AMERICAN ASSOCIATION OF COMMUNITY COLLEGES
LEAD ADVOCATE ADVANCE

Summary of Key LOAN Act Provisions

On September 15, House Democrats released a sweeping college affordability and student loan proposal, the *Lowering Obstacles to Achievement Now (LOAN) Act.* Introduced by Representatives Bobby Scott (D-VA), chair of the House Committee on Education and Labor, and Frederica Wilson (D-FL), chair of the Subcommittee on Higher Education and Workforce Investment, the bill presents House Democrats' next steps for college financing and student loan repayment following President Biden's student loan cancellation announcement earlier in late August.

The *LOAN Act* proposes tackling college affordability challenges – both for current and future students and for current student loan borrowers – by reforming both the Pell Grant program and the student loan program.

Pell Grant Provisions

The *LOAN Act* reaffirms many longstanding Democratic priorities for increasing investment in and eligibility for the federal Pell Grant program, including those put forward in the comprehensive *Pell Grant Preservation and Expansion Act* and many items in the *Build Back Better Act.*

- Double the maximum Pell Grant award. The *LOAN Act* proposes increasing the maximum Pell Grant award to $9,000 for the 2024-25 award year, with a path to increasing the award amount to $13,000 by the 2028-2029 award year. For the following years, the total maximum Pell Grant will be indexed to inflation to prevent future declines to the award's purchasing power. This mirrors the path to doubling the maximum award amount put forward in the *Pell Grant Preservation and Expansion Act* and*,* President Biden's American Families Plan. There also is a $500 and proposed increase to the Pell Grant maximum in the House-reported and Senate Democrats' LHHS Fiscal Year 2023 (FY 23) appropriations bills.

- Increase aid for the lowest-income students. The *Consolidated Appropriations Act, 2021* modernized the federal aid calculation from an Expected Family Contribution (EFC) formula to the new Student Aid Index (SAI). In making this change, Congress allowed for a negative SAI of up to -$1,500, helping institutions to identify the lowest-income students and creating a framework to deliver more federal aid to these students. The *LOAN Act* builds on this framework by ensuring that students with an SAI of less than zero will be eligible for a Pell Grant award that exceeds the maximum Pell Grant.

- Increase Pell Grant aid for students and families receiving means-tested federal benefits. The *LOAN Act* allows students who receive means-tested federal benefits, including SNAP benefits and Medicaid, to automatically qualify for maximum Pell Grant awards and awards an additional $1,500 on top of the maximum Pell Grant. This provision was included in the *Pell Grant Preservation and Expansion Act*, and follows changes made in the *Consolidated Appropriations Act, 2021* to make maximum Pell eligibility automatic for students from the lowest-income backgrounds and to simplify the financial aid application process for students from families receiving means-tested federal benefits.

- Extend Title IV eligibility to DREAMers. This has long been a priority of Democrats and has been included in the *Pell Grant Preservation and Expansion Act,* the *Build Back Better Act,* and the House and Senate LHHS FY 23 appropriations bills.

- Extend Pell Lifetime Eligibility Usage (LEU). The *LOAN Act* would extend students' Pell Grant eligibility period from the current twelve semesters (or its full time equivalent) back to 18 semesters as previously. The LEU period was shortened in FY 2012 when the Pell Grant program experienced a funding shortfall and savings were needed. A similar provision was included in the *Pell Grant Preservation and Expansion Act.* AACC supports increasing the LEU to at least 14 semesters.

- Offer a reset of Pell Grant eligibility for students who lose Title IV eligibility because of failure to meet Satisfactory Academic Progress (SAP). The *LOAN Act* offers a path back to higher education by offering a SAP reset two years after a student is enrolled at an institution, reinstating their Pell Grant eligibility. The *LOAN Act* also requires institutions to provide warnings to students who are at risk of losing federal financial aid eligibility due to failing to meet SAP requirements. The reset and notification provisions were included in the *Pell Grant Preservation and Expansion Act.*

- Allow students to use any remaining Pell Grant eligibility toward a graduate or professional degree. This provision was not included in the *Pell Grant Preservation and Expansion Act* as well as the Democrats' *College Affordability Act* and could signal a new level of priority for House Democrats. AACC strongly opposes this provision.

Notably absent from the LOAN Act are two key Pell Grant program changes:

- Extend Pell Grant eligibility to students enrolled in short-term programs. Despite strong bipartisan support, the *LOAN Act* does not expand Pell Grant eligibility to short-term programs. A longstanding AACC priority, this policy change would ensure that students from low-income backgrounds are able to fully take advantage of educational opportunities that align with their career goals and that prepare them for employment in high-skill, high-wage, and in-demand fields. The bicameral *JOBS Act* continues to enjoy broad bipartisan support and a provision creating short-term program eligibility was included in House Republicans' *REAL Reforms Act.* Policymakers on both sides of the aisle will no doubt continue to debate the specifics on program eligibility for short-term Pell in any higher education and workforce training bills in the next Congress.

- Ensure continued Pell Grant access for part-time students. The *Pell Grant Preservation and Expansion Act* included a provision to decrease the minimum Pell Grant award level from 10 percent of the maximum award to 5 percent. As the maximum Pell Grant continues to receive historic increases on a hoped-for path to doubling, this will ensure that part-time students, including those taking one class at a time and/or attending low-cost programs, will not lose their Pell aid. While not included in the *LOAN Act*, this provision has been presented as a technical fix to avoid a financial assistance cliff for certain students and would likely be added into any final bill.

