# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

June 25, 2007

## H.R. 2669
### College Cost Reduction Act of 2007

*As ordered reported by the House Committee on Education and Labor on June 13, 2007*

## SUMMARY

H.R. 2669 would amend the Higher Education Act of 1965 and make a number of changes to the federal financial assistance programs related to postsecondary education. The bill would reduce costs for some borrowers, reduce the government's payments to lenders and guaranty agencies, modify fees for lenders, and create new grant programs for postsecondary students and institutions. CBO estimates that net effects of those changes would reduce direct spending by $1.7 billion over the 2008-2012 period and by $0.9 billion over the 2008-2017 period.

Implementing the bill also would affect discretionary spending, primarily by increasing Pell grants. Assuming the appropriation of the necessary funds, those discretionary costs would total about $158 billion over the 2008-2012 period.

H.R. 2669 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

## ESTIMATED COSTS TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2669 is summarized in Table 1. The budgetary effects of this legislation fall within budget function 500 (education, training, employment, and social services).

**TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2669**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2008-2012 | 2008-2017 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| **STUDENT LOANS** | | | | | | | | | | | | |
| Provisions Affecting Borrowers | | | | | | | | | | | | |
| Estimated Budget Authority | 1,075 | 1,588 | 2,350 | 3,125 | 3,850 | 2,265 | 1,000 | 1,050 | 1,090 | 1,105 | 11,988 | 18,498 |
| Estimated Outlays | 795 | 1,136 | 1,855 | 2,545 | 3,195 | 2,890 | 905 | 950 | 990 | 1,010 | 9,526 | 16,271 |
| Provisions Affecting Lenders | | | | | | | | | | | | |
| Estimated Budget Authority | -5,405 | -3,165 | -3,340 | -3,500 | -3,665 | -3,830 | -3,995 | -4,160 | -4,340 | -4,530 | -19,075 | -39,930 |
| Estimated Outlays | -4,105 | -2,650 | -2,815 | -2,945 | -3,085 | -3,220 | -3,360 | -3,500 | -3,655 | -3,810 | -15,600 | -33,145 |
| Provisions Affecting Guaranty Agencies | | | | | | | | | | | | |
| Estimated Budget Authority | -2,470 | -155 | -165 | -170 | -180 | -185 | -190 | -200 | -210 | -215 | -3,140 | -4,140 |
| Estimated Outlays | -2,405 | -135 | -140 | -145 | -155 | -160 | -165 | -170 | -175 | -180 | -2,980 | -3,830 |
| Net Programmatic Interactions for Student Loan Changes | | | | | | | | | | | | |
| Estimated Budget Authority | -65 | -103 | -65 | -30 | * | -100 | -175 | -190 | -190 | -195 | -263 | -1,113 |
| Estimated Outlays | -35 | -91 | -55 | -40 | * | -55 | -135 | -160 | -160 | -165 | -221 | -896 |
| **GRANT PROGRAMS** | | | | | | | | | | | | |
| Increases in Grant Aid to Students | | | | | | | | | | | | |
| Budget Authority | 915 | 975 | 1,455 | 2,400 | 2,470 | 2,505 | 2,560 | 2,620 | 2,660 | 2,685 | 8,215 | 21,245 |
| Estimated Outlays | 305 | 910 | 1,042 | 1,646 | 2,393 | 2,467 | 2,516 | 2,568 | 2,628 | 2,664 | 6,297 | 19,141 |
| Increases in Grants to Institutions of Higher Education | | | | | | | | | | | | |
| Budget Authority | 595 | 245 | 245 | 245 | 215 | 0 | 0 | 0 | 0 | 0 | 1,545 | 1,545 |
| Estimated Outlays | 78 | 388 | 289 | 300 | 255 | 195 | 33 | 9 | 0 | 0 | 1,309 | 1,545 |
| **TOTAL CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| Estimated Budget Authority | -5,355 | -615 | 480 | 2,070 | 2,690 | 655 | -800 | -880 | -990 | -1,150 | -730 | -3,895 |
| Estimated Outlays | -5,368 | -442 | 176 | 1,361 | 2,603 | 2,117 | -206 | -303 | -372 | -481 | -1,670 | -914 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | | | | | | | |
| Pell Grant Program [1] | | | | | | | | | | | | |
| Estimated Authorization Level | 28,311 | 34,167 | 39,386 | 44,784 | 50,780 | 51,989 | 53,300 | 0 | 0 | 0 | 197,428 | 302,716 |
| Estimated Outlays | 6,795 | 29,150 | 35,302 | 40,577 | 46,115 | 50,950 | 52,279 | 40,482 | 1,066 | 0 | 157,939 | 302,716 |
| Memorandum: Student Loan Spending Under the CBO Baseline | | | | | | | | | | | | |
| Estimated Budget Authority | 4,575 | 5,248 | 5,825 | 6,011 | 5,800 | 5,738 | 5,681 | 5,586 | 5,480 | 5,389 | 26,859 | 54,733 |
| Estimated Outlays | 3,241 | 3,889 | 4,506 | 4,839 | 4,734 | 4,764 | 4,769 | 4,752 | 4,712 | 4,638 | 21,209 | 44,844 |

1. Assumes the maximum award for academic years 2013-2014 and 2014-2015 is the same level ($11,600) as that specified for academic year 2012-2013.

