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Student Loans, Student Aid, and FY2008 Budget Reconciliation

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Summary

The FY2008 budget resolution (S.Con.Res. 21, H.Rept. 110-153) contains reconciliation instructions that require the House Committee on Education and Labor and the Senate Committee on Health, Education, Labor, and Pensions to report reconciliation legislation that would reduce mandatory spending by $750 million over the period covering FY2007 through FY2012. These committees are required to report reconciliation recommendations to their parent chamber by September 10, 2007.

Each of the aforementioned authorizing committees marked up a bill in June of 2007 with reconciliation recommendations that generate the required savings in mandatory spending. A broad set of Higher Education Act (HEA) amendments are being considered in each chamber as well, in conjunction with the reconciliation proposals. Each bill achieves the required savings through cuts in payments to Federal Family Education Loan (FFEL) program lenders and guaranty agencies. Both bills actually generate substantially higher levels of savings in mandatory spending than was required by the reconciliation directive, and the additional savings are used to offset costs associated with a broad array of new or enhanced student aid benefits.

On June 25, 2007, the College Cost Reduction Act of 2007 (H.R. 2669), which contains the required reconciliation proposals, was reported by the House Committee on Education and Labor (H.Rept. 110-210). On July 11, 2007, the measure was adopted by the House. On July 10, 2007, the Senate Committee on Health, Education, Labor, and Pensions reported the Higher Education Access Act of 2007 (S. 1762), a bill containing its reconciliation recommendations. This report reviews and briefly describes the major proposals in each bill that would change the federal student loan programs to achieve savings in mandatory spending and the proposals that would enhance student aid benefits or result in changes to existing federal student aid programs. This report will be updated, as warranted, to reflect further legislative developments.

Contents

Budget Resolution 1
Federal Student Loan Programs 1
Mandatory Spending on Student Loans 2
House and Senate Reconciliation Provisions 3
  House Provisions 3
  Senate Provisions 8

Student Loans, Student Aid, and FY2008 Budget Reconciliation

Budget Resolution

The House and Senate approved the conference report (H.Rept. 110-153) on S.Con.Res. 21, the Concurrent Resolution on the FY2008 Budget on May 17, 2007. The annual concurrent resolution sets forth the congressional budget. When the federal deficit is expected to be large, budget resolutions often require reductions in mandatory spending. In such instances, the budget resolution issues reconciliation instructions that require authorizing committees to report changes to legislation to reduce spending on mandatory programs under their jurisdiction.

The FY2008 budget resolution includes reconciliation instructions that direct authorizing committees to report legislation to reduce mandatory spending for the period FY2007-FY2012. Subsequently, these proposals are to be reported by each committee to its parent chamber. Under the reconciliation instructions, the House Committee on Education and Labor and the Senate Committee on Health, Education, Labor, and Pensions are responsible for a reduction of $750 million for FY2007-FY2012.

The Federal Family Education Loan (FFEL) program and the William D. Ford Direct Loan (DL) program are two of the major mandatory programs under each committee's jurisdiction. Each committee has looked to reduce mandatory spending on these federal student loan programs to meet the requirements of recent budget reconciliations. To meet the requirements of the FY2008 reconciliation instructions, reductions in mandatory spending on the FFEL program are being considered. Proposed reductions in mandatory spending are sufficiently large that they offset a broad array of proposed new or enhanced student aid benefits.

Federal Student Loan Programs

The federal government operates two major student loan programs: the Federal Family Education Loan program, authorized by Part B of Title IV of the Higher Education Act (HEA), and the William D. Ford Direct Loan program, authorized by Part D of Title IV of the HEA. These programs provide loans to undergraduate and graduate students and the parents of undergraduate students to help them meet the costs of postsecondary education.

