



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

September 19, 2007

**H.R. 2669
College Cost Reduction and Access Act**

As cleared by the Congress on September 7, 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 act would reduce the government's payments to lenders and guaranty agencies, as well as increase the fees paid by lenders, and would use much of these savings to reduce costs for some borrowers and create a new mandatory grant program to supplement Pell Grants. It also would delay the recall of Perkins loan funds, alter student eligibility for grants and loans, and create several new mandatory grant programs for postsecondary students and institutions. CBO estimates that the net effects of those changes would reduce direct spending by \$752 million over the 2007-2012 period and by \$3.6 billion over the 2007-2017 period. (The act would not affect revenues.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2669 on direct spending is shown in the following table. The effects of this legislation fall within budget function 500 (education, training, employment, and social services).

	By Fiscal Year, in Millions of Dollars											2007-	2007-
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2012	2017
CHANGES IN DIRECT SPENDING													
STUDENT LOANS													
Provisions Affecting Borrowers													
Estimated Budget Authority	415	535	1,085	1,825	2,855	1,465	195	205	210	210	215	8,180	9,215
Estimated Outlays	415	305	788	1,380	2,195	2,075	170	175	180	180	185	7,158	8,048
Provisions Affecting Lenders													
Estimated Budget Authority	-2,660	-2,940	-3,390	-3,910	-4,285	-4,640	-5,050	-5,310	-5,575	-5,870	-6,175	-21,825	-49,805
Estimated Outlays	-2,660	-1,665	-2,775	-3,200	-3,580	-3,900	-4,245	-4,515	-4,750	-4,990	-5,250	-17,780	-41,530
Provisions Affecting Guaranty Agencies													
Estimated Budget Authority	-2,680	-415	-440	-465	-480	-505	-525	-540	-565	-590	-615	-4,985	-7,820
Estimated Outlays	-2,680	-235	-375	-390	-405	-430	-445	-465	-480	-500	-515	-4,515	-6,920
Net Programmatic Interactions for Student Loan Changes													
Estimated Budget Authority	35	25	185	385	505	585	700	735	795	870	935	1,720	5,755
Estimated Outlays	35	20	122	270	410	500	585	650	705	760	810	1,357	4,867
Subtotal													
Estimated Budget Authority	-4,890	-2,795	-2,560	-2,165	-1,405	-3,095	-4,680	-4,910	-5,135	-5,380	-5,640	-16,910	-42,655
Estimated Outlays	-4,890	-1,575	-2,240	-1,940	-1,380	-1,755	-3,935	-4,155	-4,345	-4,550	-4,770	-13,780	-35,535
GRANT PROGRAMS													
Grant Aid to Students													
Estimated Budget Authority	0	2,091	2,170	3,115	3,180	5,145	200	4,405	4,500	4,700	5,000	15,701	34,506
Estimated Outlays	0	508	2,059	2,394	3,111	3,654	3,919	1,307	4,344	4,546	4,768	11,726	30,610
Other Higher Education Programs													
Estimated Budget Authority	0	378	378	57	57	453	0	0	0	0	0	1,323	1,323
Estimated Outlays	0	75	210	237	210	571	15	5	0	0	0	1,302	1,323
Subtotal													
Estimated Budget Authority	0	2,469	2,548	3,172	3,237	5,598	200	4,405	4,500	4,700	5,000	17,024	35,829
Estimated Outlays	0	583	2,268	2,631	3,321	4,225	3,934	1,312	4,344	4,546	4,768	13,028	31,932
TOTAL CHANGES													
Estimated Budget Authority	-4,890	-326	-12	1,007	1,832	2,503	-4,480	-505	-635	-680	-640	114	-6,826
Estimated Outlays	-4,890	-992	28	691	1,941	2,470	-1	-2,843	-1	-4	-2	-752	-3,603

Note: Components may not add to totals because of rounding.

BASIS OF ESTIMATE

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 some student loans, by changing repayment terms for student borrowers, 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.

For this estimate, CBO assumes the act will be signed into law before the end of September. As a result, changes in the subsidy costs for existing loans and loan guarantees would be recorded in fiscal year 2007.

Student Loans

The act contains several provisions that would affect student loans. In total, H.R. 2669 would reduce spending on student loans by \$13.8 billion over the 2007-2012 period and by \$35.5 billion over the 2007-2017 period.

Provisions Affecting Borrowers. H.R. 2669 would make several changes affecting student loan borrowers. It would reduce interest rates for some borrowers, expand borrowers' repayment options, provide loan forgiveness for borrowers working in specified public-sector jobs, expand eligibility by altering the determination of financial need, and extend the deferment period for loan repayments for certain members of the military. Combined, these changes would increase costs by \$7.2 billion over the 2007-2012 period and by \$8.0 billion over the 2007-2017 period, CBO estimates.

Provisions Affecting Lenders. The act would alter the government's 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, lenders' origination fees would be increased, and a new auction for the right to originate Parent Loans for Undergraduate Students would be established. Summing the effects of these individual changes would produce an estimated reduction in total costs of \$17.8 billion over the 2007-2012 period and \$41.5 billion over the 2007-2017 period. However, several of those changes interact with one another such that the total estimated savings would be smaller; those interactions are discussed below.

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 amount of the federal payment to manage the overall portfolio would be changed.

Combined, those changes would reduce costs by an estimated \$4.5 billion over the 2007-2012 period and \$6.9 billion over the 2007-2017 period.

Programmatic Interactions for Student Loans. There are interactions among the numerous loan-related provisions included in H.R. 2669. For example, establishing an auction to determine lenders' yields would affect some of the same loans that would be affected by decreasing lenders' yields. The combined impact of all the interactions would be to increase costs by \$1.4 billion over the 2007-2012 period and by \$4.9 billion over the 2007-2017 period.

Grant Programs

The act contains several provisions that would affect other higher education programs, especially grants to students. In total, these provisions would cost an estimated \$13.0 billion over the 2007-2012 period and \$31.9 billion over the 2007-2017 period.

Increases in Grant Aid to Students. H.R. 2669 would create a new mandatory add-on to increase funding for the existing Pell Grant program and would appropriate funds to cover the costs of eliminating the tuition sensitivity provision for academic year 2007-2008. It also would create the Teacher Education Assistance for College and Higher Education (TEACH) Grants program, a grant program for students who agree to teach certain high-need subjects in schools that meet criteria for enrollment of low-income students. Combined, those changes would increase costs by \$11.7 billion over the 2007-2012 period and by \$30.6 billion over the 2007-2017 period, CBO estimates.

Other Higher Education Programs. The act would delay the recall of the Perkins Loan revolving funds for one year and appropriate funds for three grant programs for institutions of higher education. Combined, these changes would cost \$1.3 billion over the 2007-2017 period.

PREVIOUS CBO ESTIMATE

On September 6, 2007, CBO transmitted a cost estimate for H.R. 2669 as filed by the conferees on September 5, 2007. The estimates for the two versions of H.R. 2669 are identical.

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