

To: COHEAO Members  
From: Harrison Wadsworth  
Andrew Stringer  
Joan Coyle  
Re: Senate Higher Education Act Reauthorization

The Senate's version of the Higher Education Act reauthorization legislation was introduced late yesterday. It is S. 1614, not yet available on Thomas, the Congressional web site, but we have received a copy from Senate staff. A markup by the Health, Education Labor and Pensions Committee will take place at 3 p.m. on Thursday, September 8<sup>th</sup>. We will have someone at the hearing (Harrison). The bill is being introduced jointly by Chairman Mike Enzi (R-WY) and Ranking Democrat Ted Kennedy (MA). It has bi-partisan support, and few if any amendments are expected in Committee. There will be some changes and corrections made before markup in the form of a managers' amendment, but the major issues are set. This bill is expected to be rolled into a budget reconciliation bill that will also include pension savings and savings from other programs, including Medicaid, although opposition to cutting programs has grown during the past week because of Hurricane Katrina's effects. The pension bill will be marked up in the same session on Thursday. The bill is approximately 400 pages long, with a main 374-page that includes Titles 1 through 9, and a Title 10 of 25 pages that has reconciliation issues, including creating two new grant programs and making changes to the FFELP and Direct Loan programs. The savings required to meet the reconciliation target of \$7 billion over five years are accomplished by making changes in the FFEL Program, chiefly by reducing lender return.

Regarding Perkins Loans:

- The bill reauthorizes the Perkins Loan program through 2010.
- The bill adds loan forgiveness for early childhood educators, instructors at tribal colleges or universities, and librarians with a master's degree in library science serving in Title I schools or libraries.
- Loan deferments are extended for people serving in the military (also extended in FFELP and Direct Loans).
- The allocation formulas for campus-based programs are not changed.
- Stafford loan limits are increased like in the House, and the Stafford loan fixed rate of 6.8% is kept in the law to take effect next July.
- Consolidation loan lenders are specifically required to inform Perkins Loan borrowers of the loan forgiveness and other aspects of the Perkins Loan Program before consolidating their Perkins Loans.

Other provisions affecting the Stafford and PLUS loan programs are as follows:

- Increasing Stafford Loan limits to \$3,500 for first-year undergraduates and to \$4,500 for second year students. No change to aggregate limits. Increase unsubsidized Stafford loans for graduate students from \$10,000 per year to \$12,000 per year.

- Retaining the scheduled July 1, 2006 conversion to a fixed interest rates for borrowers of Stafford loans of 6.8% and raise the PLUS fixed interest rate to 8.5% at that time. Allow graduate students to also borrow PLUS loans.
- Retaining current interest rate methods for consolidation loans – fixed rate based on the weighted average of the underlying loans.
- No reconsolidation permitted.
- Single holder rule repealed for consolidation loan lending (no exceptions or caveats).
- Moratorium on additional schools becoming lenders after August 31, 2005. Existing schools permitted to continue with revenues used for need-based aid.
- Guarantor collection retention on defaulted loan collections is reduced to 10% when the loan is consolidated – borrowers charged 18.5% with 8.5% sent to government.
- 50% Rule for distance education relaxed, so that students would be eligible for aid when more than 50% of a school's students are enrolled in courses taught electronically, provided that the school has shown itself to provide a good education and to be complying with regulations.
- Secretary is permitted to reduce Direct Loan origination fee to 1%.
- Borrowers who make 120 on-time payments under Direct Loan income contingent repayment are eligible to have their loans forgiven if they are in public service jobs.
- Schools required to disclose prices and price increases in much greater detail.
- Single disbursement allowed and no more 30-day disbursement delay for new students at low-default schools.
- New grant programs created: Provisional Grant Assistance Program (ProGAP) – temporary program providing \$5.5 billion in grants over the next five years to low-income students. Of this, \$1 billion would be SMART Grants that would be designated for third and fourth year math, science and foreign language students.
- Pell Grant maximum authorized to increase to \$6,300 over the next five years (subject to appropriations).
- Needs analysis modified to increase the auto-zero calculation from \$15,000 to \$20,000.

- Requires development of an EZ FAFSA and other simplifications of the financial aid process.
- Clarifies that drug possession convictions don't deny aid unless the student was convicted while receiving federal assistance.
- Requires that the Department of Education provide institutions with a calendar of when required information is due.
- Accreditation: the bill requires schools to have due process procedures in place to resolve disputes and that institutional missions are considered during the accreditation process.

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