Student Aid Policy Analysis

Summary of Student Financial Aid Cuts in the Consolidated Appropriations Act of 2012

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Based on a version of the Consolidated Appropriations Act of 2012 (HR 3671) dated December 14, 2011 (6:22 pm), Congress is expected to make the following changes to the funding of federal student aid programs in the FY2012 budget:

- The overall maximum Pell Grant will remain unchanged at $5,550 for 2012-13. Between additional appropriations of $1.199 billion for 2012-13 and the reductions in Pell Grant eligibility, Congress appears to have eliminated the funding shortfall in the Pell Grant program for 2012-13.

- The minimum Pell Grant will now be 10% of the overall maximum Pell Grant. Previously, students who qualified for a Pell Grant that was greater than or equal to 5% of the maximum Pell Grant and less than 10% of the maximum Pell Grant had their Pell Grants set at 10% of the maximum Pell Grant. This language has been repealed, meaning that students must qualify for at least 10% of the maximum Pell Grant in order to receive a Pell Grant. This affects less than about 5% of Pell Grant recipients.

- Eligibility for the Pell Grant will be reduced from 18 semesters to 12. As before, semesters are counted based on the portion of a full-time equivalent, so that half-time enrollment is counted as half a semester toward the 12-semester limit.

- Reduce the automatic-zero-EFC threshold from $32,000 to $23,000.[2]

- Students who pass an ability-to-benefit test or who satisfactorily complete six credit hours will no longer be eligible for federal student aid. Students who have a high school diploma or the equivalent, as well as home-schooled students, will continue to be eligible for federal student aid. The loss of aid eligibility applies only to students who first enroll in a program of study on or after July 1, 2012.

- New subsidized Stafford loans made from July 1, 2012 to June 30, 2014 will not be eligible for subsidized interest benefits during the six-month grace period after a student graduates or falls

[1] Updated to reflect the enrolled legislation for HR 2055, www.gpo.gov/fdsys/pkg/BILLS-112hr2055enr/pdf/BILLS-112hr2055enr.pdf.

[2] The auto-zero-EFC threshold was scheduled to increase to $32,000 in 2012-13. The College Cost Reduction and Access Act of 2007 (PL 110-84) increased the auto-zero-EFC threshold from $20,000 to $30,000 and added annual adjustments for inflation (CPI-U). The Consolidated Appropriations Act of 2012 did not strike the annual adjustments, so the auto-zero-EFC threshold should continue to be adjusted annually for inflation in years subsequent to 2012-13.

below half-time enrollment. Interest will accrue during the grace period and will be capitalized if unpaid by the borrower.

- There will be an across-the-board 0.189% budget cut for most other federal student aid programs, including Federal Work-Study and SEOG. The likely impact will be a slight reduction in the number of Federal Work-Study jobs as opposed to a reduction in the amount of funding per job.

- The US Department of Education has the ability to shift up to 1% of funds between categories, provided that it increases the funds in any category by no more than 3%.

In addition, FFELP lenders may choose to replace the 3-month Commercial Paper rate in the Special Allowance Payments formula with the 1-month LIBOR index effective April 1, 2012, provided that they permanently elect to make this switch by April 1, 2012. This change is available only for FFELP loans made from January 1, 2000 to July 1, 2010.

IMPACT OF THE CHANGE IN THE AUTO-ZERO-EFC THRESHOLD

Under current law, the auto-zero-EFC threshold applies only to

- dependent students and
- independent students who have a dependent other than a spouse

It does not apply to independent students who do not have a dependent other than a spouse.

Decreasing the auto-zero-EFC threshold from $32,000 to $23,000 will increase the EFC by about $1,100 (students with AGI $23,000) to about $1,600 (students with AGI $32,000). The average increase in EFC for students with family AGI of $23,000 to $32,000 will be about $1,350. This will yield a corresponding decrease in the Pell Grant. The following table disaggregates the impact on the Pell Grant for affected students by type of college.

	EFC Increase		
College Type	AGI $23,000	AGI $32,000	AGI $23,000 to $32,000
Public	$1,200	$1,700	$1,400
Non-Profit	$1,000	$1,500	$1,330
For-Profit	$900	$1,400	$1,130
Overall	$1,100	$1,600	$1,350

Overall, 13.5% of Pell Grant recipients are eligible for auto-zero-EFC and have AGI between $23,000 and $32,000 based on data from the 2007-08 National Postsecondary Student Aid Study (NPSAS).[3] The percentages are 14.2% for students at public colleges, 15.1% for students at non-profit colleges and 10.6% for students at for-profit colleges.

This change in the auto-zero-EFC threshold has the same effect as reducing the maximum Pell Grant by $180 for all students, but then concentrates the impact on just students with AGI from 150% to 190% of the poverty line.

[3] Obviously, the auto-zero-EFC threshold was raised, the maximum grant increased and the EFC cutoff switched from the discretionary maximum grant to the overall maximum grant subsequent to the 2007-08 NPSAS, so the actual impact may differ from these percentages.

IMPACT OF THE CHANGE IN SUBSIDIZED INTEREST DURING THE GRACE PERIOD

Eliminating the subsidized interest benefit during the six-month grace period has a minor impact on the amount of debt when the borrower enters repayment, assuming that the interest is capitalized. This change applies to subsidized Stafford loans for the 2012-13 and 2013-14 award years, which will have a 6.8% fixed interest rate.[4] Six months at 6.8%, capitalized once at repayment, is the equivalent of increasing the loan balance on the subsidized Stafford loans by 3.4%. That will yield about a 1.5% increase in the average total student loan debt at graduation if applied to all subsidized Stafford loans, half that if the change remains limited to just two years worth of new loan originations. The typical undergraduate student will experience a $200 increase in the debt at repayment, assuming that the change is restricted to just two years of subsidized Stafford loans.

OVERALL IMPACT

Except for the reduction in the auto-zero-EFC threshold, most of the changes will have a relatively small impact on graduation rates. The other changes are targeted at students who are least likely to graduate.

Students affected by the changes in the auto-zero-EFC threshold will most likely be affected in one of three ways:

- Graduate with $4,000 to $6,000 in additional debt (Bachelor's degree) or $2,000 to $3,000 in additional debt (Associate's degree).
- Shift enrollment to less expensive colleges, such as from public 4-year colleges to public 2-year colleges or for-profit colleges to public colleges. Half (50.2%) of students affected by the auto-zero-EFC change are in Bachelor's degree programs.
- Skip college altogether.

These students are unlikely to pay for the difference out-of-pocket, as low income students do not have the elasticity to compensate for such a great increase in net price.

Thus the change in the auto-zero-EFC threshold will contribute to an increase in default rates among affected students and a decrease in college graduation rates. The overall impact will be diluted since the affected students are a small percentage of Pell Grant recipients and the total undergraduate student population, probably between 0.1% and 0.5%.

Note that there will most likely be significant additional changes in FY2013 and later years due to ongoing budget cuts from the Budget Control Act of 2011.

[4] The College Cost Reduction and Access Act of 2007 provided a phased-in interest rate reduction from 6.8% fixed to 3.4% fixed for subsidized Stafford loans to undergraduate students through the end of 2011-12. Unless Congress acts to extend the interest rate reduction, which is unlikely, new subsidized Stafford loans starting in 2012-13 will be at a fixed 6.8% interest rate.