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FEDERAL STUDENT FINANCIAL AID IN NEW YORK CITY

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EXECUTIVE SUMMARY

Since the 1970s, the federal government has helped students afford a college education by providing grants and loans. While campaigning for office in 2000 and 2004, President Bush promised to increase this assistance and give students “more access to and more choice in higher education.”

Despite the rapidly rising cost of college tuition, the President’s campaign promises have not been kept. Over the last five years, there has been no increase in the financial support available to eligible students through the Pell Grant program, the federal program that provides grants to low- and middle-income students. Interest rates for student loans, the other major source of federal education assistance, have increased to their highest levels in 16 years.

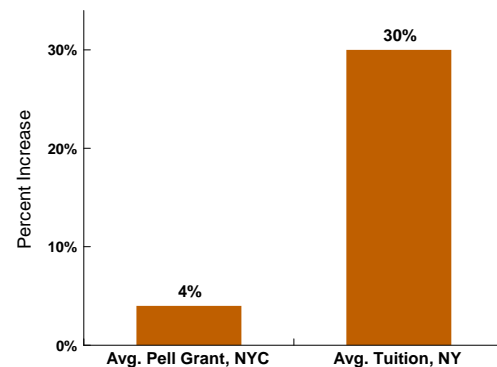
At the request of Reps. Weiner, Maloney, Engel, Ackerman, Crowley, Towns, and Owens, this analysis examines the impact on students in New York City of diminishing federal financial aid. It finds that hundreds of thousands of students in New York City have been adversely affected by the failure of federal financial aid to keep pace with rising education costs. Specifically, the report finds:

- **Thousands of college students in New York City receive millions of dollars worth of Pell Grants.** Statewide, 366,000 students received Pell Grants worth \$955 million during the last academic year. Over half of these students — 203,000 — were from

New York City. They received \$551 million in grants.

- **Tuition costs in New York have risen many times faster than the average Pell Grant.** The cost of attending SUNY and CUNY colleges increased by 30% between the 2001–2002 and 2005–2006 academic years. During this same period, the average Pell Grant awarded to recipients in New York City increased by only 4%.

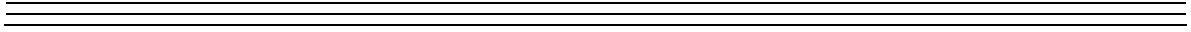
Federal Student Aid Has Not Kept Up With Tuition Increases over the Past Four Years



- **Thousands of college students in New York City obtain federal student loans.** Rapidly rising college tuitions and the declining value of Pell Grants are forcing an increasing number of students and their families to take on additional debt in the form of student loans. Statewide, 604,000 students and their families obtained federal loans worth over \$4.6 billion in the 2004–2005 academic year. In New York City, 204,000 students and families obtained nearly \$1.6 billion in federal loans.

Democratic members of Congress have proposed legislation to increase the size of individual Pell Grants and to cut interest rates on federal student loans. The Democratic Pell Grant proposal, which would raise the value of Pell Grants by over \$1,000, would provide students in New York State with \$336 million in

additional student aid, including \$194 million in additional assistance for students in New York City. The Democratic student loan legislation would cut interest rates in half, saving the average student in New York State over \$5,000 in interest payments over the life of the loan.



I. BACKGROUND

Federal Pell Grants

Established in 1973, the federal Pell Grant program offers need-based grants to undergraduate college students, providing more than \$13 billion in grants nationwide to over five million college students from low- and middle-income families. These grants, which account for nearly all federal grant assistance to college students, offer valuable support for students and their families grappling with rapidly rising tuition costs.

The students most in need of financial assistance receive the maximum awardable Pell Grant. This maximum award — presently \$4,050 — is set each year during the congressional appropriations process. The value of Pell Grants for other students is based upon this maximum. As a result, increasing the value of the maximum Pell Grant increases the amount awarded to all students who receive Pell Grants. It also increases the number of students who qualify for grants.¹

On September 2, 2004, in his speech to the Republican National Convention, President Bush pledged his commitment to “expanding Pell Grants for low and middle income families.”² These comments reiterated his 2000 campaign promise to give students “more access to and more choice in higher education,” and raise the maximum Pell Grant.³

In spite of these promises, President Bush’s first budget requested only a small \$100 increase to \$3,850 in the maximum Pell Grant in Fiscal Year 2002.⁴ Congress raised the maximum Pell Grant value by more than President Bush proposed, increasing it to \$4,000.

