Budget Moves Forward Amid Conflicting Needs

Both houses of Congress took significant action toward completing the budget reconciliation process last week.

House

In the House, leadership did not have the votes needed to officially increase the overall spending cuts to the federal budget from $35 billion to $50 billion. But to avoid an embarrassing floor vote and keep fiscal conservatives happy, the leadership told committee chairmen to cut extra money anyway, despite the budget plan.

This action forced the House Education and the Workforce Committee to hold a second mark-up session on budget reconciliation on October 26. (The first was held in July as part of the mark-up of the Higher Education Act.)

The committee was officially only required to find $12.7 billion in savings for deficit reduction from student loans and pension fees. However, because of pressure from leadership the committee overshot its instruction, cutting $14.6 billion from student loans and $6.2 billion from pension fees. Of that amount, $20.5 billion goes towards deficit reduction, $210 million goes towards hurricane relief for college students with loans, and possibly $2.7 billion goes to K-12 students. (See table on page 3 outlining the House and Senate numbers.)

Chairman John Boehner (R-Ohio) said the bill “expands access to higher education for low- and middle-income students, increases efficiencies in the programs, and cuts excess lender subsidies.” Unlike the HEA reauthorization bill approved by the committee last summer, the budget bill moves the administrative account for the Direct Loan program from mandatory to discretionary funding. This is the biggest difference between the two bills, according to Boehner, and saves $6 billion.

Ranking committee member George Miller (D-Calif.) responded that “you can dress it up any way you want, but it’s a $15 billion cut to the student loan account that will never be recuperated.” Miller argued that excess subsidies to lenders should go back into the program to lower costs to students, and increase need-based aid.

Before the legislation was approved on a party-line vote, the committee rejected five amendments:

- a Democratic substitute that would redirect the savings from deficit reduction to student aid (including a reduction in the cap on variable rate student loans to 6.8 percent);
- an amendment offered by Rep. Thomas E. Petri (R-Wis.) that was a modified version of the STAR Act (25 percent of the purported savings would be devoted to deficit reduction);
- an amendment offered by Rep. Chris Van Hollen (D-Md.) to delete the provision requiring guarantors to charge the 1 percent guaranty fee;
- an amendment offered by Rep. Susan Davis (D-Calif.) that would reverse any increase in Direct Loan origination fees; and
- an amendment offered by Reps. Van Hollen (D-Md.) and Rush Holt (D-N.J.) that would reverse last year’s action by the Department of Education to revise the state tax tables used in calculating financial need.

The House is expected to bring its complete budget reconciliation package to the floor for a vote the week of November 7.

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Numbers, Numbers: How Much Is Really Being Cut from Student Loans?

Congress has proposed cutting $18 billion from the student loan program. Or is it $8.7 billion? Maybe it was $12.7 billion. But the lenders are claiming it is more than $20 billion. Who is right?

The answer is that in the crazy budget cutting process and reauthorization game of the last several months, all of these numbers are correct (see the chart on page 3) and have appeared at various points in news stories about the cuts—including right here in The Week in Review.

The sources also vary. Some of the numbers come from scoring tables officially released by the Congressional Budget Office (CBO), some from press releases, and some from public statements by committee members.

Federal budgeting rules often seem a case of “geek meets bookie,” with immense complexities around scoring rules that often fuel ever more nefarious games of smoke and mirrors. But this year’s changing budget figures surrounding the student loan cuts in Congress make even veteran student aid observers start scratching their heads.

Under normal circumstances, budget reconciliation breeds confusion about how Congress uses the CBO to assess or “score” how much money a proposed student loan program change will save the federal government. Take, for example, the way interest rates are set. Suppose Congress decides to offer students a fixed interest rate on student loans, such as the 6.8 percent rate the law currently anticipates, to take effect July 1, 2006. The job of the student loan analyst at CBO (a job held by the same person for more than 20 years) is to project the government’s cost of guaranteeing that rate.

If interest rates are projected to drop below 6.8 percent during a student’s 10-year repayment period, then the federal government will “make money” on that loan—the student is paying more than it costs the government to lend the money. But if the market rate rises to 10 percent, the government must pay banks the difference between the student’s 6.8 percent rate and the going rate. Potentially, this could cost the Treasury billions of dollars.

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Senate Education Appropriations

Last week, before the budget bill got to the floor, the Senate debated the FY 2006 education spending bill. On the first day of debate, Sen. Ted Kennedy (D-Mass.) offered an amendment to increase the Pell Grant maximum by $200, to $4,250. The amendment failed 48 to 51. The only Republican senators to vote for the increase were Lincoln Chafee (R.I.), Norm Coleman (Minn.), Susan Collins (Maine), Michael DeWine (Ohio), Olympia Snowe (Maine), and Jim Talent (Mo.). Senators Kent Conrad (N.D.) and Ben Nelson (Neb.) were the only Democrats to vote against it.

On October 27, the Senate passed the bill by a vote of 94 to 3. No amendments to increase spending for education were adopted. The bill increases funding for Supplemental Educational Opportunity Grants by $26 million, and leaves all other student aid programs level funded for the fourth year in a row.

The House and Senate education appropriations subcommittees are expected to work out their differences before the continuing resolution expires on November 18.

It is presumed that the final appropriations bill (most likely the third supplemental for hurricane relief) will impose an across-the-board cut of 2 percent on all appropriations.

For more information, please contact Stephanie Giesecke at NAICU, (202) 785-8866 or stephanie@naicu.edu.