Under the FFEL program, loan capital is provided by private lenders, and the federal government guarantees lenders against loss through borrower default; death; permanent disability; or, in limited instances, bankruptcy. Under the DL program, operated through the U.S. Department of Education (ED), the federal government

provides the loans to students and their families, using federal capital (i.e., funds from the U.S. Treasury). The two programs rely on different sources of capital and different administrative structures, but essentially disburse the same set of loans.[1]

The DL program, established in 1993, was intended to streamline the student loan delivery system and achieve cost savings. While the DL program was originally introduced to gradually expand and replace the long-standing FFEL program, the 1998 HEA amendments removed the provisions of the law that referred to a "phase in" of the DL program. Currently both programs are authorized and the two programs compete for student loan business. In FY2006, these programs provided $60 billion in new loans to students and their parents. In that year the FFEL program provided 10,982,000 new loans averaging approximately $4,308 each, and the DL program provided 2,841,000 new loans averaging approximately $4,463 each.

Mandatory Spending on Student Loans

The FFEL and DL programs are entitlements; funding is provided for these programs on a permanent indefinite basis, not subject to appropriations. The fiscal year cost estimates for both programs, under terms of the Credit Reform Act of 1990, are calculated by determining the net present value of the costs to the government over the lifetime of new loans disbursed in the given fiscal year. Under credit reform, an effort is made to capture, in the year in which credit is provided, the multi-year net cash flows associated with a new cohort of direct or guaranteed loans. This calculation establishes a "subsidy cost," which is the estimated long-term cost to the government of a direct or guaranteed loan.

In calculating the subsidy costs for the two programs, the main cost components are the interest benefits to students in the subsidized Stafford program, the special allowance payments to lenders,[2] and defaults. Subsidy cost calculations are highly dependent on interest rate forecasts over the life of the loans and therefore can vary significantly depending on these forecasts. In order to achieve savings in mandatory spending on the loan programs, Congress has often cut loan subsidies or introduced fees to generate funds that offset mandatory spending.

Each year the Congressional Budget Office issues a baseline budget forecasting estimated spending over a 10-year period under current law, assuming no policy

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[1] For detailed information on the array of FFEL and DL program loans, see CRS Report RL33673, *Federal Family Education Loan Program and William D. Ford Loan Program Student Loans: Terms and Conditions for Borrowers*, by Adam Stoll. For a thorough discussion of how the loan programs operate, see CRS Report RL33674, *The Administration of the Federal Family Education Loan and William D. Ford Loan Programs: Background and Provisions*, by Adam Stoll.

[2] The special allowance payment (SAP) amount is determined on a quarterly basis by a statutory formula which is tied to a financial index and ensures lenders receive, at a minimum, a specified level of interest income on loans. The special allowance is designed to compensate lenders for the difference between the below-market, statutorily set interest rate charged to borrowers and a market-set interest rate that is intended as fair market compensation on the loan asset.

changes are enacted over that time period. The CBO baseline serves as a benchmark for budgetary analyses. When legislation that would affect mandatory spending is introduced, its budgetary impact is measured against the CBO baseline. The current CBO baseline projects that over the 2008-2012 period the federal student loan programs would guarantee or disburse about $406 billion in new loans — costing about $21.2 billion.[3]

House and Senate Reconciliation Provisions

As has been noted, the FFEL program is being relied upon to produce the savings in mandatory spending required by the FY2008 budget reconciliation instructions to the House Committee on Education and Labor, and the Senate Committee on Health, Education, Labor, and Pensions. On June 25, 2007, the House Committee on Education and Labor reported The College Cost Reduction Act of 2007 (H.R. 2669, H.Rept. 110-210). On July 11, 2007, the measure passed the House. On July 10, 2007, the Senate Committee on Health, Education, Labor, and Pensions reported the Higher Education Access Act of 2007 (S. 1762). Through these measures, each committee has now reported reconciliation recommendations required by the budget resolution. With the House bill having gained passage, the Senate bill may next receive floor consideration.

This report reviews and briefly describes the major proposals in H.R. 2669 and S. 1762 that would change the federal student loan programs to achieve savings in mandatory spending and the proposals that would enhance student aid benefits or result in changes to existing federal student aid programs. This report will be updated, as warranted, to reflect further legislative developments.

