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## **The Student Loan Reform Bill: A Perspective**

The final student loan reform bill that Congress approved on March 25 is dramatically scaled back from earlier versions of the legislation (see Sept. 2, 2009 Washington Update). For starters, it eliminates proposed new programs for community colleges, and the President's state-based higher education reform initiative. Instead, the final bill opted for more limited funding of an existing job training program at the Department of Labor, and an existing college completion and access program in Title VII of the Higher Education Act.

Private colleges, in particular, breathed a sigh of relief at the removal of the state-based reform efforts for higher education. While the final bill would have excluded private colleges from both state control and state funding, there was still much concern about the inappropriate precedent the legislation could have set for the governance of public institutions. There was an equally great concern that such programs could have diminished the federal focus on student aid.

Also cut from the bill was proposed new funding for early childhood education and K-12 school construction. The greatest lose to private colleges, though, was the elimination of a proposed expansion of the Perkins loan program. If it had survived, that provision could have provided millions of students access to low-cost Perkins loans instead of high-cost supplemental private loans.

Beyond these last-minute changes, though, the simpler legislation that ultimately emerged still stands as a historic change in federal student aid and health care policy for colleges - one that will have profound effects in the months and years ahead. Here are some of the bill's highlights.

### **Student Aid**

\* The new \$5,550 Pell Grant maximum goes into effect July 1, and will stay in place (subject to appropriators maintaining base funding of \$4,860) through 2012-13. Then effective July 1, 2013, for five years the grant will increase by the previous year's CPI rate. After those five years, funding will plateau. The bill provides \$36 billion for these increases.

\* New borrowers of student loans will be eligible for an income-based repayment plan, effective July 2015. Also, student loans will be forgiven after 15 years of repayment, instead of 20 years, as currently required.

\* These improvements are paid for by requiring all colleges to convert to direct lending by July 1, 2010. A \$50 million fund has been created to assist colleges in this conversion effort.

### **Health Care Provisions of Importance to Higher Education**

\* Colleges and universities that offer their own student health insurance plans may continue to do so. (Early Senate language unintentionally restricted student health insurance, but this was corrected in the final bill.)

\* Children will now be able to stay on their parents' insurance through age 26. The change is effective this September.

\* There will be new limitations on Flexible Spending Accounts (FSAs). Also, a new surtax on so-called "Cadillac" insurance plans will take effect in 2018. The new 40 percent excise tax will be imposed on health insurance plans valued over \$10,200 for individuals, or over \$27,500 for families (indexed for inflation). Many plans offered by colleges could be affected.

### **A Long Legislative Journey**

This bill marks the end of a lengthy legislative voyage through difficult waters. It marks the apparent end of the long and bitter controversy over direct versus bank-based loans, and some sectors (particularly community colleges) are disappointed that the proposals noted above were ultimately slashed from final bill. Still, there was a general sigh of relief among higher education groups in Washington that the bill was finally done.

For the first time in nearly eight years, higher education does not have major changes to the Higher Education Act pending in Congress (although nearly all higher education tax provisions will expire this year - see Feb. 10 Washington Update story). Since the Higher Education Act reauthorization process began in 2002, to the passage of the student aid reform bill March 25, higher education has been in a constant state of legislative review.

HEA reauthorization finally wrapped up in August 2008. Meanwhile, the student aid programs were altered through three major reconciliation bills in 2006, 2007 and 2010. There also was emergency legislation on two occasions to provide liquidity to the bank-based student loan programs, plus higher education dealt with numerous technical bills that frequently made changes well beyond just the technical.

The student loan reform bill that Congress passed on March 25 was by far the most controversial -- especially when a technical issue over a Pell Grant provision sent the entire health care reconciliation act back to the House for another painful vote (see NAICU's March 25 update to presidents). The bill is certain to keep both colleges and the Department of Education busy, as both work furiously to ensure that all students will be able to borrow through the direct loan program by July 1, 2010. The transition, which will have to be made at dizzying speed, is certain to have bumps along the way.

### **The Bottom Line**

Collectively, these bills have been a mixed bag for colleges. On one hand they have brought more reporting requirements for all schools, while loosening fraud and abuse rules on the for-profit sector. On the other hand, the student aid programs -- particularly the Pell Grant program -- are now household-name federal efforts with an army supporters in both parties.

The bill that was just passed did provide essential funding to the Pell Grant program. The Pell funding crisis only became evident in the final weeks before the bill passed. The funding shortfall facing Pell Grants is so dramatic, that once the bill's \$36 billion in new funds are put in the program, this will not guarantee keeping the maximum grant at \$5,550 permanently, as more and more needy Americans head to college and a better life.