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Senate Budget Committee

Meanwhile, on the other side of the Capitol, the Senate Budget Committee held a mark-up session October 26 to combine the savings from all authorizing committees into one budget reconciliation bill. On a party-line vote, the committee approved roughly $71 billion in gross savings and $32 billion in new spending, for a net $39.1 billion for deficit reduction. This is $4.5 billion more than the budget resolution requires the Senate to find.

Student loans make a net contribution of $14.8 billion towards the deficit and $1.5 billion toward Katrina relief, while an additional $11.2 billion in lender cuts would shift to increased grant aid and student benefits in the loan programs. (See WIR #16 for background.)

The Senate began its debate on budget reconciliation on October 31, and plans a final vote on November 3. Senate rules limit debate to 20 hours and prohibit filibusters on budget reconciliation legislation.

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There are many other moving parts as well. To factor in the cost of getting rid of some student loan origination fees (a popular idea in this year’s reauthorization of the Higher Education Act), the same CBO analyst must estimate how many dollars students will borrow, and multiply that number by the amount of origination fees being charged on the loan. And so it goes, as each idea for changes to the student loan system is analyzed. But this is actually the easy part.

Best intentions

This year, Congress has overlaid the redesign of the student loan programs under reauthorization with the overall process of reducing federal spending. This puts education in the challenging position of trying to do things that cost money—like increasing loan limits—within an overall bill that must slash billions of dollars from student loan spending to pay for deficit reduction.

How did they hope to accomplish this? The plan was to cut much more than they needed from lenders, “keep” some of that savings to pay for things they want to do (such as loan limit increases and other student benefits), and then send the rest to the budget committee as a net student loan cut. Both the House and Senate education committees accomplished this in their first mark-ups this summer.

But then the hurricanes hit. Suddenly, the idea of using the extra student loan cuts to pay for disaster relief became popular. In the House, this meant another mark-up to slash $10 billion more in student loan spending. The Senate, too, held another mark-up—but for a different reason. The Senate committee found that they had cut more money than they thought the first time around, and members wanted to direct how that extra money would be spent.

So the total amount of money coming from lenders in each house, the amount being returned to the student aid programs, and the totals going to deficit reduction and hurricane relief varies in each of the bills.

And all this is before we even get to the smoke and mirrors or the newest idea, to have student loans pay for flu vaccines...!

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A look at the HEA Reconciliation Numbers

All numbers are five-year totals for FY 2006-2010. Many numbers are “best guesses” based on available public information, as of 11/2/05. Official CBO numbers reported in print are bold.

<table>
<thead>
<tr>
<th>Date of Action</th>
<th>Committee</th>
<th>Total Cuts</th>
<th>Amount to Student Aid</th>
<th>Amount to Deficit Reduction</th>
<th>Amount to Katrina Relief</th>
<th>Net Cut to Student Loans</th>
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</thead>
<tbody>
<tr>
<td>7/20-7/22/05</td>
<td>House Education and the Workforce Committee, mark-up of H.R. 609, HEA reauthorization (CBO numbers)</td>
<td>$12.7 billion from student loans</td>
<td>$4 billion for loan limit increases and origination fee reductions</td>
<td>$8.7 billion</td>
<td>Not applicable</td>
<td>$8.7 billion</td>
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<tr>
<td>9/8/05</td>
<td>Senate HELP Committee, mark-up of S. 1614, HEA reauthorization (unofficial numbers from press release)</td>
<td>$20 billion from student loans; $6.6 billion from pensions; $26.6 billion total</td>
<td>$6.6 billion for ProGAP, SMART grants and loan improvements</td>
<td>$7 billion</td>
<td>$6 billion</td>
<td>$13.4 billion</td>
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<tr>
<td>10/18/05</td>
<td>Senate HELP Committee, mark-up of reconciliation; required to find $13.6 billion for deficit reduction (CBO numbers/SBC report)</td>
<td>$20.8 billion from student loans; $6.7 billion from pensions; $27.5 billion total</td>
<td>$11.2 billion for ProGAP, SMART grants and loan improvements for students</td>
<td>$14.8 billion</td>
<td>$2.7 billion</td>
<td>$9.6 billion</td>
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<tr>
<td>10/26/05</td>
<td>House Education and the Workforce Committee, mark-up of reconciliation; must find $12.7 billion for deficit reduction (CBO numbers)</td>
<td>$18.4 billion from student loans; $6.2 billion from pensions; $24.6 billion total</td>
<td>$3.8 billion for loan limit increases and origination fees</td>
<td>$20.5 billion</td>
<td>$210 million</td>
<td>$14.3 billion</td>
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Student Aid Alliance Leaps into Action

With cuts to student loans on the line for deficit reduction and hurricane relief, the Student Aid Alliance has jumped into action to “Stop the Raid on Student Aid.”

During the House Education and the Workforce Committee mark-up of reconciliation cuts on October 26 (see related story, p. 1), students wearing t-shirts emblazoned with the “Stop the Raid” logo lined the back of the hearing room. Many members greeted the students before the mark-up started, and several acknowledged them during their remarks.

In anticipation of the mark-up, five college presidents held a press conference call to question the wisdom of raiding the student loan programs to pay for deficit reduction and hurricane relief. About 25 members of the press participated in the call, and a number of stories have run regionally and nationally on the issues raised.

Across the country, students have turned up the volume on their advocacy against cuts to student aid. The Alliance hotline has patched over 2,000 calls to the Capitol switchboard from students eager to tell their members of Congress not to cut student loans. And the Action Center on the Alliance website has logged over 8,000 e-mails to Congress in October alone.

We will continue our advocacy efforts against the cuts to student loans until the budget reconciliation process is over. If you or your students haven’t told your delegation not to cut student loans, please do so over the next two weeks. We have to Stop the Raid on Student Aid.

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