AACC Summary of the "Student Success and Taxpayer Savings Plan"

Sec. 2001(b)(3) of H.Con. Res. 14

On April 29, the House Committee on Education and the Workforce approved the "Student Success and Taxpayer Savings Plan" – the higher education provisions for House Republicans' budget reconciliation legislation. The legislation was approved on a party-line vote. It now heads to the Budget Committee before going to the House floor.

The bill contains sweeping changes to student financial aid policy. It limits Pell Grant eligibility and restructures federal student loans, overhauls borrower repayment options, implements risk-sharing for colleges, and drastically limits the Department of Education's regulatory authority.

Taken together, the incomplete Congressional Budget Office (CBO) score has the bill cutting more than $350 billion over ten years in mandatory funding for higher education. This is funding outside the annual appropriations process.

Below is a summary of provisions of interest for community colleges. The bill impacts community colleges in dozens of ways, but AACC's top priorities are to:

- Oppose eliminating Pell eligibility for less than half-time students
- Support Workforce Pell Grants
- Oppose risk-sharing

Pell Grants and Student Aid Eligibility

The reconciliation bill makes changes to student aid eligibility and students' access to Pell Grants. These changes include:

- Eliminating Pell Grant eligibility for less than half-time students—under the bill's other changes, this would prevent students taking less than 7.5 semester hours from qualifying for any Pell Grant.
- Requiring a student to take the equivalent of 30 semester hours each year to qualify as a full-time student and receive the maximum Pell Grant.

- Eliminating Pell Grant eligibility for a student whose Student Aid Index (SAI) exceeds the maximum grant amount by more than 200%. As a result, some students at the upper end of the Pell Grant eligibility will not qualify for relatively small grants.
- Reinstating the exemption of the value of family farms and small businesses from assets for the purpose of determining a student's Student Aid Index (SAI).
- Defining cost of attendance for the purpose of determining a student's aid eligibility as the median cost of college for the program of study across the United States. This is a significant change from current policy.

AACC Position: AACC strongly opposes the elimination of eligibility for less than half-time students and is concerned about the new enrollment intensity requirement to qualify for the maximum Pell Grant. AACC applauds the restoration of the family farm and small business exemption, which will help more students access student aid.

Workforce Pell

The reconciliation bill includes provisions to establish Workforce Pell Grants, a top community college priority. Many basics of how the new grants would work and what programs would be eligible are substantially similar or the same as previous legislation in this area:

- Pell Grant eligibility would be extended to students in programs between 150 and 599 clock hours, offered over at least 8 but fewer than 15 weeks.
- Workforce Pell Grants would be awarded to eligible students using the same application and eligibility procedures used for the general Pell Grant program.
- Eligible programs must provide an education that aligns with the skills requirements of high-wage, high-skill, or in-demand occupations, as determined by the Governor of the State in consultation with the State Workforce Development Board.
- To be eligible, programs must already have existed for at least one year and have 70% completion and job placement rates.
- Program completers' median "value-added earnings" must exceed the cost of the program in a given award year. Value-added earnings are defined in the risk-sharing section of the bill to mean the amount by which program completers' earnings exceed 150% of the federal poverty line for an individual (with some opportunities for adjustment based on geographic region, etc.).
- Programs must lead to a recognized postsecondary credential (as defined in WIOA) that either is stackable and portable across more than one employer or is the only recognized postsecondary credential for the occupation that the program prepares students to enter.
- Programs must prepare students for further education by ensuring that at least one certificate or degree program awards credit for the work done in the Workforce Pell Grant program.

In a substantial departure from previous workforce Pell bills, entities other than institutions of higher education could be eligible to award Workforce Pell Grants. They would be subject to all the requirements above (as well as some basic requirements regarding institutional fitness), which would limit the number of non-IHEs that could become eligible, but this is still a significant concern.

On the plus side, many of the onerous reporting requirements contained in other Workforce Pell bills are not included in these provisions, in part because they do not adhere to the rules attached to budget reconciliation legislation.

AACC Position: AACC strongly supports the inclusion of Workforce Pell Grants in the reconciliation legislation, with an amendment to limit eligibility to institutions of higher education as in previous versions of the legislation.

