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

Scott E. Miller
smiller1@pheaa.org
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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”
Let’s Make a Deal

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  » Democrats will not undermine the President
  » Republicans will not agree on net tax increases
  » 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 18th
  » 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 Ever 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