CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 4, 1998

S. 1882

Higher Education Act Amendments of 1998

As ordered reported by the Senate Committee on Labor and Human Resources on April 1, 1998

SUMMARY

S. 1882 would amend the Higher Education Act of 1965 by reauthorizing several existing programs, authorizing new programs, and repealing others. Authorizations of appropriations under S. 1882 would total $108 billion for fiscal years 1999-2003, assuming adjustments for inflation. Without adjustments for inflation, authorizations would total $106 billion.

S. 1882 would also make numerous changes in federal student loan programs. These changes are estimated to reduce direct spending by $235 million in 1998 but increase spending by about $3.8 billion over the 1999-2003 period.

S. 1882 contains no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments except as a condition of receiving federal assistance.

The estimate assumes that S. 1882 would be enacted by June 1, 1998. Except where provisions have specific effective dates or specify specific loans or borrowers, S. 1882 is assumed to become effective on October 1, 1998.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1882 is shown in Table 1.

The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

Table 1. Estimated Budgetary Impact of S. 1882

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority	10,052	0	0	0	0	0
Estimated Outlays	9,268	8,335	385	19	0	0
With Adjustments for Inflation						
Total Proposed Changes						
Estimated Authorization Levels	--	18,658	19,783	21,478	23,238	24,401
Estimated Outlays	--	3,414	17,682	19,964	21,760	23,401
Total Spending Under S. 1882						
Estimated Authorization Levels	10,052	18,658	19,783	21,478	23,238	24,401
Estimated Outlays	9,268	11,749	18,067	19,983	21,760	23,401
Without Adjustments for Inflation						
Total Proposed Changes						
Estimated Authorization Levels	--	18,655	19,680	21,268	22,919	23,960
Estimated Outlays	--	3,413	17,669	19,870	21,562	23,093
Total Spending Under S. 1882						
Estimated Authorization Levels	10,052	18,655	19,680	21,268	22,919	23,960
Estimated Outlays	9,268	11,748	18,054	19,889	21,562	23,093
DIRECT SPENDING						
Baseline Spending Under Current Law						
Estimated Budget Authority	3,863	5,182	5,472	5,778	5,078	6,346
Estimated Outlays	3,369	4,389	4,882	5,171	4,477	5,751
Proposed Changes						
Estimated Budget Authority	-60	730	795	895	985	1,025
Estimated Outlays	-235	585	695	780	865	920
Baseline Spending Under S. 1882						
Estimated Budget Authority	3,803	5,912	6,267	6,673	6,063	7,371
Estimated Outlays	3,134	4,974	5,577	5,951	5,342	6,671

Note: Components may not sum to totals due to rounding.
a. Less than $500,000.

BASIS OF ESTIMATE

Spending Subject to Appropriation

S. 1882 would reauthorize several existing discretionary programs within the Higher Education Act of 1965. In addition, some new programs would be authorized, and a number of expiring provisions would be repealed. For most of the programs that would be reauthorized or newly authorized, the bill includes stated amounts of authorizations for fiscal year 1999, plus such sums as may be necessary for the four following fiscal years. CBO assumes current spending patterns in estimating outlays.

Tables 2 and 3 show the estimated impact of S. 1882 on spending subject to appropriation by title, with and without adjustments for inflation after 1999.

Title II: Improving Teacher Quality. Title II would authorize grants aimed at improving teacher quality. These authorizations would total $337 million in fiscal year 1999 and $1.7 billion for fiscal years 1999-2003, not including adjustments for inflation. States and teacher partnerships would provide a 50-percent match for funds received under Title II.

Title III: Institutional Aid. Title III would provide for grants designed to strengthen institutions of higher education, including historically black colleges and universities, Hispanic serving institutions, and American Indian colleges and universities. Title III would also authorize a minority science improvement program. Authorizations under Title III would total $370 million in fiscal year 1999 and $1.9 billion for fiscal years 1999-2003, not including adjustments for inflation.

