



THE SECRETARY OF EDUCATION
WASHINGTON, DC 20202

August 3, 2007

Dear Conferee:

I am writing to express the views of the Department of Education on the House and Senate versions of H.R. 2669, the "College Cost Reduction Act of 2007" and the "Higher Education Access Act of 2007," respectively. I wish to highlight the Administration's most serious concerns in this letter.

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. While I am gratified that a number of Administration proposals are included in one or both versions of H.R. 2669, other provisions in the two versions of the bill are problematic. The Administration could not support a final bill that diverts resources away from larger Pell Grants for needy students toward such provisions as an interest rate reduction, several new mandatory programs, the Senate's current special allowance payment amendments, tuition price controls, the Upward Bound priority change which undermines the program's effectiveness in serving at-risk students, and an objectionable unmodified student loan auction provision. If such a bill were presented to the President in that form, his senior advisors would recommend that he veto the bill. The totality of the package is of great importance, and I want to continue to work with Congress as the conference proceeds so that we may obtain a final bill that we can all support.

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.

The Administration remains committed to ensuring affordable access to postsecondary education. Since the President took office, the number of students receiving Pell Grants has increased by one million, up from 4.3 million in FY 2001 to 5.4 million today. The President's FY 2008 Budget proposes to further our commitment to this well-targeted program by increasing the maximum annual 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.

The President's FY 2008 Budget proposed to invest nearly all new spending to increase need-based aid for students currently in school, primarily by increasing the maximum Pell Grant award. The President's Budget invested \$19.8 billion in mandatory funds to increase Pell Grant awards over 2008-2012, compared with \$7.7 billion in the House bill and \$17 billion in the Senate bill over the same period. I am pleased that the Senate version of H.R. 2669, by using capped mandatory spending, would similarly target most of its new mandatory spending to

low-income students while they are in school and can benefit the most. However, the House version of H.R. 2669 would target less than 40 percent of its new spending toward needy students in school, and includes new mandatory spending that is largely directed to students after they have left college and are already in the workforce and to new mandatory programs for institutions of higher education.

The Administration strongly opposes new mandatory Federal programs that are designed to aid institutions rather than needy students and have significant long-term costs to the taxpayer. The House version of H.R. 2669 would provide multiyear, mandatory funding to several Federal programs, totaling \$1.7 billion, that would poorly target aid to students, serve narrow constituencies, and raise constitutional concerns. These funds would be more appropriately directed toward increasing the maximum Pell Grant by approximately \$450 per student. The Senate version of H.R. 2669 would also provide multiyear mandatory funding to create new entitlement programs that poorly target aid to needy students and serve narrow constituencies, although fewer of these programs than in the House version. These new entitlement programs are unnecessary and would dilute efforts to get scarce Federal resources to the neediest students.

Further, the full cost of these bills is not offset, because scoring for this bill counts only mandatory programs and does not reflect the substantial increases in discretionary spending that would result from either the House or Senate version of H.R. 2669. For example, changes to the student aid need-analysis provisions proposed in the House version would result in an additional \$1.3 billion in discretionary Pell Grant costs for FY 2009 alone; in the Senate version, similar changes would result in an additional \$883 million in Pell Grant costs for that year.

In addition to these unpaid-for increases in discretionary spending as well as costly new mandatory programs, the House version of 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. The Administration also strongly opposes this interest rate cut because it would be less effective in targeting Federal resources to the neediest students than increasing grants.

The President's FY 2008 Budget included a uniform .50 percentage point reduction in the rates used to calculate special allowance payments (SAPs) to student loan holders. The House version of H.R. 2669 would reduce the SAP rate for Stafford and Consolidation Loans by .55 percentage points, and for PLUS Loans by .85 percentage points. The Senate version would also reduce the SAP rates, but it would create a two-tier SAP rate that differentiates between for-profit holders and other loan holders, with the other loan holders receiving a higher SAP rate. This structure would give for-profit lenders a powerful financial incentive to find legal loopholes to receive the higher subsidy, leading to costly, unintended consequences, such as those that resulted from the legislation creating more generous subsidies for holders of tax-exempt loans. The Administration strongly opposes the Senate proposal. The Administration strongly believes Federal Family Education Loan (FFEL) subsidies should be based on what is necessary to ensure loans are available to eligible students, not the nature of the financial institution holding the loan.

