets the interest rate cut after four years, as opposed to the five year period contained in the House passed version.

**Note: The Conference Report does NOT include House passed language that would increase the loan limits for third and fourth year students to $7,500 from $5,500, the House passed language would have also provided an increase in the aggregate limit of undergraduates to $30,500 from $23,000, and graduate students to $73,000 from $65,500.*

<u>Section 201 – Student Loan Deferment for Certain Members of the Armed Forces</u>
The Conference Report contains Senate language that eliminates a three-year limit on the period for which certain members of the armed forces may defer their student loan payments. The provision allows deferments until 180 days after an active duty member of the armed forces is demobilized, and is available to service members regardless of when the loan was originated.

**Note: No similar language was contained in the House passed bill.*

<u>Section 203 – Income-Based Repayment</u>
The Conference Report combines language from both the House and Senate passed versions of the bill to create a loan repayment program that is based on the borrower's discretionary income, where the government pays any of the borrower's unpaid interest on a subsidized loan for up to three years, after which unpaid interest in capitalized as part of the loan, (House language capitalized unpaid interest starting in the first year, and Senate language required the government to pay the borrower's unpaid interest for up to five years). Under this plan, a borrower pays no more than 15% of their discretionary income. Outstanding loan balances are canceled after 25 years.

**Note: The House passed language canceled outstanding loan balances after 20 years.*

<u>Section 204 – Deferral of Loan Repayment Following Active Duty</u>
The Conference Report contains House language that 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>Section 205 – Maximum Repayment Period</u>
The Conference Report contains House language that expands the types of repayment a borrower's loans may be in and still have the 25 year clock running on an Income Contingent Repayment (ICR) 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 income-based repayment plans.

Title III – Federal Family Education Loan Program
<u>Section 301 – Guaranty Agency Collection Retention</u>
Effective July 1, 2007, the Conference Report contains House language that will reduce collection retention from 23% to 16%.

<u>Section 302 – Elimination of Exceptional Performer Status for Lenders</u>

The Conference Report combines House and Senate language to eliminate the exceptional performance status of lenders that is given to lenders with high levels of service performance. Currently 18 lenders are designated as such, including 4 of the 5 largest lenders. This provision contains Senate language that will allow lenders designated as exceptional performers as of October 1, 2007 to be allowed to continue such designation for the remainder of the year for which the designation was made.

Section 303 – Reduction of Lender Insurance Percentage

The Conference Report contains language to maintain the current level of insurance paid by the Federal government (97%) to private lenders on defaulted loans guaranteed under Title IV of the Higher Education Act through 2013, when the rate will be reduced to 95%.

**Note: The House passed version would have reduced the lender insurance rate from 97% to 95%, effective October 1, 2007.*

Section 304 - Definitions

The Conference Report eases the income requirements for an economic hardship student loan deferment. This section also defines an eligible non-profit for purposes of the special allowance payment provisions in section 305.

Section 305 – Special Allowances

The Conference Report contains House-Senate compromise language that, effective July 1, 2007, reduces the special allowance payments for for-profit lenders by 55 basis points for Stafford and Consolidation loans and by 85 basis points for PLUS (which equalizes special allowance payments on Stafford and PLUS), and reduces special allowance payments for non-profit lenders by 40 basis points for Stafford and Consolidation loans by 70 basis points for PLUS (which equalizes special allowance payments on Stafford and PLUS).

**Note: House passed language set the reduced the payments for both For-profit and Non-profit lenders by 55 basis points for Stafford and Consolidation loans and by 85 basis points for PLUS.*

The Conference Report will increase the loan origination fee that lenders pay from 0.5% to 1% on all loans.

**Note: House passed language increased the loan origination fee that large lenders pay on all loans from 0.5% to 1%, but eliminated the current 0.5% origination fee on all loans for small and non-profit lenders.*

Section 306 – Account Maintenance Fees

The Conference Report contains House language that reduces the amount guarantors are paid for account maintenance fees from 0.10% to 0.06% of the agency's total outstanding loan volume.

Title IV – Loan Forgiveness
Section 401 – Loan Forgiveness for Public Service Employees
The Conference Report combines House and Senate language to create a new loan forgiveness program for public service employees, (including government employees) which will forgive the remaining loan balance for a borrower who has been employed in a public sector job and has made payments on such a loan for a period of ten years.

Title V – Federal Perkins Loans
Section 501 – Distribution of Late Collections
The Conference Report adopts Senate language which postpones the date on which institutions must return late collections on Perkins loans to September 30, 2012.

**Note: House passed language would have provided $100 million for the Perkins Loan Federal Capital Contribution program for each of the fiscal years 2008-2012 thereby creating an additional new entitlement program.*

Title VI – Need Analysis
Section 601 – Support for Working Students
The Conference Report adopts House-Senate compromise language that will increase the Income Protection Allowance for students, which is the amount of income a student can earn that is not considered when evaluating a student's financial aid package. The levels of protected income will gradually increase for all students starting in the 2009-2010 academic year, with the level of income protection determined by the student's status as either a dependant, married, or with dependants. For example: Dependant students will receive a protected income allowance of $3,750 for the 2009-2010 academic year, that will increase to $6,000 by the 2012-2013 academic year, and independent students without dependants other than a spouse, who are married and whose spouse is not enrolled will receive a protected income allowance of $11,220 for the 2009-2010 academic year, that will increase to $14,690 by the 2012-2013 academic year.

Section 602 – Simplified Needs Test and Automatic Zero Improvements
The Conference Report adopts House language that will expand The Simplified Needs Test to include students who have 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 also expanded in the Conference Report 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).*

Title VIII – Partnership Grants
<u>Section 801 – College Access Challenge Grants</u>

Please Note: This section creates the 4th of 5 NEW ENTITLEMENT PROGRAMS

The Conference Report adopts Senate language that authorizes a College Access Partnership Grant program through September 30, 2009, to make payments to States to increase college access for low-income students in the state. The federal share of the matching grant is 2/3, and the states pay the remaining third. States are permitted to subgrant the funds to philanthropic organizations.

**Note: House passed language would have provided the matching funds to philanthropic organizations, as opposed to States, to increase the number of eligible persons from underserved populations who enter and complete college.*

<u>Sec. 802 – Investment in Historically Black Colleges and Universities and Minority Serving Institutions</u>

Please Note: This section creates the 5th of 5 NEW ENTITLEMENT PROGRAMS

The Conference Report adopts House language that was modified in Conference and provides $510 million for the next 5 fiscal years which will be distributed to the following institutions:

Hispanic-Serving Institutions;

Historically Black Colleges and Universities;

Predominately Black Institutions;

Tribal Colleges and Universities;

Alaska/Hawaiian Native Institutions; and,

Asian American and Pacific Islander Institutions.

Cost Estimate
A cost estimate was not available from the Congressional Budget Office (CBO) at the time of publication.

Staff Contact

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