House Provisions. The House reconciliation bill's student loan provisions produce a total of $20.4 billion in savings in mandatory spending over the 2008-2012 period and $41.1 billion over the 2008-2017 period. The $750 million in required savings over the 2007-2012 period is met, and the net savings is roughly $2.8 billion over the 2008-2012 period and $3.5 billion over the 2008-2017 period. In this instance, "net savings" refers to savings not being used to support specified mandatory spending. It is however, only necessary to generate $750 million in required savings over the 2007-2012 period to meet the requirements of the reconciliation directives. Much of the additional savings, roughly $17.6 billion over the 2008-2012 period and $37.6 billion over the 2008-2017 period, would be used to support a series of new or enhanced student aid benefits included in H.R. 2669.[4] The principal savings provisions included in the House reconciliation bill would,

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[3] Congressional Budget Office Memorandum, *CBO March 2007 Baseline Projections for the Student Loan and Grant Programs, March 2*, 2007. Tables 1&2.

[4] Information on cost estimates for H.R. 2669 as passed by the House on July 11, 2007 is based upon back up material provided to CRS by Congressional Budget Office staff. For detailed information on the cost associated with many specific proposals see Congressional Budget Office, *Cost Estimate, H.R. 2669, College Cost Reduction Act of 2007, as ordered reported by the House Committee on Education and Labor on June 13, 2007, June 25, 2007.*

- effective October 1, 2007, change the formulas used to calculate lender yields on student loans, reducing the lender rate by 0.55 percentage points on Stafford and consolidation loans, and by 0.85 percentage points on PLUS loans;[5]
- effective October 1, 2007, raise a loan origination fee that for-profit lenders pay to the federal government on all new loans from 0.50% to 1%; and as of the same date, eliminate the 0.50% fee for loans held by those for-profit holders receiving a newly available "smaller lender" designation,[6] and for all non-profit lenders;
- reduce the level of insurance provided to lenders from 97% to 95% for new loans made on or after October 1, 2007, and eliminate exceptional performer status;[7]
- effective October 1, 2007, reduce guaranty agency retention amounts from 23% to 16% of collections on defaulted loans;
- effective October 1, 2007, alter guaranty agency fees by reducing account maintenance fees, which are paid to guarantors annually by the federal government, from 0.10% to 0.06% of original principal of loans guaranteed; establish a delinquency prevention fee, paid to guarantors on a monthly basis by the federal government equal to 0.0055% of original principal of loans insured that are not in delinquency status as of the end of the previous month;[8] and establish a minimum amount ($1.5 million in each fiscal year) to be paid to each guarantor in loan processing and issuance fees.

The House reconciliation bill also includes provisions that would increase direct spending. As was noted above, the amount of savings required by the reconciliation instructions has been exceeded by a considerable amount, and additional savings would be used to offset the costs of new loan and grant aid. The provisions providing new or enhanced loan aid would

- incrementally reduce interest rates on subsidized Stafford Loans for undergraduate students from the current rate of 6.8% to 6.12% for loans for which the first disbursement is between July 1, 2008 and June 30, 2009 — and by an additional 0.68 percentage points each

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[5] The lender rate formulas (embedded in the SAP formulas), under current law, are based on the 91-day commercial paper (CP) rate plus an "add-on" of 1.74% (in-school), and 2.34% (in repayment) for Stafford loans and; 2.64% for Consolidation and PLUS loans. The add-ons would be reduced under the proposal by the amounts indicated.

[6] Smaller lenders include the subset of consecutively ranked holders, starting with the holder with the lowest amount of outstanding loans, whose combined holdings total 15% of all outstanding loan volume, but excluding the final holder (if any) whose holdings when added to the group causes the group's total holdings to exceed 15%.

