Student Loans Become A Political Battleground

Debate on the FY 2005 education appropriations bill (H.R. 5006) took an unexpected turn September 9, as an arcane student loan issue took center stage.

Representatives Dale Kildee (D-Mich.) and Chris Van Hollen (D-Md.) surprised most observers by offering a successful amendment to eliminate the 9.5 percent floor on the rate of return for loans financed by tax-exempt bonds. Although the amendment seems to provide only one year of savings, and presents some technical problems, it passed by a vote of 413 to 3.

Both Republicans and Democrats agree that the 9.5 percent subsidized return to lenders, instituted in a different interest rate environment, is inappropriate now that prevailing rates have fallen far below the guaranteed floor. The Republican leadership of the House Education and the Workforce Committee addressed the problem in H.R. 4283, its pending Higher Education Act (HEA) reauthorization bill.

Offering a student loan amendment on an unrelated funding bill is a highly unusual move. It illustrates just how contentious the program is likely to be if a reauthorization bill ever starts to move through the political process. Even the Washington Post and New York Times have picked up on the rate issue.

Kildee characterized the floor as a “regulatory loophole” that needed to be fixed immediately to save taxpayer dollars. However, Workforce Committee Chairman John Boehner (R-Ohio) said the provision could be better handled during the reauthorization process.

The change in the rate of return sought by both parties would produce several billion dollars in savings—one of the few ways to find money in the student loan program to pay for reauthorization changes, including increased loan limits and reduced origination fees. Making the change in the appropriations bill effectively hands over money for other purposes, and makes less money available for reauthorization.

Overtime also an issue

Another successful Democratic amendment was offered by David Obey (D-Wisc.), ranking member of the Appropriations Committee. It would prohibit any funds in the bill from being spent to enforce the Department of Labor’s new overtime regulations, which took effect August 23.

Supporters of the new rule say it clarifies who is eligible for overtime pay, and will give 1.3 million low-income workers overtime pay for the first time. Opponents claim the rule takes overtime pay away from six million white-collar workers by reclassifying their jobs. President Bush has threatened to veto the education appropriations bill if it comes to him with the overtime amendment attached.

No funding level surprises

The House passed the education spending bill on September 9 by a vote of 388 to 13, with no surprises on funding levels for student aid. In the current budget environment, there was no chance of an amendment to increase funding for education. Instead, floor debate was dominated by the non-funding amendments.

The bill was unchanged from the version marked up by the education appropriations subcommittee. It maintains a $4,050 Pell Grant maximum for the third year in a row; eliminates Perkins loan funding; and slightly increases Supplemental Education Opportunity Grant (SEOG), TRIO, and GEAR UP funding. For the third year in a row, funding remained level for LEAP state grants, Federal Work-Study, Perkins Loans cancellations, and graduate programs.

(Continued on page 2)
They’re Back!

Congress Prepares to Zip through a Backlog of Bills, then Head to the Hustings

Congress returned after Labor Day to speed through an abbreviated agenda before recessing again on October 8 for the election season.

Although there is a lot of legislation requiring final action, much of it may be put off until the lame duck session expected in November. It is unclear how key bills will be handled. Probably there will be an omnibus appropriations bill, but a tax bill benefiting higher education is also up in the air. Few seem to think that reauthorization of the HEA will make it through, unless something dramatic takes place after the elections.

The House reauthorization bill has not yet been approved by the Education and Labor Committee. The Senate Republican leadership has circulated a bill to Republican colleagues on the Health, Education, Labor and Pensions Committee that may be introduced in September. Given the political environment, Democrats are unlikely to cooperate on any legislation that gives credit to the Republicans.

So does it matter if reauthorization does not take place? No, and yes.

HEA programs that receive appropriated funds (all student aid funds except student loans) can operate as long as they are appropriated. This is not how authorized programs are designed to function, but considerable precedent exists. (In the past, elementary/secondary and vocational education programs have continued even though they were not authorized on schedule.)

On the other hand, lawyers are busily conferring on the student loan programs. The early consensus is that the Federal Family Education Loan Program (FFELP) needs new legislation to keep operating, at least in the area of consolidated loans. (The direct loan program need not be reauthorized to operate.) Rep. John Boehner (R-Ohio), chair of the Education and Labor Committee, has said that he would like a clean bill, limited to the extension of the FFELP loan programs.

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