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Congress Puts $11 Billion into Pell Grants

On Friday, September 7, within hours of each other, the House and Senate passed the biggest infusion of money into the Pell Grant program ever. As part of H.R. 2669, the College Cost Reduction Act, Congress enacted roughly $20 billion in cuts to student loan lender subsidies – and turned them into Pell Grant increases, student loan interest rate cuts, a loan forgiveness program, a teacher grant, other student benefits, and a little bit of deficit reduction. *(For details, see "Key Provisions in H.R. 2669," page 2.)*

The big winner in the bill is the Pell Grant program. The Pell Grant maximum will go up for the next five years from $4,310 this year, to $4,800 next year, and to $5,400 by 2012. This is a huge victory for low-income students who have had no substantial increase in their grant aid the last five years.

The way this will work legislatively is that the base Pell Grant maximum of $4,310 will be paid for in the regular education appropriations bill considered each year. On top of that will be the mandatory money increases from the cuts to student loan lenders, to get to the higher maximum grants.

The next big provision in the bill is the reduction of student loan interest rates. The bill cuts the interest rate from 6.8 per cent to 3.4 per cent over five years. This was one of Speaker Nancy Pelosi's (D-Calif.) "Six for '06" campaign goals.

The bill also allows borrowers to cap monthly loan payments at 15 percent of their income; creates a loan forgiveness program, after ten years of payments, for graduates working in public sector jobs, including 501 (c) (3) organizations; creates a grant program for students in teacher preparation programs; and makes improvements to the federal student aid application (FAFSA) form by reducing the number of data elements required.

While there are many direct benefits to students and borrowers in this bill, the flip side is that no one knows the effects the student loan cuts will have on the private sector. The $19 billion in lender cuts comes on top of similar reductions last year. Among the most controversial aspects of the lender cuts is the requirement that PLUS loan rates be set through a system of state-by-state auctions. Given that PLUS loans are essential to families at private colleges, NAICU will be watching this new system closely to ensure that it doesn’t result in reduced availability of program capital.

This reconciliation bill, now headed to the president's desk, covers only the part of HEA reauthorization that deals with mandatory spending. The Senate is pressuring the House to begin, and then complete, work this fall on a second HEA bill that would address the remaining issues – including college cost, accreditation, transfer of credit, and student learning outcomes. The Senate passed its version of the bill in July (S. 1642). The House would need to act quickly for such a large bill to get from committee to conference before Congress adjourns.
The other piece of the puzzle is education appropriations. As a result of the creation of this new mandatory stream of Pell Grant funding, it is unlikely that the $2 billion increase in Pell, and the $4,700 appropriated maximum grant, in the House education appropriations bill (H. R. 3043) will survive. Given that the reconciliation bill provides healthy increases in grant aid on top of a $4,310 base grant, the final education appropriations bill later this fall will probably redistribute the original House Pell money to other programs, keeping Pell at $4,310 in appropriations.

**Key Provisions in H.R. 2669**

1. Provides guaranteed money to increase the Pell Grant maximum by:
   - $490 for award years 2008-09 and 2009-10 (new annual maximum: $4,800)
   - $690 for award years 2010-11 and 2011-12 (new annual maximum: $5,100)
   - $1,090 for award year 2012-13 (new annual maximum: $5,400)

2. Reduces the current fixed rate of 6.8 percent on subsidized Stafford loans disbursed on or after July 1, 2006, and before July 1, 2012, to 3.4 percent in 2011.
   - July 1, 2006 - July 1, 2008 = 6.8%
   - July 1, 2008 - July 1, 2009 = 6.0%
   - July 1, 2009 - July 1, 2010 = 5.6%
   - July 1, 2010 - July 1, 2011 = 4.5%
   - July 1, 2011 - July 1, 2012 = 3.4%

3. Removes the three-year time limit for deferment of FFELP, DLP, and Perkins loan payment for military and National Guard on active duty. Provides an additional 180 days of deferment after active duty is completed. Those in school at the time of activation are eligible for a 13-month deferment following their service. Effective date is October 1, 2007.

4. Through Income-based Repayment (IBR), allows borrowers who are experiencing "partial financial hardship" to reduce their monthly loan payments temporarily and, in some cases, have their interest paid by the federal government. This new strategy for managing student loan debt may be combined with other payment methods, and after 25 years the remaining debt is forgiven. The amount of the forgiveness would be considered taxable, since no provision to exclude this was included. This payment option is not available for PLUS loans or consolidation loans that include a PLUS loan. IBR is effective July 1, 2009.

