The Week in Review

The National Association of Independent Colleges and Universities

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Note: There are new developments unfolding on issues covered in the following stories as we go to press. Please check the NAICU Web site, www.naicu.edu, for the latest updates.

Bipartisan Education Spending Bill Ready for Floor

The full House of Representatives is scheduled to vote on the FY 2008 Labor-HHS-Education spending bill on Wednesday, July 18. While the bill carries a veto threat because it spends above the president's request, the importance of the programs funded in this bill for education, health and workforce development – and now the inclusion of members' projects – could sway many members on the fence to vote in favor of the bill. A vote of 290 in favor of the bill would avoid a veto battle this fall.

For student aid, the education appropriations bill represents the high water mark for FY 2008, and NAICU is asking all representatives to vote for the bill. The House bill invests $2 billion in the Pell Grant program to increase the maximum grant by $390, to $4,700. It also rejects the president's cuts to SEOG and LEAP; and increases funding for TRIO and GEAR UP. And the bill includes language prohibiting the Department of Education from issuing regulations on college and university accreditation – which the Department lacks sufficient authorization to regulate.

The House Appropriations Committee approved the bill by a voice vote, with no audible dissenters, on July 11. Chairman David Obey (D-Wis.) noted during the mark up that there were no amendments from either party to cut funding from any program, only amendments to add money to programs, so "it must not be an excessive bill."

Ranking Member Jerry Lewis (R-Cal.) cautioned the committee that because the bill spends $10 billion more than the president's budget, it has become "veto bait." However, he did not go as far as opposing the bill.

A highlight of the mark up was the description by Obey of the "member-directed projects" – also known as earmarks – that were now included in the bill. Obey's original plan was to review all member requests over the August recess, and then add them to the bill in conference with the Senate. But because of a floor fight over the Homeland Security bill and earmarks, he and the staff did the project review in two weeks, instead of a month. The committee received 3,400 requests for earmarks in the bill, he said, and that all were reviewed by Democratic and Republican members and the appropriate agencies. He reported that the number of earmarks finally included in the bill is 50 percent less than last year.

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House Quickly Passes First Part of HEA Reauthorization Bill

H.R. 2669, the College Cost Reduction Act of 2007, received quick Congressional consideration after members returned from their July 4 recess. On July 11, the bill passed 273 to 149, with 47 Republicans voting for the bill. Debate was limited, and only one amendment – a substitute bill by Ranking Minority Member of the Education and Labor Committee, Buck McKeon (R-Calif.) – was allowed to be considered, but was rejected.

H.R. 2669 makes a number of important changes in the financing of a college education. It provides valuable benefits for poor and middle-class students. However, it also has repercussions for colleges and lenders, and could even affect the buy-out of Sallie Mae by a private equity fund.

NAICU has supported the reconciliation bill, sponsored by Education and Labor Committee Chair George Miller (D-Calif.), despite lingering concerns about some aspects of the bill. These concerns include the remaining college cost reporting provisions in the bill, and the potential impact of the student lending cuts. Miller agreed to drop some of the more extreme cost provisions – that, in NAICU’s view, were effectively federal price controls – before receiving our support. Instead of requiring colleges that raise tuition beyond a specified amount in any single year to file mandated cost control plans, Miller made the required reporting to be of "voluntary" efforts. He also dropped the proposal to cancel LEAP funding for all students in any state that decreases its funding to public colleges.

The bill does contain a "college affordability index" that ranks colleges’ tuition increases against a yet-to-be-established cost inflation index for colleges. Colleges increasing tuition by two times the index rate or more over three years would have to provide an explanation of the increase to the Secretary, and eventually could be put on a "affordability alert status."

The bill makes good on the House Democratic leadership's promise to cut the student loan interest rate in half and to boost Pell Grants. The student financial aid increases are paid for by cuts of $19 billion, over five years, to lender subsidies on federal student loans. Part of those cuts – $750 million – went to budget savings, the theoretical purpose of reconciliation bills.

Secretary of Education Margaret Spellings has publicly criticized the bill, and the Bush Administration has issued a veto threat, saying the bill allocates too much aid to borrowers who are out of college, and not enough on currently-enrolled needy students. The bill also establishes wide-ranging new programs funded out of entitlement spending, raising the ire of fiscal conservatives. On a positive note, the bill includes the first infusion of new cash for the Perkins loan program in years, guaranteeing an annual $100 million in new funding each of the next five years. The administration, however, opposes this provision.

The Senate has its own reconciliation bill ready, as well as its larger Higher Education Act (HEA) reauthorization bill, and hopes to pass both later in July. The House has not drafted its HEA bill but could do so as soon as August, if the Senate acts in July. The reconciliation bills are likely to be conferred in September, but the fate of the larger HEA bill is not yet known.
Key student financial aid provisions of H.R. 2669:

- Increases the maximum Pell Grant to $5,200 by 2011 with mandatory funding (assuming the House appropriations bill is enacted despite serious funding differences from the proposed Senate bill which does not increase Pell).
- Increases the borrowing limit for juniors and seniors to $7,500 per year, and the aggregate borrowing limit for all undergraduate students from $23,000 to $30,500. The aggregate limit for graduate students in raised from $138,500 to $156,000.
- Phases down the interest rate on federally-subsidized student loans from 6.8% to 3.4%, by 2012-13.
- Provides $500 million for capital contributions to colleges' Perkins loan funds over five years.
- Allows borrowers to limit student loan repayment to 15% of their income.
- Provides loan forgiveness for graduates employed in public service jobs.
- Increases the "income protection allowances," allowing students to earn more without decreasing their student financial aid awards.
- Creates the opportunity for year-round Pell Grants.
- Makes Academic Competitiveness Grants available to part-time students, legal permanent residents, and students in certificate programs.
- Creates an institution-based grant program for students studying to be teachers.
- Creates a new program to provide funds to various minority institutions.
- Requires the Department of Education to explore auctioning off the rights to make student loans.

College cost provisions of H.R. 2669

- Requires the Department of Education to retool its existing COOL website to be more consumer friendly, and to include a new College Consumer Profile, similar in purpose to NAICU’s U-CAN project.
- Requires the establishment of a new higher education price index (HEPI). Requires colleges increasing their tuition at two times or more above the new HEPI for any three-year interval to provide a report to the Secretary on the factors contributing to the increase.
- Requires these colleges to be placed on "affordability alert status" if they fail to reduce their increase for a subsequent two years (unless the college is in the lowest quartile of sticker price for its sector, or the increase is less than $500).
- Requires colleges exceeding the HEPI in any given year to report to the Secretary the reasons for the increases; their three most recent form 990s (as submitted to the IRS); the major areas in their budgets with greatest expenditure increases; and, voluntary actions taken to reduce net tuition.

Key savings provisions of H.R. 2669

- Decreases the government payment to lenders that compensates for the difference between the interest rate the borrower pays and the prevailing cost of money
- Lowers the guaranty the government pays lenders on defaulted loans from 97% of the unpaid balance to 95%
- Eliminates "exceptional performer" lender status which had provided certain lenders a 99% guaranty.
- Increases lender origination fees from 0.5% to 1% for for-profit lenders and eliminates the fee for small and non-profit lenders.
- Lowers the amount a guaranty agency may retain from collected funds from 23% of to 16%.
- Lowers the amount guarantors are paid for administrative costs from 0.10% to 0.06% of the value of their active loans, but provides a monthly delinquency prevention fee based on the loans guaranteed.

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