[7] Lenders and loan servicers with "exceptional performer" designations currently receive an insurance rate of 99%. Exceptional performer status is awarded to those with high compliance ratings with regulatory loan servicing requirements.

[8] For the purposes of this fee, a loan is considered to be "not in delinquency status" if the borrower is less than 60 days delinquent in making a required payment.

subsequent year — to 3.4% for loans for which the first disbursement is between July 1, 2012 and June 30, 2013;

- effective July 1, 2008, increase annual loan limits on subsidized and unsubsidized Stafford Loans from $5,500 to $7,500 (and from $10,500 to $12,500 in combined Stafford Loan borrowing by undergraduate independent students) for borrowers who have completed two or more years of undergraduate study;
- effective July 1, 2008, increase aggregate loan limits on subsidized Stafford Loans from $23,000 to $30,500 for undergraduate students, and from $65,000 to $73,000 for graduate and professional students;
- establish a new loan forgiveness program for new borrowers after the date of enactment, under which $1,000 in outstanding loan balance may be forgiven for each complete year of service in specified areas of national need, up to a maximum of $5,000 in loan forgiveness for five years of service;[9]
- effective October 1, 2007, grant loan forgiveness of remaining loan balances for DL borrowers who have made 120 payments according to the income-contingent repayment plan and who at the same time have been employed in certain public sector jobs;
- effective October 1, 2007, establish a new income-based repayment plan under which borrowers' loan payments are capped at 15% of any amount by which their adjusted gross income (AGI) exceeds 150% of the poverty line; and under which any loan balance not repaid after 20 years in repayment or economic hardship deferment will be forgiven (this repayment plan is not available for parent PLUS loans);
- effective October 1, 2007, raise the income threshold under which borrowers may qualify for economic hardship deferment to 150% of the poverty line; remove criteria for qualifying for economic hardship on the basis of debt burden; remove the existing three-year limit; and grant loan forgiveness after 20 years in economic hardship deferment; and
- effective on the date of enactment, grant deferment for up to 13 months following the completion of active duty military service to borrowers who are members of the National Guard or other reserve component of the armed forces, or are members of the armed forces in retired status, who are called to active duty service while enrolled, or within six months of being enrolled, at an eligible institution.

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[9] Areas of national need include early childhood educators, nurses, foreign language specialists, librarians, highly qualified teachers of bilingual education or who are employed in low-income schools, child welfare workers, speech language pathologists, national service workers, school counselors, and certain public sector employees.

The provisions providing new or enhanced grant aid or adjustments to need analysis calculations would

- authorize the Pell Grant program through FY2013;[10]
- effective on the date of enactment, eliminate the Pell Grant tuition sensitivity provision;
- effective July 1, 2009, permit students who are enrolled and pursuing an associates degree, baccalaureate degree, or a certificate, and who take courses for more than two semesters or three quarters in a given academic year, to receive more than one (but not more than two) Pell Grant awards in a single academic year;[11]
- add mandatory funding for the Pell Grant program through FY2017: $840 million for FY2008, $870 million for FY2009, $1.34 billion for FY2010, $2.28 billion for FY2011, $2.35 billion for FY2012, $2.4 billion for FY2013, $2.45 billion for FY2014, $2.51 billion for FY2015, $2.55 billion for FY2016, and $2.57 billion for FY2017; these mandatory funds are to be used to increase the amount of the maximum Pell Grant award by the following amounts: $200 for award years 2008-2009 and 2009-2010; $300 for 2010-2011; and $500 for 2011-2012 and each subsequent award year;
- increase the need analysis income protection allowance (IPA) for dependent students from $3,080 in academic year 2008-2009 to $3,750 for academic year 2009-2010, and for academic years 2010-2011 and 2011-2012, increase the IPA by 10% of the preceding year's level;
- increase the IPA for independent students without dependents from $6,220 for academic year 2008-2009 to $6,690 for academic year 2009-2010, and for academic years 2010-2011 and 2011-2012, increase the IPA by 10% of the preceding year's level;
- increase the IPA for independent students without dependents, who are married and one is enrolled in postsecondary education, from $9,970 in academic year 2008-2009 to $10,720 for academic year 2009-2010, and for academic years 2010-2011 and 2011-2012, increase the IPA by 10% of the preceding year's level;
- establish a special rule for the 2009-2010 academic year that would increase the IPA tables for independent students with dependents by 10% for that academic year and for each of the three succeeding academic years. For each academic year after 2012-2013, all IPA tables would be updated by a percentage equal to the percentage increase in the Consumer Price Index (current law);
- effective July 1, 2009, amend the eligibility criteria for the need analysis simplified needs test (SNT) to include a parent who is a dislocated worker, in the case of a dependent student; or the student, if he/she is an independent student. Also amends the eligibility

