

**Action/Information Item**

***LOAN ADVISORY COUNCIL***

Federal Legislative Update, including the College Cost Reduction  
and Access Act

---

EDFUND staff will provide an oral update on Federal legislative activities.

A power-point presentation regarding the *College Cost Reduction and Access Act* is enclosed for informational purposes.

**Responsible Staff:** David Reid  
Vice President and General  
Counsel, EDFUND Legal Services  
& External Relations Division

Beryl Schantz  
Senior Policy & Regulations  
Analyst, EDFUND Governmental  
Relations Department

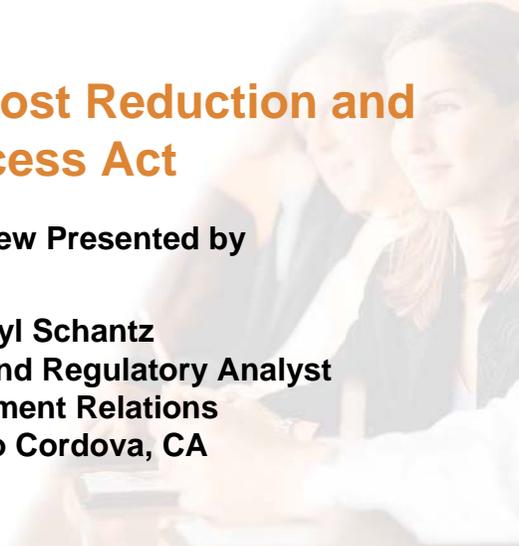


---

# The College Cost Reduction and Access Act

An Overview Presented by

**Beryl Schantz**  
Senior Policy and Regulatory Analyst  
Government Relations  
Rancho Cordova, CA



public laws

---

COLLEGE COST REDUCTION AND ACCESS ACT

# Summary

- Reconciliation measure
  - Total savings: \$21+ billion
  - Total new spending: \$20+ billion
  - \$750 million toward deficit reduction
- Public Law 110-84
  - Conference Report agreed to on September 5, 2007
  - Senate and House of Representatives passed it on September 7, 2007
  - Signed by the President on September 27, 2007
- Most provisions effective October 1, 2007
- ED expects to begin Negotiated Rulemaking 11/2/07
  - Interim guidance expected over the next 30-60 days



public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Pell Grants

- Reauthorized through fiscal year 2017
- Tuition sensitivity eliminated effective July 1, 2007
- Increases maximum grant
  - \$4,310 – 2007/08
  - \$4,800 – 2008/09 and 2009/10 (+\$490)
  - \$5,000 – 2010/11 and 2011/12 (+\$690)
  - \$5,400 – 2012/13 (+\$1,090)

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Interest Rate Reductions

- Undergraduate subsidized Stafford loans
  - July 1, 2008 – 6.0%
  - July 1, 2009 – 5.6%
  - July 1, 2010 – 4.5%
  - July 1, 2011 – 3.4%
  - July 1, 2012 – returns to 6.8%
- For loans first disbursed on or after July 1 of the corresponding award year
- Applies to both FFEL and DL

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Economic Hardship

- Changes the definition from 100% of the poverty line for a family of 2 to 150% of the poverty line applicable to the borrower's family size
- Removes the provision for a borrower who is working full-time and has a Title IV debt burden that equals or exceeds 20% of the borrower's AGI

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Military Deferment

- Applies to members of the armed forces who are serving on active duty during a war or other military operation, or a national emergency
  - Also applies to National Guard members
  - Removes the three-year limit
  - Adds 180 days after member is demobilized
  - Regardless of when loan was disbursed
  - Applies to FFEL, DL and Perkins loans

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Income-Based Repayment

- The formula
  - Determine annual amount due on Part B and D loans using the standard repayment plan
  - Calculate the amount by which the borrower's AGI exceeds 150% of the poverty line for the borrower's family size
  - Multiply the result by 15%, if this amount is less than the annual amount due using the standard repayment plan then the borrower qualifies
- New monthly loan payment is determined by dividing the 15% by twelve

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Income Based Repayment (cont.)

Example Calculation

For demonstration purposes, assume:

- Family of 3 with an AGI of \$65,000 and a monthly loan payment of \$500
- Poverty line for a family of three is \$20,000

1. Annual loan amount due = \$6,000 ( $\$500 \times 12$ )
2. 150% of poverty line = \$30,000 ( $\$20k \times 1.5$ )
3. Discretionary income (amount that exceeds 150% of the poverty line) = \$35,000 ( $\$65,000 - \$30,000$ )
4. 15% of discretionary income is \$5,250 ( $\$35,000 \times .15$ )
5.  $\$6,000 > \$5,250$ , therefore the borrower qualifies for IBR
6. New monthly payment under IBR = \$437.50 ( $\$5,250/12$ )

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Income-Based Repayment (cont.)

- Eligibility calculation is performed annually
- Payment is applied to the borrower's loans in the following order
  - Interest due on the loan
  - Fees due on the loan
  - Principal of the loan
- Interest not covered on subsidized loans by the new payment will be paid by the Secretary for up to three years

EDFUND<sup>®</sup>  
EDUCATION FINANCE

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Income-Based Repayment (cont.)

- Unpaid balance after 25 years is forgiven
- Does not apply to Parent PLUS loans or consolidation loans used to pay Parent PLUS loans
- Effective date July 1, 2009

EDFUND<sup>®</sup>  
EDUCATION FINANCE

COLLEGE COST REDUCTION AND ACCESS ACT

public laws

## Income Contingent Repayment

- Repayment period must include when loans are
  - Not in default
  - In economic hardship deferment or Income-Based Repayment plan
  - Paid under Standard Repayment plan before beginning the ICR plan
  - Paid under Standard Repayment plan
  - Paid under the ICR plan

EDFUND  
EDUCATION FUND

COLLEGE COST REDUCTION AND ACCESS ACT

public laws

## Loan Forgiveness

- Public service employees
  - For Direct loans only
  - Borrower cannot be in default
  - After borrower has made 120 monthly payments
    - Beginning October 1, 2007
  - Employed in a public service job
    - During the 120 monthly payments
    - At the time of the forgiveness

EDFUND  
EDUCATION FUND

COLLEGE COST REDUCTION AND ACCESS ACT

public laws

## Loan Forgiveness

**Public Service is defined as a full time position in...**

- Emergency management and Government
- Military service and public safety
- Law enforcement and public health
- Public education and social work
- Public interest law and public child care
- Public service to disabled individuals
- Public Service to the elderly
- Public and school-based library sciences
- Other school-based services
- 501(c)(3) organizations
- Faculty at a Tribal college or university
- Faculty in other high-needs areas determined by the Secretary

EDFUND<sup>®</sup>  
STUDENT FIRST

COLLEGE COST REDUCTION AND ACCESS ACT

public laws

## Need Analysis

- All changes in Need Analysis are effective July 1, 2009
- Treatment of Assets
  - Qualified educational benefit will be considered the asset of the
    - Student if the student is independent
    - Parent if the student is dependent
  - Special combat pay is not to be treated as Estimated Financial Aid

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Need Analysis (cont.)

- Income Protection
  - Allowances are increased each year through 2012/13 in a prescribed method for dependent and independent students
  - Allowances after 2012/13 will be based on the increase in the CPI
  - Allowances for parents will be based on the CPI beginning with 2009-10 award year
  - Tables to be published in the Federal Register each year

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Need Analysis (cont.)

- Automatic Zero EFC
  - Increases the family income level to \$30,000 and indexes this level to the CPI for future years
- Simplified Needs Test
  - Adds Dislocated Worker for automatic inclusion
  - Increases participation in a federal qualifying means-tested benefit program to 24 months

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Need Analysis (cont.)

- Independent Student Definition
  - Changed to include
    - An orphan, in foster care, or a ward of the court at any time when the individual is 13 or older
    - Emancipated minors or in legal guardianships in their state of legal residence
    - Verified as an “unaccompanied youth” who is homeless or at risk of homelessness and self-supporting

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Need Analysis (cont.)

- Dependency over-ride process simplified
  - Financial aid administrator may decide based upon
    - A previous documented determination made by another financial aid administrator
    - Made in the same award year
- Professional Judgment
  - Adds dislocated worker
  - Change in housing status resulting in the individual being homeless

EDFUND  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## TEACH Grants

- Eligibility criteria
  - Enrolled student
  - File an application and agreement
  - Have a 3.25 GPA
- Teacher candidates may receive
  - \$4,000 for each academic year
    - Up to \$16,000 for undergraduate and post-baccalaureate study
    - Up to \$8,000 for graduate study
    - Prorated for part-time study
    - Cannot exceed COA
      - May be reduced to meet COA

EDFUND<sup>®</sup>  
EDUCATION FIRST



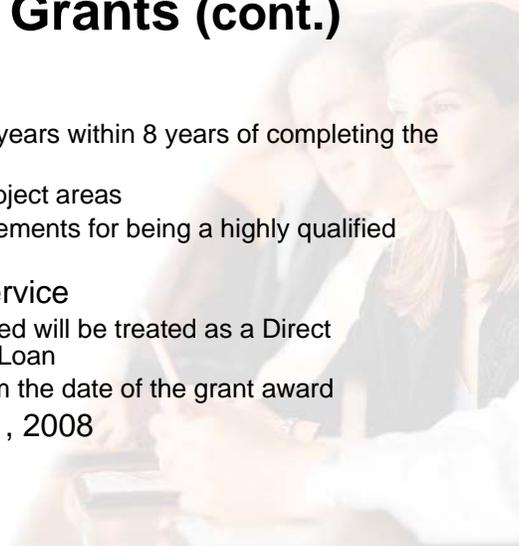
public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## TEACH Grants (cont.)