Pell Grant Shortfall

The committee has identified approximately $10.5 billion in funds to shore up the Pell Grant program, which faces a significant funding shortfall.

AACC Position: AACC commends the committee for identifying substantial resources to help meet the cost of the Pell Grant program.

Risk-Sharing/PROMISE Grants

The reconciliation bill maintains a problematic new risk-sharing scheme, coupled with new grants to institutions to reward performance. Both risk-sharing payments and PROMISE grant amounts are determined by complex, multifactor formulas, but in general:

- Institutions will be required to make "risk-sharing" payments to the federal government based on, among other things, the earnings of program completers relative to the cost of the program, how much they borrowed, and how much of their loans are ultimately repaid. Payments also must be made for non-completers. Because of the low cost of community college programs, and their low borrowing rates and amounts, their assessment should be lower than those for other sectors, but community colleges will still be required to make payments.
- The new PROMISE Grants will be granted to institutions that graduate a high percentage of Pell Grant recipients at low cost within 100% of the "normal time" to completion and meet other conditions.

AACC Position: AACC continues to strongly oppose risk-sharing of any kind. Community colleges appreciate that the formula for payments is crafted in a way that requires relatively low payments by institutions, but that does not change the views of community colleges on the basic *concept. Community colleges welcome federal support for enhance completion efforts, but would suggest revisions to the PROMISE Grant program, particularly by establishing a completion time frame that is more reflective of community college students.*

Loan Limits and Other Changes

The reconciliation bill makes significant changes to how students can borrow to finance their education. While only 12% of community college students take out loans, these policies may have a significant impact on students who do borrow. These changes include:

- Termination of Federal Direct Subsidized loans for all undergraduate students. This is a significant change to current financial aid policy, eliminating a key source of need-based financial assistance. While this change will increase the cost of borrowing for all low- and moderate-income students, it will disproportionately harm student borrowers attending part-time.
- Capping the maximum borrowing amount for unsubsidized loans in any academic year to the difference between the median cost of college for each program and the student's Pell Grant award. This may lower or raise the maximum borrowing amount for community college students depending on if the program cost is above or below the national median for each program.
- New aggregate borrowing limits of $50,000 for each undergraduate program.
- New lifetime borrowing limits of $200,000 in originated student loans (no reductions for debt repaid, forgiven, or discharged).
- New institutional discretion to limit loan eligibility so long as it is applied consistently to all students enrolled in such a program of study. This change has long been requested by community colleges.

Other significant changes less directly related to community college students include:

- Termination of the Graduate PLUS loan program.
- Termination of the Parent PLUS loan program, except in cases where the student has borrowed the maximum amount of unsubsidized loans for the program and still has outstanding costs.
- New program loan limits for graduate and professional students.

AACC position: AACC opposes the elimination of Federal Subsidized Loans for undergraduate students. While only a small percentage of community college students borrow to finance their education, those that do often face significant financial hardship. The subsidized loan program functions as a key piece of our need-based federal student aid system and lowers the cost of college for many low-income students.

AACC supports giving campuses discretion to lower annual loan maximums for certain programs to help promote strong post-college repayment outcomes.

Loan Repayment

The reconciliation bill makes significant changes to loan repayment options for borrowers. The bill streamlines repayment options by creating new terms for a fixed standard repayment plan based on loan volume and a new income-driven repayment plan – the Repayment Assistance Plan. While only a small share of community college students borrow, ensuring that borrowers have accessible, affordable repayment options that allow them to keep their loans in good standing is essential, particularly in light of proposed risk-sharing and accountability measures that consider loan repayment an institutional outcome. Details of the new plans include:

- The new fixed standard plan determines a borrower's repayment timeline based on their loan volume. For example, a borrower with a total outstanding principal of less than $25,000 will have a fixed standard repayment plan of 10 years. A borrower with a total outstanding principal balance of between $25,000 and $50,000 will repay over 15 years. This continues up to 25 years for borrowers who owe more than $100,000.