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[10] For comprehensive information on the Pell Grant program, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

[11] Under current law only one such award is allowed per academic year.

criteria to include parents of a dependent student or the student, in the case of a dependent or independent student, who received a benefit under a means-tested benefit program in the last 24 months as opposed to the last 12 months under current law;

- effective July 1, 2009, amend the eligibility criteria for automatic-zero expected family contribution (auto-zero EFC), for need analysis, to include a parent who is a dislocated worker in the case of a dependent student or the student, if he/she is an independent student. Further, it would amend the eligibility criteria to include parents of a dependent student or the student, in the case of a dependent or independent student, who received a benefit under a means-tested benefit program in the last 24 months as opposed to the last 12 months under current law. Finally, it would increase the income eligibility threshold for auto-zero EFC from $20,000 to $30,000 for both parents and independent students with dependents, and specify that the income threshold shall be adjusted annually using the Consumer Price Index (CPI);
- effective July 1, 2009, expand special circumstances for financial aid administrators to use professional judgment to include a family member who is a dislocated worker as defined by the Workforce Investment Act of 1998;
- effective July 1, 2009, clarify that a distribution from a qualified education benefit[12] is excluded from the need analysis calculation, and should not be considered as other financial assistance in the aid packaging process;
- effective July 1, 2009, eliminate some untaxed income (e.g., welfare benefits, the earned income tax credit, credit for special fuel and the amount of foreign income) from consideration in the calculation of total income for students and parents in need analysis;
- effective July 1, 2009, clarify that in need analysis qualified education benefits shall be treated as an asset of the parent if the student is a dependent, and as an asset of the student if the student is independent; and
- effective October 1, 2007, establish the TEACH Grants program, under which students preparing for a career in teaching and who agree to teach for at least four years in a high-poverty school may receive TEACH Grants of $4,000 per year of study (and under which prospective mathematics and science teachers may also receive Bonus TEACH Grants of $500 per year of study). Maximum total awards would be $16,000 for students who receive only TEACH Grants and $18,000 for TEACH Grants and Bonus TEACH Grants, combined. Recipients who do not complete their service requirement would be required to repay TEACH Grants as loans under HEA, Title IV, Part D.

[12] Qualified educational benefits include Section 529 Savings Plans and Coverdell Education Savings accounts.

The provisions for new or enhanced aid to specific institutions of higher education (IHEs), or adjustments to campus-based aid would

