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NEW REPORT: OBAMA BUDGET PROPOSES DIRECT COLLEGE AID FOR 3,862 MORE STUDENTS IN MINNESOTA

President's Budget Proposals Would Transform Federal Financial Aid System So More Families In Minnesota Can Afford College

ST. PAUL, MINN. – An additional 3,862 students in Minnesota would receive Pell Grants if excessive lender subsidies are cut, according to a new report released today by the Campaign for America's Future. Today's report shows that this simple change would provide an average Pell Grant of $3,166 to about 80,400 students across the state.

With the average cost of tuition at a public college in Minnesota increasing by 37 percent between 2000 and 2007 and up 3 percent in the last year alone, **President Obama**'s budget calls for a cut in lender subsidies to make the financial aid system more efficient.

Campaign for America's Future co-director **Robert Borosage** said the president's budget proposals would make major changes to the federal financial aid system so more families can pay for college.

"Family incomes and college grants haven't kept pace with soaring tuition costs," said Borosage. "No student should be priced out of the college they need to succeed in the modern economy. With more and more high school graduates putting off higher education because they can't afford it, the president's budget would help provide the change students and families need."

The college affordability proposals in the president's budget would increase and expand Pell Grants and Perkins loans, make the American Opportunity Tax Credit permanent, broaden the U.S. Department of Education Direct Loan program, phase out bank loan subsidies and create state and federal partnerships to help students complete their college education.

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NOTE: An electronic copy of the Minnesota college aid report is available at www.ourfuture.org/collegeaid2010.

BACKGROUND ON COLLEGE AFFORDABILITY PROVISIONS IN PRESIDENT OBAMA'S BUDGET

President Obama's budget addresses both the immediate economic concerns as they relate to higher education as well as sets the stage for future higher education investment and success.

INCREASES THE MAXIMUM PELL GRANT TO $5,550, MAKES PELL GRANT FUNDING MANDATORY, AND KEEPS FUTURE INCREASES TIED TO INFLATION.

Nearly 5.6 million students from low and moderate income households are able to attend college this year due in part to Pell grants. Originally designed to cover 80% of the cost of college, Pell grants currently cover just 1/3 of the cost. Presently, Pell grant funding is discretionary and determined by the annual budget process. The budget will make Pell grant funding mandatory to help eliminate uncertainty and prevent funding shortfalls. The budget also increases the Pell grant maximum to $5,550 for the 2010-11 school year and indexes the maximum grant to grow with inflation in the future.

MAKES THE PARTIALLY REFUNDABLE $2,500 AMERICAN OPPORTUNITY TAX CREDIT PERMANENT

The American Recovery and Reinvestment Act created a new partially refundable $2,500 American Opportunity Tax Credit over the next two years to provide a tax break to millions of families, including low-income families who don't pay taxes and therefore currently get no tax relief for college. Up to $1,000 of the credit is refundable for low-income families, and the credit itself is phased-out for taxpayers whose adjusted gross income is in excess of $80,000 ($160,000 for married couples filing jointly.) The budget proposal makes the American Opportunity Tax Credit permanent.

BROADENS THE U.S. DEPARTMENT OF EDUCATION DIRECT LOAN PROGRAM AND PHASES OUT THE FFEL PROGRAM

There are two federal student loan programs - the Federal Family Education Loan (FFEL) program and the Direct Loan program. FFEL loans are federally guaranteed loans issued by banks and other lenders, who are provided subsidies by the federal government for providing the loans. The tightening of credit markets essentially made the FFEL program untenable on its own last year prior to the passage of the Ensuring Continued Access to Student Loans Act. The proposed budget would end the FFEL program and subsidies to lenders on all federal student loans beginning in July 2010. The Direct Loan program, which has operated successfully since 1994, issues loans directly from the U.S. Department of Education. Transitioning entirely to the Direct Loan program is projected to save taxpayers $4 billion a year that can be used for increased student aid, rather than lender subsidies.

EXPANDS AND MODERNIZES THE PERKINS LOAN PROGRAM.

Perkins Loans are low-interest federal loans available to students enrolled in a participating college or university with a demonstrated exceptional financial need not met by Pell grants or other federal loans. Currently, only 1,800 out of 4,400 institutions participate in the Perkins loan program. The budget proposal would seek to make Perkins Loans available to more than double the number of institutions it currently serves. The budget would also increase funding for Perkins Loans by $5 billion – up from the current $1 billion available in Perkins Loan aid. President Obama also proposes restructuring the program to provide an estimated 2.7 million additional students with the average Perkins Loan each year – a five-fold increase over the current 500,000 students receiving Perkins Loans.

IMPROVES COLLEGE COMPLETION THROUGH STATE-FEDERAL PARTNERSHIP

The budget provides for a five-year, $2.5 billion fund available to states for innovative programs and research aimed at improving college success and completion rates, particularly among students from disadvantaged backgrounds.