Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

H.R. 2486, the Fostering Undergraduate Talent by Unlocking Resources for Education Act (the "FUTURE Act")

Joselynn H. Fountain, Coordinator
Analyst in Education Policy

Kyle D. Shohfi
Analyst in Education Policy

Cassandria Dortch
Specialist in Education Policy

October 2, 2019

On September 17, 2019, under suspension of the rules, the House passed H.R. 2486, the FUTURE Act. H.R. 2486 was subsequently placed on the Senate Legislative Calendar under General Orders. If enacted, H.R. 2486 would amend Title III-F of the Higher Education Act of 1965 (HEA; P.L. 89-329, as amended) to sustain mandatory appropriations for certain programs for Historically Black Colleges and Universities and Minority-Serving Institutions (hereinafter, collectively referred to as MSIs) that would otherwise expire at the end of FY2019. To offset MSI funding, H.R. 2486 would eliminate the authority to pay account maintenance fees to guaranty agencies under the Federal Family Education Loan (FFEL) program (HEA, Title IV-D) and rescind a portion of mandatory appropriations for the Pell Grant program in FY2020 (HEA, Title IV-A). Additionally, H.R. 2486 would increase Pell Grant funding in FY2025.

Congressional Research Service
7-....
www.crs.gov
IN11172

HEA Programs for MSIs

MSIs are institutions of higher education that tend to serve high concentrations of minority and financially needy students. Many MSIs have faced challenges in obtaining financial support, affecting their ability to serve their students. Federal policy recognizes the importance of such institutions and targets financial resources to them through several grant programs authorized under the HEA. **Table 1** provides discretionary and mandatory appropriations for those MSI programs that received mandatory funding in FY2019.

Table 1. FY2019 Discretionary and Mandatory Appropriations for Select MSI programs

(dollars in thousands)

Program	Discretionary Funding	Mandatory Funding
Strengthening Tribally Controlled Colleges and Universities	$31,584	$28,140
Strengthening Alaska Native and Native Hawaiian Institutions	$15,930	$14,000
Strengthening Native American-Serving, Nontribal Institutions programs	$3,864	$4,690
Strengthening Asian American and Native American Pacific Islander-Serving Institutions	$3,864	$4,690
Strengthening Historically Black Colleges and Universities	$282,420	$79,730
Strengthening Predominantly Black Institutions (PBIs)	$11,475	$14,070
Hispanic Serving Institutions (HSIs) STEM and Articulation[a]	N/A	$93,800

Source: U.S. Department of Education, FY2019 Budget Tables.

a. The Developing HSIs program, a separate program for HSIs, received $124,415,000 in discretionary appropriations in FY2019.

Historically, the MSI programs were funded only through discretionary appropriations. However, in 2007 the College Cost Reduction and Access Act (P.L. 110-84) provided mandatory appropriations for newly authorized and pre-existing MSI programs. Mandatory appropriations for the programs, totaling $255 million annually, were extended through FY2019 under the SAFRA Act, as part of the Health Care and Education Reconciliation Act (P.L. 111-152). For many MSI programs, mandatory funds are authorized for the same purpose as discretionary funds. However, in other cases (i.e., HSI STEM and Articulation and PBIs) mandatory appropriations fund programs that have a unique purpose compared to those funded through discretionary funds. H.R. 2486 would provide mandatory appropriations totaling $255 million for the MSI programs in each of FY2020 and FY2021.

Account Maintenance Fees for Guaranty Agencies

Guaranty agencies are state agencies or private, nonprofit organizations that administer the federal insurance that protects FFEL program lenders against loss stemming from borrower default, death, or disability. Guaranty agencies also provide other services to lenders, such as assistance in preventing delinquent borrowers from going into default. Although authority to make new FFEL program loans ended July 1, 2010, there were $271.6 million in outstanding FFEL program loans through the second quarter of FY2019.

Under current law, guaranty agencies are paid quarterly account maintenance fees equal to 0.06% of the original principal amount of outstanding loans for which insurance was issued. The account maintenance fees are deposited into each guaranty agency's Operating Fund, which is used to support operating expenses, as well as discretionary student aid activities. In addition to account maintenance fees, the Operating Fund receives revenues from other activities including, but not limited to, loan processing and issuance fees, compensation for defaulted loan rehabilitations and consolidations, and default aversion fees. Per statute, allowable uses of the Operating Fund include, but are not limited to, application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, financial aid awareness and related outreach activities, and compliance monitoring. The Operating Fund may be used to support such activities related to any type of student loans, not only FFEL program loans.

H.R. 2486 would eliminate the authority to pay account maintenance fees for guaranty agencies beginning in FY2020. Such fees are provided with mandatory budget authority, which is derived from loan subsidy costs. As part of its estimate of the President's FY2020 budget proposal, the Congressional Budget Office (CBO) estimated that eliminating account maintenance fee payments to guaranty agencies would result in a decrease in direct spending outlays of $92 million in FY2020 and a decrease of $596 million from FY2020 through FY2029.

Pell Grants

The Pell Grant program provides need-based financial grants primarily to low-income undergraduate students to help them cover the cost of higher education. Pell Grants are the largest single source of federal grant aid for undergraduate students; they are projected to provide approximately $30 billion in aid to roughly 7.3 million undergraduate students in the 2020-2021 award year. The Pell Grant program is often referred to as a *quasi-entitlement* because, for the most part, students who meet the eligibility criteria receive payments, but the majority of funding is discretionary appropriations controlled through the annual appropriations process.

Each Pell Grant award that a student receives comprises a mandatory add-on award amount and a discretionary award amount. The mandatory add-on award costs are funded by a permanent, indefinite mandatory appropriation. The discretionary award costs are funded by (1) annual discretionary appropriations; (2) permanent, definite mandatory appropriations; and (3) any accumulated Pell Grant discretionary funding surplus.

H.R. 2486 would rescind $163 million of the FY2020 permanent, definite mandatory appropriations and increase the FY2025 permanent, definite mandatory appropriation by $249 million. H.R. 2486 would not affect Pell Grant eligibility or award levels for students; it would increase overall funding resources in future years.