The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) was signed into law on March 30, 2010. The education portion of the bill mandates a shift in all lending from the bank-based Federal Family Education Loan (FFEL) program to the Direct Loan Program by July 1, 2010. The shift is estimated by the Congressional Budget Office to generate $61 billion in savings over 10 years (FY10-19). The termination of FFEL program lending will also increase discretionary spending by $5 billion between FY10-19 to account for an increase in administrative costs due to increased Direct Loan program lending. The savings are used to protect and strengthen the Pell Grant Program and make other significant changes to the Federal student aid programs authorized by Title IV of the Higher Education Act of 1965, as amended. The bill allocates $10.3 billion for deficit reduction over 10 years and $9.1 billion to help offset costs related to the health care piece of the legislation.

The final House vote on March 25th of 220-207 capped a two-bill process worked out earlier by the White House and Democratic Congressional leaders. Rather than forge a single bill from the House- and Senate-passed versions of the measure in a House-Senate conference—which would have been subject to a Republican filibuster in the Senate—the House on March 21st passed the Senate health care bill (H.R. 3590) by a vote of 219-212. The House then approved a package of “corrections” under the budget reconciliation process (H.R. 4872) by a vote of 220-211. The reconciliation bill required a majority vote to pass in the Senate, not the 60 votes needed to avoid a filibuster, and it was approved on March 25th by a vote of 56-43. Both were signed into law by President Obama in late March.

The following is a section-by-section analysis of the education provisions within the bill.

**TITLE I – COVERAGE, MEDICARE, MEDICAID AND REVENUES**

**SUBTITLE F – OTHER PROVISIONS**

**Sec. 1501: Community College and Career Training Grant Program**

- Provides $2 billion ($500 million for each year FY11-14) to assist community colleges and other institutions develop and improve education and career training programs suitable for workers who are eligible for trade adjustment assistance.

- Ensures that each state receives at least .05-percent of the total funds appropriated.
• Directs the Department of Labor to administer the program in close cooperation with the Department of Education.

TITLE II – HEALTH, EDUCATION, LABOR, AND PENSIONS

SUBTITLE A – EDUCATION (this subtitle may be cited as the SAFRA Act and all provisions shall be considered to be made to a section or other provision of the Higher Education Act of 1965)

Part I: Investing in Students and Families

Section 2101: Federal Pell Grants

• Provides $36 billion for the Pell Grant program to protect against possible cuts in the maximum award in the short-term and augment funds appropriated to increase the maximum Pell Grant in the long-term. Starting in 2011, the maximum award will be tied to the Consumer Price Index (rather than CPI plus one percentage point as originally proposed by the Administration).

In effect, this will continue the hybrid approach of providing mandatory add-ons to a base funded through the appropriations process each year (see table below). If the appropriated base is maintained each year, the maximum award will rise to $5,975 in FY17-FY20. The Administration estimates that by the end of academic year 2020-2021, more than 820,000 additional Pell Grant awards will be made as a result of this bill.

To reach the $5,550 maximum grant award in FY11, the appropriators will need (approximately) $23.2 billion to fund a Pell Grant base of $4,860. This includes $5.7 billion for a remaining shortfall.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Appropriated Base</th>
<th>P.L. 111-152 increase</th>
<th>Maximum Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2009</td>
<td>$4,360</td>
<td>N/A</td>
<td>$5,350</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$4,360</td>
<td>N/A</td>
<td>$5,550</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$4,860</td>
<td>$690</td>
<td>$5,550</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$4,860</td>
<td>$690</td>
<td>$5,550</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$4,860</td>
<td>$755</td>
<td>$5,615</td>
</tr>
<tr>
<td>FY 2014</td>
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</tr>
<tr>
<td>FY 2015</td>
<td>$4,860</td>
<td>$900</td>
<td>$5,760</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$4,860</td>
<td>$1,000</td>
<td>$5,860</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$4,860</td>
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<tr>
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</tr>
<tr>
<td>FY 2019</td>
<td>$4,860</td>
<td>$1,115</td>
<td>$5,975</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$4,860</td>
<td>$1,115</td>
<td>$5,975</td>
</tr>
</tbody>
</table>
Clarifies the award rules for determining eligibility for a Pell Grant award by calculating award levels on the basis of the total maximum award. The new minimum Pell Grant award will be based on five percent of the total maximum Pell Grant Award, instead of five percent of the annually appropriated maximum Pell Grant award. This replaces the calculation implemented in the College Cost Reduction and Access Act which calculated individual grants on the basis of the appropriated maximum award and then added mandatory funds to each award. The new method will be slightly less expensive to implement and may result in an increase in the number of recipients, but may also mean that students eligible for the lowest level of Pell Grant aid may see their grants reduced.