Table 2: Estimated Impact of S. 1882 on Spending Subject to Appropriation, With Adjustments For Inflation

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Spending Under Current Law						
Estimated Budget Authority	10,052	0	0	0	0	0
Estimated Outlays	9,268	8,335	385	19	0	0
Proposed Changes						
Title II: Improving Teacher Quality						
Estimated Budget Authority	--	337	345	354	363	372
Estimated Outlays	--	40	271	338	353	362
Title III: Institutional Aid						
Estimated Budget Authority	--	370	379	388	398	409
Estimated Outlays	--	44	297	371	388	397
Title IV: Pell Grants						
Estimated Budget Authority	--	14,468	15,498	17,087	18,738	19,780
Estimated Outlays	--	2,894	14,384	15,795	17,385	18,913
Title IV: Other Student Assistance						
Estimated Budget Authority	a	3,013	3,081	3,158	3,237	3,323
Estimated Outlays	a	366	2,410	3,009	3,147	3,229
Title V: Graduate and Post-Secondary Improvement Programs						
Estimated Budget Authority	--	117	120	123	126	129
Estimated Outlays	--	14	94	117	123	126
Title VI: International Education Programs						
Estimated Budget Authority	--	108	111	113	116	119
Estimated Outlays	--	13	87	108	113	116
Title VII: Related Programs and Amendments to Other Acts						
Estimated Budget Authority	a	246	249	254	261	268
Estimated Outlays	a	42	140	225	242	258
Total Proposed Changes						
Estimated Budget Authority	a	18,658	19,783	21,478	23,238	24,401
Estimated Outlays	a	3,413	17,682	19,964	21,760	23,401
Total Spending Under S. 1882						
Estimated Budget Authority	10,052	18,658	19,783	21,478	23,238	24,401
Estimated Outlays	9,268	11,748	18,067	19,983	21,760	23,401

Note: Components may not sum to totals due to rounding.

a. Less than $500,000.

Table 3: Estimated Impact of S. 1882 on Spending Subject to Appropriation, Without Adjustments For Inflation

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Spending Under Current Law						
Estimated Budget Authority	10,052	0	0	0	0	0
Estimated Outlays	9,268	8,335	385	19	0	0
Proposed Changes						
Title II: Improving Teacher Quality						
Estimated Budget Authority	--	337	337	337	337	337
Estimated Outlays	--	40	270	330	337	337
Title III: Institutional Aid						
Estimated Budget Authority	--	370	370	370	370	370
Estimated Outlays	--	44	296	363	370	370
Title IV: Pell Grants						
Estimated Budget Authority	--	14,468	15,498	17,087	18,738	19,780
Estimated Outlays	--	2,894	14,384	15,795	17,385	18,913
Title IV: Other Student Assistance						
Estimated Budget Authority	a	3,013	3,009	3,009	3,009	3,008
Estimated Outlays	a	366	2,401	2,942	3,005	3,008
Title V: Graduate and Post-Secondary Improvement Programs						
Estimated Budget Authority	--	117	117	117	117	117
Estimated Outlays	--	14	94	115	117	117
Title VI: International Education Programs						
Estimated Budget Authority	--	108	108	108	108	108
Estimated Outlays	--	13	86	106	108	108
Title VII: Related Programs and Amendments to Other Acts						
Estimated Budget Authority	a	243	240	239	239	239
Estimated Outlays	a	42	138	219	239	239
Total Proposed Changes						
Estimated Budget Authority	a	18,655	19,680	21,268	22,919	23,960
Estimated Outlays	a	3,413	17,669	19,870	21,562	23,093
Total Spending Under S. 1882						
Estimated Budget Authority	10,052	18,655	19,680	21,268	22,919	23,960
Estimated Outlays	9,268	11,748	18,054	19,889	21,562	23,093

Note: Components may not sum to totals due to rounding.

a. Less than $500,000

Title IV: Pell Grants. Title IV-A would reauthorize the Pell grant program and change the formulas used to determine Pell award levels.

