



March 31, 2010

College students give high marks to new loan program

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Student loan provisions buried in the health-care bill signed Tuesday by President Barack Obama will help students such as Emily O'Neal, a Butler University freshman, land the financing she needs for her college costs.

Beginning July 1, students who need federally backed student loans will no longer have to apply to banks and private lenders but may apply directly to the new Federal Direct Loan program through their college.

Taxpayers will save money through the discontinuation of fees that private lenders were paid. Many students also will benefit from the payment caps and convenience.

The savings will be reinvested in the Pell Grant program, which provides grants to low-income students, giving more students access to the grants.

"For a long time, our student loan system has worked for banks and financial institutions," Obama said in a news release. "Today, we're finally making our student loan system work for students and all of our families."

As a student worker in the financial aid department at Butler, O'Neal, 19, is already seeing changes as Butler switches to a new computer system for handling loan applications.

"When I first applied for loans, I was given a choice between all of the lenders, then had to apply and take a quiz to get approved," said O'Neal, who plans to study communication disorders. "It was confusing and took a lot of work."

O'Neal has several loans and a work-study position to help pay for her first year at Butler. But as college costs continue to climb, she said, she might need more aid in the future.

"I don't have a Pell Grant right now, but next year, these changes mean that I will," O'Neal said. "If anything, the changes will relieve some of the stress and provide a little cushion for families like mine."

Starting in July, the government will begin funneling the savings in fees that won't go to lenders -- an estimated \$61 billion over 10 years, according to the Congressional Budget Office -- back into grants, loans and federally funded programs aimed at benefiting students.

Butler freshman Katy Myers, an integrated communications and political science major, said the reduced costs and increased size of the grants could help her pay for her next three years of school.

Like O'Neal, Myers, 19, has several loans to pay the more than \$13,000 she owes for her tuition each semester. She has loans through her local bank and the university, plus several smaller loans and a work-study job.

"My parents help with my loans for now, and I think they're paying something like \$800 a month back to the school. It seems like a lot of money, but since we're middle class . . . I don't qualify for a lot of

the scholarships that other people would," she said.

The legislation also means that students can consolidate their loans, rather than balancing multiple loan payments each month, by taking out a single loan guaranteed by the government.

A 2008 program, the Ensured Continued Access to Student Loans Act, let the U.S. Department of Education purchase guaranteed loans made by private investors. The program helped preserve student loans but left many students repaying loans to multiple lenders.

Students are encouraged to "consolidate their loans and avoid the confusion of having to make two, or sometimes three, separate loan payments," said Haley Chitty, spokesman for the National Association of Student Financial Aid Administrators.

Many institutions -- an estimated 12,000 schools nationwide, according to the U.S. Department of Education -- already have made the switch to direct loans.

Three years ago, Indiana University-Purdue University Indianapolis decided to switch to federal direct loans to give the school more control and students in need of loans a quicker response, said Kathy Purvis, director of Student Financial Aid Services.

"The decision was made to benefit the students, and the fees are lower than working with a private lender," Purvis said. "It's been a win-win situation, both for students and our office."

Linda Handy, director of financial aid at the University of Indianapolis, said her office has begun making changes to its computer system to accommodate the direct loan process.

"We'll be dealing with different management and different data but handling it the same way," Handy said. "The important part is helping the students understand what is going on."

Additional Facts

Key changes

Students and their respective colleges and universities will see several changes to their student loan programs. Here's a look at what is changing:

- » Schools that had relied on private lenders to issue student loans must switch by July 1 to direct lending from the U.S. Department of Education.
 - » The maximum Pell Grant will rise from \$5,350 this year to \$5,550 next school year and to an estimated \$5,975 by 2017.
 - » For graduates who qualify for loan repayment relief, the program will lower caps on monthly federal student loan payments to 10 percent of income for new borrowers after 2014 and forgive remaining debt after 20 years. The current program lets borrowers cap monthly payments at 15 percent of income and forgives the remaining balance after 25 years.
 - » Students with loans through the Direct Loan program or the Family Education Loan program, or with loans purchased under the Ensuring Continued Access to Student Loans Act, will have the option to consolidate their loans before July 1, 2011.
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