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Washington Update:  
It's A Game, It's A Show, It's DC

# Today's Categories

- The Debt Ceiling
- 2012 Funding and Beyond
- The Super Committee
- Other Budget Stuff
- Cohort Default Rates
- Looking Ahead

# The Debt Ceiling

- Federal Authority to Borrow Above a Preset Level
  - » \$14.3 trillion
  - » Reached in ~~May~~, ~~June~~, August 2
- Consequences of a Breach
  - » Inability to pay debtholders (default)
  - » Inability to issue new debt to fund programs
  - » Need to juggle to meet federal obligations (e.g., military pay, social security payments, loan & grant disbursements)
  - » Puts the country's fiscal house in jeopardy

# Let's Make a Deal

- Assumptions:
  - » Congress will wait until the last minute
  - » Tea Party will maintain a hard line
  - » Republican leadership – Boehner and Cantor – will need to deliver the votes
  - » Democrats will not undermine the President
  - » Republicans will not agree on net tax increases

# Marching to the Brink of Default

- May:
  - » Speaker Boehner announces Republicans will not raise debt ceiling without offsetting cuts
- June:
  - » President Obama and Speaker Boehner play golf
- July:
  - » White House negotiations set parameters of \$4t “Grand Bargain”
  - » Senate “Gang of Six” releases \$4t plan, including \$1t of revenue increases
  - » Various meetings are held and counter-proposals made
  - » President complains that Speaker Boehner does not return his calls
  - » House & Senate pass plans that the other chamber rejects
  - » A deal is finally reached on 7/31, just in time for Congress to recess for the summer
  - » But not before putting the nation’s fiscal reputation in jeopardy

# The Big Deal

- \$2.1t Increase in Debt Ceiling – in 3 stages
  - » \$400b immediate increase
  - » Congress can disapprove 2 future increases
  - » President can veto disapproval
  - » Congress must vote on balanced budget amendment
- \$917b in Cuts Over 10 years (No Tax-Related Measures)
- Provides \$17b to Fill Most of Pell Shortfall
  - » Eliminates interest subsidy on graduate Stafford Loans
  - » Eliminated repayment incentives for Direct Loans (except auto-debit)
  - » Both effective for new loans as of 7/1/2012
- Goal is to identify \$1.5t More in Budget Savings Over 9 Years
  - » Cuts to be developed by Congressional Joint Select Committee on Deficit Reduction
- U.S. Credit Rating Downgraded



# The Super Committee

- 12 Members – 3 of “Each”
  - » Rep. Jeb Hensarling (R-Texas), Co-Chair  
Sen. Patty Murray (D-Wash.), Co-Chair
  - » Sen. Pat Toomey is a member
- Deficitreduction.gov
- Some Hearings, Mostly Closed-Door Meetings
- House & Senate Committees Have Submitted Recommendations
  - » Separate D & R submissions
- Will Gang of Six or Simpson-Bowles be Considered?
- What About the President’s Jobs Act and Offsets?

# The Super Committee

- Statutory Timeline:
  - » November 23 – majority vote of committee to approve recommendations
  - » December 23 – House & Senate must vote
  - » January 15 – enactment deadline
- All Programs and Revenues Can Be Included
- Could Student Aid be Impacted?
  - » Discretionary spending likely to be cut
  - » Interest subsidies “on the table”



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  - » Which could put domestic and defense spending in jeopardy

# Sequestration

- Automatic, Across-The-Board Cuts
  - » Defense & non-defense starting in 2013
  - » Social Security, federal retirement programs, Medicaid, Pell Grants exempt
  - » Medicare cuts limited to 2%
- Sequestration Amount Will Equal Amount of Cuts Congress & President Do NOT Agree To
  - » No sequestration if \$1.2t in cuts enacted into law
  - » If smaller cuts enacted, sequestration is proportional
  - » If no cuts enacted
    - Domestic programs cut by 7.8% over 9 years
    - Defense programs cut by 10% over 9 years
  - » OMB is final arbiter