In 2002, average tuition costs increased 10%, yet the President’s budget requested no increase in the maximum Pell Grant in FY 2003. Congress enacted only a modest \$50 increase, raising the maximum Pell Grant to \$4,050.⁵ In FY 2004, the President’s budget

¹ Pell Grant awards are determined by subtracting the amount that the student and family are able to contribute to college tuition from the maximum Pell Grant amount. By increasing the maximum Pell Grant, award amounts are increased for all recipients. In addition, some students who previously did not qualify may become eligible for smaller grants when the maximum Pell Grant is increased.

² Republican National Committee, *Remarks by President George W. Bush at the 2004 Republican National Convention* (Sept. 2, 2004) (online at www.gop.com/News/Read.aspx?ID=4601).

³ *Bush Proposes Pell Grant Raise*, University Wire (Sept. 8, 2000).

⁴ White House Office of Management and Budget, *Budget for the U.S. Government: FY 2002* (Feb. 2001).

⁵ The College Board, *Trends in College Pricing 2005* (Oct. 2005) (online at http://www.collegeboard.com/prod_downloads/press/cost05/trends_college_pricing_05.pdf); White House Office of Management and Budget, *Budget for the U.S. Government: FY 2003* (Feb. 2002).

actually sought to cut the maximum Pell Grant despite the fact that college tuition increased a record 13%.⁶ Congress maintained the maximum at \$4,050.

Since FY 2003, the maximum Pell Grant has remained at \$4,050. President Bush's FY 2007 budget proposes maintaining this level of funding for the fifth consecutive year in the 2007–2008 academic year.⁷

Federal Student Loans

Since the establishment of the federal student loan program in the Higher Education Act of 1965, federal student loans have allowed students to attend college who would otherwise not be able to afford the high costs of tuition and living expenses. In 2005 alone, the federal government financed more than 14 million loans to students and their families.⁸

Currently, there are several types of loans offered to students and their families by the federal government:

- **Subsidized Stafford Loans** are offered to students who have the greatest financial need. The federal government pays the interest on these loans while the student is still in school and for the first six months after leaving school.
- **Unsubsidized Stafford Loans** are similar to Subsidized Stafford Loans, except that the student is responsible for making interest payments while still in school. These loans are available to students who do not qualify for the interest subsidy or who are already the recipients of other federal grants and loans.
- **PLUS Loans** are offered to parents of dependent students and graduate students.⁹

The federal government facilitates these loans through two programs. The Federal Family Educational Loans (FFEL) program offers guarantees to private lenders for student loans. This federal guarantee gives private lenders the incentive to offer loans to students who would otherwise not qualify. In the second federal program, the Direct Loan program, the government finances loans directly to students.¹⁰

⁶ White House Office of Management and Budget, *Budget for the U.S. Government: FY 2004* (Feb. 2003); The College Board, *supra* note 5.

⁷ White House Office of Management and Budget, *Budget for the U.S. Government: FY 2007* (Feb. 2006).

⁸ *Id.*

⁹ Federal Student Aid, U.S. Department of Education, *Funding Education Beyond High School: The Guide to Federal Student Aid 2006-07* (Jan. 2006).

¹⁰ Federal Student Aid, U.S. Department of Education, *Funding Education Beyond High School: The Guide to Federal Student Aid 2006-07* (Jan. 2006).

With the cost of college tuition rising rapidly and other sources of funding, such as Pell Grants, receiving scant new funding, the volume of student loans has increased throughout the Bush Administration. In the 2000–2001 academic year, the government financed approximately \$38.1 billion in new student loans. In the most recent 2005–2006 academic year, the volume of new loans was \$67.3 billion, a 77% increase in just five years.¹¹

Despite students' increasing reliance on federal loans in order to afford the high cost of a college education, Congress narrowly passed — and the President signed — legislation earlier this year that raises \$12.7 billion from increased interest rates on federal student loans to pay for deficit reduction.¹² The interest rate increase, which went into effect on July 1, raised interest rates for Stafford Loans from 5.3% to 6.8%.¹³ These interest rates are the highest in 16 years. At the same time, the interest rates for PLUS Loans in the FFEL program increased from 6.1% to 8.5%, and the interest rates for PLUS Loans in the Direct Loan program increased from 6.1% to 7.9%.¹⁴

¹¹ Department of Education, *Student Loan Volume Tables — FY 2007 President's Budget* (Feb. 7, 2006).