Student Loan Program Provisions

The *LOAN Act* offers several changes to the federal student loan program to help borrowers repay and to lower the costs associated with repayment. Following President Biden's announcement of up to $20,000 in debt relief per borrower and a new, generous income-driven repayment (IDR) plan, these provisions acknowledge that many borrowers will still have outstanding loans, many students will still need to rely on loans to finance their education, and that reforming the federal student loan program is still a key policy interest for Democrats.

- Repeal origination fees for Direct Subsidized and Unsubsidized Loans and Direct PLUS Loans. This reform was included in the *College Affordability Act*, House Democrats' most recent HEA reauthorization proposal.

- Eliminate loan capitalization. The *LOAN Act* eliminates statutory loan capitalization events. This provision was similarly included in House Republicans' *REAL Reforms Act,* demonstrating bipartisan support for the change.

- Cap interest rates at 5 percent. The *LOAN Act* ties interest rates to the 10-year Treasury Note, eliminates the added-on percentage in statute, and lowers the percentage points and caps in the formula for all loans to 5 percent.

- Allow borrowers to refinance their existing student loan debt to take advantage of lower interest rates, including those with private student loans. A longtime priority for Democrats, this provision was also included in the *College Affordability Act.*

- Require borrowers' payments to be applied to multiple loans using a "waterfall" sequential approach. Payments should first be applied to loans with the highest interest rate, then to loans with the highest outstanding balance. This mirrors the priority sequence that ED is taking when applying student loan cancellation to borrowers with multiple loans.

- Authorize automatic enrollment in Income-Driven Repayment (IDR) for certain borrowers: The LOAN Act authorizes the Secretary to obtain income and family size information of borrowers who are 31 days delinquent and provide them with information on their delinquent loans, monthly payment amounts available under IDR, and information on how to select a repayment plan. For borrowers who are 80 days delinquent, the LOAN Act requires the Secretary to place borrowers into the IDR plan with the lowest monthly payments. Finally, the LOAN Act authorizes the Secretary to auto-enroll into the IDR plan borrowers who have finished rehabilitating their loans with the lowest monthly payments unless they opt-out.

- Extend subsidized loan eligibility to graduate and professional students attending public and non-profit institutions. This provision was included in the *College Affordability Act.*

- Increase the generosity of the Public Service Loan Forgiveness (PSLF) Program. The LOAN Act will reduce from 120 to 96 the number of qualifying payments in order receive forgiveness, codifies changes proposed in negotiated rulemaking to expand the number of forbearance and deferment types that count as qualifying payments, repeals the requirement that borrowers be employed in a public service job at the time of forgiveness, requires ED to maintain an online portal for borrowers to determine their PSLF eligibility and how to submit required forms, requires ED to work with the Department of Labor to publish and update a database of qualifying public service jobs, and repeals the prohibition on receiving a reduction in loan obligation for the same service under PSLF and teacher loan forgiveness. Expanding PSLF has long been a key priority for Democrats and many of these changes were also included in the *College Affordability Act.* In contrast, House Republicans have long been skeptical of the PSLF program and proposed eliminating the program for new borrowers in the *REAL Reforms Act.*

Notably absent from the *LOAN Act* is a proposal to simplify the number of repayment plans. The *College Affordability Act* proposed eliminating all but two repayment options for new borrowers – a fixed repayment plan and a new Income-Based Repayment (IBR) plan with more generous terms for borrowers. House Republicans' *REAL Reforms Act* also proposed limiting repayment options to just one fixed plan and one IBR plan, but the structure of both plans differed significantly from those proposed by House Democrats. The fact that repayment simplification is not included in the *LOAN Act* does not mean that it is no longer a priority for House Democrats, but likely signals that they may be refining a new approach to the specific terms of remaining plans.

Looking forward

The *LOAN Act* is a marker bill. At this stage in the legislative calendar, it is highly unlikely that any major changes to the student loan program or the authorization of the Pell Grant program will be passed in 2022 as a stand-alone bill or included in an omnibus appropriations bill. Instead, House Democrats have released the *LOAN Act* to refresh their policy objectives in light of the recent student loan cancellation announcement and to signal their priorities for the coming Congress. House Republicans released their marker bill for the student loan program, the *REAL Reforms Act*, in August. Depending on the outcome of the 2022 midterm elections, these marker bills could serve as a starting point for a Higher Education Act (HEA) reauthorization proposal to be considered by the full Education and Labor committee.

To better support community college students and borrowers, we urge Congress to continue to work to eliminate the need for students to borrow by strengthening need-based financial aid and enacting a federal program to make community college tuition-free. Congress should continue to invest in evidence-based programs to support degree completion and remove barriers that cause students to stop-out before earning a credential. Congress should improve loan terms and conditions, including lowering interest rates, eliminating loan origination fees, prorating loan maximums with enrollment status, and simplifying and improving uptake of income-based and income-driven repayment models. Finally, Congress should pursue all debt relief and affordability solutions with an eye toward equity, long-term sustainability, and supporting students most at risk of default.

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