EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 18, 2007
(Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 1762 – Higher Education Access Act of 2007
(Sen. Kennedy (D) MA)

The Administration supports reducing excess subsidies in the student loan programs and increasing aid to the neediest students, as proposed in the President's FY 2008 Budget. However, the Administration cannot support Senate passage of S. 1762 in its current form because of serious concerns with some provisions of the bill, and will work with Congress to address them as the legislative process goes forward.

The Administration remains committed to ensuring affordable access to higher education, particularly for low-income individuals. Since the President took office, the number of students receiving Pell Grants has increased by one million. The President's Budget proposes to further our commitment to this well-targeted program by increasing the maximum award to $5,400 over the next five years. Additionally, the Budget proposes raising the value of Academic Competitiveness Grants by 50 percent, providing an even greater incentive for our neediest students to excel in high school and college.

The Administration appreciates that S. 1762 includes a number of proposals from the President's Budget that would save money by making student loan programs more efficient. The Administration also appreciates that the bill, like the President's Budget, would target most of its new mandatory spending to low-income students while they are in school and can benefit the most, by using capped mandatory spending. However, the Administration believes this new spending should be incorporated into the current Pell Grant program in order to avoid unnecessary complication to the student aid programs and their administration.

While the Administration supports the bill's reducing special allowance payments (SAPs) to student loan holders, it notes that these types of reductions raise complicated issues. The approaches taken in the House and Senate budget reconciliation bills differ from each other and from the President's Budget, and the Administration intends to work with Congress on how best to implement fair reductions in these federal subsidies and avoid unintended consequences that may lessen savings.

In addition, the Administration is seriously concerned that S. 1762 provides multi-year mandatory funding to create three new programs that poorly target aid to needy students and serve narrow constituencies. Further, scoring for this bill only counts mandatory programs and does not reflect the substantial increases in discretionary spending caused by S. 1762. For example, changes to the student aid need analysis provisions will result in nearly an additional $1 billion in Pell Grant costs for FY 2009 alone.

The Administration is also concerned that student loan auctions as proposed in S. 1762 would reduce choices for students and parents and involve enormous implementation issues that threaten to disrupt services and limit loan availability. Safeguarding competition in an auction program, as the Federal Communication Commission's experience, requires a great deal of planning, consultations with experts, and flexibility. S. 1762 is highly prescriptive in its mechanism for competitive bidding and does not give the Department of Education the ability to design and consider alternate methodologies. Additionally, S. 1762 does not provide adequate time to study or plan a meaningful pilot program, and requires the pilot to be launched even if it becomes evident in the planning process that auctions are inadvisable.

The Administration also has several concerns with provisions in S. 1762 that would affect student loan forgiveness. Overall, the Administration believes that the bill's loan forgiveness provisions are a costly and inefficient way to encourage students with debt to pursue specific professions. The Administration is particularly concerned with the bill's proposed loan forgiveness for public-sector employees, a new benefit that would be available only to borrowers in the Direct Loan program. The Administration strongly believes the Direct Loan and the Federal Family Education Loan programs should continue to have the same terms and conditions, to maintain the competitive balance between these programs that has led to greater efficiency and better options and service for all schools and students.

The Administration is also concerned about provisions in S. 1762 that would permit a borrower to make payments below the minimum interest payment. For some borrowers, the proposed income-based repayment provisions could result in a significant and growing debt burden due to substantial amounts of capitalized interest on their loans. For borrowers of subsidized Stafford Loans, taxpayers would pay the unpaid portion of the interest due. This payment of interest during repayment periods would be a costly additional subsidy for those who have already attended college and benefited from government interest payments during their enrollment.

The Administration looks forward to continuing to work with Congress to resolve these issues through the legislative process.

The Administration understands that the Senate may consider the provisions of S. 1642, the "Higher Education Amendments of 2007," in conjunction with S. 1762. The Administration has grave concerns with several provisions in S. 1642. S. 1642 would create a number of new programs and reauthorize several programs the Administration proposed to terminate; set an unfortunate precedent by interfering with the Secretary of Education's ability to properly administer and rigorously evaluate any TRIO program, including Upward Bound; and restrict the ability of the Secretary to collect student-level data and make it available in the aggregate to better inform parents and policymakers. In addition, the Administration opposes tuition price controls and is concerned about the bill's higher education price index. While college affordability is a worthy goal, pricing of services like higher education is complicated, and government attempts to compare and "index" prices can have unintended consequences. The Administration does support efforts to improve transparency in this area and looks forward to working with Congress to help families make informed, data-driven decisions. Finally, while the Administration supports the goals of the "Student Loan Sunshine" provisions designed to help eliminate questionable lender arrangements with institutions, further work on these provisions is needed to address technical problems.

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