¹² P.L. 109-171. In the House, the Deficit Reduction Act narrowly passed 212 to 206, with virtually all Democrats opposing the legislation. U.S. House of Representatives, *Roll Call Vote on Agreeing to the Conference Report on S. 1932* (Dec. 19, 2005). In the Senate, the legislation passed by one vote, 51 to 50, with Vice President Cheney casting the deciding vote. U.S. Senate, *Roll Call Vote on the Motion to Concur in House Amendment to S. 1392* (Dec. 21, 2005).

¹³ P.L.107-139. In addition to raising the interest rates, the legislation also changed the loans from variable-rate loans to fixed-rate loans.

¹⁴ *Id.* Because of a drafting error in the legislation, the newly fixed interest rates for PLUS loans differ between the FFEL and Direct Loan programs.

II. DEMOCRATIC EDUCATION PROPOSALS

In response to the rising cost of tuition and the devaluation of federal financial aid that has occurred during the Bush Administration, Democratic members of Congress have introduced two main proposals to make college more affordable for lower- and middle-income families. These proposals would:

- (1) **Increase the value of Pell Grants** by raising the maximum value of the Pell Grant from \$4,050 to \$5,100.
- (2) **Make college loans more affordable** by cutting the interest rate on student loans by half. This legislation would lower the interest rate on new Stafford Loans from 6.8% to 3.4% and cut the interest rate on new PLUS Loans for parents loans from 8.5% to 4.25%.¹⁵

The Democratic student loan bill, H.R. 5150, has 65 cosponsors.

¹⁵ H.R. 5150 and S. 2573. The proposal does not affect the interest rates on Unsubsidized Stafford Loans.

III. PURPOSE AND METHODOLOGY

At the request of Reps. Anthony D. Weiner, Carolyn B. Maloney, Eliot L. Engel, Gary L. Ackerman, Joseph Crowley, Edolphus Towns, and Major R. Owens, this report assesses the current state of federal financial aid for higher education in New York City. The report also analyses how Democratic proposals to increase student aid would affect college students and their families in New York City.

The Special Investigations Division obtained zip-code level data on federal Pell Grants and student loans from the Department of Education. The data on Pell Grants includes information on the total number of Pell Grants awarded to students from each zip code, as well as the total value of those grants in the 2005–2006 academic year. This data also contains information on the number of students receiving the maximum Pell Grant, which is \$4,050. For comparison purposes, the Special Investigations Division also obtained similar data from the Department of Education for the 2001–2002 academic year.

The data on federal student loans includes information on the total number of loans and the total dollar value of federal student loans in each zip code for the 2004–2005 academic year. This data includes the number and value of all types of federal student loans.¹⁶ This analysis assumes that the proportion of each type of federal loan is the same in each state and city as it is nationally.

IV. FINDINGS

A. Hundreds of Thousands of Students in New York City Receive Federal Financial Aid

In New York State, \$955 million in Pell Grants was awarded to 366,000 college students in the 2005–2006 academic year. Statewide, the average Pell Grant was \$2,606 per student.

¹⁶ Department of Education, National Student Loan Data System (NSDLS), *AY 04-05 Direct Loan Volume by Zip Code* (Feb. 2006). The loan data includes information on both guaranteed and direct loans. The Department of Education estimates that the number of direct loans is undercounted in the NSDLS by approximately 10%. Email from Office of Legislative and Congressional Affairs, Department of Education, to Minority Staff, House Committee on Government Reform (Feb. 23, 2006). This analysis adjusts the volume of direct loans by 10% for each zip code to compensate for the undercount.

In New York City, \$551 million in Pell Grants was awarded to 203,000 college students in the 2005–2006 academic year. The average Pell Grant in New York City was \$2,710 per student.

An even greater number of students and their parents obtained financial assistance through federal loans. In New York, 604,000 students and their families obtained federal loans worth over \$4.6 billion in the 2005–2006 academic year.¹⁷ In New York City, 204,000 students and their families obtained nearly \$1.6 billion in federal student loans. According to a survey of New York colleges, the average student will owe \$17,594 in student loan debt by the time the student completes his or her education.¹⁸

See Appendix 1 for federal financial assistance in each of New York City’s boroughs.

B. The Average Pell Grant in New York City Has Been Outpaced by Rising Tuition Costs

The average Pell Grant in New York has failed to keep up with rapidly increasing college costs for students in New York. Between the 2001–2002 academic year and the 2005–2006 academic year, the average Pell Grant in New York increased by 6% from \$2,464 to \$2,606 per year. Similarly, in New York City, the average Pell Grant increased by only 4% from \$2,595 to \$2,710 per year.

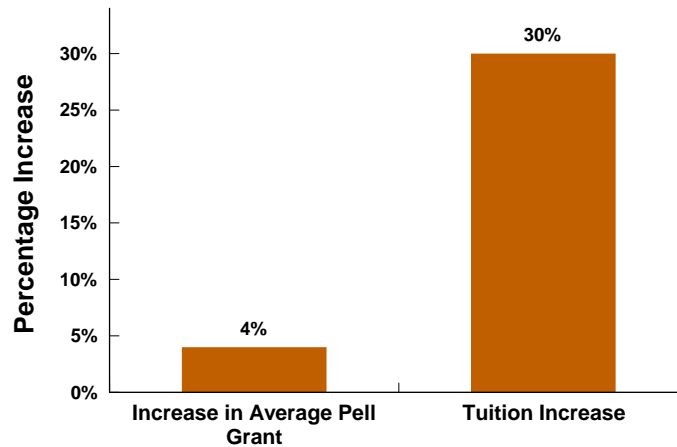
Over this same time period, however, the cost of undergraduate tuition at City University of New York (CUNY) and State University of New York (SUNY) colleges increased by 30% from \$3,766 to \$4,895.¹⁹ In percentage terms, the increase in state tuition was over three times higher than the increase in the average Pell Grant in New York City. See Figure 1.

¹⁷ Because individuals often take more than one federal loan each year, this analysis estimates the actual number of student and parent borrowers by assuming that the national average of 1.62 loans per individual is the same on the state and local level.

¹⁸ The Institute for College Access and Success, *Economic Diversity of Colleges* (2006) (online at www.economicdiversity.org).

¹⁹ This analysis averages the tuition increases of six public universities in New York: The City University of New York’s Baruch College, Brooklyn College, and Queens College; and the State University of New York’s colleges at Albany, Buffalo, Oswego, and the College of Agriculture and Technology at Cobleskill. Barron’s Profiles of American College, 24th Ed. (2001); Barron’s Profiles of American College, 26th Ed. (2005).

Figure 1: College Tuition Has Increased Faster than the Average Pell Grant in New York City over the Last Four Years



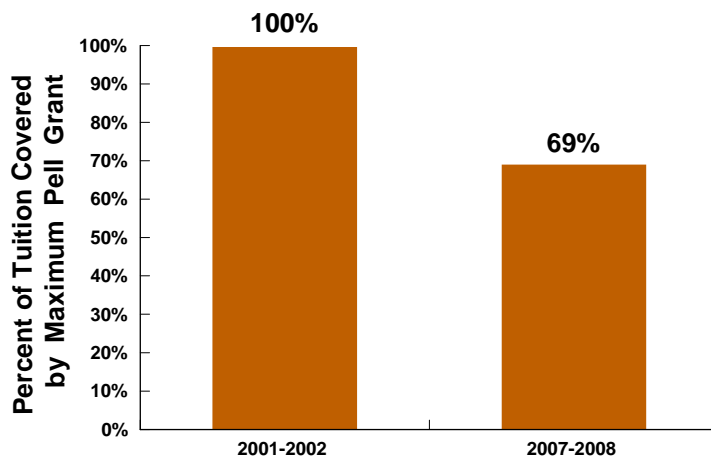
Those students most in need of assistance receive the maximum Pell Grant. Statewide, 101,000 students received the maximum Pell Grant of \$4,050. Approximately 62,000 of these students were from New York City. This maximum grant has increased by only 8% since 2001, less than one third of the increase in New York tuition.

C. Under President Bush’s Funding Proposals, Pell Grants Will Continue to Lose Value in New York City

President Bush’s proposed budget for FY 2007 budget would freeze the maximum awardable Pell Grant for the fifth consecutive year. If Congress adopts this funding proposal, the maximum Pell Grant will remain at \$4,050 through the end of the 2007–2008 academic year. This would further reduce the value of Pell Grants. In the 2007–2008 academic year, if current trends continue, the national average cost of tuition will be \$5,900.²⁰ The maximum Pell Grant — which covered the entire average cost of tuition in the 2001–2002 academic year — would cover only 69% of the average tuition in the 2007–2008 academic year. See Figure 2.

