Editorial | Private lenders should not leech off students

By

Published: Tuesday, February 9, 2010
Updated: Tuesday, February 9, 2010

The House of Representatives in September passed a student loan reform bill that addresses President Barack Obama's plans to overhaul the nation's student loan system by slowly removing banks from the process and upping federal funding to the Pell Grant. The bill is currently in the U.S. Senate but is being threatened by strong lobbying from private lending companies. Sallie Mae, the largest student lending company in the country, has doubled its lobbying spending in an effort to prevent the passage of this bill, which would end the government subsidies that private lending companies currently enjoy.

Under the current system, the federal government offers subsidies to private lending companies that give risk-free loans to students trying to pay for college. The proposed bill would stop the offering of these subsidies and instead offer loans directly from the Department of Education.

According to the Congressional Budget Office, cutting out private companies from the lending process would save $80 billion over the next 10 years. Rather than handing that taxpayer money to private companies for profit, it would be allocated to offer more students Pell Grants, expand debt forgiveness for those who go on to work in public service and improve other important educational services.

Eliminating private lending companies from the student loan business would improve overall economic efficiency and serve students better. Neither taxpayers nor the government can afford to be spending billions of dollars to subsidize private profits. Critics claim the bill would effectively be a government takeover of the lending industry. This is untrue, as loans would be handled not by the government, but by universities and colleges, as Pell Grants are now. Additionally, there would be market competition among private companies to collect and administer the loans, ensuring that loans are appropriated efficiently, and students would not lose out on any of the individualized service offered currently by private lending companies.

Approximately 10 million students in the United States are receiving loans to help them afford a college education. Many Tufts students would not be able to afford their time on the Hill if it were not for student loans and government grants. It should be the interest and intent of the student lending industry to serve as many students as possible with the best possible loans. Reforming the student lending industry to remove profiteering middlemen will ensure that students at Tufts and across the country can stay afloat financially and still get a post-secondary education. This bill is an investment in an educated public.

The private lending system has failed to serve students: Not only are billions of taxpayer dollars lost to private profits, but in the recent credit crunch, private lenders failed to provide loans and had to be bailed out by the government.

The debate surrounding this bill centers on the question of either valuing profits in the private sector or helping as many students as possible afford a college education. Obama strongly endorsed the bill in his State of the Union address, but it is stalled in the Senate, where the Democrats have recently lost their filibuster-proof majority, and Sallie Mae and other private lenders are lobbying hard against it. Hopefully, economic reason and interest in promoting education will prevail. The Senate cannot let private companies leech profits from the government at the expense of American students.