In this issue . . .
- House Plans to Add Vet Benefits to Supplemental Bill
- House Extends Anti-Trust Protection for Need-Blind Colleges
- Washington Takes Steps to Avert Student Loan Crisis
- Academic Competitiveness/SMART Grants: Some Fixes
- Massachusetts Looks at Nation's First Endowment Tax
- Nichols College President Testifies Before House Ways and Means Committee
- And Whither HEA?
- NAICU Daily News Updates, Specialized E-lists Keep Members Informed

House Plans to Add Vet Benefits to Supplemental Bill

The push for expanded GI Bill benefits continues to gain momentum (See WIR, 4/28/08). The House leadership has indicated its intention to include additional funding for veteran's education programs in the non-defense portion of the spending package to be considered by Congress later this month.

This comes on the heels of an April 29 rally at the U.S. Capitol, where several student veterans described their past combat experience and their current challenges in getting a college education. Also addressing the rally were House Speaker Nancy Pelosi (D-Calif.), Senate Majority Leader Harry Reid (D-Nev.), and the principal bi-partisan sponsors of the "Post 9/11 Veterans Education Assistance Act" in the Senate and House.

NAICU President David Warren and a large contingent of NAICU staff represented private colleges at the gathering, along with many of the veterans' and higher education organizations that comprise the Partnership for Veterans Education.

Rep. Harry Mitchell (D-Ariz.) issued a news release announcing the support of 11 higher education organizations for the expanded GI Bill effort, quoting NAICU President David Warren as saying, "America has a proud tradition of helping veterans access higher education. We encourage the House to include H.R. 5740, the Post 9/11 Veterans Education Assistance Act, in the supplemental appropriations bill to ensure that veterans can receive full higher education benefits."

A majority of members in both the House and Senate have endorsed the bill. Currently, 265 members have signed on to the House bill (H.R. 5740), and the Senate bill (S. 22) has 57 cosponsors. However, plans to include it in the supplemental appropriations bill are being resisted by the fiscally conservative "Blue Dog" Democrats in the House, who argue that the cost of the measure must be offset under budget "pay-as-you-go" rules.

For more information, contact Susan Hattan, susan@naicu.edu
House Extends Anti-Trust Protection for Need-Blind Colleges

The anti-trust exemption that allows colleges practicing need-blind admissions to develop common practices for assessing need was approved for a permanent extension by the House of Representatives on April 30. The bill now is before the Senate Judiciary Committee.

Under the House proposal, the provision would be made permanent with no changes to the underlying statute. A similar bill passed the house in 2001, but the Senate ultimately amended it to require a seven-year renewal and a federal study.

The provision is important to a limited set of colleges that both practice need-blind admissions and collaborate on improvements to institutional need analysis. The colleges do not discuss individual applicants, nor does the need analysis system limit other factors participating schools may or may not use (such as athletics or academic merit) in awarding final scholarship packages.

If Congress doesn’t act, the anti-trust exemption is set to expire on September 30, 2008.

For more information, contact Sarah Flanagan, sarah@naicu.edu

Washington Takes Steps to Avert Student Loan Crisis

Both Congress and the administration took significant steps in the past 10 days to help avert a credit crisis in the student loan programs. In stark contrast to legislative progress on the Higher Education Act (now in its sixth year of consideration), Congress acted with unusual alacrity to pass legislation designed to avoid a potential breakdown of the student loan system. The bill, which gives the Secretary of Education new authority to buy back student loans, has already been signed into law by the President.

On a separate front, the Federal Reserve Bank announced it would accept assets backed by student loans as collateral for borrowing from the Term Securities Loan Facility (TSLF). Combined, the bill passage and the Fed action are important first steps in sending signals to consumers and lenders that the federal government intends to make sure education loans will be there for all students this fall.

What Will H.R. 5715 Do?

H.R. 5715, the Ensuring Continued Access to Student Loans Act of 2008, would do two things to help spur the markets. First, it would allow the Secretary of Education to buy back federal student loans from lenders, freeing up capital so that lenders could turn around and make more student loans. The bill also allows the Secretary to resell the loans back to the same lenders, should liquidity return to the markets.

