CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 6, 2018

H.R. 4508
Promoting Real Opportunity, Success, and Prosperity through Education Reform Act

As ordered reported by the House Committee on Education and the Workforce on December 13, 2017

SUMMARY

H.R. 4508 would reauthorize the Higher Education Act of 1965 (HEA) and amend institutional and student eligibility for several major student aid programs, including the William D. Ford Federal Direct Loan Program and the Federal Pell Grant Program. It also would reauthorize funding for most other federal higher education programs. Major provisions of the bill would:

- Amend repayment options for borrowers in the federal student loan program and eliminate loan forgiveness for certain borrowers who are employed in the public sector (direct spending savings of $40.0 billion over the 2019-2027 period);

- Amend federal loan programs for undergraduate borrowers, in particular by eliminating the subsidized loan program and increasing loan limits in the unsubsidized loan program (direct spending savings of $18.5 billion over the 2019-2027 period);

- Eliminate origination fees paid by student loan borrowers (direct spending costs of $14.5 billion over the 2019-2027 period);

- Provide an additional $300 to Pell grant recipients who enroll in at least 15 academic credits per semester (direct spending costs of $7.3 billion over the 2018-2027 period); and

- Amend or repeal restrictions on institutional eligibility for federal student aid for certain types of schools, the largest of which would repeal the definition of distance education and eliminate the cap on the percentage of revenues that proprietary schools can receive from the Department of Education (direct spending costs of $1.9 billion and $2.0 billion, respectively).

Effects on the Federal Budget

Because enacting the bill would affect direct spending, pay-as-you-go procedures apply. Enacting H.R. 4508 would not affect revenues. CBO estimates that enacting H.R. 4508 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

Direct Spending. CBO estimates that enacting the bill would increase direct spending by an estimated $0.6 billion in 2018, but would reduce direct spending by $2.2 billion over the 2018-2022 period and $14.6 billion over the 2018-2027 period. Almost all of the effect on direct spending would result from changes to student loans and Pell grants. CBO estimates that changes to student lending would reduce direct spending by $26.3 billion over the 2018-2027 period and changes to the mandatory portion of the Pell grant program would increase direct spending by $12.2 billion over the same period (the bulk of funding for Pell grants is discretionary and is not included in that total).

The estimates of changes to federal student loans are based on procedures outlined in the Federal Credit Reform Act of 1990 (FCRA). On a fair-value basis, which more fully accounts for the cost of the risk the government takes on in its student loan programs, CBO estimates that changes to student loans would instead reduce direct spending by $16.9 billion over the 2018-2027 period. More details about Federal Credit Reform Act and fair-value estimates are discussed under "Background" and "Fair-Value Estimating."

Spending Subject to Appropriation. H.R. 4508 would reauthorize many discretionary programs for higher education through fiscal year 2024. Although almost all of the underlying authorizations have expired, many of the programs have continued to receive appropriations. Most of the authorizations would automatically be extended through 2025 under the General Education Provisions Act (GEPA). The bill also would amend several other laws, including the Education for the Deaf Act and the Tribally Controlled Colleges and Universities Assistance Act.

CBO estimates that H.R. 4508 would authorize the appropriation of $112.0 billion over the 2018-2022 period and $210.4 billion over the 2018-2027 period. Assuming appropriation of the estimated amounts, CBO projects that enacting the bill would increase discretionary spending by $87.5 billion and $210.1 billion, respectively, over the two periods. The bulk of that amount ($169.6 billion over the 2018-2027 period) would result from reauthorizing and amending the discretionary portion of the Pell grant program.

Mandates

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that would enforce constitutional rights of individuals. CBO has determined that sections 111, 115, and 117 of H.R. 4508 fall within that exclusion because they would enforce the rights of free speech and religion. None of the remaining provisions of H.R. 4508 would impose intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 4508 are shown in Table 1. The costs of the legislation fall within budget function 500 (education, training, employment, and social services).

TABLE 1. BUDGETARY EFFECTS OF H.R. 4508, THE PROMOTING REAL OPPORTUNITY, SUCCESS, AND PROSPERITY THROUGH EDUCATION REFORM ACT

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Estimated Budget Authority	1.2	0.2	-1.2	-1.7	-2.0	-2.4	-2.9	-3.4	-3.6	-3.8	-3.4	-19.5
Estimated Outlays	0.6	0.7	-0.8	-1.2	-1.5	-1.8	-2.2	-2.6	-2.8	-3.0	-2.2	-14.6
INCREASES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	0.3	19.7	29.7	30.8	31.5	32.1	32.8	33.4	0.0	0.0	112.0	210.4
Estimated Outlays	0.1	5.4	21.4	29.6	31.0	31.7	32.3	32.9	24.5	1.2	87.5	210.1

Components may not sum to totals because of rounding.

BACKGROUND

Most of the assistance the federal government provides to students comes from student loans and Pell grants.

Federal Student Loan Programs

Under the William D. Ford Direct Loan Program, created in 1994, the federal government provides loans to undergraduate and graduate students and to the parents of undergraduate students. The government serves as the lender for all borrowers but contracts with private entities to service the loans.[1] CBO estimates that in fiscal year 2018, the federal government will make more than 17 million new loans to students and parents, totaling about $100 billion.

Federal Credit Reform Act Estimate. As required under FCRA, most of the costs of the federal student loan programs are estimated on a net-present-value basis. A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum received or paid today. Under credit reform, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on Treasury borrowing. (For example, the cash flow for a one-year loan is discounted using the Treasury rate for a one-year, zero-coupon note.) The costs for the federal administration of student loans are estimated on a cash basis. Unless otherwise noted, all estimated costs related to the federal student loan programs are shown using FCRA-estimating procedures.

Fair-Value Estimate. Section 5106 of the Conference Report of the Concurrent Resolution on the Budget for Fiscal Year 2017 requires any CBO cost estimate of a student loan provision under FCRA procedures to also include a fair-value estimate of the provision's costs.

Fair value estimates are based on market values—market prices when those prices are available or approximations of market prices when directly comparable figures are unavailable—which more fully account for the cost of the risk the government takes on in its student loan programs. To account for that risk, CBO discounts the same projected cash flows as under FCRA but uses a market-based discount rate.[2] The differences between fair-value and FCRA estimating procedures for the student loan program are discussed under "Fair-Value Estimating."

1. Before July 1, 2010, the federal government also provided loan guarantees to financial institutions to provide federal student loans through the Federal Family Education Loan Program. The Health Care and Education Reconciliation Act of 2010, which was signed into law on March 30, 2010, required all new loans originated after July 1, 2010, to be in the direct loan program.
2. For more details on fair-value accounting, see Congressional Budget Office, *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May 2014) www.cbo.gov/publication/45383, and *Fair-Value Accounting for Federal Credit Programs* (March 2012) www.cbo.gov/publication/43027.

Federal Pell Grant Program

The Federal Pell Grant Program, created in 1972, provides need-based grants to undergraduate postsecondary students. It is the largest source of federal grant aid for postsecondary education. Unlike federal student loans, the grants are not repaid. Under current law, CBO projects that in academic year 2018-2019, 7.5 million students will receive grants that average $3,900 for a total federal cost of $29.3 billion.

Funding Sources. Although Pell grants are funded with both discretionary and mandatory appropriations, the main source of funds is an annual discretionary appropriation. Additional mandatory funds, which are provided automatically on the basis of a formula, support a "mandatory add-on," which increases the award amount above the maximum set in the annual appropriation act.

Current Awards. For the 2018-2019 academic year, which begins on July 1, 2018, the maximum Pell grant will be $5,920. Of that, $4,860 will be supported with discretionary funds and $1,060 will be supported with mandatory funds.[3]

BASIS OF ESTIMATE FOR DIRECT SPENDING

For this estimate, CBO assumes that H.R. 4508 will be enacted by July 1, 2018. CBO estimates that enacting the bill, which (among other changes) would amend the William D. Ford Federal Direct Loan Program and the Federal Pell Grant Program and eliminate the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program, would increase direct spending by $0.6 billion in 2018, but would reduce direct spending by $2.2 billion over the 2018-2022 period and $14.6 billion over the 2018-2027 period (see Table 2).

Over the 2018-2027 period, the bill would decrease direct spending in the student loan program by $26.3 billion, increase direct spending in the Pell grant program by $12.2 billion, and decrease direct spending in the TEACH Grant Program by $0.4 billion, CBO estimates. Each provision (or set of provisions as listed in Table 3) is estimated separately relative to current law. The estimated budgetary effects of each provision are also shown in that table.

Because funding for Pell grants comes from mandatory and discretionary sources, the budgetary effects of changes made to Pell grants in H.R. 4508 are discussed in two sections. Changes to the mandatory add-on are discussed in this section and

3. Additional mandatory funding is provided in section 401(b)7(A)(iv) of the Higher Education Act of 1965. That budget authority is used to augment the funding provided in annual appropriations for the discretionary Pell grant program.

discretionary-funding effects are discussed under "Basis of Estimate for Spending Subject to Appropriation." Details for each policy provision are described in this section including the total effect on Pell grant recipients.