* = Less than $500,000.

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2669 will be enacted early in fiscal year 2008.

As required under the Federal Credit Reform Act of 1990, the costs of student loans are estimated on a net-present-value basis rather than the cash basis used for most other federal programs. H.R. 2669 would affect such credit estimates in several ways: by reducing interest rates charged on student loans, by reducing certain payments to private lenders of federally guaranteed loans, by decreasing payments to guaranty agencies, and by increasing certain fees paid to the government by such lenders.

In fiscal year 2006, the student aid programs provided an estimated $16 billion in federal grant aid to over 5 million students and an estimated $61 billion in federal loan aid or guarantees to 8 million students and parents. The current grant aid is mostly discretionary spending (i.e., from annual appropriation action); the loan aid is virtually all direct spending.

H.R. 2669 would expand loan aid to student borrowers while reducing the federal cost of providing that aid, establish new mandatory grant aid to students, and establish several other mandatory grant programs to institutions of higher education. The bill also would authorize a major increase in discretionary funding for the Pell Grant Program.

### Direct Spending - Student Loans

Provisions Affecting Borrowers. H.R. 2669 would make several changes affecting student loan borrowers. The bill would reduce interest rates and increase the borrowing limits for some borrowers, expand borrower repayment options, provide loan forgiveness for borrowers working in specified public-sector jobs, and expand eligibility by altering the determination of financial need. Combined, these changes are estimated to increase costs by $795 million in 2008, by $9.5 billion over the 2008-2012 period, and by $16.3 billion over the 2008-2017 period.

*Reductions in Interest Rates.* Under current law, the interest rate charged borrowers for both subsidized and unsubsidized student loans is 6.8 percent for new loans disbursed after June 30, 2006. H.R. 2669 would reduce the rate for new subsidized loans in stages: for successive 12-month periods beginning in July 2008, the rates would be 6.12 percent, 5.44 percent, 4.76 percent, 4.08 percent, and 3.4 percent, respectively. Between $30 billion and $34 billion in new loans would be affected each year. Beginning in July 2013, for new loans, the rate would revert back to the 6.8 percent rate prescribed in current law.

For guaranteed student loans, private lenders are paid interest based on a formula; if that rate exceeds what the borrower pays, the federal government is responsible for paying the difference between the two rates. When the lender formula produces a lower rate than the borrower pays, the lender must return the difference to the government. Consequently, any reduction in the borrowers' interest rate increases federal costs by either increasing the payments made to lenders or reducing the rebate lenders pay to the government. In the direct student loan program, the interest rate reductions reduce federal collections. In both cases—either through an increase in federal payments for loan guarantees or a decrease in federal collections for direct loans—the net cost of providing the student loan assistance rises and is measured as an increase in the subsidy cost, recorded on a present-value basis at the time of loan disbursement. CBO estimates that, as a result, loan subsidy costs would rise by $6.2 billion over the 2008-2012 period and $8.2 billion over the 2008-2017 period (see Table 2).

*Increases in Loan Limits.* H.R. 2669 would increase the annual loan limits for third- and fourth-year undergraduate students, and adjust the lifetime loan limits to accommodate those increases. Under current law, the maximum loan a third- or fourth-year dependent student can borrow is $5,500, and the lifetime limits are $23,000 for undergraduates and $65,500 for combined undergraduate and graduate school borrowing. For third- and fourth-year independent students, the maximum annual limit is $10,500 and lifetime limits are $46,000 for undergraduates and $138,500 for combined undergraduates and graduate borrowers.

Beginning in 2008, the legislation would increase the third- and fourth-year limit to $7,500 and the respective lifetime limits to $30,500 and $73,000 for dependent students. The third- and fourth-year limit would rise for independent students to $12,500, and the respective lifetime limits would rise to $53,500 and $156,000. Overall, the increases in the loan limits would raise loan volume between $1 billion and $3 billion each year and would increase subsidy costs by $1.4 billion over the 2008-2012 period and $3.5 billion over the 2008-2017 period, CBO estimates.