CBO has developed a simulation model using a sample of applicants for student aid to estimate the effects of various policy changes on federal spending under the Pell program and student loan programs. Using detailed income, asset, and demographic data for individual students and their families, the model is used to estimate how much students and their families would be expected to contribute to educational costs. For Pell grants, the model also simulates program participation and estimates the amount of federal support necessary to fund the program, based on families' expected contributions, the award rules, the costs of the postsecondary schools that the students attend, and the maximum award level. The figures included in this cost estimate are based on the Department of Education's sample of Pell grant applicants and recipients for the 1996-1997 academic year, the latest year for which complete data are available.

Maximum awards. The authorized Pell maximum award would be $5,000 for academic year 1999-2000, $5,200 for academic year 2000-2001, $5,400 for academic year 2001-2002, $5,600 for academic year 2002-2003, and $5,800 for academic year 2003-2004. The Pell program is currently authorized only through fiscal year 1998 (academic year 1998-1999). S. 1882 would increase estimated authorizations to $14.5 billion for fiscal year 1999, $15.5 billion for fiscal year 2000, $17.1 billion for fiscal year 2001, $18.7 billion for fiscal year 2002, and $19.8 billion for fiscal year 2003. CBO estimates that, under the stated maximum grants, 4.6 million students would receive Pell grants in academic year 1999-2000, 4.8 million in 2000-2001, 5.1 million in 2001-2002, 5.4 million in 2002-2003, and 5.5 million in 2003-2004. The average award would be about $3,140 in 1999-2000, $3,240 in 2000-2001, $3,340 in 2001-2002, $3,450 in 2002-2003, and $3,560 in 2003-2004. These estimates assume that the program would be funded at the maximum levels authorized and would include the need analysis and other changes contained in the bill.

Need analysis. Part F of Title IV of the bill would modify the need analysis formulas used for calculating federal Pell grants. The need analysis formulas are used to determine the expected family contribution (EFC), or the amount that the federal government expects the parents and the student to contribute toward the student's education. In most cases, the size of the grant is determined by subtracting the EFC from the maximum award. Any change that would lower the EFC would increase an individual's grant.

S. 1882 would index the income protection allowances (IPAs) for dependent students and independent students without children to the consumer price index for academic year 2001-2002 and beyond. The IPA is an amount of income that is not expected to be used toward college and is not counted as income as part of the EFC calculations. This provision would result in additional costs of about $30 million in 2000, $60 million in 2001, $90 million in 2002, and $120 million in 2003.

Under the bill, negative parental income (after taxes, employment expenses, and the IPA) would count as an offset against the students' available income. CBO estimates that this provision would increase costs by about $180 million in 1999, assuming a $3,000 maximum award (the same level as in 1998-1999).

Other provisions. Under current law, Pell grants for students who qualify for an award between $200 and $399 are actually awarded $400. Part A would make the minimum award $200. Students who qualify for an award of less than $200 still would receive nothing. This provision would reduce costs by about $10 million in 1999 with a $3,000 maximum award.

Part A would also limit Pell grants to students who complete their degrees within 150 percent of the period normally required to do so. CBO estimates that this provision would reduce program costs by about $30 million in 1999, assuming a $3,000 maximum award.

Part G instructs the Secretary of Education to verify incomes by confirming that adjusted gross income (AGI) claimed on student financial aid forms corresponds to the AGI declared to the Internal Revenue Service. A recent audit by the Department of Education suggests that approximately 4.4 percent of applicants underreported their incomes and received larger awards than they should have. CBO estimates that the proposed policy could not be implemented until fiscal year 2000. Savings in that year would be $180 million and would total $735 million over the 2000-2003 period.

CBO estimates that other provisions would have little or no budgetary impact. They include allowing institutions to determine a dependent care or disability-related expenses allowance in cases where the tuition sensitivity formula is used, prorating a student's contribution for periods of enrollment less than nine months, excluding from participation individuals convicted of drug-related offenses, giving institutions more discretion in determining costs for room and board and allowing for a distance education demonstration project.