Federal One Loan Policies

Most of the bill's effects on direct spending would arise from the creation of the new Federal One Loan Program and other changes to the student loan programs or from changes in institutional or student eligibility for Pell grants and direct student loans.

TABLE 2. ESTIMATED EFFECTS OF H.R. 4508 ON DIRECT SPENDING, BY PROGRAM

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Federal Student Loan Program												
Estimated Budget Authority	385	-690	-2,220	-2,875	-3,300	-3,785	-4,390	-4,945	-5,170	-5,400	-8,700	-32,390
Estimated Outlays	250	-300	-1,565	-2,270	-2,700	-3,115	-3,605	-4,090	-4,355	-4,545	-6,585	-26,295
Federal Pell Grant Program												
Estimated Budget Authority	822	999	1,144	1,278	1,391	1,454	1,513	1,558	1,590	1,646	5,634	13,394
Estimated Outlays	309	1,007	807	1,175	1,307	1,407	1,469	1,525	1,566	1,604	4,605	12,176
TEACH Grants												
Estimated Budget Authority	-29	-62	-75	-71	-57	-36	-35	-35	-35	-35	-294	-470
Estimated Outlays	-8	-38	-65	-74	-67	-51	-36	-35	-35	-35	-252	-444
Total Changes												
Estimated Budget Authority	1,178	247	-1,151	-1,668	-1,966	-2,367	-2,912	-3,422	-3,615	-3,789	-3,360	-19,466
Estimated Outlays	551	669	-823	-1,169	-1,460	-1,759	-2,172	-2,600	-2,824	-2,976	-2,232	-14,563
Memorandum: Estimated changes in direct spending with changes to the Federal Student Loan Program estimated under fair value.												
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Federal Student Loan Program Under Fair Value												
Estimated Budget Authority	550	-460	-1,600	-2,000	-2,260	-2,590	-3,015	-3,390	-3,485	-3,495	-5,770	-21,745
Estimated Outlays	475	25	-975	-1,495	-1,825	-2,080	-2,405	-2,760	-2,910	-2,905	-3,795	-16,855
Total Changes[a]												
Estimated Budget Authority	1,343	477	-531	-793	-926	-1,172	-1,537	-1,867	-1,930	-1,884	-430	-8,821
Estimated Outlays	776	994	-233	-394	-585	-724	-972	-1,270	-1,379	-1,336	558	-5,123

Estimates are relative to CBO's June 2017 baseline. Components may not sum to totals because of rounding. TEACH = Teacher Education Assistance for College and Higher Education Grant Program.

a. Total changes equal the effects on the Federal Pell Grant Program, the TEACH Grants, and the fair value estimate of the Federal Student Loan Program.

TABLE 3. ESTIMATED EFFECTS OF H.R. 4508 ON DIRECT SPENDING, BY PROVISION

	Outlays by Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING OUTLAYS												
One Loan Program												
Undergraduate Student Borrowing	0	-395	-1,090	-1,580	-1,870	-2,140	-2,480	-2,830	-3,005	-3,115	-4,935	-18,505
Graduate Student Borrowing	0	115	260	320	340	370	410	465	500	525	1,035	3,305
Parent Borrowing	0	135	370	540	625	700	785	875	910	925	1,670	5,865
Repayment Options	0	-1,095	-2,610	-3,575	-4,145	-4,665	-5,260	-5,855	-6,235	-6,520	-11,425	-39,960
Origination Fees	0	400	940	1,295	1,510	1,700	1,920	2,130	2,260	2,350	4,145	14,505
Other Student Loan Changes												
Borrower Defense to Repayment	215	415	380	305	290	300	310	320	335	350	1,605	3,220
Closed School Discharges	-40	-80	-90	-90	-95	-100	-100	-105	-110	-115	-395	-925
Rehabilitation Loans	50	50	50	50	50	50	50	50	50	50	250	500
Funds to Administer Loan Program	0	27	16	5	2	0	0	0	0	0	50	50
Foreign Schools	*	-3	-3	-3	-3	-5	-5	-5	-10	-10	-12	-47
Parent Loans and IDR	-10	-4	-4	-4	-4	-4	-4	-4	-4	-4	-26	-46
Data Match to Determine Disability Discharges	10	1	1	1	1	1	1	1	1	1	14	19
Institutional Eligibility for Federal Aid												
Distance Education												
Federal Student Loans	*	10	20	45	75	105	130	150	160	165	150	860
Pell Grants	1	10	29	54	88	122	150	176	191	196	182	1,017
Total	1	20	49	99	163	227	280	326	351	361	332	1,877
90/10 Rule												
Federal Student Loans	10	45	80	100	110	105	120	130	130	135	345	965
Pell Grants	10	46	82	108	119	121	123	125	127	129	366	990
Total	20	91	162	208	229	226	243	255	257	264	711	1,955
Short-Term Programs												
Federal Student Loans	3	5	10	10	10	10	15	15	15	15	38	108
Pell Grants	6	24	28	33	37	40	41	42	44	46	129	343
Total	9	29	38	43	47	50	56	57	59	61	167	451

(Continued)

TABLE 3. CONTINUED

	Outlays by Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING OUTLAYS												
Gainful Employment												
Federal Student Loans	3	10	20	20	25	25	25	30	30	30	78	218
Pell Grants	3	13	22	29	32	32	33	34	34	35	99	267
Total	6	23	42	49	57	57	58	64	64	65	177	485
Loan Repayment Rate												
Federal Student Loans	-5	-10	-10	-20	-20	-15	-15	-15	-20	-20	-65	-150
Pell Grants	0	0	0	-10	-31	-15	-15	-15	-16	-16	-41	-117
Total	-5	-10	-10	-30	-51	-30	-30	-30	-36	-36	-106	-267
Competency Based Education												
Federal Student Loans	*	3	3	5	5	10	10	10	10	15	16	71
Pell Grants	1	5	7	9	10	13	15	18	21	24	32	123
Total	1	8	10	14	15	23	25	28	31	39	48	194
Liberal Arts												
Federal Student Loans	*	5	5	10	10	10	15	15	15	15	30	100
Pell Grants	*	2	6	10	12	12	12	13	13	13	29	92
Total	*	7	11	20	22	22	27	28	28	28	59	192
Ineligible Program Partnerships												
Federal Student Loans	*	3	3	3	5	5	10	15	20	25	14	89
Pell Grants	*	1	1	3	4	6	9	12	18	25	9	78
Total	*	4	4	6	9	11	19	27	38	50	23	167
Accrediting Agencies												
Federal Student Loans	-25	15	10	5	5	5	5	5	5	10	10	40
Pell Grants	7	27	20	14	11	8	8	8	8	9	80	121
Total	-18	42	30	19	16	13	13	13	13	19	90	161
Grant Amounts and Student Eligibility for Federal Aid												
Pell Grant Bonus												
Pell Grants	201	745	779	785	809	818	818	810	796	784	3,319	7,345
Return of Title IV Aid												
Federal Student Loans	3	10	10	10	10	10	10	10	15	15	43	103
Pell Grants	-17	-59	-55	-53	-54	-55	-56	-56	-58	-60	-238	-522
Total	-14	-49	-45	-43	-44	-45	-46	-46	-43	-45	-195	-419
Ability to Benefit												
Federal Student Loans	3	5	10	10	10	10	10	15	15	15	38	103
Pell Grants	3	11	17	21	21	22	22	22	23	23	73	184
Total	6	16	27	31	31	32	32	37	38	38	111	287

(Continued)