*Income-based Repayment and Economic Deferment.* Beginning in October 2007 for all student loan borrowers, the current maximum three-year period for which a borrower could receive an economic hardship deferment would be eliminated. (A deferment is a repayment status during which a borrower does not have to make any payment on their student loan.) In addition, the eligibility criteria for an economic hardship deferment would be altered. Currently, borrowers are eligible for an economic hardship deferment if their income is below 100 percent of poverty for a family of two or their income is below 220 percent of poverty for a family of two and their debt payments exceed 20 percent of their income. H.R. 2669 would set the eligibility at 150 percent of poverty based on family size.

**TABLE 2. DIRECT SPENDING OUTLAY EFFECTS OF MAJOR PROVISIONS**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2008-2012 | 2008-2017 |
| **STUDENT LOANS** | | | | | | | | | | | | |
| Provisions Affecting Borrowers: | | | | | | | | | | | | |
| Interest Rate Reductions | | | | | | | | | | | | |
| Estimated Outlays | 205 | 665 | 1,205 | 1,780 | 2,370 | 2,020 | 0 | 0 | 0 | 0 | 6,225 | 8,245 |
| Loan Limit Increases | | | | | | | | | | | | |
| Estimated Outlays | 80 | 250 | 345 | 370 | 380 | 390 | 400 | 410 | 415 | 425 | 1,425 | 3,465 |
| Income-Based Repayment | | | | | | | | | | | | |
| Estimated Outlays | 455 | 130 | 130 | 135 | 140 | 150 | 155 | 160 | 165 | 170 | 990 | 1,790 |
| Loan Forgiveness | | | | | | | | | | | | |
| Estimated Outlays | 50 | 85 | 165 | 245 | 290 | 315 | 335 | 365 | 390 | 395 | 835 | 2,635 |
| Needs Analysis | | | | | | | | | | | | |
| Estimated Outlays | 5 | 6 | 10 | 15 | 15 | 15 | 15 | 15 | 20 | 20 | 51 | 136 |
| Subtotal, Provisions Affecting Borrowers | | | | | | | | | | | | |
| Estimated Outlays | 795 | 1,136 | 1,855 | 2,545 | 3,195 | 2,890 | 905 | 950 | 990 | 1,010 | 9,526 | 16,271 |
| Provisions Affecting Lenders: | | | | | | | | | | | | |
| Special Allowance Payment | | | | | | | | | | | | |
| Estimated Outlays | -3,110 | -2,255 | -2,385 | -2,500 | -2,620 | -2,735 | -2,855 | -2,975 | -3,105 | -3,240 | -12,870 | -27,780 |
| Lender Insurance | | | | | | | | | | | | |
| Estimated Outlays | -765 | -235 | -255 | -265 | -275 | -285 | -295 | -310 | -325 | -335 | -1,795 | -3,345 |
| Lender Fees | | | | | | | | | | | | |
| Estimated Outlays | -230 | -160 | -175 | -180 | -190 | -200 | -210 | -215 | -225 | -235 | -935 | -2,020 |
| Subtotal, Provisions Affecting Lenders | | | | | | | | | | | | |
| Estimated Outlays | -4,105 | -2,650 | -2,815 | -2,945 | -3,085 | -3,220 | -3,360 | -3,500 | -3,655 | -3,810 | -15,600 | -33,145 |
| Provisions Affecting Guaranty Agencies | | | | | | | | | | | | |
| Retention of Guaranty Agency Collections | | | | | | | | | | | | |
| Estimated Outlays | -1,365 | -135 | -140 | -145 | -155 | -160 | -165 | -170 | -175 | -180 | -1,940 | -2,790 |
| Guaranty Agency Fee | | | | | | | | | | | | |
| Estimated Outlays | -1,040 | * | * | * | * | * | * | * | * | * | -1,040 | -1,040 |
| Subtotal, Provisions Affecting Guaranty Agencies | | | | | | | | | | | | |
| Estimated Outlays | -2,405 | -135 | -140 | -145 | -155 | -160 | -165 | -170 | -175 | -180 | -2,980 | -3,830 |
| Net Programmatic Interactions for Student Loan Changes | | | | | | | | | | | | |
| Estimated Outlays | -35 | -91 | -55 | -40 | * | -55 | -135 | -160 | -160 | -165 | -221 | -896 |

(Continued)

TABLE 2. CONTINUED

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2008-2012 | 2008-2017 |
| **GRANT PROGRAMS** | | | | | | | | | | | | |
| Provisions Affecting Grant Aid to Students | | | | | | | | | | | | |
| Mandatory Pell Grants | | | | | | | | | | | | |
| Estimated Outlays | 202 | 830 | 982 | 1,556 | 2,278 | 2,361 | 2,411 | 2,463 | 2,518 | 2,554 | 5,848 | 18,156 |
| Other Grants | | | | | | | | | | | | |
| Estimated Outlays | 104 | 80 | 60 | 90 | 115 | 107 | 105 | 105 | 110 | 110 | 449 | 985 |
| Subtotal, Provisions Affecting Grant Aid to Students | | | | | | | | | | | | |
| Estimated Outlays | 305 | 910 | 1,042 | 1,646 | 2,393 | 2,467 | 2,516 | 2,568 | 2,628 | 2,664 | 6,297 | 19,141 |
| Grant Aid to Institutions | | | | | | | | | | | | |
| Estimated Outlays | 78 | 388 | 289 | 300 | 255 | 195 | 33 | 9 | 0 | 0 | 1,309 | 1,546 |
| **TOTAL CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| Estimated Outlays | -5,368 | -442 | 176 | 1,361 | 2,603 | 2,117 | -206 | -303 | -372 | -481 | -1,670 | -914 |

* = Costs or savings of less than $500,000.