²⁰ The College Board, *supra* note 5. This analysis assumes that the cost for tuition for the 2006–2008 academic years will increase by the 10-year average of 6.6% annually.

Figure 2: Under the Bush Administration, the Value of Pell Grants Has Declined



D. Increasing Maximum Pell Grants Would Provide Thousands of Student in New York City With Greater Financial Aid

Democrats have proposed to increase the maximum Pell Grant by over \$1,000. Because the size of each individual Pell Grant is determined by the difference between the amount the student can afford and the maximum award value, an increase in the Pell Grant maximum would lead to an increase in funding for all Pell Grant recipients. Nationwide, the Department of Education estimates that if the maximum Pell Grant were raised to \$5,100, as Democrats have proposed, over \$4.4 billion in additional grant money would go to Pell Grant recipients.²¹

College students in New York State and New York City would derive significant benefits from an increase in the maximum Pell Grant. Under the Democratic proposal, college students statewide would receive an estimated \$336 million more in Pell Grants each year. Students in the New York City would receive approximately \$194 million more in Pell Grants each year.²²

²¹ Congressional Research Service, *Federal Pell Grants: Implications of Increasing the Maximum Award* (May 17, 2005).

²² This analysis assumes that the increased Pell Grant funds would have a similar geographic distribution to the currently awarded grants.

E. Reducing Interest Rates Would Save Millions of Dollars for Students in New York City

The reforms proposed by Democrats in Congress would also cut interest rates on student and parental loans for college education. On July 1, 2006, the interest rates on new student loans fixed at 6.8%, an increase from the June rate of 5.3%.²³ Under the Democratic proposal, this rate would be cut in half to 3.4%. This reduction in interest rates would save the average student thousands of dollars in interest payment over the life of the loan.

According to a survey of universities in New York State, the average college student in the state graduates with \$17,594 in federal student loan debt.²⁴ Students in New York taking loans since the July 1 interest rate increase will face higher interest payments on their student loans. A student repaying the average college debt over fifteen years will pay \$2,570 more for loans taken at the new 6.8% rate than they would at the previous 5.3% rate.²⁵ The Democratic proposal will lower interest payment on student loans. If the student repays these loans over fifteen years, the Democratic proposal to lower the interest rate to 3.4% would reduce interest payments by \$5,628 over the life of the loan.²⁶

The Democratic proposal reduces both the interest rate that students pay under Stafford Loans and the rate that parents pay under PLUS loans. If the interest rate on federal student loans was lowered to 3.4% and on parent loans to 4.25%, as the Democratic bill provides, repaying the \$4.6 billion in federal loans obtained by students and their families in New York last year would cost approximately \$198 million less than it would under current interest rates.²⁷ In New York City, these proposed changes would save students and their families approximately \$70 million in interest payments.²⁸

²³ *Supra*, note 13.

²⁴ The Institute for College Access and Success, *supra* note 18.

²⁵ At a 6.8% interest rate, the total repayment amount would be \$28,112, while at a 5.3% interest rate, the total repayment amount would be \$25,542. Department of Education, Office of Federal Student Aid, *Standard, Extended, and Graduated Repayment Calculator* (online at <http://www.ed.gov/offices/OSFAP/DirectLoan/RepayCalc/form1.html>).

²⁶ At a 6.8% interest rate, the total repayment amount would be \$28,112, while at a 3.4% interest rate, the total repayment amount would be \$22,484. Department of Education, Office of Federal Student Aid, *Standard, Extended, and Graduated Repayment Calculator* (online at <http://www.ed.gov/offices/OSFAP/DirectLoan/RepayCalc/form1.html>).

²⁷ This analysis assumes that the average Subsidized Stafford loan in New York of \$2,358, the average FFEL PLUS loan in New York of \$6,180, and the average PLUS direct loan in New York of \$5,557 are repaid over a 15-year period.

²⁸ This analysis assumes that the average Subsidized Stafford loan in New York City of \$2,427, the average FFEL PLUS loan in the New York City of \$6,362, and the average PLUS direct loan in New York City of \$5,721 are repaid over a 15-year period.

CONCLUSION

In New York State, 366,000 students received Pell Grants in the 2005–2006 academic year, including 203,000 in New York City. Under the Bush Administration, however, the value of these Pell Grants has not kept pace with rising tuition. Democratic proposals to increase Pell Grants and cut student loan interest rates would have a significant beneficial impact for students in New York State and New York City, providing an additional \$194 million in aid for students in the city and saving the average New York student over \$5,000 in interest payments.