Second, the bill takes a relatively obscure provision in the Higher Education Act called Lender of Last Resort (designed to help individual borrowers who cannot find student loans), and amends the provision to make entire colleges eligible for the program. Under this provision, if a college had all of its student loan lenders drop out of the program overnight, it could instead go to the designated state lender with its entire student loan portfolio.

The bill also provides a $2,000 annual increase in unsubsidized loan limits for independent students, and for students whose parents have been denied a PLUS loan. Also, all parents will be now allowed to capitalize their PLUS interest and defer payments until six months after their child has graduated from college. In addition, there is a loosening of the credit standards in PLUS for parents who have had difficulties with home loans or are in arrears on other debt.
Will It Work?

Since student loans still are reliant on private lenders, no federal legislative or administrative action can force market liquidity. However, the fact that the federal government is taking proactive steps is important in an arena where market impression is crucial.

There are other unknowns in what the federal government has done, however. For example, lenders claim that student loans are simply not profitable to make under current market conditions, given the cuts to lender subsidies last September, under the College Cost Reduction Act (see Week in Review, September 13, 2007) and the unfavorable spread between federal payments and their cost of capital. However, lenders that are in the business for the long haul and have some equity may make loans anyway. Others may continue to jump out of the program.

The Term Securities Loan Facility action is also a bit of an unknown. Among other limitations, the entities that borrow from TSLF must have triple-A ratings.

How well the Secretary's buy-back authority works won't really become clear until this summer, when students go looking for loans to cover the fall semester. Some in the financial markets view the buy-back provision optimistically; others do not. If lenders find selling their student loans to the Department to be sufficiently profitable, then a crisis could be averted. Of course, that will depend on the price the Department is willing to pay, and the conditions they impose. The Department is actively reviewing ways to implement the mechanism that will be quick and efficient, plus acceptable to lenders. All in all, any action and signals from Washington are a step in the right direction.

For more information, contact Maureen Budetti, maureen@naicu.edu

Academic Competitiveness/SMART Grants: Some Fixes

Tagged onto the end of last week's student loan liquidity legislation were amendments to Academic Competitiveness and SMART grant programs. Many of these changes are important to private colleges.

Among the most significant corrections was a change in the definition of what students are eligible, in line with the long standing definitions used in other federal student aid programs. For example, resident aliens and other students who had not been eligible because of the citizenship requirement are now eligible. Also eligible are students at institutions where the entire student body takes the same curriculum which is strong in math and science, such as some of the great books colleges. Students who were enrolled in college courses as part of a high school program, also are now eligible, although the bill does not fix the problem of students entering college at the sophomore level.

The bill also changes the definition of a rigorous secondary school program of study for first-year students, removing the authority of the Secretary to identify rigorous programs apart from those recognized by the states. Unfortunately, 60 percent of students currently deemed eligible for the grants were designated under the Secretary's alternate definitions of a rigorous academic program. The change also seems to imply that colleges will have to determine if the curricula of students from private secondary schools and of those who are home-schooled qualify as rigorous. Beyond that, the new provisions become effective January 1, 2009 – in the middle of the academic year.

For more information, contact Maureen Budetti, maureen@naicu.edu
Massachusetts Looks at Nation’s First Endowment Tax

Desperate to fill a budget gap, the Massachusetts legislature is considering a college endowment tax. The proposal, believed to be unprecedented in the United States, would apply to institutions with endowments larger than $1 billion. While the first $1 billion of an endowment would be exempt, anything above that would be subject to a 2.5 percent levy.

The Massachusetts House of Representatives did not approve the measure, but did vote to ask the state's Department of Revenue to study the proposal. The proposal comes at a time when many states are struggling to balance budgets, and endowment spending patterns have come under intense scrutiny from the Senate Finance Committee.

"There are only 45 private colleges and universities in the United States with endowments greater than $1 billion, while the remaining 1,555 independent institutions have a median endowment of just $14 million," said NAICU President David L. Warren. "Nevertheless, government proposals that undermine the rights of donors as well as the financial independence of any institution and its students are of grave concern to all of private higher education."