Components may not sum to totals because of rounding.

In addition, beginning in October 2007, the bill would establish a new income-based repayment plan available to all student loan borrowers similar to the current income-contingent repayment (ICR) plan in the direct student loan program. If borrowers' total federal student loan payments would exceed 15 percent of their calculated income, which is their adjusted gross income less an amount which is 150 percent of poverty for their family size, borrowers could elect to have their payments limited to 15 percent of their calculated income. If their payments are less than the amount due, payments would first be credited to interest, and then to principal. Any unpaid interest due on the loans would be capitalized. If, or when, borrowers are able to make 100 percent of their principal and interest payments, borrowers would return to a 10-year repayment, with some qualifications. At the end of 20 years, any unpaid principal, including any unpaid capitalized interest, would be paid by the government in case of a guaranteed loan and would be forgiven in the case of a direct loan.

Using the CBO's Long-Term (CBOLT) model, we estimated the eligible population based on the projected earnings for workers with some post-secondary schooling. CBO expects that participation in this program would be relatively low because of the required capitalization of interest and the seeming reluctance of borrowers to apply for similar relief elsewhere (for example, the low participation in the current ICR plan).

CBO estimates that extending the economic deferment combined with the new income-based repayment plan would increase federal costs by $1.0 billion over the 2008-2012 period and $1.8 billion over the 2008-2017 period.

*Loan Forgiveness for Certain Public-Sector Jobs.* The bill would create two new loan forgiveness programs for public-sector borrowers. The first, loan forgiveness for service in areas of national need, would forgive loans to new borrowers as of October 1, 2007, who are employed in certain public-sector jobs, including law enforcement, public safety, emergency management, public health, early childhood and bilingual education, nursing, social work and child welfare, public interest legal services, speech pathology, and library science.

For each year of full-time employment, a borrower would have up to $1,000 of his or her loans forgiven, up to a lifetime maximum of $5,000. Based on data from the Bureau of Labor Statistics and the Department of Education, CBO estimates that this provision would cost $2.7 billion over 10 years and that approximately 115,000 borrowers each year would be eligible for some amount of forgiveness in the initial years, with the total growing over 10 years.

The second program, income-contingent repayment for public-sector employees, would provide forgiveness to borrowers who agree to repay their loans through the income-contingent repayment plan under the direct loan program beginning in October 2007. To be eligible, a borrower would have to be employed in a public-sector job for 10 years and make 120 payments on the loan. Eligible public-sector jobs include government, emergency management, public safety, law enforcement, public health, early childhood education, social work in a public child or family service agency, and public interest legal services. Once borrowers met these criteria, they would have their remaining outstanding loan balance forgiven.

Based on data from the Census Bureau, the Survey of Income and Program Participation, the Bureau of Labor Statistics, and the Department of Education, CBO estimates that approximately 50,000 new borrowers each year would eventually be eligible for, and participate in, income-contingent loan forgiveness each year. The cost of the loan forgiveness would be covered by savings from borrowers switching from the guaranteed loan program to the income-contingent repayment plan in the direct program. As a result, CBO estimates the program would save $70 million between 2008 and 2017.

*Changes in Calculation of Needs Analysis.* The bill would change the way eligibility is calculated for Pell grants and subsidized student loans; the latter is classified as mandatory spending (see the section on "Spending Subject to Appropriation" for the discretionary impact on Pell grants). Those changes include:

- Raising the level at which a student automatically qualifies to have no expected family contribution;
- Changing the definition of untaxed income and the treatment of education savings accounts;
- Expanding the discretion of financial aid officers;
- Increasing income protection allowances for dependent and independent students; and
- Changing eligibility for the simplified needs test.

Using data on applicants for federal financial assistance, CBO estimates that those provisions in total would add costs of $51 million over the 2008-2012 period and $136 million over the 2008-2017 period to the student loan program.