# So, Where Are We Now?

- FY 2011 Continuing Resolution
  - » Government shutdown narrowly avoided
  - » Last minute negotiations
  - » Finalized on April 14 (6 months & 2 weeks late)
- Maintained \$5,550 Pell Grant Maximum
  - » Eliminated year-round Pell
  - » \$50 million cut to SEOG
  - » Eliminated LEAP and Byrd Scholarships
  - » \$25 million dollar cut to TRIO
  - » \$20 million cut to GEAR UP, and
  - » \$1.6 million cut to Javits Fellowships

# 2012 Appropriations

- Continuing Resolution in Effect Until November 18<sup>th</sup>
  - » Expectation is for an Omnibus Appropriations Bill
  - » Timeline is fuzzy
  - » Super Committee could impact final numbers
- Senate Appropriations Committee Action
  - » Protect \$5,550 Pell maximum
  - » Eliminate grace period interest subsidy to fill Pell shortfall for 2012-13 AY (\$2.34b)

# House Appropriations Bill

- No Formal Action
- Proposed Offsets to Save \$5,550 Pell Shrink Number and Growth of Pell Recipients
  - » Total savings of (\$3.6b)
  - » Direct Secretary to establish a reduced payment schedule if appropriations are not sufficient to support maximum award
- Halt Enforcement of Gainful Employment
- No Other Cuts in Student Aid Programs

# Proposed Eligibility & Need Analysis Changes in House Draft

- » Revoke Pell eligibility for less than half-time students (-\$140 m)
- » Reduce lifetime eligibility to 6 years (-\$679m)
- » Eliminate Ability to Benefit option
- » Reduce student income protection allowances (IPA) to about the 2009-10 IPA level; parent IPAs unaffected (-\$2.1b)
- » Reduce automatic zero EFC from \$31,00 to \$15,000 (-\$352m)
- » Eliminate Pell awards to students whose EFC would result in an award less than 10 percent of the maximum (-\$46 m)
- » Reinstate previously excluded forms of untaxed income (-\$1.1b)
  - The amount of additional tax credits claimed for tax purposes
  - Welfare benefits
  - Earned income credit claimed for tax purposes
  - Credit from tax paid on special fuels
  - Untaxed social security benefits
  - Foreign income exclusion



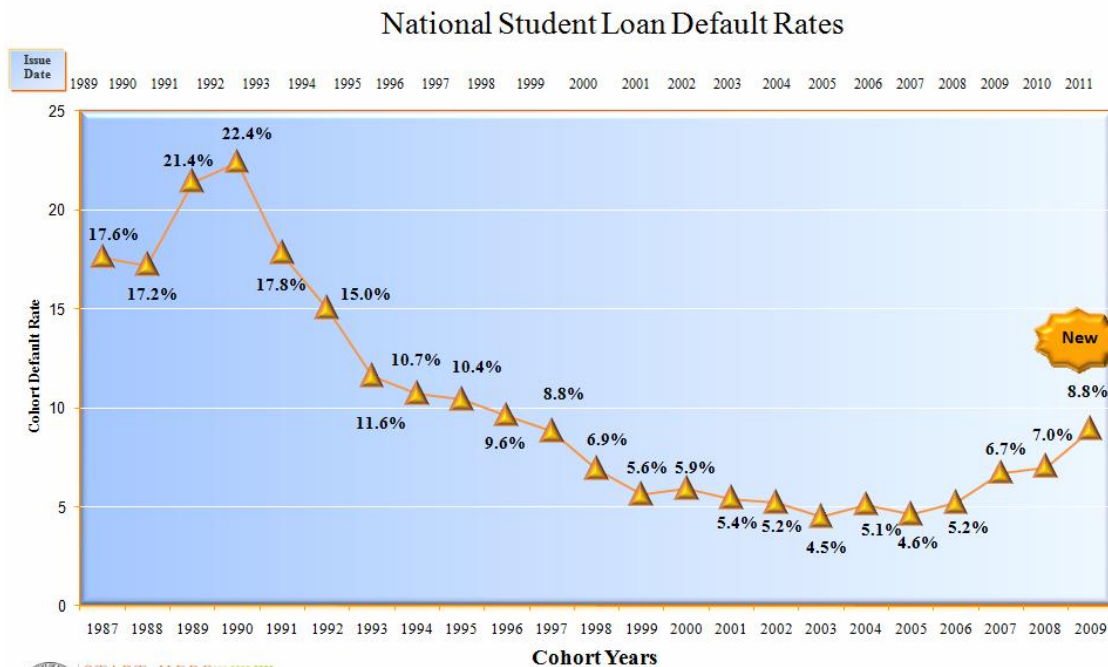
# Is Pell the Ultimate Survivor?