Title IV: Other Student Assistance. In addition to authorizing Pell grants, Title IV would authorize other grants to students. These grants would include work-study grants, TRIO programs, a national early intervention scholarship and partnership program, federal supplementary education opportunity grants, assistance for students whose families are engaged in migrant and seasonal farm work, child care grants for low-income students, a new loan forgiveness program for child care providers, and a Robert C. Byrd Honors

Scholarship. In addition, the bill would reauthorize the Federal Perkins loan program. Title IV also authorizes several studies relating to various aspects of higher education and a performance-based organization (PBO) within the Department of Education for the delivery of student financial assistance. Discretionary spending authorized in Title IV, excluding Pell Grants, totals $3.0 billion for fiscal year 1999 and $15.0 billion from 1999-2003, not including adjustments for inflation.

CBO estimates the studies authorized under Title IV would cost $4 million in 1999 and $11 million over the next 5 years. Two of the studies--one on additional institutional reporting on procedures for handling sexual assault cases and another on distance education demonstrations are authorized a $1 million each. This title also requires a variety of studies by the National Center on Education Statistics (NCES), in some cases in collaboration with the Bureau of Labor Statistics, on the costs of higher education, the expenditures of institutions of higher education, and the development of a market basket identifying the various items accounting for the costs of higher education. Based on discussions with NCES staff, CBO estimates that the total costs of these studies would amount to $2 million in 1999 and $9 million over the 1999-2003 period.

The PBO authorized under Title IV would have a chief operating officer and senior managers whose pay would be linked to their performance in improving student financial aid services. The PBO would have greater flexibility than the Department currently has in its budgeting, procurement, and personnel processes but would have no role in developing policy. Although the policy implications of the creation of this new PBO could be significant, its budgetary implications would be minimal, because the principal activities of the PBO are already being performed by the Department of Education. CBO estimates that this provision would cost an additional $2 million in 1999 and $1 million in each of fiscal years 2000 through 2003 to cover start-up activities and compensation for new personnel.

Title V: Graduate and Postsecondary Improvement Programs. Title V would authorize grants for graduate and postsecondary improvement programs. These grants would include the Jacob K. Javits Fellowship program, grants for graduate assistance in areas of need, urban community service grants, and funds for the improvement of postsecondary education. Title V would authorize $117 million in fiscal year 1999 and $585 million over the 1999-2003 period, not including adjustments for inflation.

Title VI: International Education Programs. Title VI would authorize funding for international and foreign language studies, a business and international education program, and an institute for international public policy. Authorizations under Title VI would total

$108 million in fiscal year 1999 and $540 million for fiscal years 1999-2003, not including adjustments for inflation.

Title VII: Related Programs and Amendments to Other Acts. Title VII would provide authorizations targeted toward tribally-controlled colleges and universities including funds for endowment growth, construction, and economic development, and would reauthorize funding for Gallaudet University and the National Technical Institute for the Deaf (NTID). Title VII would also authorize an advanced placement incentive program, the Institute for Peace, community scholarships, and grants to states for training for youth offenders. Estimated authorizations under Title VII would total $243 million in 1999 and $1.2 billion for fiscal years 1999-2003.

Amending the Education for the Deaf Act, this title would provide such sums as necessary for Gallaudet and NTID. The estimate assumes authorizations of $81 million a year for Gallaudet and $44 million for NTID, without adjustments for inflation (the amounts authorized in 1998).

Title VII also authorizes a Commission on Education for the Deaf. The commission would begin its work within 90 days of the bill's enactment, report its findings within 18 months, and cease operations completely 21 months after enactment. Based on data from other commissions of comparable scope, CBO estimates that the commission would cost $3 million in 1999 and $5 million in total over the 1998-2000 period.