**Provisions Affecting Lenders.** H.R. 2669 would alter payments to lenders in the guaranteed student loan program. The quarterly payments to lenders on all new loans would be reduced, federal insurance against default would be lowered, and lenders' origination fees would be increased. Combined, these changes would reduce costs by an estimated $4.1 billion in 2008, $15.6 billion over the 2008-2012 period, and $33.1 billion over the 2008-2017 period,

*Reduction of Special Allowance Payments to Lenders.* Under current law, private lenders receive quarterly payments from the government when the interest rate formula used to pay lenders would provide an interest rate higher than that which would apply to borrowers. Such payments are referred to as special allowance payments. The specific lender formulas are based on the 91-day commercial paper rate plus:

- 1.74 percent for loans when borrowers are in school, in the six-month grace period after leaving school, or in a deferment period (for example, for economic hardship);
- 2.34 percent when the borrower is repaying the loan; and
- 2.64 percent when the borrower has consolidated the loan or the borrower is a parent (including graduate students participating in the parent program: GradPLUS).

Beginning in October 2007, H.R. 2669 would lower those "add-ons" by 55 basis points (or 0.55 percentage points—roughly one-half of one percent) for new student and new consolidation loans and by 85 basis points for new parent and new GradPLUS loans.

CBO projects new loan volume in the guaranteed loan program will rise from nearly $58 billion in 2008 to $86 billion by 2017, and that loan volume for new consolidations will range from about $21 billion to $28 billion a year over the same period. CBO estimates that the reduced special allowance payments would reduce federal spending by $12.9 billion over the 2008-2012 period and $27.8 billion over the 2008-2017 period.

*Reductions in Percentage Guaranteed.* The bill would reduce the percentages that lenders receive when borrowers default on their loans in two ways: lowering the insurance rate from 97 percent of unpaid principal to 95 percent and eliminating the differential treatment (99 percent insurance) accorded to lenders defined as exceptional performers. Consequently, all lenders would receive the same insurance rate (95 percent) on loans originating after September 2007. CBO estimates that those changes together would reduce outlays by $1.8 billion over the 2008-2012 period and by $3.3 billion over the 2008-2017 period.

The reduction in the percentage guaranteed rate from 97 percent to 95 percent would apply for loans whose first disbursement is after September 2007, including new consolidation loans. CBO estimates the two-point reduction in the insured percentage by itself would save about $0.2 billion over the 2008-2017 period.

Under current law, exceptional performers—lenders who exceed standards for various administrative activities—are insured at 99 percent rather than 97 percent. Based on recent information from the Department of Education, CBO estimates that, in any given year, about 90 percent of outstanding principal is held by lenders with that designation. H.R. 2669 would reduce the insurance rate for those lenders from 99 percent to 95 percent on loans whose first disbursement is on or after October 2007. CBO estimates that the reduction for those lenders would save about $3.2 billion over the 2008-2017 period.

*Increased Loan Fees From Lenders.* Under current law, lenders pay the federal government 0.5 percent on each new loan (including consolidations). Beginning in October 2007, H.R. 2669 would eliminate this fee on new loans for relatively small lenders and all nonprofit lenders, but increase the fee on new loans made by other lenders to 1.0 percent. CBO estimates that for about 70 percent of loans, the fee would increase by 0.5 percentage points; the remainder would see the fee eliminated. Based on its projections of loans to be disbursed over the projection period, CBO estimates that the modified fee would lower federal costs by $2.0 billion over the 2008-2017 period.

*Loan Auction.* H.R. 2669 would authorize a series of activities that could introduce an auction process for student loans. Those activities would begin with a planning study of alternative market-based mechanisms for setting lenders' yields, followed by a pilot program that would test the recommended approach. That is, the government could auction the right to make federally guaranteed loans with the "winners" of such auction determined by bidding for the lowest acceptable payments by the government to such prospective lenders. Upon completion of an evaluation by the Government Accountability Office, the Secretary of Education could implement the approach for the entire student loan program. Because of the substantial uncertainties about the specific approach that would be adopted as well as the significant discretion allowed the Secretary of Education, CBO does not have a sufficient basis upon which to estimate the budgetary effects of this provision.

**Provisions Affecting Guaranty Agencies.** H.R. 2669 would lower payments to guaranty agencies that administer the guaranteed student loan program on behalf of the government. The share of default collections retained by the guaranty agencies would be lowered and the method of federal payment to manage the overall portfolio would be changed. Combined, those changes would reduce costs by an estimated $2.4 billion in 2008, $3.0 billion over the 2008-2012 period, and $3.8 billion over the 2008-2017 period.

*Retention of Guaranty Agency Collections.* Under current law, nonfederal guaranty agencies are allowed to retain 23 percent of their collections on defaulted loans. H.R. 2669 would reduce that percentage to 16 percent beginning in fiscal year 2008. CBO estimates that reducing the retention rates would save $1.9 billion over the 2008-2012 period and $2.8 billion over the 2008-2017 period.