5. Provides that a student who agrees to study math, science, a foreign language, special education, or other eligible high-need field, and to teach in a Title I school in one of those same fields for four years, is eligible for a grant of $4,000 per year, up to $16,000 for undergraduates and $8,000 for master's-level students. If a student does not fulfill the agreement, any grant funds received convert to an unsubsidized, Direct Loan. Effective July 1, 2008.

6. Creates a loan forgiveness program for public service employees, including any employee of a 501(c)(3). A borrower must make be employed in public service for 10 years and make payments on the loan for 10 years in order to have the remaining debt forgiven. There is no income cap on eligibility, and FFELP borrowers must convert their loans to the Direct Loan Program to qualify. Effective October 1, 2007.

7. In the Perkins Loan program, extends the date from March 31, 2012, to September 30, 2012, when institutions must turn over certain Perkins collection funds to the federal government.

8. Makes several changes in the need analysis provisions, increasing students' eligibility for student financial aid. Among these are an increase in allowable student earnings to protect students who work, and increased eligibility for the "automatic zero" for families making $30,000 (with a new CPI automatic index). Effective July 1, 2009.
9. Creates a competitive loan auction pilot program, under which 50 state auctions will be conducted to determine the two FFELP lenders for PLUS loans in each state for a two-year period. Effective July 1, 2009.

10. Establishes the College Access Challenge matching grants to provide funds to states or philanthropic organizations, to assist them in increasing college access activities for low-income students. Coordination with LEAP is encouraged. Provides $66 million each year for FY 2008 and 2009.

11. Provides $510 million for grants to historically black colleges and universities and other minority-serving institutions, including $200 million for Hispanic-serving institutions.


13. Overview of Lender Cuts (effective October 1, 2007, unless otherwise noted):
   - Cuts guaranty agency collection allowance from 23% to 16%.
   - Reduces what guaranty agencies are paid for administrative expenses.
   - Eliminates exceptional performer status for lenders.
   - Cuts lender insurance for defaulted loans from 97% to 95%. Effective October 1, 2012.
   - Cuts special allowance payments 40 basis points for non-profit lenders, and 55 basis points for all other lenders.
   - Increases lender origination fees from .5% to 1%, except for non-profit lenders. Effective for new loans made on or after October 1, 2007.

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**September 17 is Constitution Day**

This is a reminder that in 2005, Congress passed legislation mandating educational institutions receiving federal funds to hold an educational program relating to the United States Constitution on Sept 17 each year. This day commemorates the September 17, 1787, signing of the Constitution. The federal provision does not define "educational program." Therefore, there is a great deal of latitude as to how exactly your college or university chooses to honor the day.

If you are looking for some last-minute ideas, several resources are available. The Department of Education lists a number of planning tools and activities for recognizing the day on their Web site at [www.ed.gov/policy/fund/guid/constitutionday07.html](http://www.ed.gov/policy/fund/guid/constitutionday07.html). In addition, the Constitution Center Web site offers a number of idea starters at [http://hancock.constitutioncenter.org/constitutionday/display/MainS/Home](http://hancock.constitutioncenter.org/constitutionday/display/MainS/Home).

Two years ago, *Inside Higher Ed* ran an article describing ways a handful of colleges were planning to respond to the new mandate. You may find the some of the ideas shared useful as well. The article is at [www.insidehighered.com/news/2005/09/16/constitution](http://www.insidehighered.com/news/2005/09/16/constitution).

The regulations do not indicate any penalties for failure to comply with the mandate, nor do they indicate that specific activities need to be reported.

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U-CAN Shoots Past 500 Participants, 
Set to Launch Publicly on September 26

The University and College Accountability Network project reached a major milestone on September 11, when Washington University in St. Louis became the 500th private institution to sign up as a participant in the consumer information project. Earlier this year, when U-CAN was in the formative stage, our stated goal was to reach 500 participants by the time the project was launched. Clearly, we were too conservative.

As of mid-day on Thursday, September 13, the list stood at 533, with the most recent additions being Hanover College, Columbia University, Duke University, Iowa Wesleyan College, and Cornell University.

If your institution has not yet signed up to participate, there is still time to be part of the effort when it goes public. To be listed as a participating college or university at the national launch on September 26, we are asking that institutions complete the on-line participation form, at www.surveymonkey.com/s.aspx?sm=X0N4oE1_2fw0k4tKilegIY8g_3d_3d, by Wednesday, September 19. Details on U-CAN, and a link to the form, are at www.ucan-network.org.

We will provide a more detailed report on U-CAN in the next issue of Week in Review.

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