Senate consideration of the final bill stripped a provision that would have made clear that the language raising the maximum value of the Pell Grant by the rate of inflation would not reduce Pell Grant awards if the inflation rate turned negative. This provision will likely be revisited by Congress through separate legislation in the coming year.

Section 2101: Student Financial Assistance

Provides $13.5 billion in mandatory funds to partially address the Pell Grant shortfall and help appropriators maintain the base of $4,860 in FY11. The funds will be available for obligation until September 30, 2012. The shortfall is the result of the dramatic increases in the number of Pell applicants now qualifying for this need-based program.

Section 2103: College Access Challenge Grant Program

Provides $750 million ($150 million for each year FY10-14) to continue funding for the College Access Challenge Grant Program. The program was created under the College Cost Reduction and Access Act of 2007 (later amended in the HEOA to allow for discretionary appropriations through FY14) to provide formula funding to states to bolster college access and completion programs, as well as financial literacy programs for low-income students.

Provides that the allotment for each state for a fiscal year shall not be less than one percent of the total amount appropriated for a fiscal year ($1.5 million).

This is not the original College Access and Completion Grant program in the House Student Aid and Fiscal Responsibility Act passed in July 2009 (and a draft Senate bill was never formally introduced).
Section 2104: Investment in Historically Black Colleges and Universities and MSIs

- Provides $100 million to Hispanic Serving Institutions; $85 million to Historically Black Colleges and Universities; $15 million to Predominantly Black Institutions; $30 million to Tribal Colleges and Universities; $15 million to Alaska, Hawaiian Native Institutions; $5 million to Asian American and Pacific Islander Institutions; and $5 million to Native American non-tribal serving institutions.

Part II: Student Loan Reform

Section 2201-2211: Provisions Related to Termination of FFEL

- Requires that all new subsidized and unsubsidized Stafford Loans made to students, PLUS loans made to parents and to graduate and professional students, and consolidation loans made to borrowers be made under the Direct Loan (DL) Program by July 1, 2010. DL program loans will be serviced by private for-profit and not-for-profit services under contract with the U.S. Department of Education.

For a one-year period (July 1, 2010 to July 1, 2011) current students who have FFEL loans with a lender and also have FFEL loans that were sold to the Department of Education, or also have Direct Loans, may choose to consolidate the loans while still enrolled in school into the Direct Loan program. All borrowers may consolidate their loans six months after graduating or leaving school, regardless of the date.

[Institutions are directed to confirm with those FFEL lenders who have made loans to their students in the past whether those lenders will make first disbursements for loans that the institution may certify for enrollment periods that begin prior to July 1, 2010 but may have a subsequent disbursement date(s) after June 30, 2010.]

Section 2209: Allows for special provisions for institutions located outside of the United States to participate in the DL program.

Section 2212: Servicing Contracts and Technical Assistance

- Directs the Secretary to award contracts for servicing federal Direct Loans to eligible non-profit servicers. In addition, this section provides that for the first 100,000 borrower loan accounts, the Secretary shall establish a separate pricing tier.

- Requires the Secretary to allocate the loan accounts of 100,000 borrowers to each eligible non-profit servicer. The Secretary can reallocate, increase, reduce or terminate an eligible servicer’s allocation based on the performance of such servicer. This section
appropriates mandatory funds to the Secretary to be obligated for administrative costs of servicing contracts with these servicers.

- Provides $50 million in FY11 to pay for technical assistance (including technical support, training, materials, and financial assistance) to institutions of higher education participating or seeking to participate in the Direct Loan Program.

- Provides $25 million in FY10 and FY11 for the Secretary to provide payments to loan servicers for retaining jobs at locations in the United States where such servicers were operating on January 1, 2010.

Section 2213: Agreements with State-Owned Banks

- Directs the Secretary to enter into an agreement with an eligible lender for the purpose of providing federal loan insurance on student loans made by state-owned banks.

Section 2214: Income-Based Repayment

- Allows new borrowers who assume loans after July 1, 2014 to cap their student loan repayments at 10 percent of their discretionary income and have the balance forgiven after 20 years (compared to 15 percent and 25 years, respectively). Discretionary income is the amount of the borrower's AGI that exceeds 150% of the poverty line for the borrower's family size.

Public service workers, such as teachers, nurses, and those in military service, will see any remaining debt forgiven after 10 years. More than 1.2 million new borrowers are projected to qualify and take part in the expanded IBR program. (This proposal was originally announced as part of the White House Task Force on Middle Class Families in January.)