*Account Maintenance Fee.* Guaranty agencies currently receive federal payments of up to 0.1 percent of the original principal of their outstanding insured loans to support their administrative costs. Starting in October 2007, H.R. 2669 would change the percentage fee to a fixed dollar payment per loan. Based on information provided by the Department of Education, CBO expects that the fee would be set at about $7.50 per loan in 2008. CBO estimates that the change, on average, would reduce payments tied to outstanding loans, but would have no significant net budgetary impact with respect to future loans. The savings with respect to outstanding loans reflect the surge in consolidations in the past several years and for which are much larger than the average loan and for which the current 0.1 percent fee exceeds the fixed $7.50 amount. Reduced costs for outstanding loans would total $1.0 billion.

**Programmatic Interactions for Student Loans**. There are interactions among the numerous loan-related provisions included in H.R. 2669. For example, increasing loan volume by raising the borrowing limits would affect the overall savings from decreasing lenders' yields and the percentages of loans guaranteed. The combined effect of all the interactions is to lower costs by $221 million over the 2008-2012 period and by $896 million over the 2008-2017 period.

### Direct Spending - Grant Programs

**Increases in Grant Aid to Students**. H.R. 2669 also would create new grant programs, increase funding for the existing Pell Grant Program, and expand eligibility for the Academic Competitiveness and SMART grant programs. Combined, those changes would increase costs by $305 million in 2008, by $6.3 billion over the 2008-2017 period, and by $19.1 billion over the 2008-2017 period, CBO estimates.

*Mandatory Pell Grant Add-on.* The bill would appropriate $19.3 billion over the next 10 years to create a direct spending add-on to the existing discretionary Pell Grant program. The mandatory funds in H.R. 2669 would be added to the funds provided in the annual appropriation act to raise the maximum award level above that set in such appropriation acts (currently $4,310 for academic year 2007-2008).

CBO estimates that, along with the costs of other provisions in the bill that affect Pell grants, the additional funds provided would allow the maximum grant to be increased by approximately $200 for academic year 2008-2009 and by additional amounts each year until the increase reached approximately $5,200 in 2012 and beyond. Any additional amounts realized in future grants awards could vary depending on the underlying discretionary maximum award level set in annual appropriation acts. CBO estimates that the outlays associated with those increases would total $5.8 billion over the 2008-2012 period and $18.2 billion over the 2008-2017 period.

*TEACH Grants.* Beginning in academic year 2008-2009, H.R. 2669 would establish a new grant program for students who meet certain criteria and submit an agreement to teach specific high-need subjects, such as mathematics and science, for at least 4 years in schools that meet criteria for enrollment of low-income students. Each undergraduate participant would be eligible for up to $4,000 (plus $500 for a Bonus TEACH grant for some students) up to a maximum of $16,000 ($18,000 for those participating in the Bonus TEACH Program); graduate students would be eligible for up to a maximum of $8,000 ($10,000 for those participating in the Bonus TEACH program). CBO estimates costs for this grant program would total $0.4 billion over the 2008-2012 period and $0.9 billion over the 2008-2017 period.

To be eligible for a TEACH grant, a student would have to meet the following requirements:

- Maintain a grade point average of at least 3.25 and display high academic aptitude on certain admissions tests; and

- Engage in coursework and other requirements necessary to begin a career in teaching.

If the grant recipient fails to complete the service requirement, the grants would become a direct loan that the recipient would have to repay with interest.

CBO estimates that more than 25,000 students would participate in the grant program in a typical year. CBO bases this estimate on data from the Department of Education, including the *Digest of Education Statistics*, the *Condition of Education*, the Schools and Staffing Survey, *Teacher Attrition and Mobility*, and the National Postsecondary Student Aid Study.

*Academic Competitiveness Grant and SMART Grant Programs.* The bill would adjust how a student's academic year is determined and expand eligibility to part-time students for both the Academic Competitiveness and SMART grant programs. Currently, only full-time students are eligible for grants. Because funding for these programs is capped at specified amounts and the Secretary has the authority to proportionately reduce award levels to stay within the provided amounts, CBO estimates these changes would have no net impact on federal spending over the 2008-2012 or 2008-2017 periods.

*Incentives and Rewards for Low Tuition.* The bill would appropriate $15 million per year for 2008 through 2012 to provide grants to institutions that increase their tuition by less than the national average. The Secretary of Education would award grants to the institutions starting with the one with the lowest tuition increase, and continuing until the funds are exhausted. The grants would be used to increase Pell grants at the institution by 25 percent. CBO estimates that outlays would increase by $74 million over five years and by $75 million over 10 years.

**Grants to Institutions of Higher Education**. H.R. 2669 would appropriate funds for the existing Federal Perkins Loan Program and create several new grant programs for institutions of higher education. Combined, these changes would cost $1.3 billion over the 2008-2012 period and $1.5 billion over the 2008-2017 period. Estimated outlays reflect the historical patterns of spending for higher education programs and other federal grant programs.