  This will ultimately lower the monthly payment amounts under a fixed standard for borrowers with higher balances. Most community college borrowers have a principal of less than $25,000, so this change will likely have a limited impact on community college borrowers.

- The new Repayment Assistance Plan would be the only IDR plan offered, with existing IDR plans being phased out. The plan would:
  - Cap the total required monthly repayment amount owed at the applicable monthly payment of the borrower under a standard repayment plan. The borrower may choose to make greater monthly payments to speed up repayment.
  - Determine monthly payment amounts as a percentage of a borrower's Adjusted Gross Income, decreased by $50 for each dependent child, with a minimum monthly payment of $10. The monthly payment is assessed on a graduated rate, with the lowest-income borrowers asked to pay as little as 1-2% of their AGI and the highest-income borrowers asked to pay 10% of their AGI, each divided by 12. This is a significant change from existing IDR plans that assess monthly payments based on a percentage (10-15%) of a borrowers' *discretionary income* – their AGI minus a percentage of the Poverty Guideline, depending on the plan. The plan is significantly less generous compared to the Biden Administration's Saving on a Valuable Education (SAVE) Plan. It would also require borrowers to repay a larger portion of their loans and in some cases to make larger monthly payments compared to IBR, PAYE, and REPAYE. The lowest-income borrowers will see their monthly payments increase from $0 to $10. Many moderate- and middle-income borrowers ($40,000-

$60,000) will see their monthly payments decrease. Higher-income borrowers will see their monthly payments increase. Despite the $50 monthly payment relief for each dependent child, most moderate- to middle-income parents will likely see their monthly payments increase under the new plan because existing IDR plans shield more income for households with dependents.

  - Eliminate interest capitalization. If a monthly payment is insufficient to pay the total interest that accrues for the month, the amount of interest not paid will not be charged to the borrower.
  - If a monthly payment only reduces the total outstanding principal balance by less than $50, the Secretary shall reduce the total outstanding principal balance by $50 or the amount of the payment applied to the principal, providing a support mechanism for low-income borrowers.
  - Payments continue until a borrower's outstanding principal and interest is $0 or after 360 qualifying payments. This means that borrowers face a longer timeline to forgiveness (30 years) than offered under current IDR plans.

Other loan repayment provisions in the reconciliation bill include:

- Allowing borrowers to rehabilitate their loans for a second time, providing an additional opportunity to get student borrowers back into good standing.
- Preventing the Secretary from promulgating any new regulations or guidance related to any income-based repayment plan after implementing the Repayment Assistance Plan and exempting the Repayment Assistance Plan from the negotiated rulemaking process.
- Awarding additional mandatory funds for FY 25 and 26 for administrative costs, not to exceed $500 million in each fiscal year.

AACC position: AACC welcomes the streamlining of existing repayment plans, which have often been proven confusing both to borrowers and the public. AACC also welcomes several of the new provisions of the Repayment Assistance Plan, including ending interest capitalization and assisting borrowers struggling to pay down their principal balance amounts. However, we strongly urge the Committee to pursue additional ways of aiding community college borrowers at risk of student loan default. While we welcome the inclusion of a second loan rehabilitation opportunity for borrowers and greater resources to the Department of Education to work with servicers to help borrowers maintain good standing on their loans, we had hoped to see a shorter timeline to forgiveness under the Repayment Assistance Plan for small-balance borrowers. We urge the Committee to allow implementation of the Repayment Assistance Plan to go through the negotiated rulemaking process to enhance the plan and ensure that its provisions are reflective of the experiences and needs of community college borrowers.

Regulatory Policy

The reconciliation bill makes significant changes to existing regulations and procedures at the Department of Education. These changes include:

- Eliminating the Secretary's authority to regulate on "gainful employment."
- Dramatically limiting the Secretary's authority to regulate in ways that increase costs for the federal government. This is an apparent response to the Biden Administration's actions related to loan policies and forgiveness.

AACC Position: AACC has supported some features of the gainful employment rules, but decisions about program eligibility of this nature should be made by Congress. Also, AACC opposes the "earnings standard" as promulgated by the Biden Administration as part of their gainful employment regulations.

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