- Agreement to serve
  - Full-time teacher for 4 years within 8 years of completing the course of study
  - Teach in high-need subject areas
  - Comply with the requirements for being a highly qualified teacher
- Failure to complete service
  - Amount of grant received will be treated as a Direct Unsubsidized Stafford Loan
  - Interest will accrue from the date of the grant award
- Effective date is July 1, 2008

EDFUND<sup>®</sup>  
EDUCATION FIRST



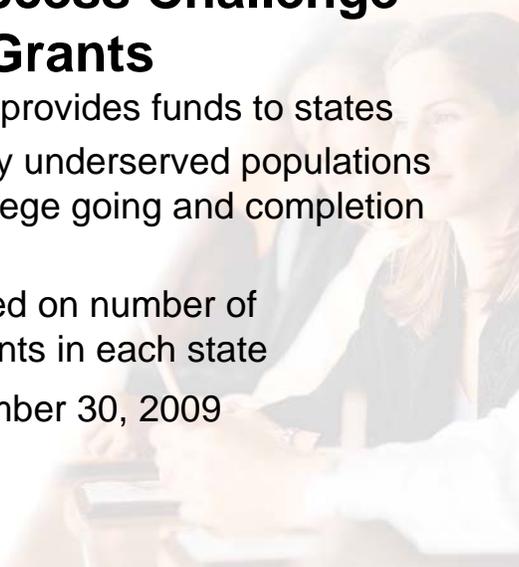
public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## College Access Challenge Grants

- Two year program provides funds to states
- Targets traditionally underserved populations to increase the college going and completion rate
- Grant amount based on number of underserved students in each state
- Sunsets on September 30, 2009

EDFUND<sup>®</sup>  
STUDENT FIRST



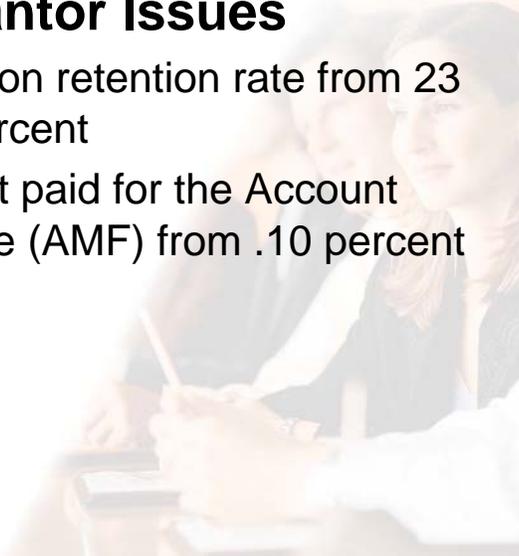
public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Guarantor Issues

- Reduces collection retention rate from 23 percent to 16 percent
- Reduces amount paid for the Account Maintenance Fee (AMF) from .10 percent to .06 percent

EDFUND<sup>®</sup>  
STUDENT FIRST



public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Lender Issues

- Reductions create a differential rate for non-profit and for-profit lenders, effective October 1, 2007 on Special Allowance Payments (SAP)
- Eliminates the Exceptional Performer program, effective October 1, 2007
- Increases the lender paid origination fee from .5 percent to 1.0 percent of the principal balance for loans disbursed on or after 10/1/07
- Reduces lender insurance to 95 percent from 97 percent, effective 10/1/2012

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## PLUS Loan Auction Program

- Converts the FFEL Parent PLUS loan program to an auction format beginning 7/1/2009
- The two lowest bidding lenders for each state will win rights to make Parent PLUS loans
- New auctions will be conducted every two years
- Borrowers will only be able to consolidate with a different lender if their current lender does not match or offer better terms than those offered by the consolidating lender

EDFUND<sup>®</sup>  
STUDENT FIRST

public laws

COLLEGE COST REDUCTION AND ACCESS ACT

An overview document of the College Cost Reduction and Access Act is available for downloading on our Website at:

<http://www.edfund.org/>

Two Easy Steps:

1. Select Quick Links (on left side)
2. Select CCRAA Overview

EDFUND<sup>®</sup>  
STUDENT FIRST



public laws

COLLEGE COST REDUCTION AND ACCESS ACT

## Questions/Discussion

Beryl Schantz  
Senior Policy and Regulatory  
Analyst  
bschantz@edfund.org

EDFUND<sup>®</sup>  
STUDENT FIRST