*Federal Perkins Loan Program.* The bill would appropriate $100 million each year for fiscal years 2008 through 2012 for capital contributions to the existing Federal Perkins Loan Program. CBO estimates this provision would increase outlays by $407 million between 2008 and 2012 and by $500 over 10 years.

*Cooperative Education Rewards Program.* Under this new program, $15 million a year for 2008 through 2012 would be available to support programs for students that provide alternating or parallel periods of academic study and of public or private employment. The grants would range from $1,000 to $75,000 annually, and the grants would have to be matched by the institutions. The federal share would decline in stages over five years from 85 percent to 25 percent. CBO estimates the grant program would increase outlays by $75 million over the 2008-2017 period.

*Centers of Excellence.* H.R. 2669 would set up a new grant program to encourage minority institutions to create centers of excellence that would focus on implementing policies that would improve the preparation of teachers. Funding for the centers would total $50 million for the 2008-2012 period, with a minimum grant of $500,000 for any participating institution. CBO estimates that all of the outlays associated with those grants would occur during the 2008-2012 period.

*Upward Bound.* The bill would appropriate $30 million for each of fiscal years 2008 through 2011 to provide funding to Upward Bound projects that received assistance in fiscal year 2006 but not in fiscal year 2007 and that also received a grant score above a certain level. CBO estimates that this provision would increase outlays by $109 million over five years and $120 million over 10 years.

*Investment in Historically Blacks Colleges and Universities and Other Minority Serving Institutions.* The bill also would create the Investment in Historically Blacks Colleges and Universities and Other Minority Serving Institutions to provide grants to such institutions to enhance their undergraduate programs in educating and training under-represented populations in all areas of study. For the purposes of this estimate, CBO assumes the program would expire after 2012, and thus would not result in any new budget authority after that year. H.R. 2669 would appropriate $100 million for each of fiscal years 2008 through 2012, resulting in a total cost of $500 million over 10 years.

*College Access Challenge Grants Program.* H.R. 2669 would appropriate $300 million in fiscal year 2008 to create the College Access Challenge Grants. The funds, which would be available for obligation through fiscal year 2012, would be used to award grants to philanthropic organizations that are members of eligible consortia to provide: (1) need-based grants, (2) school-based mentoring programs, and (3) outreach programs to encourage students to pursue higher education. CBO estimates outlays would total $300 million over the 2008-2012 period.

**Spending Subject to Appropriation**

Implementing H.R. 2669 would also result in additional discretionary spending. The vast majority of additional discretionary spending would result from the reauthorization of, and changes to, the Pell Grant Program. Projected spending subject to appropriation is summarized in Table 3. For this estimate, CBO assumes that the necessary amounts to implement the bill will be appropriated and that spending will follow the historical pattern for the program.

H.R. 2669 would authorize the appropriation of such sums as may be necessary for the Pell Grant program through fiscal year 2013. The General Education Provisions Act would automatically extend this authorization through 2014. This estimate assumes that sufficient funds are appropriated to provide the maximum grant to all students eligible for it. On that basis, CBO estimates that the cumulative changes in H.R. 2669 would increase outlays for Pell grants by $6.8 billion in 2008 and $158.0 billion over the 2008-2012 period. If funding were enacted at the authorized levels, CBO estimates that 5.7 million students would receive grants in academic year 2008-2009 and 6.5 million would receive grants in 2012-2013, up from the 5.3 million that CBO estimates will receive grants in the upcoming 2007-2008 academic year.

**Pell Grants**. The bill would make several changes to the underlying Pell Grant program. First, it would set the authorized maximum award level at $7,600 for academic year 2008-2009 and raise it by $1,000 each academic year up to $11,600 for academic year 2012-2013.

Historically, the authorized maximum award level has been replaced with a lower maximum award level during the appropriations process. The maximum award level for Pell grants for the upcoming academic year (2007-2008) was set by the Revised Continuing Appropriations Resolution, 2007 (Public Law 110-5) at $4,310.

Effective upon enactment, the bill also would eliminate the tuition sensitivity provision, which reduces Pell awards for some students who attend low-cost postsecondary institutions. In addition, beginning in academic year 2009-2010 it would allow students who attend year-round institutions to receive multiple Pell grants in the same academic year. Assuming the appropriation of the necessary amounts, CBO estimates that these provisions would cost $6.8 billion in 2008 and $153.0 billion through 2012.

Other portions of the bill would make changes to the formulas for calculating who is eligible for Pell grants and how much each applicant would receive. Those changes, described below, would not take effect until the 2009-2010 academic year. CBO's estimate assumes that funding for the maximum authorized award level would be provided. If the appropriated award level is set below the authorized level, the ultimate costs would be lower.

