



Report Submitted by Robert Fischer September 2005

### THE HIGHER EDUCATION ACT

Nearly every five years, the U.S. Congress must reauthorize the Higher Education Act (HEA), the legislation governing most aspects of the federal government's involvement in higher education, including authorized federal student aid funding levels, student loan policy, and a wide array of other higher education policy decisions

When the HEA was first passed in 1965, the intent was to establish federal student aid programs that would help to increase access and affordability for American students and families. The reauthorization allows the federal government an excellent opportunity to rethink to education policy.

The HEA is up for reauthorization this fall, possibly as soon as the end of September. The House Committee on Education and the Workforce and the Senate Committee on Health, Education, Labor, and Pensions have prepared their respective bills to reauthorize the HEA. The full vote of both chambers will occur within the next few weeks.

However, members of Congress are under pressure from Congressional leaders keep government assistance low to limit the federal budget deficit. Both the House and Senate bills to reauthorize the HEA have significant cuts in federal student aid funding.

In addition, the two chambers of Congress are separately preparing "budget reconciliation" bills aimed at limiting federal govt. spending through significant cuts in spending. Both the House and the Senate draft versions of budget reconciliation have cuts in federal student aid funding.

In addition, the members of Congress are also currently under pressure to cut federal spending from various programs to ensure sufficient funding for the recovery efforts following the destruction brought on by Hurricane Katrina.

Student associations and higher education advocates have been working with members of Congress for more than two years to propose slight changes in federal student aid policy that would benefit students, higher education, and the nation. However, the proposed changes were not added into the legislation to reauthorize the HEA.

As of 2003, Sallie Mae was both the largest lender of higher education loans and the second most profitable company in the Fortune 500. Sallie Mae gave \$185,000 to the members of the House Committee on Education and the Workforce in 2003–2004, making the company the committee's single largest donor by far.

It is critical that students contact their members of Congress and express their opinions and concerns about the upcoming reauthorization of the HEA and the potential negative impacts on higher education.

### H.R. 609 (THE HOUSE BILL)

In July, the House's HEA reauthorization bill came out of the House Committee on Education and the workforce. The bill takes \$9 billion away from higher education to go into deficit reduction and other programs.

In short, H.R. 609 increases most student loan interest rates, charges borrower new fees on their loans, effectively freezes student aid, and eliminates key safeguards for students.

Here are the specifics:

H.R. 609 retains the current variable-interest rate structure for Stafford loans. However, H.R. 609 retains a cap of 8.6% for Stafford loans and eliminates a bipartisan decision in 2001 to eliminate the variable interest rate program and implement a fixed rate of 6.8% for all Stafford loans.

H.R. 609 eliminates the in-school consolidation benefit, which allows borrowers who consolidate in school or in grace period to receive a lower rate.

H.R. 609 increases the fixed consolidation rate by 1 percentage point and establishes a .5 percent origination fee for borrowers to consolidate their loans.

H.R. 609 prevents private lenders from waiving the 1 percent guaranty fee from student borrowers, which most lenders currently waive.

H.R. 609 prevents student borrowers with Direct Loans from receiving the interest rate reduction that currently exists for on-time repayments. Currently, the Direct Loan Program provides a rebate of 1.5 percent of a borrower's loan balance for borrowers making 12 on time loan payments, but that rebate will be removed.

### S. 1614 (THE SENATE BILL)

Last week, the Senate's HEA reauthorization bill came out of the Senate Committee on Health, Education, Labor, and Pensions (HELP). The bill takes \$7 billion away from higher education to go into deficit reduction and other programs.

Approximately 36 hours after the announcement of the senate version, Senate staff announced that there was an additional \$7 million in spending the bill would free up for other priorities. However, the staff soon sent out a correction stating that in fact there had been a mistake and there was no additional \$7 billion in the Senate Bill.

In short, S. 1614 charges borrower new fees on their loans, effectively freezes student aid, and eliminates key safeguards for students.

Under the FY06 budget resolution, the Senate HELP Committee is expected to come up with \$13.6 billion in budgetary savings over five years, which is the largest cut required of any Senate Committee.

Here are the specifics:

S.1614 would follow 2001 legislation to eliminate the variable interest rate program for Stafford loans and implement a fixed rate of 6.8% for all Stafford loans.

S.1614 establishes a 0.5 percent origination fee for borrowers to consolidate their loans