For low-income students, and the colleges that serve them, the federal role in, and support of student aid has never been more important. This has been particularly true during the recent economic downturn, when Congress has demonstrated time and again its willingness to infuse massive support into federal student aid. There are, however, more costs for colleges in delivering that student aid -- mostly through added reports on an array of matters not necessarily related to institutional accountability for federal student aid funds. Still, both students and colleges have benefited.

Overall, independent colleges have been treated fairly. The ability of non-profit schools to serve students from all economic backgrounds, while remaining true to their many diverse institutional missions, has been maintained. At the end of the day, the messy process of sausage making has supported our individual missions, and helped our neediest students.

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## **The Path to Federal Student Aid Reform**

### **Chronology of Actions Leading Up to Student Aid Reconciliation in 2010**

#### **2008**

##### **Pre-2008**

The combined cuts to lender subsidies from two reconciliation bills under Republican (2006) and Democratic (2007) leadership leave payments so low that lenders claim making student loans are no longer profitable.

##### **Spring 2008**

Crisis in the home mortgage industry rocks financial industry; concern rises about spillover into student loans.

##### **March 2008**

NAICU surveys members regarding availability of student loans. 57 percent of respondents report that at least one of their "preferred" lenders has left the student loan program.

##### **May 2008**

The "Ensuring Continued Access to Student Loans Act of 2008" (ECASLA) is enacted to avert student lending crisis, with NAICU's support. Authorized for one year, it provides federal liquidity to private banks to keep the FFELP program operating. Includes a permanent increase in unsubsidized loan limits by \$2,000 for all undergraduate students, regardless of need.

##### **2008 - Present**

Amid concerns about wavering student loan market, the number of colleges certifying for the Direct Loan program increases substantially.

##### **September 2008**

NAICU surveys members again regarding availability of student loans.

##### **September 2008**

ECASLA is credited with preventing a student lending crisis, and the legislation is extended to September 2010. For both the 2008-09 and 2009-10 academic years, the vast majority of bank-based lending will be made with federal liquidity through this program.

**November 2008**

President Obama is elected, having campaigned on a Pell Grant entitlement and direct loans. The House increases the size of its Democratic majority, and the Senate gains a filibuster-proof 60 vote Democratic majority.

**November 2008**

NAICU surveys members regarding economic downturn.

**2009****March 2009**

Stimulus bill increases the Pell Grant maximum by \$500 for two years only. Pays off total Pell shortfall of \$2.7 billion, caused by economic downturn.

**March 2009**

Obama FY 2010 budget proposes the restructuring of student aid programs by mandating the conversion to direct loans and using the savings to make Pell an entitlement and to expand the Perkins loan program.

**April 2009**

NAICU board meeting discussion of Obama's proposal focuses on the balance of maintaining independence and the need for federal financial aid for students. Board notes shared with all NAICU members (PDF of "Board Notes").

**May 2009**

Congress adopts FY 2010 budget with reconciliation instructions for a single, combined student aid and health care reform bill, setting the path for a mandated conversion to direct loans.

**June 2009**

NAICU surveys members regarding impact of recent increases in student aid funding. Results show 93 percent of respondents indicate Pell increases have been "important" and 85 percent indicate loan increases have been "important."

**July 2009**

H.R. 3221, Student Aid Fiscal Responsibility and Access Act (SAFRA) is unveiled in the House. It goes beyond direct loans and Pell grant funding to include measures for broad state-based education reform (including higher education and early childhood), with a special focus on community college reform.

The House does not go to a full Pell entitlement; but instead continues a dual funding stream for Pell with an annual appropriated base, plus a mandatory add-on of CPI plus 1%.

**September 2009**

House passes SAFRA by a vote of 253-171, with NAICU "rule of construction," protecting private non-profit institutions from state control.

**Fall 2009**

Senate staff indicates to NAICU that a "rule of construction" does not meet the "Byrd Rule" test for inclusion in a reconciliation bill, but that the Senate will apply state reforms only to public colleges.

Action on SAFRA is on hold. Leaders wait on the outcome of the health care reform debate to see if reconciliation is needed for passage; in which case, health care and student aid must move together in one bill.

**November 2009**

NAICU board revisits the NAICU position on student aid bill. The board expresses increased concern about state-based reform of education, but continue to support student aid proposals in light of private college exemptions from reform mandates.

Bank of America announces it will no longer participate in the federal student loan program.

