Congress Blows Through Legislation to Reach Recess

Washington continued to clean up last week from a string of hurricane-related tornadoes, as a political twister threatened to descend on student aid programs. At the vortex of the storm was a once-obscure provision in the Higher Education Act (HEA), guaranteeing a 9.5 percent return on student loans financed by tax-exempt bonds.

When the guarantee was enacted in the 1980s, interest rates were high. Loans financed by tax-exempt bonds received about half of the rate of return of loans from taxable bonds, but no less than 9.5 percent. By 1993, interest rates had dropped, so Congress eliminated the interest rate guarantee for such loans made after that date. Under the assumption that they would gradually disappear, the pre-1993 loans were grandfathered and continued to receive the 9.5 percent guaranteed rate.

The administration and both parties recognize that this situation is costing millions of dollars and needs to be addressed, especially since a few lenders have recently taken advantage of a loophole that allows the pre-1993 loans to be extended if they are refinanced. The disparity between the rates on loans financed by taxable and non-taxable bonds has drawn significant public attention. Democrats decided to force the issue, and added an amendment eliminating the subsidy (which they labeled a “scandal”) to the House education appropriations bill. (See WIR #21.)

Representative John Boehner (R-Ohio), chairman of the Education and the Workforce Committee, objected that the issue should be resolved in the reauthorization of the HEA, and a provision to that effect was included in the reauthorization bill he introduced (H.R. 4283). However, the amendment offered by Reps. Dale Kildee (D-Mich.), ranking minority leader of the 21st Century Competitiveness Subcommittee, and Chris Van Hollen (D-Md.) passed the House by a nearly unanimous vote. A similar amendment offered by Senator Patty Murray (D-Wash.) failed in the Senate on jurisdictional grounds.

Resolutions and loopholes

Meanwhile, the un-reauthorized HEA was set to expire, and no FY 2005 education appropriations bill had been passed. On September 29, Congress passed a continuing resolution (CR) to keep the government funded at FY 2004 levels, and to extend the authorization of the HEA through November 20. Rep. David Obey (D-Wisc.) tried but failed to have a provision eliminating the 9.5 percent subsidy floor added to the continuing resolution.

On September 30, Boehner and Senator Judd Gregg (R-N.H.), chair of the Senate Committee on Health Education, Labor and Pensions, co-authored freestanding legislation to remove the 9.5 percent floor for only one year. The “Taxpayer-Teacher Protection Act of 2004” would have estimated one-year savings of more than $200 million, which would be used to increase student loan forgiveness for teachers. Currently, teachers who work in low-income schools for five consecutive years can have $5,000 of their loan debt forgiven. The legislation would increase that to $17,500 (an amount recommended by President Bush) for math, science, and special ed teachers.

Eliminating the 9.5 percent floor for only one year is a budget maneuver to ensure that when the loophole is permanently eliminated in the upcoming HEA reauthorization, all the savings can be used in the student loan program.

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What’s ahead

The CR clears the way for Congress to adjourn on October 8 for the election, and return for a lame-duck session the week of November 15. After the election, Congress will need to finalize the remaining appropriations bills, and further extend the HEA so that the student aid programs can continue to function. It’s not clear whether this will be done through free-standing legislation, or an addition to the omnibus appropriations bill.

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For more information about the NCSA, visit http://www.StaySafeOnline.info.

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It’s Cyber Security Awareness Month!

The National Cyber Security Alliance (NCSA), a public-private partnership involving industry, nonprofit, and government organizations, is spearheading activities throughout October to increase awareness of the need for computer security and educate users about effective security practices. NAICU has joined other members of the Higher Education IT Alliance to support this effort.

Each week in October will focus on a specific audience, with the week of October 18-22 devoted to computer security in academic settings. Other audiences that will receive special attention include home users, small businesses, and children.

Activities planned for the week of October 18, in connection with the EDUCAUSE Annual Conference in Denver, include a half-day seminar on implementing effective computer security education and awareness programs on campus. Each of the 5,000 conference attendees will receive a CD containing computer security awareness resources.

For more information about the NCSA, visit http://www.StaySafeOnline.info.

Senate Hearing Scrutinizes State-Run 529 Savings Plans

The Senate Government Affairs Subcommittee on Financial Management, the Budget and International Security held a hearing September 30 on Internal Revenue Code Section 529 Plans, focusing almost exclusively on state-run college savings plans rather than prepaid or private plans. The high fees, inadequate disclosures, and questionable broker sales practices of the state savings plans were specifically called into question.

This was the second hearing to continue the work of a task force appointed by Securities and Exchange Commission Chairman William Donaldson to study these plans. The first was held June 2 by the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Entities. (See WIR #14.)

Subcommittee Chairman Peter Fitzgerald (R-Ill.) said the only attraction for investing in these plans is their tax-favored treatment.

The committee’s suggestions for improving the plans include: simplifying and improving fee disclosure; making sure investors capture all the tax benefits of the plans rather than brokers, fund managers, or state administrators; and encouraging states to compete among themselves rather than imposing penalties on consumers who participate in an out-of-state plan.

The subcommittee’s analysis of brokerage costs and fee structures found the worst plans for consumers in the states of Ohio, Wisconsin, Arizona, and Wyoming; the best were in Utah, Virginia, Nevada, and Alaska.

Witnesses included representatives from the IRS, the Municipal Securities Rulemaking Board, the College Savings Plan Network, and several state plan administrators.

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