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

July 10, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 2669 – College Cost Reduction Act of 2007
(Rep. Miller (D) CA and 31 cosponsors)

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, if H.R. 2669, the "College Cost Reduction Act of 2007," were presented to the President in its current form, his senior advisors would recommend that he veto the bill because it fails to target aid to the neediest students currently in college and creates new mandatory Federal programs and policies that are poorly designed and would have significant long-term costs to the taxpayer.

The Administration remains committed to ensuring affordable access to postsecondary education. Since the President has taken 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 to raise 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.

H.R. 2669 includes a number of proposals from the President's FY 2008 Budget that would save money by making student loan programs more efficient. However, the President's FY 2008 Budget proposed that nearly 100 percent of the new spending offset by these savings be used to increase need-based aid for students currently in school, primarily by increasing the Pell Grant maximum award. By contrast, H.R. 2669 targets less than 40 percent of its new spending toward needy students while they are in school and includes new mandatory spending that is largely directed to students once they leave college and to new mandatory programs for institutions of higher education. Compared to H.R. 2669, the President's Budget directs over two and a half times more funding into the Pell Grant program.

Specifically, H.R. 2669 provides multi-year, mandatory funding to several Federal programs such as "Cooperative Education Rewards," "Incentives and Rewards for Low Tuition," and "Federal Perkins Loans" that poorly target aid to students, serve narrow constituencies, and raise constitutional concerns. Moreover, as noted in the Statement of Administration Policy on H.R. 5, the Administration opposes reducing the current fixed student loan interest rate. This costly proposal only benefits students once they leave school, when they can already take advantage of flexible repayment options available under current law and reduce the effective interest rate they pay through the existing tax deduction for student loan interest. The Administration urges Congress to redirect this spending to increase Pell Grants for the neediest students, as provided by the "Higher Education Access Reconciliation Act of 2007" that was ordered reported by the Senate Committee on Health, Education, Labor and Pensions on June 20, 2007.

In the context of the Nation's current long-term fiscal outlook, the Administration is disappointed that Congress is using the budget reconciliation process as a vehicle to create a host of expensive new Federal programs rather than to restrain Federal entitlement spending. Entitlement programs currently place an unsustainable burden on the Federal budget and the U.S. economy, which is why the President's FY 2008 Budget proposed significant reforms to slow spending by $96 billion over five years.

In addition to failing to address the long-term entitlement reforms this Nation needs, H.R. 2669 includes several gimmicks and hidden costs that will significantly increase Federal spending in coming years. The Administration is particularly concerned that H.R. 2669 would reduce interest rates on student loans over five years, after which the interest rate would revert to the current 6.8 percent – a budgetary gimmick that hides the cost of extending this misguided proposal. Further, scoring for this bill only pertains to mandatory programs and does not reflect the substantial increases in discretionary spending caused by H.R. 2669. For example, changes to the student aid need analysis provisions will result in an additional $1.5 billion in Pell Grant costs for FY 2009 alone – an amount that exceeds the bill's entire deficit reduction savings over five years.

The Administration is concerned that student loan auctions as stipulated by H.R. 2669 involve enormous implementation issues that threaten to disrupt services and loan availability to students. Safeguarding competition in an auction program, as the Federal Communication Commission's experience makes clear, requires a great deal of planning, consultations with experts, and flexibility. While the Administration is pleased the bill provides some flexibility, H.R. 2669 does not provide adequate time to develop a meaningful pilot program and requires the auction to be launched even if the bill's required study shows auctions are inadvisable.

The Administration also has several concerns with H.R. 2669's provisions affecting student loan forgiveness and repayment. Overall, the Administration is concerned that the bill's loan forgiveness provisions are a costly and inefficient way to encourage students with debt to pursue specific professions. In addition, the Administration is particularly concerned with the bill's proposed loan forgiveness for individuals employed in public-sector professions, a new benefit that would be available only to borrowers in the Direct Loan program. The Administration strongly believes that 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 that H.R. 2669's proposal to permit a borrower to make payments less than the minimum interest payment could result in many students' loans (including capitalized interest) growing into a significant debt burden or unanticipated taxable income if the loan is discharged.

The Administration would oppose any attempt to establish 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.

The Administration strongly opposes the bill's two unprecedented amendments to the TRIO Upward Bound program. One provision earmarks $30 million for prior Upward Bound grantees who submitted low-scoring applications, bypassing 107 new applicants who submitted competitive proposals. A second provision rescinds the priority used in this year's completed grant competition. As a result, the bill eliminates the requirement that grantees target their activities to the neediest students and vitiates a rigorous impact evaluation of Upward Bound that will provide information about what practices help at-risk students succeed. The Administration urges Congress to reject these changes.

The Administration looks forward to resolving these issues through the legislative process and working with Congress to focus H.R. 2669 more precisely on increasing grant aid to the neediest postsecondary students.

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