APPENDIX 1

Table 1: Pell Grant Awards by New York City Borough

New York City Borough	Pell Recipients 2005-2006	Total Pell Awards 2005-2006	Average Pell Award 2005-2006	Increase in Average Pell Award from 2001-2002	Increase in Pell Awards Under Democratic Proposal
Bronx	44,300	\$120,300,000	\$2,716	5.1%	\$42,400,000
Brooklyn	72,600	\$199,800,000	\$2,750	4.3%	\$70,500,000
Manhattan	28,100	\$77,000,000	\$2,742	4.3%	\$27,200,000
Queens	51,000	\$135,000,000	\$2,645	3.7%	\$47,600,000
Staten Island	7,200	\$18,700,000	\$2,597	6.3%	\$6,600,000
Total	203,200	\$550,800,000	\$2,710	4.4%	\$194,300,000

Table 2: Student Loans by New York City Borough

New York City Borough	Students Receiving New Federal Loans 2004-2005	Total Value of New Student Loans 2004-2005	Total Saved Interest Payments on 2004-2005 Loans Under Democratic Proposal
Bronx	37,400	\$244,700,000	\$10,700,000
Brooklyn	63,200	\$474,700,000	\$20,800,000
Manhattan	37,900	\$360,000,000	\$15,800,000
Queens	52,500	\$416,100,000	\$18,200,000
Staten Island	12,900	\$103,900,000	\$4,500,000
Total	203,900	\$1,599,400,000	\$70,000,000

APPENDIX 2

Table 3: Pell Grant Awards by New York City Congressional District²⁹

New York City Congressional District	Pell Recipients 2005-2006	Total Pell Awards 2005-2006	Average Pell Award 2005-2006	Increase in Average Pell Award from 2001-2002	Increase in Pell Awards Under Democratic Proposal
5 th District	11,550	\$31,725,000	\$2,747	5.4%	\$11,190,000
6 th District	16,980	\$42,947,000	\$2,529	3.3%	\$15,148,000
7 th District	15,460	\$41,209,000	\$2,665	4.1%	\$14,535,000
8 th District	12,810	\$36,340,000	\$2,836	6.1%	\$12,818,000
9 th District	17,810	\$48,456,000	\$2,720	4.1%	\$17,091,000
10 th District	18,570	\$49,888,000	\$2,687	3.7%	\$17,597,000
11 th District	18,430	\$49,130,000	\$2,666	4.1%	\$17,329,000
12 th District	17,480	\$48,422,000	\$2,770	3.9%	\$17,080,000
13 th District	14,300	\$39,113,000	\$2,735	5.8%	\$13,796,000
14 th District	9,030	\$24,241,000	\$2,685	4.2%	\$8,550,000
15 th District	17,970	\$48,968,000	\$2,725	4.0%	\$17,272,000
16 th District	24,350	\$66,965,000	\$2,751	5.0%	\$23,620,000
17 th District	13,930	\$37,236,000	\$2,673	5.5%	\$13,134,000

²⁹ The total number student aid recipients and the total value of the assistance for all congressional districts are slightly higher than the totals for New York City because sections of some congressional districts lie outside the New York City limits.

Table 4: Student Loans by New York City Congressional District³⁰

New York City Congressional District	Students Receiving New Federal Loans 2004-2005	Total Value of New Student Loans 2004-2005	Total Saved Interest Payments on 2004-2005 Loans Under Democratic Proposal
5 th District	13,540	\$125,687,000	\$5,527,000
6 th District	18,890	\$135,754,000	\$5,969,000
7 th District	14,950	\$109,439,000	\$4,812,000
8 th District	13,980	\$130,461,000	\$5,737,000
9 th District	18,450	\$149,993,000	\$6,596,000
10 th District	17,070	\$121,492,000	\$5,342,000
11 th District	18,010	\$130,777,000	\$5,751,000
12 th District	15,370	\$116,869,000	\$5,139,000
13 th District	19,020	\$153,148,000	\$6,734,000
14 th District	14,340	\$142,818,000	\$6,280,000
15 th District	18,870	\$156,645,000	\$6,888,000
16 th District	17,320	\$103,952,000	\$4,571,000
17 th District	19,980	\$154,525,000	\$6,795,000

³⁰ *Id.*