



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 13, 2008

H.R. 4137 **Higher Education Opportunity Act**

As cleared by the Congress on July 31, 2008

SUMMARY

H.R. 4137 would reauthorize and amend most postsecondary education programs under the Higher Education Act of 1965. The act would affect direct spending by:

- Altering the eligibility of students and institutions for the federal student loan programs,
- Creating two new mandatory grant programs for institutions of higher education, and
- Modifying several existing mandatory grant programs.

CBO estimates that enacting the legislation would decrease direct spending by \$60 million over the 2008-2013 period and by \$65 million over the 2008-2018 period. The act would have a negligible impact on revenues.

H.R. 4137 also would amend and extend through 2014 the authorization of appropriations for the discretionary programs under the Higher Education Act (HEA). Under the General Education Provisions Act, those authorizations would automatically be extended through 2015. The act would create several new student and institutional aid programs and amend several other acts.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 4137 on direct spending is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4137 will be enacted early in August 2008. As required under the Federal Credit Reform Act of 1990, the costs of student loans are estimated on a net-present-value basis.

	By Fiscal Year, in Millions of Dollars											2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
CHANGES IN DIRECT SPENDING													
Student Loan Programs													
Estimated Budget Authority	-10	-32	-17	-12	-9	-9	-14	-11	-16	-16	-14	-89	-160
Estimated Outlays	*	-25	-22	-12	-9	-12	-9	-11	-11	-11	16	-80	-138
New Grant Programs													
Budget Authority	0	23	23	23	23	23	23	0	0	0	0	115	138
Estimated Outlays	0	*	18	21	23	23	23	23	7	0	0	85	138
Current Grant Programs													
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	*	-89	-26	20	25	5	*	*	*	*	*	-65	-65
Total Changes													
Estimated Budget Authority	-10	-9	6	11	14	14	9	-11	-16	-16	-14	26	-22
Estimated Outlays	*	-114	-30	29	39	16	14	12	-4	-11	-16	-60	-65

Notes: H.R. 4137 would have a negligible effect on revenues in every year and over the 2008-2018 period. Components may not sum to totals because of rounding.

* = less than \$500,000.

Student Loan Programs

H.R. 4137 would make numerous changes to the calculations-of-needs analysis and the rules governing the eligibility of students and institutions for the federal student loan programs. In total, CBO estimates those changes would reduce direct spending by \$80 million over the 2008-2013 period and by \$138 million over the 2008-2018 period.

The provision with the largest impact on direct spending would establish a six-month grace period for GradPLUS loans disbursed after July 1, 2008. Under current law, borrowers with GradPLUS loans have to begin repaying their loans as soon as they are no longer enrolled at least part-time in postsecondary education. The act would give GradPLUS borrowers the same grace period to repay their loans as other student loan borrowers. During that period, the borrower would not have to make any loan payments, but interest on the loan would

accrue and be capitalized. Because the interest rate paid by borrowers is greater than the discount rate, CBO estimates that enacting this change would reduce direct spending by \$75 million over the 2008-2013 period and by \$175 million over the 2008-2018 period.

The act also would expand the loan forgiveness program for teachers who serve in educational service agencies, which are established by states to manage and provide additional services to local education agencies. Based on data from the Association of Educational Service Agencies and the Department of Education, CBO estimates that enacting this provision would increase direct spending by \$22 million over the 2008-2013 period and by \$37 million over the 2008-2018 period.

In addition, the act would expand institutional eligibility for the student loan programs to certain for-profit institutions, such as those offering bachelor's degrees in liberal arts and foreign nursing schools. The act also would expand student eligibility for loan programs, including dependent students whose parents refuse to complete the Free Application for Federal Student Aid. Based on data from the Department of Education, CBO estimates that enacting those provisions would, on net, decrease direct spending by \$27 million over the 2008-2013 period and increase direct spending by a negligible amount over the 2008-2018 period.

New Grant Programs

H.R. 4137 would appropriate a total of \$23 million a year for 2009 through 2014 for master's and postbaccalaureate programs at Historically Black Colleges and Universities (HBCUs), Predominately Black Institutions, and Hispanic-Serving Institutions. Based on the spending patterns of similar programs, CBO estimates those appropriations would increase direct spending by \$85 million over the 2008-2013 period and by \$138 million over the 2008-2018 period.

Current Grant Programs

The act also would make changes to several existing mandatory grant programs. First, it would delay from January 1, 2009, to July 1, 2009, the implementation date for changes made to the Academic Competitiveness and SMART Grant Programs in the Ensuring Continued Access to Student Loans Act of 2008 (Public Law 110-583). Those changes include expanding eligibility for part-time and noncitizen students. CBO estimates that enacting this provision would reduce direct spending by \$65 million over the 2009-2011 period.

The act also would extend from one fiscal year to two fiscal years the period of availability to obligate funds for HBCUs and other minority-serving institutions that were appropriated in the College Cost and Reduction Act (Public Law 110-84). CBO estimates no net cost to this change over the 2009-2013 period, reflecting savings of \$50 million over the 2009-2010 period and corresponding costs over the 2011-2013 period. Finally, it would make changes to other mandatory grant programs, including the TEACH Grants program, which would have a negligible impact on direct spending over the 2008-2018 period.

Revenues

CBO estimates that H.R. 4137 would have a negligible impact on federal revenues. Title X would require the Board of Governors of the Federal Reserve and other financial regulatory agencies to issue regulations and supervise compliance with the new lending standards and procedures in the act. Based on information from the Federal Reserve, those regulatory activities would have no significant effect on their workload or budget. The budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Thus, CBO estimates that enacting this provision would reduce revenues by less than \$500,000 in every year and over the 2008-2018 period.

The act also would establish the National Center for Research in Development of Information and Digital Technology, which would be eligible to accept private donations. Donations to federal entities are recorded as revenues. CBO estimates this provision would increase revenues by less than \$500,000 in every year and over the 2008-2018 period.

PREVIOUS CBO ESTIMATES

On November 14, 2007, CBO transmitted a cost estimate for S. 1642, the Higher Education Amendments of 2007, as ordered reported by the Senate Committee on Health, Education, Labor, and Pensions on July 10, 2007. Relative to the March 2007 baseline, CBO estimated this act would have a negligible impact on direct spending over the 2008-2012 and 2008-2017 periods. S. 1642 also would amend and extend the authorization for the discretionary programs under the HEA through 2013 and would create several new student and institutional aid programs.

On December 18, 2007, CBO transmitted a cost estimate for H.R. 4137, the Higher Education Amendments of 2007, as ordered reported by the House Committee on Education and Labor on November 15, 2007. Relative to the March 2007 baseline, CBO estimated this version of H.R. 4137 would decrease direct spending by \$12 million over the 2008-2012

period and by \$27 million over the 2008-2017 period. This version of H.R. 4137 also would amend and extend the authorization for the discretionary programs under the HEA through 2013 and would create several new student and institutional aid programs.

On May 12, 2008, CBO transmitted a cost estimate for H.R. 4137, the College Opportunity and Affordability Act of 2008, as passed by the U.S. House of Representatives on February 7, 2008. Relative to the March 2008 baseline, CBO estimated this version of H.R. 4137 would increase direct spending by \$27 million over the 2008-2013 period and decrease it by \$73 million over the 2008-2018 period. This version of H.R. 4137 also would amend and extend the authorization for the discretionary programs under the HEA through 2013 and would create several new student and institutional aid programs.

The differences in costs among those three versions of the legislation and the version of H.R. 4137 cleared by the Congress reflect differences in provisions, as well as differences between the March 2007 and March 2008 baselines.

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