Direct Spending

Title IV: Student Loans. This bill makes several changes in the student loan programs, which under current law are expected to guarantee or issue about 52 million loans totaling $210 billion over the 1998-2003 period. The bill would slightly modify the conditions of eligibility for loans and would increase the government's cost of ensuring that sufficient loan capital is available to students and parents. In general, the proposed changes may be classified by their impacts: changes affecting interest rates for borrowers and lenders, changes affecting guaranty agencies, and changes affecting borrowers. The bill also contains a number of other changes to the program, but these would have relatively small budgetary effects.

Most provisions affecting the student loan programs are assessed under the requirements of credit reform. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated. The costs of all changes affecting outstanding loans are displayed in the year a bill is enacted--in this case 1998.

The changes included in this bill would decrease program costs by $235 million in 1998 but increase costs by $625 million in 1999 and $3.8 billion over the 1998-2003 period (see Table 4). The overall federal discounted cost of providing loan capital to students and parents would be increased by about 2 percentage points per each dollar loaned from an estimated 11.6 percent to 13.7 percent.

Changes Affecting Interest Rates for Borrowers and Lenders. Under current law, a new formula for establishing the variable interest rate on guaranteed and direct student loans is scheduled to take effect in July 1998.[1] The interest rate received by private lenders will be the interest rate on bonds of comparable maturity plus 1.0 percentage points.[2] Borrowers will pay the same rate, but no more than 8.25 percent. To the extent that the yield to lenders exceeds the rate paid by borrowers, the federal government pays lenders the difference, which is called a special allowance. In addition the federal government pays the interest for student borrowers with subsidized loans while they are in school or in a period of grace or deferment.

S. 1882 would set the rate paid by student borrowers at the bond-equivalent 91-day Treasury bill rate plus 1.7 percentage points while the borrower is in school, grace, or deferment and 2.3 percentage points when the borrower is in repayment. Lenders would receive a rate that would be 50 basis points (0.5 percentage points) higher, and the difference would be paid by the federal government. In addition, the cap of 8.25 percent on borrower's rates would be retained. (The bill would also change the rates on direct and guaranteed parent loans.)

The net budgetary effect of the changes in borrower interest rates and lender yields is to increase federal costs over the 1998-2003 period by about $3.6 billion relative to current law. The increased cost is associated with the new, minimum 50-basis-point special allowance payment as well as the increased exposure of the federal government to interest rate subsidies when rates rise sufficiently to cause the borrowers' interest rates to be constrained by the statutory caps. The proposed new interest rate structure would move the interest rates closer to the caps. Moreover, the 91-day Treasury bill is a more volatile instrument that the 10-year bond rate. These costs are partially offset by higher borrower interest payments in the direct loan program.

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1. Before July 1998, borrowers in the guaranteed and direct student loan programs pay the bond equivalent of the 91-day Treasury bill rate plus 2.5 percentage points while the borrower is in school, grace, and deferment and 3.1 percentage points when the borrower is in repayment. The interest rate cap is 8.25 percent. The interest rate on guaranteed and direct parent loans is the bond equivalent of the 365-day Treasury bill rate plus 3.1 percentage points, with a cap of 9 percent.

2. The CBO baseline assumes that the rate on bonds of comparable maturity is the 10-year bond rate. Recently, the Administration has indicated that it expects to use a blended rate of 10-year and 20-year maturities.