**TABLE 3. ESTIMATED DISCRETIONARY COSTS FOR THE PELL GRANT PROGRAM UNDER H.R. 2669**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Pell Grant Spending Under Current Law | | | | | | |
| Budget Authority | 13,661 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 13,179 | 10,660 | 281 | 0 | 0 | 0 |
| Proposed Changes: | | | | | | |
| Pell Grants | | | | | | |
| Estimated Authorization Level | 0 | 28,311 | 33,166 | 37,906 | 42,822 | 48,454 |
| Estimated Outlays | 0 | 6,795 | 28,910 | 34,206 | 38,991 | 44,076 |
| Income Protection Allowances | | | | | | |
| Estimated Authorization Level | 0 | 0 | 327 | 714 | 1,084 | 1,420 |
| Estimated Outlays | 0 | 0 | 78 | 413 | 795 | 1,157 |
| Simplified Needs Test and Automatic Zero | | | | | | |
| Estimated Authorization Level | 0 | 0 | 330 | 364 | 403 | 422 |
| Estimated Outlays | 0 | 0 | 79 | 332 | 373 | 407 |
| Definition and Treatment of Untaxed Income | | | | | | |
| Estimated Authorization Level | 0 | 0 | 581 | 658 | 747 | 806 |
| Estimated Outlays | 0 | 0 | 139 | 588 | 678 | 759 |
| Interactions | | | | | | |
| Estimated Authorization Level | 0 | 0 | -237 | -256 | -272 | -322 |
| Estimated Outlays | 0 | 0 | -57 | -237 | -259 | -284 |
| Total Changes | | | | | | |
| Estimated Authorization Level | 0 | 28,311 | 34,167 | 39,386 | 44,784 | 50,780 |
| Estimated Outlays | 0 | 6,795 | 29,150 | 35,302 | 40,577 | 46,115 |
| Pell Grant Spending Under H.R. 2669 [1] | | | | | | |
| Estimated Authorization Level [2] | 13,661 | 28,311 | 34,167 | 39,386 | 44,784 | 50,780 |
| Estimated Outlays | 13,179 | 17,455 | 29,431 | 35,302 | 40,577 | 46,115 |

1. In addition to the discretionary spending for Pell grants shown in this table, H.R. 2669 also would provide a new mandatory add-on to the Pell Grant Program. Those funds would constitute direct spending, and would total $5.8 billion over the 2008-2012 period and $18.2 billion over the 2008-2017 period—as shown in table 2 (on page 5 of this estimate).

2. The Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95) requires that, for budget enforcement purposes, the estimate of new discretionary budget authority for the Pell Grant program include the accumulated shortfall or surplus from prior award years. The current estimated shortfall for fiscal year 2008 is $258 million. This amount is not included in figures in the table.

**Income Protection Allowances**. H.R. 2669 would raise the income protection allowances for both dependent and independent students (but not for parents of dependent students). The income protection allowance is a set amount of a student's income that is not counted toward his or her expected family contribution. Under current law, these allowances are inflated by the Consumer Price Index (CPI) each year. This legislation would increase these levels for academic years 2009-2010 through 2012-2013 at rates greater than inflation and then return to CPI adjustments after academic year 2012-2013. CBO estimates that this provision would cost $2.4 billion through 2012.

**Simplified Needs Test and Automatic Zero Changes**. The bill would raise the income level at which a student automatically qualifies to have no expected family contribution from $20,000 to $30,000, beginning in academic year 2009-2010. It also would inflate this level by the CPI for each academic year after 2009-2010. H.R. 2669 would change eligibility for the simplified needs test and expand the discretion of financial aid officers. CBO estimates that implementing these changes would cost $1.2 billion over the 2008-2012 period.

**Definitions and Treatment of Untaxed Income**. The bill would eliminate certain categories of untaxed income, such as the earned income tax credit and welfare and Social Security benefits, from the calculation of total income for students and parents. It also would change the treatment of education savings accounts. CBO estimates that these changes would cost $2.2 billion through 2012.

**Interactions**. The cumulative impact of the above changes to the Pell Grant program is less than when each is measured separately from current law because their effects overlap. For example, a student may be eligible for the maximum Pell grant because of both the increased income protection allowances and the increase in the automatic zero expected family contribution level. As a result, the combined effect of these changes is $840 million less over the 2008-2012 period than when each change is estimated separately.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2669 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. The bill would authorize funding for student aid and higher education programs and increase requirements for public colleges and universities that participate in voluntary federal programs. Any costs to those institutions or to state, local, or tribal governments would result from complying with conditions for receiving federal assistance.

**ESTIMATE PREPARED BY:**

Federal Costs: Deborah Kalcevic and Justin Humphrey
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Nabeel A. Alsalam

**ESTIMATE APPROVED BY:**

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis