SWASFAA
Southwest Association of Student Financial Aid Administrators

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Omnibus Conference Report Awaits Final Approval, Senate Passage Uncertain

The Congress returns for a short session today to consider the FY 2004 omnibus appropriations conference report (H.R. 2673), it will have three possible choices with respect to the bill's fate.

1. Both chambers return to Washington this week and pass the omnibus.
2. The House passes the conference report on December 8th, but the bill fails final passage by unanimous consent (UC) in the Senate the following day.
3. Due to Senate Democratic objections—and filibuster threats—to the omnibus, the bill is sent back to conference to renegotiate a final package.

Although the fate of H.R. 2673 remains uncertain, it looks as if the second scenario is the most likely to materialize this week. At least one Senator from each side of the aisle will object when a Unanimous Consent motion is offered to pass H.R. 2673.

Senate Minority Leader Harry Reid (D-NV) last week warned the majority that the omnibus will not pass this year—especially by unanimous consent. "It's not going to happen, it's not going to happen," stated Reid. Commerce Chair John McCain (R-AZ) is a possible Republican "objector" to the upcoming UC request, due to his opposition to appropriators circumventing authorizers' jurisdiction with respect to media ownership caps.

The third scenario is nullified if the House passes the omnibus package on today because the conference on the measure will then be dissolved. In other words, H.R. 2673 cannot be recommitted to conference after House passage.

After the Rules Committee reports the rule to accompany H.R. 2673 today, the House is expected to consider and pass the bill later in the day.

Although the Senate will be in session on Tuesday, no roll call votes are scheduled, so H.R. 2673 must pass the Senate by UC. Thus, when the UC is offered to pass the omnibus conference report, only one Senator is needed to object to the UC for the bill to fail final passage.

The bottom line is that if the House passes the omnibus conference report on today, and the bill fails to pass the Senate by UC on Tuesday, there will likely be a roll call vote on the conference report on January 20th—the first day of the Second Session of the 108th Congress. Keep in mind that the current continuing resolution runs through January 31st, which will fund departments and programs under the seven appropriations bills contained in the omnibus at FY 2003 levels if Congress does not send the omnibus bill to the president's desk next week.

GAO Sees Rise In Costs To Government From Student Loan Consolidation

A report released by the General Accounting Office (GAO) on December 2nd, details the increasing cost of federal loan consolidation to the federal government. The report, entitled *Student Loan Program: As Federal Costs of Consolidation Rise, Other Options Should Be Examined*, was requested by House Education Committee Chair John Boehner and 21st Century Competitiveness Subcommittee Chair "Buck" McKeon.

According to the report, consolidation costs for the government have increased due to the high volume of reconsolidations associated with record low interest rates. The report notes that between FY 2000 and FY 2002 the number of students consolidating their loans doubled to almost one million while the total amount of loans being consolidated annually increased from $12 billion to more than $31 billion. Consolidation loans accounted for about 44 percent of the total $71.8 billion loan volume in the two major Department of Education loan programs in FY 2002.

Exactly how this increase in consolidation loans plays out in terms of cost to the federal government is complex. Loans from the Federal Family Education Loan Program (FFELP) carry a guaranteed rate of return for lenders, and thus become more expensive when interest rates for borrowers fall below that level and the government must subsidize the difference. The current low interest rates have increased the costs of the program from $1.3 billion in FY 2002 to an estimated $3 billion in FY 2003. The second major form of loans, the Ford Direct Loan Program (FDLP), provides loans directly from the government and therefore does not require subsidies. Since the rate paid by borrowers is higher than the interest rate, it appears the government makes money on FDLP loans. The government's net gain in FY 2002 was $460 million; however, lower interest rates in FY 2003 reduced net receipts to $286 million. These results do not include administrative costs associated with each program, which are problematic at best.

As borrowers lock in the low interest rates, the government could face long-term costs. If borrowers choose fixed interest rates, and interest rates rise in the future, the subsidies the government must pay to guarantee the FFELP lenders' rate of return will also increase.

GAO recommends that the Secretary of Education "assess the advantages of consolidation loans for borrowers and the government in light of program costs and identify options for reductions of federal costs." GAO suggests that limiting refinancing to those borrowers at risk of default and extending other consolidation options to a wider range of borrowers might be more cost effective. In other words, the original intent of the program should be reexamined with an eye towards possibly returning it to serve the purpose for which it was created in 1986.

While highlighting cost increases in the student loan programs, the GAO pointed out the successes of student loan consolidation. Borrowers who reconsolidate their loans have higher loan debt, larger annual repayment amounts, and longer repayment periods. However, individuals who consolidate their loans are less likely to default than those who do not consolidate. GAO also notes the increase over the past few years in the number of options borrowers have for simplifying their student loans.

Don't look for lawmakers to jump all over a solution that will anger people who want to reconsolidate their student loans to lower, fixed rates. But, low interest rates and government subsidies have created a rapidly increasing price tag for these loan programs. If Congress can find a palatable solution to this problem look for it to come in the reauthorization of the Higher Education Act, which expires in 2004. If no solution can be agreed upon, look for the issue to be ignored. In a year when the government is estimated to run a $500+ billion deficit, a couple of billion dollars for a popular program will seem like a drop in the bucket.

The full report can be accessed at www.gao.gov. The report number is GAO-04-101.