TABLE 3. CONTINUED

	Outlays by Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING OUTLAYS												
Selective Service												
Federal Student Loans	*	3	3	3	5	3	5	5	5	5	14	37
Pell Grants	1	4	8	9	9	9	9	9	9	9	30	76
Total	1	7	11	12	14	12	14	14	14	14	44	113
Cost of Attendance												
Federal Student Loans	5	5	5	5	3	3	3	3	3	3	23	38
Pell Grants	*	*	*	*	*	*	*	*	*	*	*	*
Total	5	5	5	5	3	3	3	3	3	3	23	38
Simplified Needs Test												
Federal Student Loans	*	*	*	*	*	*	*	*	*	*	*	*
Pell Grants	1	2	3	4	4	4	4	4	4	4	13	35
Total	1	2	3	4	4	4	4	4	4	4	13	35
529 Plans												
Federal Student Loans	1	1	1	1	1	1	1	1	1	1	5	10
Pell Grants	*	*	*	*	*	*	*	*	*	*	1	2
Total	1	1	1	1	1	1	1	1	1	1	6	12
Prevention of Fraud												
Pell Grants	-1	-4	-5	-5	-5	-5	-5	-5	-5	-5	-20	-45
Outlay Effects on Previous Appropriations for Pell Grants	87	145	-229	-3	0	0	0	0	0	0	0	0
Interactions												
Federal Student Loans	27	24	45	259	345	391	424	479	549	589	700	3,132
Pell Grants	7	35	93	169	239	275	301	327	356	388	544	2,191
Total	34	59	138	428	584	666	725	806	905	977	1,244	5,323
Other Program Changes												
Eliminate the TEACH Grant Program	-8	-38	-65	-74	-67	-51	-36	-35	-35	-35	-252	-444
Total Outlays												
Federal Student Loans	250	-300	-1,565	-2,270	-2,700	-3,115	-3,605	-4,090	-4,355	-4,545	-6,585	-26,295
Pell Grants	309	1,007	807	1,175	1,307	1,407	1,469	1,525	1,566	1,604	4,605	12,176
TEACH Grants	-8	-38	-65	-74	-67	-51	-36	-35	-35	-35	-252	-444
Total	551	669	-823	-1,169	-1,460	-1,759	-2,172	-2,600	-2,824	-2,976	-2,232	-14,563

Estimates are relative to CBO’s June 2017 baseline. * = between -$500,000 and $500,000. Components may not sum to totals because of rounding. Provisions with a negligible impact on direct spending are not included in this table. IDR = Income-Driven Repayment; TEACH = Teacher Education Assistance for College and Higher Education Grant Program.

Effective on July 1, 2019, H.R. 4508 would create the Federal One Loan Program, a new direct loan program to replace the current Federal Direct Student Loan Program and would change the way the federal government lends money to and accepts repayments from undergraduate, postgraduate, and parent borrowers. Students and parents with no outstanding direct loans as of that date would be required to borrow under the new program.

Undergraduate students with outstanding undergraduate loans as of that date could continue to borrow in the direct loan program for their undergraduate education through fiscal year 2024. Graduate students with outstanding graduate loans also could continue to borrow for their graduate education for the same period. The effect of the new program's changes on direct spending would increase over time as more students took out loans under the Federal One Loan Program and fewer students borrowed under the old program.

Undergraduate Student Borrowing. Currently, undergraduate students are eligible for two types of federal direct loans: subsidized loans, which are available only to borrowers who demonstrate financial need, and unsubsidized loans, which are available regardless of need.

The interest rates are the same, but interest accrues on different schedules for the two types of loans. Subsidized loans accrue no interest while a student is enrolled at least half-time, for six months after either leaving school or dropping below half-time status, and during certain other periods when repayments may be deferred. Unsubsidized loans accrue interest from the date of disbursement. The amount that students may borrow each year depends on their class level and whether they are dependent or independent students. (Dependent students are generally undergraduate students under the age of 24, not married, and have no dependents of their own.) H.R. 4508 would make several changes to those programs.

Eliminate Subsidized Loans. The bill would eliminate the subsidized loan program and increase the amount that students may borrow in the unsubsidized program by the amount previously allowed in the subsidized loan program. CBO projects that, under current law, borrowing by undergraduate students in direct student loans will be about $64 billion in 2027—about $31 billion in subsidized loans and about $32 billion in unsubsidized loans. Under the bill, CBO expects that most borrowers in the subsidized loan program would continue to borrow in the unsubsidized loan program. In addition CBO projects that the federal government saves about $0.11 for every $1 in unsubsidized loan volume relative to $1 in subsidized loan volume. Finally, CBO expects that not all students would borrow as much in the unsubsidized loan program as they would in the subsidized loan program because of the higher expected cost for the students. On that basis, and adjusting for differences in borrow characteristics between the two loan types, CBO projects that eliminating subsidized loans would save $3.4 billion in 2027.

Increase Loan Limits. H.R. 4508 also would increase the amount that an undergraduate student could borrow by $2,000 each academic year. Using data from the National Postsecondary Student Aid Study (NPSAS), CBO projects this provision would increase volume in the unsubsidized loan program by about $6 billion in 2027, which CBO estimates saves the government $0.01 for every $1 in lending in that year. That increase in unsubsidized loan volume would be accompanied by a decrease of less than $500 million in parent loan volume, which CBO estimates saves $0.28 for every $1 loaned. The bill also would allow financial aid officers to cap loan amounts for all or certain categories of students at an institution, which CBO projects would reduce lending by about $1 billion in 2027. On net, those changes in loan volume would increase direct spending by less than $0.1 billion in that same year.

Change or Eliminate Categories of Deferment and Forbearance. Finally, the bill would change or eliminate certain categories of deferment and forbearance that allow borrowers to temporarily cease paying on their student loans. (During deferment interest continues to accrue on the outstanding balance.). In some situations—for example, while enrolled at least half-time—student borrowers could continue to defer loan payments. If they were unemployed or experiencing economic hardship, however, they would not be able to defer payments, as they can under current law. Reducing the options for deferred repayment would increase direct spending by $0.3 billion in 2027, mainly because of the loss of accrued interest during deferment.

In total, CBO projects that those provisions for undergraduate borrowing together would increase total lending to undergraduates from $64 billion under current law to $68 billion in 2027. On net, the changes would decrease direct spending by $18.5 billion over the 2019-2027 period, CBO estimates.

Graduate Student Borrowing. H.R. 4508 would make certain changes in federal lending to graduate students who now are eligible for two types of federal loans: unsubsidized loans and GradPLUS loans. Under current law, most of those students may borrow as much as $20,500 per year in the unsubsidized loan program, although students in certain medical fields can borrow more. In addition, graduate borrowers can borrow up to their costs of attendance (minus all other aid received) under the GradPLUS program, which has a higher interest rate and origination fee than the unsubsidized loan program.

H.R. 4508 would eliminate the GradPLUS program and raise the annual limit in the unsubsidized loan program for most students to $28,500 per academic year (not to exceed their cost of attendance minus all other aid received), with an aggregate limit of $150,000. The bill would maintain the higher limits for borrowers in certain medical fields. As with undergraduate loans, the bill would allow financial aid officers to cap lending for certain types of students and reduce the list of circumstances in which students can defer repayment.

Under current law, CBO projects that in 2027 graduate students will borrow about $40 billion in the unsubsidized loan program and another $17 billion in the GradPLUS program. Using data from NPSAS, CBO estimates that under H.R. 4508, about $9 billion in lending currently in the GradPLUS program would move into unsubsidized loans, and the remaining $8 billion would be eliminated.

In addition, CBO expects that under H.R. 4508, some borrowers who currently borrow the maximum for which they are eligible in the unsubsidized loan program, but who do not borrow in the GradPLUS program would increase their unsubsidized borrowing. This would result in part because interest rates and fees are lower in the unsubsidized loan program than in the GradPLUS program and because, unlike the GradPLUS program, the unsubsidized loan program has no credit requirement. For this reason, CBO projects a resulting additional increase of about $3 billion in volume in the unsubsidized loan program in 2027.

In total, CBO estimates that the provisions would increase volume in the unsubsidized loan program for graduate students by about $11 billion in 2027 and increase direct spending by $3.3 billion over the 2019-2027 period. That increase in direct spending stems from the elimination of the current GradPLUS program, which CBO projects will earn $0.08 for every $1 in lending in 2027. Some of that cost would be offset, in part, by the increase in volume in the unsubsidized loan program for graduate students—which CBO projects will earn $0.06 for every $1 in lending in that same year—and by a small decline in eligibility for participation in income-driven repayment (IDR) because borrowers would have lower outstanding balances.

Parent Borrowing. The bill also would amend the federal loan program for parents. Under current law, in the parent (PLUS) loan program, parents of dependent students may borrow up to the cost of attendance (minus all other aid) each academic year, with no aggregate limit. The Federal One Loan Program would cap parent borrowing at $12,500 per academic year and set an aggregate limit of $56,250.

CBO estimates that under current law, parents will borrow about $18 billion in 2027 and that the federal government will receive about $0.28 for each $1 lent to those borrowers. Using data from NPSAS, CBO projects that H.R. 4508 would reduce the amount loaned by about $3.5 billion in 2027, thus increasing direct spending by $0.9 billion in that year and by $5.9 billion over the 2019-2027 period.

Repayment Options. H.R. 4508 also would amend the ways in which federal education loans are repaid. Under current law, the following options are available to borrowers:

- The standard (or default) repayment plan allows borrowers to make fixed monthly payments for 10 years.

- Consolidation allows a borrower to combine all loans into a single debt with a fixed interest rate. Depending on the size of the outstanding balance, the borrower may extend repayment beyond 10 years.