In recent days, the Massachusetts measure has come under attack by the news media. The Boston Globe, in an editorial titled "How to strangle an economy," argued that a "tax of this magnitude on the state's universities and colleges would be economic suicide" and is an "ill-conceived money grab that ignores how vital higher education is to the local economy." A Berkshire Eagle editorial ("Dubious endowment plan") noted the negative effect the tax would have on donors' motivation to give, and that in cases like Williams College, institutions already contribute to public coffers and serve their communities in many ways.

Also making the opinion pages last week was the Senate Finance Committee's proposal to force colleges and universities to spend 5 percent of their endowment a year. Wall Street Journal columnist Collin Levy ("The Taxman Cometh") noted that the requirement "would cause serious problems, requiring annual spending at the expense of a school's ability to save for bigger undertakings."

For more information, contact Karin Johns, karin@naicu.edu

Nichols College President Testifies Before House Ways and Means Committee

Debra Townsley, president of Nichols College in Massachusetts, testified on NAICU's behalf before the House Ways and Means Subcommittee on Select Revenue on the importance of a variety of higher education tax incentives. She was invited to testify by Rep. Richard Neal (D-Mass.), chairman of the subcommittee. Nichols is located in Neal's district.

The hearing examined the many tax benefits available to students, families, graduates, and institutions. In her testimony, Townsley pushed for immediate and retroactive extension of the tuition deduction for higher education expenses, and the IRA charitable rollover. Both provisions expired at the end of 2007 and have not been renewed. "Just last month, I received a call from a trustee asking if he could use the IRA rollover to endow a scholarship to Nichols," she said. "I had to tell him, unfortunately, not right now."

Townsley also spoke on behalf of permanently extending several other provisions important to NAICU institutions. IRC Sec 127 (employer-provided education assistance), improvements to the student loan interest deduction, and the preferential tax treatment of Coverdell Education Saving Accounts are all popular and much needed higher education tax benefits, but all will expire at the end of 2010 if not renewed. Witnesses also discussed the complexity credits and deductions, and the possibility of consolidating and simplifying the provisions.
The committee is not currently planning legislation on consolidating the credits, but is looking at extending the provisions that have already expired. While no specific time frame was discussed, Townsley strongly urged immediate retroactive extension of the tuition deduction and IRA charitable rollover.

For more information, contact Karin Johns, karin@naicu.edu

And Whither HEA?

S. 2929 passed the Senate and was cleared for the president on May 7. It extends the Higher Education Act yet again – this time from April 30 to May 31, 2008. Although congressional staff seem eager to complete work on the legislation, there already are new Fourth of July rumors.

For more information, contact Maureen Budetti, maureen@naicu.edu

NAICU Daily News Updates, Specialized E-lists Keep Members Informed

Increasingly, NAICU is using electronic communications to keep member presidents and their staff members informed of developments in Washington, national media coverage and trends, and news about our member colleges and universities.

Last January, we launched the NAICU News Room Daily Update, a comprehensive overview of the latest higher education news. The service is available via e-mail or RSS feed, and is free of charge to NAICU member presidents and staff. Each issue gives a capsule summary of the most recent national, regional, and local new stories relating to higher education, and is about a one- or two-minute read, with links to the full stories. This new service joins our long-standing and popular special purpose e-mail lists:

- **NAICU PresNet** is used to alert presidents to breaking news of importance to them. Over 90 percent of our member presidents are on the list.
- **NAICU PRNet** informs member public relations staffs of media staffing changes, media requests for sources on developing stories, and major trends in media coverage.
- **NAICU GovNet** provides legislative information and perspective on issues of interest to campus federal and state relations staff members.
- **Week in Review Electronic Edition** gets this newsletter to you days ahead of the print version, and includes links for more information on many of the stories.

All of the lists are used very judiciously to avoid unnecessary messages, and subscribers can unsubscribe easily at any time.

To subscribe to the News Room Daily Update, use the links on the NAICU Web site at www.naicu.edu/news_room/subscribe-to-rss. To sign up for any of the lists, send an e-mail to roland@naicu.edu specifying the requested list and including the subscriber’s name, title, and institution. (Subscriptions are available only to NAICU member presidents and their staff.)