Department of Education

STUDENT AID OVERVIEW

Fiscal Year 2008 Budget Request

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STUDENT AID OVERVIEW

Federal Student Aid Programs
(Higher Education Act of 1965, Title IV)

FY 2008 Authorization ($000s): To be determined [1]

Budget Authority ($000s):

	2007	2008	Change
Pell Grants [2]			
Discretionary funding	$12,606,713	$13,223,000	+616,287
Mandatory funding (Proposed legislation)	0	2,216,000	+2,216,000
Subtotal, Pell Grants	12,606,713	15,439,000	+2,832,287
Academic Competitiveness/SMART Grants [3]	850,000	1,180,000	+330,000
Supplemental Educational Opportunity Grants	770,591	0	-770,591
Work-Study	980,492	980,492	0
Leveraging Educational Assistance Partnerships [4]	64,468	0	-64,468
Federal Family Education Loans [5]	2,700,651	1,056,951	-1,643,700
Federal Direct Loans [6]	4,191,785	509,249	-3,682,536
Perkins Loans	65,471	0	-65,471
Total	22,230,171	19,165,692	-3,064,479

[1] The Higher Education Act expires June 30, 2007. The ACG/SMART Grant, FFEL, and Direct Loan program are authorized in 2007 and FY 2008; other programs are expected to be authorized in FY 2007 through appropriations language. Reauthorizing legislation is sought for FY 2008.

[2] Discretionary amount for 2008 supports the cost of a $4,050 maximum award under proposed policies, as well as $235 million to cover the cost of a funding shortfall in FY 2007. Mandatory amount supports proposed legislation to increase the maximum award to $4,600 in 2008.

[3] Amount for 2008 supports proposed legislation to increase Academic Competitiveness Grant award amounts by 50 percent.

[4] Includes $35.5 million in 2007 for Special LEAP, which is authorized when a fiscal year's appropriation exceeds $30 million.

[5] Budget authority requested for FFEL does not include the Liquidating account. Amount for 2007 includes net downward re-estimate of $3.2 billion, due primarily to updated loan model assumptions related to interest rates and consolidation loans behavior.

[6] Amount for 2007 includes net upward re-estimate of $3.7 billion, due primarily to updated loan model assumptions related to collections on defaulted loans.

FY 2008 Budget Request

In 2007, the Federal Government will provide over $83 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. While these funds help millions of Americans obtain the benefits of a higher education, the dramatic increase in higher education costs and the vital role advanced training plays in today's global economy require an even greater investment, especially in Pell Grants to low-income students. Accordingly, the FY 2008 Budget includes proposals to increase Federal student aid to more than $90 billion in FY 2008, including $67 billion in guaranteed and direct student loans and over $15 billion in Pell Grants.

STUDENT AID OVERVIEW

This overview details the package of reforms proposed by the President as part of his 2008 Budget to increase aid to students while improving the effectiveness of the Pell Grant and student loan programs. (Current student aid programs are described in detail under **Student Financial Assistance**, beginning on page O-1, **Academic Competitiveness Grants and SMART Grants** on page P-1, and **Student Loans Overview** on page Q-1.)

The Secretary's bipartisan Commission on the Future of Higher Education emphasized the need for improved access, affordability, and accountability in American higher education. The Commission's 2006 report, *A Test of Leadership*, highlighted that for the poorer half of American families, the percentage of out-of-pocket family income required to pay for a public 2-year and 4-year college education increased significantly over the past 15 years. For the poorest quarter of the population, the percent of a family's income needed to attend a public 4-year college increased to 47 percent in 2006 from 41 percent in 1992. By contrast, families earning $75,000 a year in 2006 spent 18 percent of their annual income to attend a public 4-year college.