- Income-driven repayment plans, such as the Income-Based Repayment plan, the PAYE (Pay as You Earn) Repayment Plan, and the REPAYE (Revised Pay as You Earn) Repayment Plan, allow borrowers to make monthly payments (which are calculated as a percentage of income), usually for 20 or 25 years, with total forgiveness of outstanding balances at the end of that term. Payments for most new borrowers are set at 10 percent of discretionary income, and there is no limit on the amount that may be forgiven. In addition, borrowers in an IDR plan who are employed full time in public service are eligible for the Public Service Loan Forgiveness (PSLF) program, which provides debt forgiveness after 10 years of monthly payments.

- Graduated repayment allows borrowers to make smaller payments early in the period and larger payments in later years.

- Extended repayment gives borrowers with balances over $30,000 more than 10 years in which to repay their loans.

H.R. 4508 would consolidate repayment options into three plans: a standard 10-year repayment plan, which would still be the default; consolidation, which would still include the option to extend repayment beyond 10 years; and a single IDR plan.

That new IDR plan would set monthly payments at 15 percent of a borrower's discretionary income. Borrowers also would be required to make total interest and principal payments equal to the amount they would have paid under a standard 10-year plan before the outstanding balance could be forgiven. Only payments made under an IDR or a 10-year plan would count toward that total. H.R. 4508 would eliminate the PSLF program for loans in the One Loan Program.

CBO estimates that the changes to repayment options under H.R. 4508 would reduce direct spending by about $40 billion over the 2019-2027 period. The majority of the savings, roughly $25 billion, would result from the elimination of the PSLF program. An additional roughly $15 billion in savings would come from reducing forgiveness and requiring higher payments under the new IDR plan (which reduces costs to the government) and from eliminating extended and graduated repayment terms (which increases costs to the government because some borrowers who choose those plans under current law would move to IDR plans and pay less interest).

Origination Fees. Under current law, borrowers in the subsidized and unsubsidized loan programs pay an origination fee of 1 percent of the loan amount. The fee for parent and GradPLUS loans is 4 percent.[4] H.R. 4508 would eliminate origination fees for all Federal One loans, resulting in an increase in direct spending of $14.5 billion over the 2019-2027 period, CBO estimates.

Other Student Loan Changes

In addition to creating the Federal One Loan Program, H.R. 4508 would make other changes to federal student lending.

Background. Under current law, borrowers may be eligible for forgiveness of their loans if the educational institution they attended has violated certain laws or if the institution closes while the students are enrolled and they do not re-enroll elsewhere.

In November 2016, the Department of Education published final rules expanding eligibility for borrower defense to repayment and streamlining and automating the process of discharging loans for students enrolled in schools that close. In June 2017, before the new rules took effect, the department announced that it would delay implementation and begin a new negotiated rulemaking process to revise the rules. As a result, CBO's June 2017 baseline accounts for only 50 percent of the impact of the final rules for borrower defense to repayment and closed-school discharges, as published in November 2016. Thus, CBO's estimates of proposals that repeal or enact changes to the final rules are based on only 50 percent of the proposals' full estimated costs.

Borrower Defense to Repayment. H.R. 4508 would repeal the final rule for borrower defense to repayment and amend the current provisions. Those changes, on net, would increase the number of loans eligible for borrower defense to repayment, relative to projections in CBO's June 2017 baseline. The provision with the largest budgetary effect would substantially incorporate part of the final rule by allowing for borrower defense to repayment in situations in which institutions made a substantial misrepresentation, breached a contract with students, or broke a federal or state law.

On the basis of its analysis of loan volume at schools that are under investigation for issues that could fall under borrower defense to repayment, CBO estimates that those

4. The Budget Control Act of 2011 requires automatic reductions in the cost of certain mandatory programs. For student loans, the savings are achieved by increasing origination fees above the percentages specified in the Higher Education Act. The origination fees described in the text do not include this additional amount.

provisions would increase direct spending by $3.2 billion, relative to the June 2017 baseline, over the 2018-2027 period.

Closed School Discharges. H.R. 4508 would change the provisions that allow loans to be discharged when schools close by amending the HEA to include most of the regulations related to those provisions as they were in effect before November 2016. Among those provisions is one that would require borrowers to apply for a loan discharge rather than receive it automatically three years after a school has closed.

Using data that the Department of Education published in the final rule, CBO estimates that approximately 40 percent of borrowers from closed schools would not apply for a discharge or re-enroll elsewhere within three years. CBO projects that such changes would reduce direct spending, by $0.9 billion over the 2018-2027 period.

Other Changes. H.R. 4508 also would make several changes to the student loan programs that would have relatively smaller effects. Those provisions and CBO's estimated costs are shown below:

- **Rehabilitation Loans.** Allow borrowers who default to rehabilitate their loans for a second time (increased spending of $500 million over the 2018-2027 period);

- **Funds to Administer Loan Program.** Appropriate $50 million for fiscal year 2019 to help the Department of Education administer student loan programs (increased spending of $50 million over the 2019-2027 period);

- **Foreign Schools.** Amend the eligibility of foreign schools to participate in the federal student loan programs, including changing the requirements for passing the United States Medical Licensing Examination, allowing foreign institutions to partner with non-eligible institutions to offer certain coursework, and changing the requirements for audited financial statements that foreign schools must provide (decreased spending of $47 million over the 2018-2027 period);

- **Parent Loans and IDR.** Prohibit parent borrowers from participating in income-driven repayment plans (decreased spending of $46 million over the 2018-2027 period); and

- **Data Match to Determine Disability Discharges.** Require the Department of Veterans Affairs to match its data on borrowers with disabilities with data from the Department of Education to determine which borrowers may be eligible for a disability discharge of their loans (increased spending of $19 million over the 2018-2027 period).

CBO estimates that, on net, those changes would increase direct spending by $476 million over the 2018-2027 period.

Institutional Eligibility for Federal Aid

H.R. 4508 would alter or repeal various regulations concerning institutional eligibility, including some that are specific to proprietary, or for-profit, institutions. CBO expects that it would take several years for institutions to adjust to the new rules, so the effects of the changes would increase over the next decade.

Distance Education. H.R. 4508 would repeal the current-law requirement that online programs provide students with regular, substantive interaction with faculty. CBO expects that if programs do not need to meet that criterion they could more easily expand and scale up, resulting in higher enrollment.

Based on an analysis of the patterns of growth in online education, CBO projects that by 2027, under this provision, the number of Pell grant recipients would increase by about 240,000 (or about 3 percent) and federal student lending to undergraduate and graduate students would increase by about $4 billion.

CBO estimates that this provision would increase direct spending by $1.9 billion over the 2018-2027 period—$0.9 billion for student loans and $1.0 billion for Pell grants.

90/10 Rule. The "90/10 rule" prohibits proprietary institutions from receiving more than 90 percent of their overall revenue from student aid programs authorized under title IV of the HEA, including federal student loans and Pell grants. Institutions that do not meet that requirement may be ineligible to receive aid.

CBO's analysis of data from the Department of Education shows that more than half of all proprietary schools receive at least 70 percent of their revenue from title IV aid. CBO anticipates that repealing the 90/10 rule would allow those schools to expand enrollment and that the schools closest to the 90 percent threshold would be the most likely to do so. As a result, CBO estimates, by 2027, the number of Pell grant recipients would increase by 160,000 (or about 2 percent) and the total amount of student loans, mostly subsidized and unsubsidized loans to undergraduate students, would increase by $1.3 billion.

CBO estimates that repealing the 90/10 rule would increase direct spending by $2.0 billion over the 2018-2027 period—$1.0 billion for student loans and $1.0 billion for Pell grants.

Short-Term Programs. Current law requires programs to offer at least 600 clock hours of instruction for students to be eligible for Pell grants. To be eligible for student loans, a program must offer at least 300 hours and have a student completion and placement rate of at least 70 percent. However, short-term programs that are integrated into longer programs that are eligible for federal aid are eligible for aid under current law. H.R. 4508 would extend aid eligibility to students in short-term programs that offer at least 300 clock hours of instruction over a minimum of 10 weeks (there would no longer be any requirements about placement rates).

On the basis of enrollment data for short-term programs from the Integrated Postsecondary Education Data System and discussions with accreditors and institutional officials, CBO estimates that by 2027, expanding the eligibility of short-term programs would increase the number of Pell grant recipients by about 100,000 students (or 1 percent) and student lending by about $160 million. Students enrolled in short-term programs eligible under this provision would generally receive about half of the average Pell grant award and a smaller percentage would take out student loans than those in longer programs.

CBO estimates that allowing short-term programs to participate in federal aid would increase direct spending by $451 million over the 2018-2027 period—$108 million for student loans and $343 million for Pell grants.

Gainful Employment. In October 2014, the Department of Education published final rules related to gainful employment, setting benchmarks related to student income and federal loan debt that had to be met by programs at proprietary institutions and by non-degree-granting programs at public and nonprofit institutions if they were to remain eligible for federal student aid. In June 2017, before any schools lost eligibility, the department announced that it would delay implementation and begin a new negotiated rulemaking process to revise the final rules. As a result, CBO's June 2017 baseline accounts for only 50 percent of the impact of the final rules for gainful employment, as published in October 2014. Thus, CBO's estimates of proposals to repeal the final rule are based on 50 percent of the full estimated costs of that repeal.