- establish a competitive grants program through a mandatory appropriation of $15 million per year in FY2008-FY2012 for IHEs that have an annual percentage increase in net tuition that is equal to or less than the percentage change in the higher education price index for that year with funds to be distributed by the IHE in the form of need-based grant aid to students who are eligible for Pell Grants; provide bonus rewards to IHEs for guaranteeing the amount of tuition and fees a student will pay for a specific number of years with funds to be distributed by the IHE in the form of need-based grant aid to students who are eligible for Pell Grants;
- provide a mandatory appropriation of $15 million per year in FY2008-FY2012 to establish cooperative education grant rewards for IHEs that restrain tuition increases, and support demonstration projects, training and resource centers, and research related to cooperative education;
- create Centers of Excellence at minority-serving institutions (MSIs) which are focused on teacher preparation programs and provide $50 million for the period covering FY2008-FY2012 through a mandatory appropriation;
- create a new program for historically black colleges and universities (HBCUs), Hispanic-serving institutions (HSIs), tribal colleges and universities, Alaska Native and Native Hawaiian-serving institutions, Predominantly Black Institutions (PBIs), and Asian and Pacific Islander-serving institutions, and provide through mandatory appropriation $100 million per year for FY2008-FY2012;[13]
- create and support through a mandatory appropriation of $300 million for the period covering FY2008-FY2012, a College Access Challenge Grant Program, which makes funds available to philanthropic organizations to provide need-based grants, mentoring, and outreach programs;
- provide, through mandatory appropriation, $30 million per year for FY2008-FY2011 to support specified Upward Bound programs that receive a high rating on their grant application; and
- provide $100 million in mandatory funding for Perkins Loan federal capital contributions each year for FY2008-FY2012.

Senate Provisions. The Senate reconciliation bill's student loan provisions produce a total of $19.4 billion in savings in mandatory spending over the 2008-2012 period and roughly $42 billion over the 2008-2017 period. The $750 million in required savings over the 2007-2012 period is met, and the projected net savings over the 2008-2012 period is roughly $926 million and $5.7 billion over the 2008-2017

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[13] Forty percent of the funding is allocated for HSIs, for the authorized activities specified in Section 503; 40% is allocated for HBCUs and PBIs, and should be distributed according to the formula in Section 324; and the final 20% should be allocated to all of the other minority-serving IHEs.

period. Once again, "net savings," in this instance, refers to savings not being used to support specified mandatory spending. It is only necessary to generate $750 million in required savings over the 2007-2012 period to meet the requirements of the reconciliation directives. Much of the additional savings, roughly $18.5 billion over the 2008-2012 period and $36.2 billion over the 2008-2017 period, would be used to support a series of new or enhanced student aid benefits included in S. 1762. [14] The principal savings provisions included in the Senate reconciliation bill would,

- effective October 1, 2007, change the formulas used to calculate lender yields on student loans by reducing the lender rate by 0.50 percentage points for Stafford loans and consolidation loans and by 0.80 percentage points for PLUS loans if the loans are held by for-profit lenders, and by 0.35 percentage points and 0.65 percentage points respectively for loans held by not-for-profit lenders;[15]
- eliminate lender exceptional performer status as of October 1, 2007;[16]
- increase the lender origination fee on loans from 0.50% to 1% for all loans made on or after October 1, 2007;
- effective October 10, 2007, reduce guaranty agency retention amounts from 23% to 16% of collections on defaulted loans;
- replace guaranty agency account maintenance fees, which are paid to guarantors annually by the federal government and currently equal 0.10% of original principal of loans guaranteed, with a "unit cost" fixed dollar payment per loan;[17] and
- effective July 1, 2009, introduce loan auctions through which lenders would compete for the rights to make parent PLUS loans in the FFEL program.[18]

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[14] See Congressional Budget Office, *Cost Estimate, Higher Education Access Act of 2007, as ordered reported by the Senate Committee on Health, Education, Labor and Pensions on June 20, 2007; with subsequent revisions provided by the Committee through June 29, 2007,* July 3, 2007.

[15] The lender rate formulas (embedded in the SAP formulas), under current law, are based on the 91-day commercial paper (CP) rate plus an "add-on" of 1.74% (in-school) and 2.34% (in repayment) for Stafford loans and 2.64% for Consolidation and PLUS loans. The add-ons would be reduced under the proposal by the amounts indicated.

[16] As has been noted earlier, lenders and loan servicers with "exceptional performer" designations currently receive an insurance rate of 99% instead of 97%. Exceptional performer status is awarded to those with high compliance ratings with regulatory loan servicing requirements. Under this proposal, those holders with current exceptional performer designations are allowed to retain such designations for the year for which the designation is made.