To address these concerns, the FY 2008 President's Budget proposes substantial new investments in need-based grants, targeting limited Federal resources to students most affected by tuition increases in the last 15 years. To address the Commission's call for greater simplicity and efficiency in the student aid programs, and to help pay for new investments in Pell Grants and Academic Competitiveness Grants, the Budget would also reduce subsidies to lenders and eliminate duplicative programs to redirect resources toward higher grant and loan aid for America's most needy students. The Budget proposes a three-pronged approach:

1) **Increased Federal investment in the Pell Grant program.** The President proposes the largest funding increase ever in the Pell Grant program, raising the maximum grant by $550 to $4,600 in 2008. The maximum Pell Grant would increase by $200 annually from 2009 through 2012, to $5,400. In 2008, the maximum Pell Grant would allow needy students – including part-time and older students – to pay all tuition and fees at an average public community college and nearly 75 percent of the tuition at an average public 4-year institution.

2) **More valuable Academic Competitiveness Grants (ACG).** To complement the Administration's No Child Left Behind reauthorization package, which includes proposals to increase the rigor in high schools, the President proposes to increase grant levels by 50 percent for students completing a challenging course of study in high school. These substantially higher awards will encourage States and local school districts to raise their standards and improve the quality of their course offerings. They will also encourage students to graduate on time and complete the challenging classes necessary to ensure postsecondary success. In 2008, a combination of increased ACG awards and the maximum Pell Grant would cover all tuition and fees and provide up to $4,000 in living expenses for community college students; sophomores at an average 4-year institution would receive enough to fund all tuition and fees.

3) **Early notification efforts.** More valuable Pell Grant and ACG awards give all States and institutions the opportunity to inform low- and moderate-income students that if they complete high school and work hard, they will have access to substantial resources to pay for college. The Administration is developing administrative and other proposals to make students and their families more aware of their eligibility for financial aid, and how best to prepare academically and financially for college.

These three prongs must work together seamlessly, for without one, the other two cannot succeed. Higher grant amounts are no help to students who lack the skills necessary to succeed in college; before needy students seek these skills, they must believe college is a realistic alternative they will be able to afford. Once these students and their families are convinced that college is within their reach financially, they will push States and school districts to invest in broadening the availability of challenging college preparatory coursework. For these proposals to be effective, institutions must also do their part to keep tuition increases moderate.

Over the next 5 years the President is proposing to invest an additional $21.9 billion in student aid funding.

- **Increase the maximum Federal Pell Grant to $4,600 in 2008 and to $5,400 by 2012.** The President proposes $19.8 billion over 5 years to increase the maximum Pell Grant by $550 in 2008 and an additional $200 annually through 2012. In 2008 nearly 5.5 million students will receive grants. The neediest students will have 60 percent of a typical public 4-year tuition and fees paid for if they qualify for the maximum grant, 35 percent if they qualify for the average grant. (Grant amounts are determined by economic circumstances.)

  Because early awareness efforts will be more effective if students know of the future availability of grant funds, the President is proposing to fund the grant increase from mandatory funds. The FY 2008 Budget requests $13.2 billion in discretionary funds to support the current $4,050 maximum grant and $2.2 billion in mandatory funds for the $550 grant increase.

  While Pell Grants have been very successful in expanding access to postsecondary education for low-income students, the Administration plans to work with Congress to increase the program's effectiveness and improve its overall operation. Accordingly, the 2008 Budget includes the following proposals:

  - Pell Grants would be made available year-round at eligible 2- and 4-year degree granting institutions, giving students a more convenient option for accelerating their studies and promptly completing their education.

  - As a further incentive for timely completion, and to eliminate an area of potential abuse, Pell Grant eligibility would be limited to the equivalent of 16 semesters.

  - The Administration proposes to eliminate the Pell Grant award rule related to tuition sensitivity. This rule limits the amount of support that students with greatest need receive while attending low-cost institutions.