Table 4. Estimated Impact of S. 1882 on Direct Spending

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
STUDENT LOANS											
Interest Rates [a]											
Budget Authority	360	700	725	790	845	870	925	970	1,010	1,050	1,095
Outlays	160	605	650	695	750	780	820	865	895	935	975
Guaranty Agencies											
Budget Authority	-440	-5	6	b	15	30	70	70	70	75	70
Outlays	-405	-45	1	b	15	20	70	70	70	65	70
Borrowers											
Budget Authority	15	53	83	118	138	143	143	148	158	158	163
Outlays	10	38	63	98	123	128	128	133	138	143	143
Other											
Budget Authority	5	5	5	5	5	5	5	5	5	5	5
Outlays	5	5	5	5	5	5	5	5	5	5	5
Interactions Among Provisions											
Budget Authority	0	17	16	22	22	17	22	22	27	22	27
Outlays	-5	22	16	22	12	27	22	17	17	27	22
Subtotal											
Budget Authority	-60	770	835	935	1,025	1,065	1,165	1,215	1,270	1,310	1,360
Outlays	-235	625	735	820	905	960	1,045	1,090	1,125	1,175	1,215
PERKINS LOAN PROGRAM											
Perkins Loan Revolving Fund											
Budget Authority	--	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40
Outlays	--	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40
Perkins Loan Payoff Provision											
Budget Authority	--	b	b	b	b	b	b	b	b	b	b
Outlays	--	b	b	b	b	b	b	b	b	b	b
Subtotal											
Budget Authority	--	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40
Outlays	--	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40
TOTAL											
Budget Authority	-60	730	795	895	985	1,025	1,125	1,175	1,230	1,270	1,320
Outlays	-235	585	695	780	865	920	1,005	1,050	1,085	1,135	1,175

a. The estimated costs of the interest rate changes excluding the expected government costs associated with the cap on borrower interest rates are as follows:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Budget Authority	95	185	195	230	250	260	270	280	290	300	310
Outlays	45	150	175	195	220	235	245	255	260	270	280

b. Less than $500,000.

In estimating the expected federal costs of the interest rate formula change, CBO used a vector autoregressive model to simulate the variation in interest rates around the CBO's baseline forecast. The model provided probabilities of how often and by how much the simulated rates exceeded the 8.25 percent interest rate cap. These probabilities were then used in CBO's model of the student loan program to estimate changes in subsidy costs.

Changes Affecting Guarantors. S. 1882 would restructure the financing of guaranty agencies and divide the current agency reserve funds into federal and agency property. In addition, many of the federal payments to and from the guaranty agencies would be altered by this bill. Overall, the provisions affecting guaranty agencies are estimated to reduce federal costs by $414 million over the 1998-2003 period.

This bill would reduce the federal reinsurance rate on new insured loans from 98 percent to 95 percent; the reinsurance rates for high default agencies would also be lowered. This change would lower costs by $390 million over the 1998-2003 period, assuming an effective date of June 1, 1998.

S. 1882 would lower the retention allowance on default collections by the guaranty agencies. Currently, agencies are allowed to retain 27 percent of their recoveries from loans that default; the remainder goes to the federal government. This bill would reduce the retention allowance to 24 percent except for consolidations of defaulted loans, where the percentage would be set at 18.5 percent. This change would apply to all default collections as of October 1, 1998, and result in an estimated $385 million in savings over the 1998-2003 period.

The bill would eliminate the payment to guaranty agencies in cases where the agencies assist lenders in attempting to avert defaults. Currently the payment is equal to 1 percent of the principal and interest of loans for which the lenders do not file a default claim for at least 270 days after the loan is determined to be delinquent. The elimination of this payment, which would apply for outstanding as well as new loans, would save $260 million from 1998 to 2003.

The bill would reclaim $200 million in agency reserves over the next five years. Although agency reserves are considered the property of the federal government, federal budgetary documents have never displayed these reserves as assets of the federal government. Consequently, as with the reserves recaptured in the Balanced Budget Act of 1997, the Office of Management and Budget (OMB) has displayed any reserves being reclaimed as offsetting receipts, and CBO has followed this budgetary treatment. The reserves reclaimed under S. 1882 are therefore estimated to reduce net federal spending by $200 million over the 1999-2003 period.

The bill would establish a new federal subsidy payment to guaranty agencies equal to 0.65 percent of new guaranteed loan volume. Based on CBO's estimate of loan volume, this provision would cost $690 million over the next five years.

The bill would increase the current $150 million annual mandated set-aside of Section 458 funds to be used for administrative costs. The new payments would be 0.12 percent of outstanding guaranteed loan volume for 1999 and 2000 and 0.1 percent thereafter. Section 458 funds would be increased by $131 million over the 1999-2003 period.

Changes Affecting Borrowers (exclusive of changes in interest rates). S. 1882 would make numerous changes in the student loan program that could have implications for borrowers. In total, the provisions affecting borrowers--excluding the change in interest rates--would cost the federal government an estimated $460 million over the 1998-2003 period.

The bill would provide for a degree of loan cancellation for some teachers in public or private elementary or secondary schools in school districts eligible for Title I grants and in a school with more than 30 percent of students from low-income families. Teachers would have to demonstrate knowledge and teaching skills (in the case of elementary school teachers) or be teaching in a subject area relevant to their college major (in the case of secondary school teachers). Loan cancellation would apply only to subsidized loans up to $10,000, and the loans and accrued interest would be canceled according to the following schedule: nothing for the first three years of teaching, 30 percent in each of the fourth and fifth years, and the remaining 40 percent in the sixth year. Eligibility would be restricted to new loans issued to new borrowers beginning on the date of enactment of this bill. The estimated costs of this provision were based on information from the National Center on Education Statistics on the number of newly hired teachers who are recent college graduates and the number of teachers who teach in the types of schools which would be eligible to participate under this program, as well as information on the number of elementary teachers who are certified to teach and the number of secondary teachers who are teaching in their major. By 2003, some 35,000 new teachers are estimated to be participating in this program. The estimated subsidy costs of the provision are $345 million over the 1998-2003 period.

This bill would also modify certain rules with regard to loan disbursements, change the calculations determining eligibility for loans, and modify various repayment rules and terms. Together these changes would increase costs by $115 million over the 1998-2003 period.

Other Changes. S. 1882 would modify and permanently extend the exemption to a rule that would eliminate schools from participating in the student loan program if their default rates for a cohort exceeded 25 percent. CBO estimates that this provision will increase federal costs by $5 million in both fiscal years 1998 and 1999 and $30 million over the 1998-2003 period.

Interactions Among Student Loan Provisions. Because the proposed changes in the student loan programs interact with each other, the total budgetary affects from all of the provisions together do not equal the sum of the individual components. For example, changes in loan volume due to changes in eligibility rules would affect the costs of the change in interest rates. When all of the provisions are considered together, the interactions increase the costs by $22 million in 1999 and $94 million through 2003.

Perkins Loans. Under current law, the Perkins loan revolving fund collects receipts of certain repayments from Perkins loans that have been assigned, referred to, or transferred to the Department of Education. The monies in this fund are to be disbursed by the Secretary to Perkins loan schools in the form of grants for new capital. S. 1882 would repeal this fund and deposit its current balances in the Treasury. This change would save $200 million over the 1998-2003 period. S. 1882 would also mandate that the Secretary of Education pay off Perkins loans for borrowers whose schools closed before they completed their course of education. Few borrowers would be affected by this provision, and its cost would be negligible.

PAY-AS-YOU-GO CONSIDERATIONS:

The provisions S. 1882 would affect direct spending and therefore would be subject to pay-as-you-go procedures under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1990. The pay-as-you-go procedures cover only the current year, the budget year, and the succeeding four years. The pay-as-you-go effects of the bill are shown in the table below.

Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	-235	585	695	780	865	920	1,005	1,050	1,085	1,135	1,175
Change in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1882 contains no intergovernmental mandates or private-sector mandates as defined in UMRA. The bill would, on the whole, benefit public institutions of higher education. While some new requirements would be imposed on these institutions, they would not be considered mandates under UMRA because they would be conditions of receiving federal assistance.

PREVIOUS CBO ESTIMATE

On April 17, 1998, CBO provided an estimate of H.R. 6, the Higher Education Amendments of 1998. H.R. 6 provided authorizations amounting to $100 billion and increased direct spending by an estimated $3.8 billion over the 1999-2003 period. Where the provisions of H.R. 6 and S. 1882 are the same, the estimates are identical.

ESTIMATE PREPARED BY:

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