While the Administration supports taking advantage of market mechanisms, I strongly believe that we must proceed with great caution in entering the student loan auction arena. The auction provisions in both the House and Senate versions of H.R. 2669 would involve enormous implementation challenges that threaten to disrupt services and loan availability to students. Safeguarding competition in an auction program, as the Federal Communications Commission's experience makes clear, requires a great deal of planning, consultations with experts, and flexibility. If the Congress chooses to include an auction pilot in the final bill, at a minimum it should amend the House provision to provide adequate time to develop a meaningful pilot, ensure that borrower services, choices, and loan availability are safeguarded, and make the launching of the pilot contingent on the results of the required study. The Administration cannot support the Senate version of the auction provision because it is highly prescriptive in its mechanism for competitive bidding, significantly reduces choices for students and parents, and does not give the Department of Education the ability to design and consider alternative methodologies.

The Administration also has several concerns with provisions in the House and Senate versions of H.R. 2669 that would affect student loan forgiveness and repayment. Overall, the Administration is concerned that the loan forgiveness provisions in both versions of the bill are a costly and inefficient way to encourage students with debt to pursue specific professions. The Administration is particularly concerned that the proposed loan forgiveness in both versions for individuals employed in public-sector professions would be available only to borrowers in the Direct Loan program, which would upset the competitive balance between the FFEL and Direct Loan programs that has led to greater efficiency and better options and service for all schools and students.

Provisions in both versions of the bill would permit a borrower to make payments that are less than the amount of interest due. Under the House version, that interest would be capitalized; in the Senate version, the taxpayers would pay the unpaid portion of the interest due on subsidized Stafford Loans. 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. The Senate version, providing for 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. Again, this approach fails to effectively target Federal funds to the neediest students and may, over time, make some borrowers' debt burden less, rather than more, manageable.

The Administration would oppose any attempt to establish tuition price controls and is concerned about the House version's "higher education price index." While college affordability is a worthy goal, the pricing of services such as higher education is complicated, and government attempts to compare and "index" prices can have unintended consequences. Furthermore, such an "index" can have a negative effect on schools that have consistently and historically kept cost increases down, and provide benefits only to higher priced institutions. The Administration wishes to continue working with Congress during the course of the conference on H.R. 2669 to improve data transparency and help families make well-informed decisions.

The Administration strongly opposes the two unprecedented amendments to the TRIO Upward Bound program in the House version of H.R. 2669. One provision would earmark \$57 million for Upward Bound grant applicants who submitted low-scoring applications. A second provision would rescind the absolute priority used in this year's completed grant competition. As a result, the bill would eliminate the requirement that grantees target their activities to the neediest students and diminish the validity and usefulness of a rigorous impact evaluation of Upward Bound that was designed to provide information about what practices help at-risk students succeed.

The Administration understands that the conferees may consider the provisions of S. 1642, the "Higher Education Amendments of 2007," in conjunction with the conference on H.R. 2669. The Administration has grave concerns with several provisions in S. 1642, which would create approximately 13 new programs; reauthorize several programs the Administration proposed to terminate because they are duplicative, have achieved their purpose, or have failed to demonstrate results; and restrict the Secretary's regulatory authority. S. 1642 also contains objectionable provisions on a higher education price index and on Upward Bound similar to those contained in the House version of H.R. 2669. The Administration supports provisions in S. 1642 that would improve data transparency, but is concerned with any restriction on the Secretary's ability to encourage, and provide support to, systems of postsecondary student-level data. The Administration also supports the goals of the "Student Loan Sunshine" provisions in S. 1642 designed to help eliminate questionable lender arrangements with institutions, but further work on these provisions is needed to address technical problems that could impair the usefulness of the amendments.

Some general principles have guided the Administration's review of the House and Senate versions of H.R. 2669 which I urge the conferees to embrace. First, new spending should support two key objectives: helping the students who most need, and can benefit most from, Federal support (i.e., low-income students during the time that they are in school), and providing financial incentives to encourage these students to focus on academic achievement. Next, competition between the FFEL program and the Direct Loan program is good for students, schools, and taxpayers, and must be maintained and neither program should be given a competitive advantage. Third, on accountability, we must inject more transparency into the system so that students and parents have better consumer information about cost, graduation rates, and educational results in order to make more informed decisions. Finally, redundant or poorly targeted programs should be eliminated, and more such programs should not be created.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the Administration.

Sincerely,

/s/

Margaret Spellings