- **Increase Academic Competitiveness Grants (ACG) by 50 percent.** This program, new in 2006, currently provides needy freshmen who have successfully completed a rigorous high school curriculum with a maximum grant of $750; sophomores who met the first-year eligibility requirement and maintained at least a 3.0 GPA can receive up to $1,300. Increasing these amounts to $1,125 and $1,950, respectively, will provide a real incentive to needy students to attend and excel in higher education. The cost of this investment is $1.0 billion over 5 years. Congress provided that ACG/SMART Grants sunset at the end of academic year 2010-2011. The Administration supports these new programs, which began operation July 1, 2006; evaluations and PART reviews will be analyzed before requesting an extension beyond 2011.

- **Increase the annual amount of student loans juniors and seniors can borrow by $2,000, to $7,500.** This proposal will help students fund the increasing cost of higher education, which over the past decade has grown at more than twice the general national inflation rate. The 2006 Higher Education Reconciliation Act (HERA) increased the maximum loan amounts for freshmen, sophomores, and graduate students but did not make similar changes for juniors and seniors, limits for whom have not increased since 1992. The proposal also increases aggregate loan limits for all students. The 5-year cost of this investment is $1.1 billion.

To pay for these investments, the President is proposing to reduce subsidies to lenders and other financial intermediaries and to eliminate unneeded or poorly targeted programs.

- **Reduce interest subsidies to lenders by ½ percent.** FFEL private lenders are guaranteed a specific interest rate by the Government, regardless of what the student borrower pays. Currently, private lenders are guaranteed an interest rate equal to the commercial paper rate plus 2.34 percent on student and parent loans; this proposal would reduce 2.34 percent to 1.84 percent. (Similar changes would be made for Consolidation Loans.) The 2008 Budget redirects the savings created by reducing these interest subsidies ($12.4 billion over 5 years) to the Federal Pell Grant Program, targeting public investments more effectively on the neediest students.

- **Reduce default insurance from 97 percent to 95 percent.** FFEL lenders currently receive 97 percent of students' loan balances when filing for Federal insurance. Given that the Federal Government compensates private lenders for interest unpaid by students – accruing 6.8 percent a year on new loans -- the current 3 percent "risk-sharing" is illusory. Reducing the default guarantee will rationalize this process while redirecting $1.6 billion in Federal funds to student aid investments over the next 5 years. (The insurance rate for lenders deemed "exceptional performers" also would be reduced by 2 percentage points.)

- **Reduce Guaranty Agency Default Collection Payments.** The Department of Education pays its collection contractors roughly 16 cents on each defaulted dollar collected. For similar collections—those not made through consolidation or rehabilitation—FFEL guaranty agencies retain 23 cents from each defaulted dollar they collect. The Administration proposes to reduce the amount guaranty agencies may retain from collections on defaulted loans beginning in 2008 to the average paid to the Department's private collection agents, releasing $2.3 billion over 5 years for reinvestment in aid to needy students.

- **Move Guaranty Agency Account Maintenance Fees to a Unit Cost Basis.** Agencies currently are paid an administrative fee based on the original principal amount of active loans they have guaranteed. To encourage agencies to operate more efficiently, the Administration proposes to shift the basis for this fee to a unit cost payment tied to the number of accounts each agency manages. Resulting efficiencies are projected to reduce program costs by $1.6 billion over 5 years.

- **Increase Consolidation Lender Fee to 1 Percent.** Lenders making Consolidation Loans currently pay the Department a one-time fee of 0.5 percent of the loan balance. Because consolidations tend to be high-dollar, low-risk loans, they have the potential to be significantly more profitable for private lenders than other student loans. Increasing this fee to 1 percent would reduce Federal costs by $850 million over 5 years.

In addition to these program reforms, the Budget proposes to simplify Federal student aid. The Commission on the Future of Higher Education emphasized that the multiple Federal student aid programs overlap in intent and cause confusion to students and their parents. To streamline the student aid process, the Budget proposes to eliminate three redundant or poorly structured programs and direct the savings to greater aid for needy students.