## **December 2009**

Senate passes health care reform legislation 60-39, with the exact number of votes needed to stop a filibuster.

## **2010**

### **January 2010**

Rumors emerge of Congressional Budget Office (CBO) "score" changes for student aid reconciliation bill as more colleges convert to direct lending and the Pell Program faces multi-billion dollar cost overruns. (A CBO "score" is the official estimate of the cost of or savings produced by a piece of legislation.)

### **January 19, 2010**

Scott Brown (R-Mass.) is elected to the seat held by the late Sen. Ted Kennedy (D-Mass.). This election takes away Senate Democrats' ability to stop a filibuster without Republican support.

### **March 2010**

Preliminary CBO baseline reduces the savings from conversion to direct lending from \$87 billion to \$61 billion. Pell shortfall totals \$18 billion.

Leadership announces reconciliation will be used to pass health care "fixes" and student aid reform legislation.

Byrd Rule tests strip out all education reform provisions from the student aid bill. This leaves only Pell grant funding, the conversion to direct lending, support for minority serving institutions, and support for job training programs of two years or less.

### **March 17, 2010**

Chase announces it will no longer participate in the federal student loan programs; and will only return if ECASLA is extended.

### **March 21, 2010**

House passes reconciliation by vote of 220-211.

### **March 25, 2010**

Senate passes reconciliation 56-43, with a technical change to the Pell Grant language.

House passes Senate modified bill 220-207.

*For more information, contact Maureen Budetti, [Maureen@naicu.edu](mailto:Maureen@naicu.edu)*

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## **Converting to Direct Loans - Getting Started**

If your institution have not yet begun the direct loan conversion process, you might want to get underway as soon as possible. Start by going to the Department of Education's "Direct Loans - Getting Started" page.

<http://www2.ed.gov/offices/OSFAP/DirectLoan/participating.html>

Once you have signed up, you will be assigned a "Point of Contact" (an actual person) who will lead you through the process. Typically, you will be contacted within 24 hours of your request, and will be walked through how to set up all of the necessary components of a Direct Loan account, and how to have your Current Funding Level established.

Another useful resource might be the "Checklist for Transition to Direct Loans" (PDF) jointly developed by NASFAA and the Department of Education.

The Department has said that they will stick with colleges throughout the process until they

are up and running. However, if you have any difficulties in getting the assistance you need, please contact NAICU's Director of Student Aid Policy, Maureen Budetti (maureen@naicu.edu), and she will help you get the necessary support.

*For more information, contact Maureen Budetti, Maureen@naicu.edu*

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## **Associations Launch Web Site to Help Colleges Go Global**

NAICU, along with about a dozen other higher education organizations, have established the Inter-association Network on Campus Internationalization, or INCI (pronounced "inky"). The Web site provides resources for campuses that wish to "internationalize" their campuses. It offers a trove of material on various aspects of international education, including study abroad, partnerships and collaborations, and institutional and cultural change.

The materials are organized to provide campus administrators a resource base to use in planning various international undertakings. Member associations submit and update materials on the site, which is managed by the American Council on Education.

*For more information, contact Maureen Budetti, Maureen@naicu.edu*

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## **FIPSE Requests U.S.- Russia Partnership Proposal**

The Department of Education's Fund for the Improvement of Postsecondary Education (FIPSE) has announced a grant program to encourage and develop educational opportunities between U.S. and Russian colleges. The arrangements provided by the grants would encourage language learning, cultural appreciation, sharing knowledge and forming long-term relationships between the two countries. Application deadline is May 18.

Six grants will be awarded from the \$800,000 program. Funding will be \$100-150,000 for the first year, and \$300-400,000 for the second year. Additional information is available at the Federal Register posting. The deadline for applications is May 18.

*For more information, contact Maureen Budetti, Maureen@naicu.edu*

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## **EducationUSA to Offer First International Admission Forum**

EducationUSA will offer its first-ever "Connecting You to the World" forum in Washington, D.C., June 28-29. The forum is designed for international admission and enrollment management professionals at U.S. colleges and universities who are seeking to enhance their international student recruitment. For details and registration information, visit the EducationUSA Web site.

Sessions by EducationUSA world experts and government officials will cover such topics as cost-effective international recruiting strategies; trends in student mobility in all world regions; foreign and U.S. funding available; and what lies ahead for SEVIS (the Student and Exchange Visitor Information System).

The registration fee is \$295, with discounts for early registration and for multiple participants from the same institution.

EducationUSA is a global network of more than 400 advising centers supported by the Bureau of Educational and Cultural Affairs at the U.S. Department of State.

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