H.R. 4508 would repeal the final rulemaking related to gainful employment and prohibit future rulemaking related to this issue. Based on CBO's analysis of data from the Department of Education on student income and student loan debt at institutions subject to the rule, CBO estimates that by 2027, that policy would increase the number of Pell grant recipients by about 45,000 (or 0.5 percent) and student loan volume in the subsidized and unsubsidized loan programs by about $300 million.

CBO estimates that, relative to its June 2017 baseline projections, repealing the gainful employment rule would increase direct spending by $485 million over the 2018-2027 period—$218 million for student loans and $267 million for Pell grants.

Loan Repayment Rate. Under current law, a school may become ineligible to participate in the federal student aid programs if the number of students who default on their student loans is above certain thresholds. H.R. 4508 would replace that metric, the cohort default rate, with a new metric—the loan repayment rate. The loan repayment rate would measure the number of student borrowers in each program at an institution that are making the payments required by their repayment plan (rather than in deferment, forbearance, or default), by the end of their second year in repayment. Individual programs that fell below 45 percent, the threshold set in the bill for multiple cohorts of students, could become ineligible to receive federal student aid.

Using data from the Department of Education, CBO expects that this provision would cause some additional programs to lose eligibility and that some students attending those schools would not continue their education at other institutions. CBO estimates that this provision would decrease direct spending by $267 million over the 2018-2027 period—$150 million for student loans and $117 million for Pell grants.

Other Changes to Institutional Eligibility. In addition to the above provisions, H.R. 4508 would make the following changes. Those provisions and CBO's estimated effects on spending are shown below:

- **Competency Based Education.** Explicitly make students enrolled in certain competency based education programs (programs focused on mastery of a skill instead of time in a classroom) eligible for aid (increased spending of $194 million over the 2018-2027 period);[5]

- **Liberal Arts.** Allow proprietary schools to offer new programs in liberal arts (increased spending of $192 million over the 2018-2027 period);

- **Ineligible Program Partnerships.** Permit institutions that are ineligible for title IV student aid to provide 100 percent of the educational content when those institutions partner with institutions that are eligible for federal student aid (increased spending of $167 million over the 2018-2027 period);[6] and

5. Under current law, competency-based programs must express a student's mastery of competencies in terms of clock hours of instruction or credit hours to participate in federal student aid.

6. Any partnership in which the ineligible institution provides at least 25 percent of the educational content would need approval from the eligible institution's accreditor. Under current law, ineligible institutions are permitted to provide only 50 percent of educational content.

- **Accrediting Agencies.** Amend rules related to accrediting agencies, including expanding the types of organizations that are eligible to be accreditors, replacing the standards accreditors use to assess an institution's success, and extending the period from 18 months to 36 months that an institution may remain in provisional accreditation status in the case where the institution's accreditor loses federal recognition (increased spending of $161 million over the 2018-2027 period).

On the basis of research, discussions with accreditors and institutional officials, and data from the Department of Education, CBO estimates that by 2027, those policies in total would increase the number of Pell grant recipients by about 90,000 (or about 1 percent) and increase student loan volume by $0.9 billion, not accounting for any interactions among the provisions.

CBO estimates that those policies would increase direct spending by $714 million over the 2018-2027 period—$300 million for student loans and $414 million for the Pell grants.

Grant Amounts and Student Eligibility for Federal Aid

H.R. 4508 would change some grant amounts that students could receive and alter some of the rules that govern student eligibility for grants and loans.

Pell Grant Bonus. The bill would appropriate mandatory funds to provide up to $300 per academic year (or $150 per semester) to Pell grant recipients taking at least 15 credit hours, or the equivalent, per semester. Using data on applications for federal financial aid from the Department of Education and enrollment data from NPSAS, CBO estimates that about 40 percent of full-time Pell grant recipients are enrolled in 15 credits (about 2.6 million students in 2027) in any given semester and would be eligible for a $150 bonus. CBO expects that students would receive a smaller bonus if they were enrolled more than full time (typically 12 credit hours per semester) but for fewer than 15 credits, so long as they met other requirements. CBO estimates that in 2027 an additional 1.6 million Pell grant recipients would receive some portion of the bonus and that an additional 375,000 students would increase their credit hours to receive at least a partial bonus. By 2027, CBO estimates, approximately 10 percent of students who increased their hours would graduate one semester earlier than they would under current law, which would reduce spending for those students.

On net, CBO estimates that providing the bonus would increase direct spending by $7.3 billion for Pell grants over the 2018-2027 period.

Return of Title IV Aid. Under current law, aid recipients who finish 60 percent of a term, but then withdraw completely, are not required to repay any federal financial aid they have received for that term. If a student withdraws earlier, the student, the institution, or both must return a prorated portion of the aid. Students and schools are required to return student loan funds before returning Pell grant funds.

H.R. 4508 would amend the rules for determining what federal student aid must be returned to the government. The schools, rather than schools and students, would be required to return federal aid for a student who failed to complete 100 percent of an academic term. The bill also would increase the proportion of aid that must be returned in most cases, and would require unearned Pell grant funds to be returned before student loan funds.

Using enrollment data from NPSAS, CBO estimates that enacting those provisions would decrease direct spending by $419 million over the 2018-2027 period. It would decrease the cost of the Pell grant mandatory add-on by $522 million (as more schools returned unearned Pell grant funds to the federal government) and increase direct spending for student loans by $103 million (as fewer schools returned unearned federal student loans to the government) over the same period, CBO expects.

Ability to Benefit. Under current law, to be eligible for federal student aid, a student must have a high school diploma or its equivalent (typically a General Education Development certificate) or have successfully completed a homeschool program. H.R. 4508 would confer eligibility to students who have not met those criteria but who have successfully completed at least 6 credits of postsecondary education.

Before 2011, students who did not meet the current criteria but who had successfully completed 6 postsecondary credits, passed an ability-to-benefit test, or completed a state-administered process were eligible for federal student aid. Using data from federal financial aid applications for those students, CBO estimates that by 2027, enacting this provision would increase the number of Pell grant recipients by about 30,000 students (or about 0.4 percent). Total student loans would increase by about $220 million in that same year, CBO projects. CBO estimates that enacting the provision would increase direct spending by $287 million over the 2018-2027 period—$103 million for student loans and $184 million for Pell grants.

Other Student Eligibility Changes. In addition to the above provisions, H.R. 4508 would make the following changes. Those provisions and CBO's estimated effects on spending are shown below:

- **Selective Service.** Eliminate the requirement that all male students over 26 years old be registered for the Selective Service (increased spending of $113 million over the 2018-2027 period);

- **Cost of Attendance.** Allow institutions to set different costs of attendance for programs of study with different modes of instruction (increased spending of $38 million over the 2018-2027 period);

- **Simplified Needs Test.** Raise the maximum level of adjusted gross income to qualify for a "simplified needs test" to $100,000 (increased spending of $35 million over the 2018-2027 period)[7];

- **529 Plans.** Remove the value of 529 education plans as assets for all applicants (increased spending of $12 million over the 2018-2027 period); and

- **Prevention of Fraud.** Prohibit a student who has received three Pell grants without earning any credits from receiving any future Pell grants (decreased spending of $45 million over the 2018-2027 period).

On the basis of data from the Department of Education, research, and discussions with institutional officials, CBO estimates that those policies would increase direct spending by $153 million over the 2018-2027 period—$85 million for student loans and $68 million for Pell grants.

Outlay Effects on Previous Appropriations for Pell Grants. The changes made in H.R. 4508 would increase the cost of the discretionary portion of the Pell grant program in award year 2018-2019. Those changes would cause funding to spend more quickly than it would under current law. Because the Congress has already appropriated discretionary funds for that award year, that shift in spending would occur without additional Congressional action. CBO estimates that these changes would increase direct spending in 2018 by $87 million, but, on net, would not increase direct spending over the 2018-2027 period.

Interactions Among Provisions

Each provision above was estimated separately relative to current law. However, there are interactions among the numerous provisions related to student loans and Pell grants included in H.R. 4508. For example, CBO expects that eliminating both the 90/10 rule and the gainful-employment rule would result in a greater expansion in the proprietary sector than would eliminating each provision individually. That additional cost is included in the total increase in direct spending for programmatic interactions.

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7. A "simplified needs test" means the student does not have to provide any asset information.

The combined interaction among all the provisions related to student loans would increase direct spending for federal loans by $3.1 billion; among the provisions related to Pell grants, it would increase direct spending for Pell grants by $2.2 billion, CBO estimates.

