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Information Item

California Student Aid Commission

Update on Federal Activities

This agenda item will provide an update on federal activity and information on the 109th Congress.

Enclosed is the federal issue update.

Recommended Action: For information only.

Responsible Staff: Steve Caldwell, Chief
Governmental and Public
Affairs Division.

FEDERAL ISSUES UPDATE

The Higher Education Act:

House and Senate staff worked on the short term Higher Education Act bill intended to extend higher education programs scheduled to expire on September 30, 2006. The bill had to pass before Congress went into recess. Rumors circulated that the extension would be through March 31, 2007, a date which would effectively signal the end of hopes for the HEA reauthorization, H.R. 609/S. 1614, to be completed in 2006.

On the Hill:

The Senate and the House of Representatives are both in recess until November 9. On September 30, programs under the Higher Education Act of 1965 (HEA) were extended through June 30, 2007, by the Third Higher Education Extension Act of 2006 (P.L. 109 - 292).

The nine-month HEA extension bill signed into law by President Bush on Saturday makes several changes to the HEA, including loan forgiveness to survivors of victims of the 9/11 attacks and further restrictions to institutions ability to participate in the school-as-lender program.

1. 9/11 Loan Forgiveness: The HEA extension bill includes a provision extending student loan forgiveness to the spouses and parents of those who died or became disabled in the terrorist attacks of September 11, 2001.

Under this provision the Department of Education will discharge federal student loans; (1) of the spouses of an eligible public servant, including any consolidation loan used jointly by the spouse and the eligible public servant; (2) the portion incurred on behalf of the eligible victim (other than an eligible public servant), of a consolidation loan that was used jointly by the eligible victim and his or her spouse; (3) the portion of the consolidation loan of an eligible parent that was incurred on behalf of an eligible victim; and (D) the PLUS loan indebtedness of an eligible parent that was incurred on behalf of an eligible victim. For the purposes of this provision:

- *Eligible Public Servants* are individuals who served as a police officer, firefighter, other safety or rescue personnel, or as a member of the Armed Forces who died or became permanently and totally disabled due to the injuries suffered in the 9/11 terrorist attack
- *Victims* are individuals who died or became permanently or totally disabled due to injuries suffered in the attacks
- *Eligible Parents* are parents of an eligible victim with a PLUS loan or a consolidation loan used to repay a PLUS loan incurred on behalf of an eligible victim.

The law requires the Department to establish procedures to apply for loan cancellation under this provision by regulations that must be prescribed and published by Dec. 29, 2006.

2. Eligible Lender Trustee Restrictions: The law eliminates the ability of schools to circumvent recent school-as-lender restrictions by forming an eligible lender-trustee relationship.

During remarks on the House floor, Rep. Ric Keller (R-FL), chairman of the Subcommittee on 21st Century Competitiveness made it clear that all schools that have an eligible lender-trustee agreement in place may continue to operate, but they must comply with the school-as-lender program requirements.

Under the provision an eligible lender can't make or hold a loan as a trustee for an institution or an organization affiliated with an institution unless:

- The lender is serving as trustee for that institution or organization before Sept. 30
- The institution or organization and the lender comply with the school-as-lender requirements established by the HERA by Jan. 1, 2007.

3. Hispanic Institutions: The HEA extension law eliminates the two-year waiting period for Hispanic-serving institutions applying for grants and a requirement that these institutions document the percentage of low income students enrolled at the institution.

Howard "Buck" McKeon (R-CA) chairman of the House Education and the Workforce Committee said eliminating the two-year waiting period would reduce red tape for Hispanic-serving institutions and described the low-income reporting requirement as "outdated and burdensome"

4. Guaranty Agencies: The bill corrected a legislative error by continuing current law with respect to payments made to guaranty agencies. McKeon said this would enable guaranty agencies to continue working to help students avoid loan default.

Report on College Costs and Financial Aid:

According to a new report from the Advisory Committee on Student Financial Assistance, college costs have prevented, and if left unaddressed, will continue to prevent millions of "college qualified" students from pursuing a bachelor's degree. The report estimates that in the 1990's costs prohibited between 800,000 and 1.6 million qualified students from earning a degree and the estimate rises to 1.4 million to 2.4 million for the current decade.

Even more alarming, according to the Advisory Committee these estimates are quite conservative due to the methodology of the report. Using complex research methods, the figures presented by the Committee try to focus on students for whom costs was the main, if not sole, contributor to not obtaining a degree.

The report cites "impressive gains made by K-12 educators, professionals in early intervention programs, states, colleges, Congress, and the Department of Education from 1992-2004," but asserts that "net price at four-year public colleges increased over that time period and appears to have undermined these improvements." It also warns that if college costs are not addressed by policymakers and the higher education community, the trend will continue. To combat these issues, the report offered the following six recommendations:

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- Reinvigorate the access and persistence partnership to increase need-based aid from all sources,
- Restrain increases in the price of college and offset increases with need-based student aid,
- Moderate the trend - at all levels - toward merit-based aid and increasing reliance on loans,
- Reduce financial barriers to transfer from two-year to four-year colleges,
- Strengthen early intervention programs for low- and moderate-income students,
- Invest in efficient and productive remediation.

Although the makeup of the Advisory Committee is bipartisan and the report did not seek to place blame with any administration or agency, Democrats and Republicans had very differing views on the report. Both House Education and the Workforce Committee Chairman Howard “Buck” McKeon (R-CA) and Ranking Member George Miller (D-CA) lamented the rising costs of college and both referenced the report in regards to the Higher Education Reconciliation Act. However, in one of those “only in Washington” situations, Miller used the report to criticize the legislation, while McKeon used it to support it.

For more information on the Advisory Committee on Student Financial Assistance and to access the report, please click here: <http://www.ed.gov/about/bdscomm/list/acsfa/edlite-whatnew.html>