[17] The fixed payment amount is based on a calculation that determines the total amount currently spent on a per loan basis, and fixes this amount as the program-wide per-loan unit cost. This per-loan cost is, in subsequent years, indexed for inflation.

[18] Every two years auctions would be held to determine which lenders are eligible to make FFEL parent PLUS loans in each state; the two lenders with the lowest bids (i.e., those lenders willing to accept the lowest lender rate) win the rights to make FFEL parent PLUS

(continued...)

The Senate reconciliation bill also includes provisions that would increase direct spending. The provisions providing new or enhanced loan aid would,

- effective July 1, 2008, for individuals who first borrow under HEA, Title IV prior to October 1, 2012, extend the period of eligibility for economic hardship deferment under the FFEL, DL, and Perkins Loan programs from three years to six years;
- effective July 1, 2008, for individuals who first borrow under HEA, Title IV prior to October 1, 2012, revise two of the criteria according to which borrowers may qualify for economic hardship deferment, from working full-time and either (a) earning less than 100% of the poverty line for a family of two, or (b) having a federal student loan debt burden equal to 20% or more of their adjusted gross income (AGI), and where the result of their AGI minus their debt burden is less than 220% of the poverty line for a family of two, to (a) 150% of the poverty line applicable to the borrower's family size, or (b) having a federal student loan debt burden equal to 20% or more of their AGI, and where the result of their AGI minus their debt burden is less than 220% of the poverty line applicable to the borrower's family size;
- effective July 1, 2008, eliminate the three-year limitation on deferment under the FFEL, DL, and Perkins Loan programs for borrowers who are serving on active duty or performing qualifying National Guard duty during a war or other military operation or national emergency; and extend deferment to 180 days after demobilization. This provision becomes applicable to all loans made under HEA, Title IV; whereas, under current law, the existing deferment applies only to loans for which the first disbursement was made on or after July 1, 2001;
- effective July 1, 2008, for individuals who first borrow under HEA, Title IV prior to October 1, 2012, replace both the income-sensitive (FFEL) and income-contingent (DL) repayment plans with a new income-based repayment plan under which borrowers' loan payments are capped at 15% of any amount by which their adjusted gross income (AGI) exceeds 150% of the poverty line; and under which any loan balance not repaid after 25 years in repayment or economic hardship deferment will be forgiven. (This repayment plan is not available for borrowers of PLUS loans on behalf of a dependent student); and
- create a new DL loan forgiveness program under which borrowers who, after October 1, 2007, have made 120 payments according to the income-based or standard repayment plans, may have 1/10th of their outstanding loan balance forgiven for each year of employment

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[18] (...continued)
loans to cohorts of parents within a state, at the second lowest rate bid. Bids will only be accepted if they propose a lender rate at or below CP plus 1.74, which constitutes a lower lender rate than the one in effect prior to the auctions. A lender of last resort is established by the Secretary for instances where no acceptable bids materialize.

in certain public sector jobs during which they earned $65,000 or less per year.[19]

The provisions providing new or enhanced grant aid or adjustments to need analysis calculations would

- eliminate the Pell Grant tuition sensitivity provision;
- create a new, need-based, Promise Grant program. Promise Grants would be for Pell-eligible students and would be awarded in the same manner as the Pell Grant. The amount of the maximum and minimum grant are to be determined by the Secretary. Provides mandatory funding for the Promise Grant program as follows: $2.62 billion for FY2008; $3.04 billion for FY2009; $3.46 billion for FY2010; $3.9 billion for FY2011; $4.02 billion for FY2012, $10 billion for FY2013; and $3.2 billion for each fiscal year 2014 through 2017;
- increase the IPA for dependent students from $3,080 in academic year 2008-2009 to $3,750 for academic year 2009-2010; $4,500 for academic year 2010-2011; $5,250 for academic year 2011-2012; and $6,000 for academic year 2012-2013;
- increase the IPA for independent students without dependents from $6,220 in academic year 2008-2009 to $7,000 for academic year 2009-2010; $7,780 for academic year 2010-2011; $8,850 for academic year 2011-2012; and $9,330 for academic year 2012-2013;
- increase the IPA for independent students without dependents, who are married and one is enrolled in postsecondary education from $9,970 in academic year 2008-2009 to $11,220 for academic year 2009-2010; $12,460 for academic year 2010-2011; $13,710 for academic year 2011-2012; and $14,960 for academic year 2012-2013;
- increase the IPA for independent recipients with dependents by select amounts for academic years 2009-2010 through 2012-2013. The IPA ultimately is increased by 50% over the amount for the 2008-2009 academic year;[20]
- increase the income eligibility threshold for auto-zero EFC from $20,000 to $30,000 for parents and for independent students with dependents;