TEACH Grants

H.R. 4508 would eliminate the TEACH Grant Program, which provides grants to students who plan on becoming teachers and meet certain criteria. About 30,000 students receive TEACH grants each academic year. On the basis of data from the Department of Education, CBO estimates that a majority of those students will fail to meet the requirements of the program and will thus have their grants converted to loans as the program requires. As a result, some savings from eliminating the disbursement of grants would be offset by reduced receipts from students repaying their grants to the federal government. CBO estimates that eliminating the TEACH Grant Program would decrease direct spending by $444 million over the 2018-2027 period.

Fair-Value Estimating

CBO's cost estimates of student loan provisions use the methodology specified in FCRA, but the Budget Resolution also requires CBO to include estimates on a fair-value basis using market-based discount rates. The value of borrowers' future repayments of loan principal and interest are worth less to the government under fair value than under FCRA, which makes the cost of the loan program look higher under fair value.

Under fair-value estimating, enacting the federal student loan provisions in H.R. 4508 would increase direct spending by $0.5 billion in fiscal year 2018 but reduce direct spending by $3.8 billion over the 2018-2022 period and by $16.9 billion over the 2018-2027 period (see Table 4).

When the provisions that affect direct spending for Pell and TEACH grants are included, under fair-value estimating, the bill would increase direct spending by $0.8 billion in 2018 and $0.6 billion over the 2018-2022 period but reduce direct spending by $5.1 billion over the 2018-2027 period.

Federal One Loan Policies. The greatest differences between FCRA and fair-value estimates for the bill stem from the Federal One Loan Program. CBO projects that the changes to undergraduate student borrowing would save $18.5 billion over the 2019-2027 period under FCRA but only $10.6 billion using fair-value procedures. Most of that difference results from the difference in the costs of the unsubsidized loan program for undergraduate students under FCRA and fair value. CBO estimates that each $1 of unsubsidized loan volume in 2027 saves the federal government $0.01 under FCRA but costs $0.16 under fair value. As a result, the $5 billion increase in volume in the unsubsidized loan program in 2027 would save less than $0.1 billion under FCRA but cost about $0.8 billion under fair value (not including changes in parent loan volume).

TABLE 4. ESTIMATED EFFECTS OF LOAN PROVISIONS IN H.R. 4508 USING FAIR VALUE, BY PROVISION

	Outlays by Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING OUTLAYS												
One Loan Program												
Undergraduate Student Borrowing	0	-160	-560	-860	-1,055	-1,225	-1,435	-1,660	-1,795	-1,855	-2,635	-10,605
Graduate Student Borrowing	0	-110	-240	-340	-400	-450	-505	-560	-590	-610	-1,090	-3,805
Parent Borrowing	0	40	140	205	245	275	310	345	365	370	630	2,295
Repayment Options	0	-1,050	-2,525	-3,465	-4,020	-4,525	-5,110	-5,680	-6,050	-6,315	-11,060	-38,740
Origination Fees	0	355	905	1,285	1,510	1,710	1,940	2,160	2,300	2,395	4,055	14,560
Other Student Loan Changes												
Borrower Defense to Repayment	175	345	325	255	245	255	260	270	280	295	1,345	2,705
Closed School Discharges	-30	-70	-80	-80	-80	-85	-85	-90	-95	-100	-340	-795
Rehabilitation Loans	50	50	50	50	50	50	50	50	50	50	250	500
Funds to Administer Loan Program	0	27	16	5	2	0	0	0	0	0	50	50
Foreign Schools	1	3	5	10	10	15	20	20	20	25	29	129
Parent Loans and IDR	-8	-4	-4	-4	-4	-4	-3	-3	-3	-3	-24	-40
Data Match to Determine Disability Discharges	10	1	1	1	1	1	1	1	1	1	14	19
Institutional Eligibility for Federal Aid												
Distance Education	5	55	135	240	375	505	630	735	800	845	810	4,325
90/10 Rule	35	145	240	290	305	310	320	330	340	350	1,015	2,665
Short-Term Programs	5	20	25	30	30	35	35	40	40	40	110	300
Gainful Employment	10	40	65	75	75	75	80	80	80	85	265	665

(Continued)

TABLE 4. CONTINUED

	Outlays by Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING OUTLAYS												
Loan Repayment Rate	-5	-10	-10	-35	-45	-35	-35	-40	-40	-40	-105	-295
Competency Based Education	5	15	20	25	30	40	50	60	65	75	95	385
Liberal Arts	*	10	15	30	30	35	35	35	35	40	85	265
Ineligible Program Partnerships	*	3	5	5	10	20	25	35	50	80	23	233
Accrediting Agencies	-15	20	20	15	15	15	15	15	20	20	55	140
Student Eligibility for Federal Aid												
Return of Title IV Aid	10	25	25	25	25	30	30	30	30	30	110	260
Ability to Benefit	20	35	40	40	40	45	45	45	50	50	175	410
Selective Service	5	15	15	15	15	15	15	20	20	20	65	155
Cost of Attendance	-15	-30	-30	-30	-35	-35	-35	-35	-35	-35	-140	-315
Simplified Needs Test	*	*	*	*	*	*	*	*	*	*	*	*
529 Plans	1	1	1	1	1	1	1	1	1	1	5	10
Interactions												
Interactions	216	254	426	717	800	847	941	1,036	1,151	1,281	2,413	7,669
Federal Student Loans, Total	475	25	-975	-1,495	-1,825	-2,080	-2,405	-2,760	-2,910	-2,905	-3,795	-16,855
Pell Grants, Total[a]	309	1,007	807	1,175	1,307	1,407	1,469	1,525	1,566	1,604	4,605	12,176
TEACH Grants, Total[a]	-8	-38	-65	-74	-67	-51	-36	-35	-35	-35	-252	-444
Total, Direct Spending	776	994	-233	-394	-585	-724	-972	-1,270	-1,379	-1,336	558	-5,123

Estimates are relative to CBO's June 2017 baseline. Components may not sum to totals because of rounding. Provisions with a negligible impact on direct spending are not included in this table. * = between -$500,000 and $500,000; IDR = Income-Driven Repayment; TEACH Teacher Education Assistance for College and Higher Education Grant Program.

a. For details on these budgetary effects see Table 3.

In 2027, CBO estimates that $1 of loan volume in the GradPLUS program saves the federal government $0.08 under FCRA but costs $0.10 under fair value. As a result, the proposal to eliminate borrowing in the GradPLUS program and replace only some of that borrowing with lending in the unsubsidized loan program would increase direct spending by $3.3 billion under FCRA but would save $3.8 billion over the 2019-2027 period under fair value-estimating procedures, CBO estimates.

In addition, in 2027, CBO estimates, $1 of loan volume in the parent loan program will save the federal government $0.28 under FCRA but only $0.14 under fair value. As a result, the provisions to cap borrowing for parents would increase direct spending by $5.9 billion over the 2019-2027 period under FCRA and by $2.3 billion under fair value, CBO estimates.

Institutional Eligibility for Federal Aid. CBO expects that all of the policies that affect institutional eligibility, other than the loan repayment rate, would increase the annual volume of federal student loans. Because the cost of additional lending in the student loan programs is higher under fair-value accounting than under FCRA, the policies that expand institutional eligibility increase direct spending more under fair value. For example, CBO estimates that the provision to repeal the definition of distance education would increase direct spending by $0.9 billion under FCRA and by $4.3 billion under fair-value estimating.

BASIS OF ESTIMATE FOR SPENDING SUBJECT TO APPROPRIATION

For this estimate, CBO assumes that the bill will be enacted by July 1, 2018, and that the necessary funds will be appropriated each year. As shown in Table 5, CBO estimates that implementing H.R. 4508 would authorize the appropriation of $112.0 billion over 2018-2022 period. On the basis of historical spending patterns, CBO estimates that implementing H.R. 4508 would cost $87.5 billion over the same period.

Title IV, Pell Grants

The Federal Pell Grant Program is by far the largest discretionary grant program authorized by the HEA. (The program also receives mandatory funding.) This section discusses only the discretionary part of the program.

Although the maximum student award under the discretionary program is set each year in the appropriation act, for this estimate, CBO assumes that the maximum award that is funded with discretionary spending would be $4,860 in each year over the 2018-2027 period. CBO estimates that the authorization for the Pell program would total $88.9 billion over the 2018-2022 period and that outlays would total $69.9 billion.