- Does Pell Really Have Permanent Immunity?
- Will the Shortfall Every Be Filled?
- What Programs or Benefits Will Be Kicked Off the Island?
- How Would You Vote at Tribal Council?



# Cohort Default Rates

- 8.8% Rate for 2009 Cohort
  - » Up from 7.0% for 2008 cohort





# Cohort Default Rate Issues

- Increases Across All Sectors
  - » Public: 6.0% to 7.2%
  - » Private: 4.0% to 4.6%
  - » Proprietary: 11.6% to 15.0%
- 3-Year CDR is Coming
  - » 10-25% increases expected over two-year rates
- DL Rates Likely to Catch Up to FFELP Rates
- How Effective Are IBR and Public Service Loan Forgiveness?

# Why Are Default Rates Climbing?

- It's the Economy Stupid!
  - » Unemployment rate for college grads is 13%
  - » Starting salaries ain't what they used to be
  - » Competition for entry level jobs from unemployed professionals
  - » Student loan debt outpacing credit card debt
- College Costs Continue To Rise While Grant Aid Fails To Keep Pace

# On the Horizon

- Significant Higher Education Legislation Unlikely
  - » House Republicans and Senate Democrats split on big issues
    - Gainful employment
    - Funding offsets
- Higher Ed Issues Fly Under the Radar
  - » Tax Credits/Deductions
  - » Increase in Stafford interest rates as of for 12-13 AY
  - » Legislative energy will be spent on ESEA and budget issues

# Coming Attractions

- Private Loan Ombudsman
  - » Authorized by Wall Street Reform and Consumer Protection Act (Dodd-Frank)
  - » Part of Consumer Financial Protection Board
  - » Part of national call center for consumer complaints
  - » Not yet operational



# Breaking News

- Debt Conversion Program
  - » Being announced today
  - » Limited to borrowers with “split” federally owned & FFELP loans
  - » 1/4 % interest rate reduction on converted loan
  - » 5.8 million borrowers
- Changes to Income Contingent Loan Program (for Direct Loans, not FFELP)
  - » 10% of income and 20-year forgiveness effective in 2012



# PA Legislators in Key Places

- Education and Labor Committee
  - » Todd Platts (R, York, Lancaster)
  - » Lou Barletta (R, Hazelton, Wilkes Barre)
  - » Mike Kelly (R, Erie, Butler)
  - » Jason Altmire (D, New Castle, Aliquippa)
- Appropriations
  - » Chaka Fattah (D, Philadelphia)
  - » Charlie Dent (R, Allentown, Lehigh Valley)
- HELP Committee
  - » Sen. Bob Casey (D)
- Super Committee
  - » Sen. Pat Toomey (R)



# 2012 is Upon Us

- Presidency is Up for Grabs
  - » Will economy dictate results?
  - » Who will be Republican nominee?
- Major Changes for Congress?
  - » Democrat Senate majority at risk
  - » Can Republicans hold the House?
- What Role Will Turnout Play?
- Do Independents Hold the Key?

# How to Play the Game

- Remember, Student Aid Funding is Competing Against Other Programs
  - » Some of which may be important on campus – e.g., medical & scientific research
  - » Some of which are domestic and defense priorities
- Cannibalizing of Student Aid Programs has Begun
- Is it Time to Identify Unpleasant Priorities
  - » Choose your favorite child
  - » How far to go to preserve \$5,550?
  - » Contain the damage
- In Hopes of Keeping Students Out of Jeopardy