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[19] Public sector jobs include full-time jobs in public emergency management, government, public safety, public law enforcement, public health, public education, public early childhood education, public child care, social work in a public child or family service agency, public services for individuals with disabilities, public services for the elderly, public interest legal services (including prosecution or public defense), public library sciences, public school library sciences or other public school-based services, and teaching at a Tribal College or University.

[20] The IPA for this group is increased by selected amounts, depending upon family size and the number in college, for each academic year between 2009-2010 through 2012-2013. For the specific amounts, see pps. 35-37 of the bill.

- expand the list of special circumstances that authorize the Secretary to use professional judgement to include a change in housing status that results in homelessness as defined by the McKinney-Vento Homeless Assistance Act;
- change the definition of an independent student to include a person who is in foster care or who was in foster care until the age of 18, emancipated minors, and individuals who have been verified as a homeless child or youth as defined by the McKinney-Vento Homeless Assistance Act. Further, states that a financial aid administrator may make a determination of independence based on a documented determination made by another aid administrator in the same award year;
- clarify that qualified education benefits shall be treated as an asset of the parent if the student is a dependent, and as an asset of the student if the student is independent;
- clarify that a distribution from a qualified education benefit is excluded from the need analysis calculation and should not be considered as other financial assistance in the aid packaging process;
- exclude combat pay from a student's calculation of need for federal student financial assistance, and also specifies that it shall not treated as financial assistance. Special combat pay is defined as pay received by a member of the Armed Forces because of exposure to a hazardous situation; and
- eliminate the drug conviction question from the Free Application for Federal Student Aid (FAFSA).

The provisions for new or enhanced aid to specific IHEs, or adjustments to campus-based aid would

- delay the date upon which institutions must begin distributing collections on Perkins Loans to the Secretary from March 31, 2012, to September 30, 2012;
- authorize and appropriate $25 million each year for FY2008 and FY2009 to establish a College Access Partnership Grant program, under which formula grants may be awarded to states to support college access for students from low-income families. States must provide matching funds equal to 50% of the federal funds received. Allowable uses of funds include (a) providing students information on the benefits of postsecondary education; (b) information on postsecondary education financing options, financial literacy, and debt management; (c) outreach for at-risk students; (d) assistance in completing the FAFSA; (e) need-based grant aid; (f) professional development for middle school and high school guidance counselors, financial aid administrators, and admissions counselors; and (g) student loan cancellation or repayment, or interest rate reductions for borrowers employed in high-need geographical areas or professions as determined by the state.
- authorize and appropriate $10 million each year for FY2008 and FY2009 to establish a Financial Literacy Program. Under the program, competitive matching grants may be awarded to non-profit

or for-profit entities for purposes of increasing the financial literacy of students enrolled in institutions of higher education.

- authorize and appropriate $25 million each year for FY2008 and FY2009 to establish a Secondary School Graduation and College Enrollment program. Under the program, competitive matching grants may be awarded to consortia of non-profit organizations and IHEs with demonstrated records of effectiveness in raising secondary school graduation rates and postsecondary enrollment rates to operate programs of assistance to local educational agencies with secondary school graduation rates of 70% or less.