- Supplemental Educational Opportunity Grants (SEOG). Funds in the SEOG program are provided to institutions through an outdated allocation formula that provides fewer resources to public institutions of higher education, which a larger percentage of low-income students attend. In 2005, though nearly 70 percent of Pell Grant recipients enrolled in public institutions these students only received 46 percent of the SEOG funds.

  SEOG awards are not optimally allocated based on a student's financial need. Though institutions are required by statute to give "priority" in awarding SEOG funds to Pell-eligible students, there is no requirement that the size of these awards be tied to the need of the student. Institutions are given the discretion to provide larger SEOG awards to students that do not exhibit the highest need.

  Savings from this termination will augment significant increases in need-based aid broadly available to all eligible students, regardless of the institutions they attend.

- Perkins Loans. Perkins Loans are offered by institutions with a long history of program participation, rather than by institutions that enroll the largest share of financially needy students. With the number of Perkins Loan institutions declining from 3,338 in academic year 1983-84 to 1,315 in 2004-05 and with less than 3 percent of students enrolled in postsecondary education receiving Perkins Loans each year, the Administration believes the Federal share of funds held by this small group of institutions would be better invested in higher loan limits in the FFEL and Direct Loan programs, for which students are eligible regardless of the institution they attend. The Administration estimates that repayments of the Federal portion of outstanding Perkins Loans will total $3.2 billion over the next 5 years.

- Leveraging Educational Assistance Partnership (LEAP). While the Commission recognized the vital role States play in funding higher education, the PART process has long noted structural problems with the LEAP program that limit its effectiveness in encouraging all States to expand their investment in need-based student aid.

PROGRAM OUTPUT MEASURES

Aid Available to Students [1]
($ in millions)

	2006	2007	2008
Pell Grants	$12,881	$12,954	$15,176
Academic Competitiveness Grants	340	420	830
SMART Grants	310	310	350
Supplemental Educational Opportunity Grants	976	975	0
Work-Study	1,175	1,175	1,175
Leveraging Educational Assistance Partnerships [2]	165	165	0
New Student Loans:			
Federal Family Education Loans	47,307	52,403	57,845
Federal Direct Loans	12,676	13,596	15,050
Perkins Loans	1,135	1,104	0
Subtotal, New Student Loans	61,118	67,103	72,895
Consolidation Loans [3]	91,357	31,319	36,878
Total	168,322	114,421	127,304

[1] Shows total aid generated by Department programs, including Federal Family Education Loan capital, Perkins Loan capital from institutional revolving funds, and institutional and State matching funds.

[2] Reflects only the LEAP program's statutory State matching requirements. State maintenance-of-effort and discretionary contributions above the required match significantly increase the number of grant recipients, the amount of available aid, and the average award.

[3] New FFEL and Direct Loans issued to consolidate existing loans.

STUDENT AID OVERVIEW

Number of Student Aid Awards
(in thousands)

	2006	2007	2008
Pell Grants	5,165	5,274	5,478
Academic Competitiveness Grants	400	497	662
SMART Grants	80	82	93
Supplemental Educational Opportunity Grants	1,291	1,290	0
Work-Study	880	880	880
Leveraging Educational Assistance Partnerships [1]	165	165	0
New Student Loans:			
Federal Family Education Loans	10,983	11,496	11,906
Federal Direct Loans	2,841	2,839	2,935
Perkins Loans	514	501	0
Subtotal, New Student Loans	14,338	14,386	14,828
Consolidation Loans	3,378	1,192	1,337
Total awards	25,697	24,216	23,291

[1] Reflects only the LEAP program's statutory State matching requirements. State maintenance-of-effort and discretionary contributions above the required match significantly increase the number of grant recipients, the amount of available aid, and the average award.

Number of Postsecondary Students Aided by Department Programs

	2006	2007	2008
Unduplicated Count (in thousands)	10,409	10,766	11,076