WASHINGTON -- In a budget proposal released Tuesday, Republicans in the House of Representatives called for tighter eligibility for Pell Grants and a change in the accounting mechanism for federal student loans, which would make it appear to be the nation’s most costly lending program.

Representative Paul Ryan, a Wisconsin Republican and chairman of the House Budget Committee, also proposed cuts to discretionary spending that would surpass those required in the debt ceiling agreement. The Republican budget plan would set the discretionary budget for 2013 at $1.03 trillion, $20 billion less than the discretionary cap agreed when Congress increased the debt limit in August.

Limits on discretionary spending would necessarily cut spending on many higher education programs, although the budget calls for maintaining current funding levels for basic research. But like President Obama’s proposed fiscal year 2013 budget, released last month, the Ryan proposal is largely a symbolic political document. The Senate does not intend to propose its own budget, but to work within the confines of the Budget Control Act, which increased the debt ceiling and set spending caps for the 2013 fiscal year.

Still, Ryan’s proposal, which Republican presidential front-runner Mitt Romney endorsed a few hours after its introduction, indicates how Republicans -- in Congress and elsewhere -- are likely to approach the nation’s budget in the months to come.

The proposal calls for putting the Pell Grant “on a sustainable path by limiting the growth of financial aid and focusing it on low-income students who need it the most,” although it does not propose specific spending levels for the $40 billion program. Ryan has proposed substantial cuts in the past. It also called for making more data on colleges available to students and creating “policies that maximize innovation and ensure a robust menu of institutional options from which students and their families are able to choose.”

But another proposal -- an accounting change that would affect how student loans are viewed on the government’s balance sheet -- could imperil future expansions to student loan programs by changing how the programs’ costs are scored by the Congressional Budget Office.

The Ryan budget calls for changes to the Credit Reform Act, a 1990 law that allowed Congress to treat loans differently from other types of spending in the federal budget. Before the act was passed, loans were measured in the cash flow of expenditures and repayments in a given year. After the act, the cost to the government of loan programs was measured using the total value of the loans, based on the U.S. Treasury borrowing rate.

Ryan calls for a switch to “fair value” accounting, which would take market risk into account rather than relying on the Treasury borrowing rate. This would make the loans appear to be a slight loss on the government’s balance sheet, because it would take into account the difference between what the government would earn and what a private lender would earn on the loans. Supporters of fair value accounting argue that the government is forgoing income by lending at below-market rates, and that the budget should account for that lost income.

“This would make student loans look more expensive,” said Jason Delisle, director of the Federal Education Budget Project at the New America Foundation, who has argued for the switch to “fair value” accounting. “The loans already are that expensive. This just now shows you that.”

Under fair value accounting, the student loan program is the government’s largest, he said.
Changing the accounting methods would make the federal deficit appear slightly larger, but wouldn’t mean that changes to loan programs are inevitable. A switch back to guaranteed, bank-based lending would still be scored as costing billions of dollars, Delisle said.

Still, the change could create a more difficult environment for new loan programs. Additional loan outlays would appear to lose the government money in the long term, not break even -- which could make new lending programs a tougher sell.

Obama has proposed a $7 billion expansion to the Perkins loan program as part of his plan to use financial aid to encourage colleges to keep prices down. Under current accounting practices, the program scores as a slight profit for the federal government. Under fair value, it would have a slight cost, Delisle said.

In his plan, Ryan said that preventing expansions like Obama’s proposal is a goal of the proposed switch to fair value accounting. Under current law, “these extremely risky loans appear as profit-making investments in the federal government’s books, thus encouraging more loan expansion, even though there is evidence that subsidized lending contributes to tuition inflation,” Ryan wrote.

Several higher education lobbyists said Tuesday evening that they hadn’t studied the proposal thoroughly enough to comment. But Republican budget proposals last year faced stiff opposition as maintaining the maximum Pell Grant became a top priority.

“It’s troubling that anyone would think our long-term path to prosperity includes cuts to education spending,” said Justin Draeger, president of the National Association of Student Financial Aid Administrators, in an e-mail to Inside Higher Ed. “We share the collective goal of keeping college costs down, but using cuts to financial aid as a strategy to constrain costs will ultimately backfire and make college more expensive for needy students and families.”

Read more: http://www.insidehighered.com/news/2012/03/21/higher-education-proposals-2013-republican-budget#ixzz1pkqrsOLI

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