

Miller & Petri: Congress Can End Corporate Welfare on Student Loans

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*By Reps. George Miller and Tom Petri
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In a Guest Observer in these pages last week, Jack Remondi, the vice chairman of Sallie Mae, the nation's largest and most profitable student loan company, argued that banks have a "bipartisan" solution for student loan reform. That's where we — a fiscally conscious Republican and Democrat — say "we don't agree."



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As the Senate prepares to consider President Barack Obama's proposal to fix our federal student loan programs, banks are spearheading a last-ditch effort to kill it — with a wink and a smile.

We are both strong supporters of President Obama's plan, which would remove middlemen from the business of making student loans and instead originate all loans through the more reliable and cost-effective federal Direct Loan program. We helped pass it in the House with both Democratic and Republican votes for a critical reason: It finally ends the gravy train that student loan companies enjoy at the expense of students and taxpayers.

For years, these banks have lobbied hard to preserve this taxpayer-funded federal program. Just consider their deal: Banks get paid federal subsidies for making loans to students — but taxpayers are on the hook if the students default. A senior editor of the conservative magazine the Weekly Standard got it right when he called the program a "textbook example of crony capitalism or (if you prefer) corporate socialism: the government assumes all the risk while doling out contracts to favored business, who then reap profits."

In fact, between the Direct Loan program and an emergency program Congress enacted in 2008 to safeguard students' loans from credit market turmoil, the federal government now funds \$8.80 of every \$10 in federal student lending activity.

In this day and age, we need to make every taxpayer dollar count. That's why it's important to reveal what Sallie Mae and other banks aren't telling you about how their plan differs from what we support.

Obama's proposal would end this system of corporate welfare, plain and simple. Eliminating all subsidies to banks would save \$87 billion over 10 years, according to the nonpartisan Congressional Budget Office.

All of these savings would be reinvested in students, families and taxpayers. Lenders like Sallie Mae would compete for contracts to service all Direct Loans. This would ensure high-quality customer services for borrowers while preserving jobs for workers in the industry.

The banks' plan would still allow lenders to originate loans and charge taxpayers a subsidy — just now in the form of a \$55 fee for each loan. Their proposal uses a budget gimmick to hide this new subsidy's true cost to taxpayers: Over 10 years, the CBO estimates banks would pocket at least \$8.5 billion. Under President Obama's plan, those funds would go directly to students.

Sallie Mae officials won't tell you that they have a bright future in servicing Direct Loans, but they do. They know the president's proposal will maintain demand for workers and even bring jobs that have been shipped overseas back home.

They won't tell you that winning a contract to service Direct Loans was the real motivation behind their decision to return 2,000 outsourced jobs to the U.S. last April. Months later, Sallie became one of four companies awarded a Direct Loan servicing contract by the Department of Education.

Banks also won't tell you that the real "choice" they are fighting to protect is that of lenders, not students. They want to stay in the federal student loan origination game because it gives them unfettered access to cross-market their private loans to students. Private loans are much more expensive for borrowers — and much more profitable for lenders. We've seen how this plays out — and it isn't in the form of true choice or competition for students.

Over the past year, Congress has been focused on finding the best solution for students, families and taxpayers. We have given all proposals on the table fair and balanced consideration.

Mr. Remondi himself testified about Sallie Mae's plan before our committee, along with financial aid officers from colleges that had recently switched to the Direct Loan program. Those officers confirmed what a majority of colleges making this transition have told us: that it has been fairly inexpensive, easy and the right move for students.

At the end of the day, House lawmakers saw the banks' scheme for what it was and soundly rejected it. Not a single Republican or Democrat chose to introduce it as an alternative proposal, either during our committee markup or on the House floor.

Senators now face the same decision. They can either choose to put the interests of students and taxpayers first — a concept that both Republicans and Democrats can get behind — or they can fall for the banks' latest trick.

Rep. George Miller (D-Calif.) is the chairman of the House Education and Labor Committee and the author of the Student Aid and Fiscal Responsibility Act. Rep. Tom Petri (R-Wis.) is a member of the Education and Labor Committee and a supporter of the Student Aid and Fiscal Responsibility Act.