TABLE 5. SPENDING SUBJECT TO APPROPRIATION, BY TITLE

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
INCREASES IN SPENDING SUBJECT TO APPROPRIATION						
Title IV, Pell Grants[a]						
Estimated Authorization Level	322	14,017	23,910	24,962	25,679	88,891
Estimated Outlays	87	4,016	16,551	24,095	25,145	69,895
Other Grant Programs						
Title IV, Federal Student Aid and Support						
Estimated Authorization Level	0	4,642	4,678	4,716	4,753	18,789
Estimated Outlays	0	1,115	4,032	4,512	4,729	14,388
Title II, Apprenticeship Grant Program						
Authorization Level	0	183	183	183	183	733
Estimated Outlays	0	10	134	167	183	493
Title III, Minority-Serving Institutions and HBCUS						
Authorization Level	0	396	396	396	396	1,585
Estimated Outlays	0	21	289	360	396	1,066
Title V, Hispanic-Serving Institutions						
Authorization Level	0	117	117	117	117	470
Estimated Outlays	0	6	86	107	117	316
Title VI, International Education and Foreign Languages						
Authorization Level	0	62	62	62	62	246
Estimated Outlays	0	3	45	56	62	166
Title VII, Graduate and Postsecondary Studies						
Authorization Level	0	47	47	47	47	189
Estimated Outlays	0	2	35	43	47	127
Education for the Deaf Act						
Authorization Level	0	191	191	191	191	765
Estimated Outlays	0	180	191	191	191	754
Tribally Controlled Colleges and Universities Assistance Act						
Authorization Level	0	78	78	78	78	314
Estimated Outlays	0	59	77	78	78	292
Total Changes						
Estimated Authorization Level	322	19,734	29,663	30,754	31,508	111,982
Estimated Outlays	87	5,412	21,439	29,610	30,950	87,498

Components may not sum to totals because of rounding.

a. For more detail, see Table 6.

Reauthorization. H.R. 4508 would authorize the appropriation of such sums as may be necessary for the Pell grant program for fiscal years 2019 through 2024. That authorization would be extended automatically through 2025 under GEPA. As shown in Table 6, CBO estimates that reauthorizing the program with no other changes would authorize the appropriation of $83 billion over the 2018-2022 period and that implementing the bill would cost $65 billion over the same period. (The estimated cost of this reauthorization represents the cost of the discretionary program, assuming a maximum award of $4,860, less previously appropriated funds and mandatory funds that support the discretionary portion of the Pell grant program provided in section 401(b)7(A)(iv) of the Higher Education Act of 1965.)

Policy Changes. H.R. 4508 would make several changes to student and institutional eligibility for the Pell grant program. Detailed descriptions of the major provisions and CBO's methodology for estimating the costs are discussed in the "Basis of Estimate for Direct Spending" section.

CBO estimates that the total cost of implementing those policies would be $4.6 billion over the 2018-2022 period, as shown in Table 6.

Other Grant Programs

H.R. 4508 would amend and authorize several other discretionary grant programs under several titles of the HEA and amend provisions in other education laws. Unless otherwise noted, the bill would authorize the appropriation of the same funding level for each fiscal year from 2019 through 2024, and that authorization would automatically be extended through 2025 under the General Education Provisions Act.

Title IV, Federal Student Aid and Student Support. In addition to the changes in the Pell grant program, the bill would amend and authorize the appropriation of $18.8 billion over the 2019-2022 period for the following federal student aid and student support programs:

Campus-Based Aid Programs—H.R. 4508 would authorize the appropriation of $1.7 billion for Federal Work-Study, which funds part-time jobs for students, and repeal the Federal Supplemental Education Opportunity Grant Program (FSEOG). The Congress appropriated $1.0 billion for work-study and about $0.7 billion for FSEOG in 2017.

TRIO Programs—The bill would authorize the appropriation of $900 million for the TRIO programs (including, for example, Upward Bound), which provide counseling and other outreach services to students from disadvantaged backgrounds. The Congress appropriated $950 million for TRIO in 2017.

TABLE 6. ESTIMATED EFFECTS OF H.R. 4508 ON DISCRETIONARY PELL GRANTS

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION						
Reauthorization[a]						
Reauthorization						
Estimated Authorization Level	0	13,217	22,625	23,325	23,698	82,865
Estimated Outlays	0	3,569	15,625	22,720	23,419	65,333
Policy Changes						
Institutional Eligibility for Federal Aid						
Distance Education						
Estimated Authorization Level	17	90	168	292	426	994
Estimated Outlays	5	37	110	201	327	680
90/10 Rule						
Estimated Authorization Level	141	286	397	448	455	1,726
Estimated Outlays	38	178	314	410	449	1,390
Short-Term Programs						
Estimated Authorization Level	90	105	119	138	151	603
Estimated Outlays	24	93	108	124	141	491
Gainful Employment						
Estimated Authorization Level	52	93	127	146	148	565
Estimated Outlays	14	62	101	131	146	455
Loan Repayment Rate						
Estimated Authorization Level	0	0	0	-139	-55	-194
Estimated Outlays	0	0	0	-37	-115	-152
Competency Based Education						
Estimated Authorization Level	20	33	39	47	57	196
Estimated Outlays	5	23	35	41	50	154
Liberal Arts						
Estimated Authorization Level	2	17	35	46	47	148
Estimated Outlays	1	6	22	38	46	113

(Continued)

TABLE 6. CONTINUED

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION						
Ineligible Program Partnerships						
Estimated Authorization Level	2	5	8	14	20	49
Estimated Outlays	*	2	5	10	16	33
Accrediting Agencies						
Estimated Authorization Level	138	101	68	48	31	387
Estimated Outlays	37	127	93	63	44	363
Student Eligibility for Federal Aid						
Return of Title IV						
Estimated Authorization Level	-228	-203	-192	-195	-199	-1,016
Estimated Outlays	-62	-219	-200	-193	-196	-869
Ability to Benefit						
Estimated Authorization Level	37	56	76	78	79	327
Estimated Outlays	10	42	62	77	78	268
Selective Service						
Estimated Authorization Level	8	32	33	33	34	139
Estimated Outlays	2	14	32	33	33	114
Cost of Attendance						
Estimated Authorization Level	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*
Simplified Needs Test						
Estimated Authorization Level	9	12	13	16	16	66
Estimated Outlays	2	9	12	14	16	54
529 Plans						
Estimated Authorization Level	1	1	1	1	1	6
Estimated Outlays	*	1	1	1	1	5

(Continued)

TABLE 6. CONTINUED

	By Fiscal Year, in Millions of Dollars					
	2018	2019	2020	2021	2022	2018-2022
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION						
Prevention of Fraud						
Estimated Authorization Level	-17	-17	-17	-18	-18	-86
Estimated Outlays	-5	-17	-17	-17	-18	-73
Interactions						
Interactions						
Estimated Authorization Level	50	188	409	682	788	2,117
Estimated Outlays	14	87	247	480	708	1,536
Subtotal Costs of Policy Changes						
Estimated Authorization Level	322	800	1,285	1,637	1,982	6,026
Estimated Outlays	87	448	926	1,375	1,727	4,563
Total Costs of Reauthorization and Policy Changes						
Estimated Authorization Level	322	14,017	23,910	24,962	25,679	88,891
Estimated Outlays	87	4,016	16,551	24,095	25,145	69,895

* = Between zero and $500,000. Components may not sum to totals because of rounding. Provisions with a negligible effect on spending subject to appropriation are not included in this table.

a. Represents the cost of the discretionary program, assuming a maximum award of $4,860, less previously appropriated funds and mandatory funds that support the discretionary portion of the Pell grant program provided in section 401(b)7(A)(iv) of the Higher Education Act of 1965.

Student Aid Administration—The bill also would authorize the appropriation of such sums as may be necessary for fiscal years 2019 through 2024 to help administer the federal student aid programs. Based on funding for student aid administration in 2017, and accounting for future inflation, CBO estimates that this provision would authorize the appropriation of $1.6 billion in 2019. That authorization would increase annually through 2022 because of expected inflation and CBO estimates that implementing it would cost $5.6 billion over the 2019-2022 period.

Other Title IV Programs—Title IV also would authorize the appropriation of $400 million for grant programs to help low-income students in middle and high school prepare for college, provide campus-based child care for low-income college students, and assist migrant students. That funding level is unchanged from fiscal year 2017.

Title II, Apprenticeship Grant Program. The bill would authorize the appropriation of $183 million for a new initiative to fund apprenticeship programs run jointly by postsecondary institutions and private industry. CBO estimates that implementing this title would cost about $500 million over the 2019-2022 period. The bill would repeal Teacher Quality Partnership grants. The underlying authorization for that program has expired, but it received $43 million in fiscal year 2017.

Title III, Minority-Serving Institutions and Historically Black Colleges and Universities. H.R. 4508 would amend grant programs for those institutions and for science, technology, education, and mathematics (or STEM) programs. Title III would authorize the appropriation of $396 million, the same amount that the Congress appropriated for such programs in 2017. CBO estimates that implementing this title would cost $1.1 billion over the 2019-2022 period. The bill would not authorize funding for grants for the Strengthening Institutions Program. The underlying authorization for that program has expired, but it received $87 million in 2017.

Title V, Hispanic-Serving Institutions. H.R. 4508 would amend two grant programs for Hispanic-Serving Institutions and authorize the appropriation of $117 million, the same amount appropriated for those programs in 2017. CBO estimates that implementing this title would cost about $320 million over the 2019-2022 period.

Title VI, International Education and Foreign Languages. The bill would amend grant programs for international education and foreign language studies and authorize the appropriation of $62 million a year. CBO estimates that implementing this provision would cost about $170 million over the 2019-2022 period. The Congress appropriated $65 million for those programs in 2017.

Title VII, Graduate and Postsecondary Studies. The bill would amend grant programs for graduate students and for postsecondary students with intellectual disabilities and would authorize the appropriation of $47 million a year, the same amount as in fiscal year 2017. CBO estimates that implementing those provisions would cost about $130 million over the 2019-2022 period.

Education for the Deaf Act. H.R. 4508 would amend the Education for the Deaf Act and authorize the appropriation of $121 million for Gallaudet University and $70 million for the National Technical Institute for the Deaf, the same amounts as in 2017. CBO estimates that implementing those provisions would cost about $750 million over the 2019-2022 period.

Tribally Controlled Colleges and Universities Assistance Act. The bill would amend this act and authorize the appropriation of $78 million each year for 2019 through 2024 for grant programs at the Bureau of Indian Education at the Department of the Interior (DOI). (The automatic extension under GEPA does not apply to programs at DOI.) The Congress appropriated the same amount for those programs in 2017. CBO estimates that implementing those provisions would cost about $290 million over the 2019-2022 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in Table 7.

TABLE 7. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 4508, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE ON DECEMBER 13, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	551	669	-823	-1,169	-1,460	-1,759	-2,172	-2,600	-2,824	-2,976	-2,232	-14,563

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

UNCERTAINTY SURROUNDING THE ESTIMATES

CBO has endeavored to develop budgetary estimates that are in the middle of the distribution of potential outcomes. Such estimates are inexact for various reasons. For example, the ways in which institutions of higher education, federal agencies, and states would respond to the changes made by this legislation are all difficult to predict. In particular, predicting the overall effects of changes to institutional eligibility, such as the repeal of the 90/10 rule and the definition of distance education, is especially difficult.

CBO projections under current law itself also are uncertain. For example, the first cohort of student loan borrowers only became eligible for Public Sector Loan Forgiveness in 2017 and data about future participants is limited. Thus, CBO's estimates of future participation, and the resulting savings for eliminating that program, may be too high or too low.

In addition, changes to the underlying economy could have a dramatic effect on the estimated costs of this legislation. Fluctuations in interest rates would change CBO's projections of the cost of the student loan program and a sudden rise in unemployment could have a dramatic effect on postsecondary enrollment, which would increase the cost of all federal student aid.

Despite the uncertainty, CBO believes the direction of the budgetary effects of most proposals in the bill is clear. For example, the changes to the federal student loan program would, on net, almost surely reduce the costs of this program to the federal government. Changes to student and institutional eligibility would almost certainly increase overall enrollment in higher education, which CBO expects would increase costs in the Pell grant program.

MANDATES

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that would enforce constitutional rights of individuals. CBO has determined that sections 111, 115, and 117 fall within that exclusion because they would enforce the rights of free speech and religion. None of the remaining provisions of the bill would impose intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit public and private educational institutions by granting them more flexibility to design curricula and oversee students' educational and financial welfare. The bill would amend or impose a number of requirements on educational institutions and governments that receive federal funds; however, those requirements and any resulting costs would be conditions of assistance, which are not considered mandates as defined in UMRA.

ADDITIONAL INFORMATION BY PROGRAM

Changes in Program Costs and Participation in the Pell Grant Program

Table 8 summarizes CBO's estimated changes to the overall cost of the Pell grant program, given all the policies in H.R. 4508, as well as CBO's expected changes in the number of Pell grant recipients. (CBO assumes a discretionary award of $4,860 for all future years and a mandatory add-on of $1,060.)

TABLE 8. PELL GRANT PROGRAM COSTS; CBO JUNE 2017 BASELINE VS. H.R. 4508

	By Award Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES IN PELL GRANT PROGRAM COSTS AND RECIPIENTS												
Estimated Program Costs Under CBO June Baseline												
Discretionary	23.2	23.6	24.1	24.5	24.8	25.2	25.6	26.1	26.5	27.1	120.2	250.8
Mandatory Add-On	6.1	6.2	6.4	6.5	6.6	6.7	6.8	6.9	7.0	7.2	31.7	66.3
Total Program Costs	29.3	29.8	30.4	31.0	31.4	31.9	32.4	33.0	33.6	34.2	152.0	317.1
Estimated Costs of H.R. 4508												
Discretionary	0.3	0.8	1.3	1.6	2.0	2.2	2.4	2.6	2.8	3.0	6.0	19.1
Mandatory Add-On	0.8	1.0	1.1	1.3	1.4	1.5	1.5	1.6	1.6	1.6	5.6	13.4
Total Program Costs	1.1	1.8	2.4	2.9	3.4	3.6	3.9	4.2	4.4	4.7	11.7	32.5
Estimated Program Costs Under H.R. 4508												
Discretionary	23.6	24.4	25.3	26.1	26.8	27.4	28.1	28.7	29.3	30.1	126.3	269.9
Mandatory Add-On	6.9	7.2	7.5	7.8	8.0	8.1	8.3	8.4	8.6	8.8	37.4	79.7
Total Program Costs	30.5	31.6	32.9	33.9	34.8	35.5	36.3	37.1	37.9	38.9	163.6	349.5
Memorandum: Changes in the Number of Pell Grant Recipients, by Award Year, in Thousands of Recipients												
Estimated Number of Pell Grant Recipients												
CBO June 2017 Baseline	7,500	7,700	7,800	7,900	8,100	8,200	8,300	8,500	8,600	8,800		
Increases from H.R. 4508	200	300	500	600	700	800	900	900	1,000	1,100		
Total under H.R. 4508	7,700	8,000	8,300	8,500	8,800	9,000	9,200	9,400	9,600	9,900		

CBO assumes the maximum discretionary award will be $4,860 and that the mandatory add-on will be $1,060 for all years. Components may not sum to totals because of rounding. Award year means July 1 of the first year to June 30 of the following year.

In total, H.R. 4508 would increase costs to the Pell program by $12 billion over five years, and by $32 billion over 10 years. About 60 percent of that cost can be attributed to the discretionary award. CBO expects the number of recipients to increase over the 10 year period, and by 2027, CBO estimates an additional 1.1 million new Pell recipients (or a 13 percent increase) because of changes to institutional and student eligibility in H.R. 4508.

Changes in costs and lending in the Federal Student Loan Program

Table 9 summarizes CBO's estimated changes to the overall cost of and volume in the federal student loan program for fiscal year 2027, given all the policies in H.R. 4508. CBO estimates that those changes would increase total lending by almost $4 billion and decrease the cost of each dollar loaned by about $0.03 in 2027.

TABLE 9. FEDERAL STUDENT LOAN PROGRAM: CBO JUNE 2017 BASELINE VS. H.R. 4508, FISCAL YEAR 2027

	Subsidized Loans (Undergraduates)	Unsubsidized Loans (Undergraduates)	Unsubsidized Loans (Graduates)	GradPLUS (Graduates)	PLUS Loans (Parents)	All Loans (All Borrowers)
CBO June Baseline Estimated Loan Volume and Costs, 2027						
Volume[a]	31,186	32,403	40,314	17,091	17,960	138,953
Subsidy Rate[b]	$0.10	-$0.01	-$0.06	-$0.08	-$0.28	-$0.04
Changes in H.R. 4508						
Volume[a]	-31,186	43,158	12,460	-17,091	-3,484	3,858
Subsidy Rate[b]	-$0.10	$0.00	-$0.06	$0.08	$0.05	-$0.03
Estimated Loan Volume and Costs Under H.R. 4508, 2027						
Volume[a]	0	75,561	52,774	0	14,476	142,811
Subsidy Rate[b]	$0.00	-$0.01	-$0.13	-$0.00	-$0.23	-$0.08

Components may not sum to totals because of rounding.

a. Volume in millions of dollars.
b. The subsidy rate is the cost or savings to the federal government for each dollar lent.

CBO expects that lending to undergraduate students would increase, on net, by $12 billion, mostly because of increases in loan limits for unsubsidized loans and because of increased enrollment due to changes to institutional eligibility. Loans to undergraduates would be less expensive to the federal government, mostly because of the elimination of the subsidized loan program.

CBO projects that lending to graduate students would decrease, on net, by about $5 billion, mostly because of the elimination of the GradPLUS program. Loans to graduate students would also be less expensive to the federal government, primarily because of the elimination of PSLF and changes to IDR.

Finally, CBO expects that lending to parents would drop by about $3 billion in 2027 because of the new caps on borrowing for parents. Those loans would be more expensive to the federal government, mainly because of the elimination of the origination fee parents currently pay on loans.

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