

The Washington Post

Education secretary pushes to revise student loan practices

By Nick Anderson
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Education Secretary Arne Duncan on Tuesday urged the Senate to overhaul student lending, asserting that the banking industry has had "a free ride from taxpayers for too long" and that executives with lending giant Sallie Mae have enriched themselves as borrowers rack up college debt.

"Working Americans pay while bankers get rich," Duncan said in a prepared statement. "Sallie Mae executives have paid themselves hundreds of millions of dollars in the last decade while teachers, nurses, and scientists -- the backbone of the new economy -- face crushing debt because of runaway college tuition costs."

Duncan's unusually pointed critique marked an escalation in the student loan debate as the Obama administration seeks to end a program that uses private lenders as middlemen for federally backed loans. The tone of the comments echoed President Obama's recent populist rhetoric about the need to expand regulation of Wall Street.

In September, the Democratic-led House passed a bill, over strong industry and Republican opposition, that would mandate a switch to direct government

lending. It would steer an estimated \$80 billion in savings over the next decade to grants for needy students and other education initiatives. But the bill has stalled in the Senate as the Democratic majority seeks to circumvent a virtually certain Republican filibuster.

Opponents depict the bill as a government takeover that would squelch competition, diminish services to students and cost jobs. Sallie Mae, based in Reston, and other industry players are pushing an alternative that they say also would end government subsidies but preserve a role for private lenders in originating student loans.

John F. Remondi, Sallie Mae's chief financial officer, said the lender shares Obama's reform goals but wants to "enhance" the House-passed bill. Asked

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about Duncan's comments, Remondi said: "Look, we don't think name-calling helps in this process. The design of the future of this program should be debated fairly and openly."

Sallie Mae estimates that its workforce would be cut from 8,500 to 6,000 if the House bill becomes law. The company said it is funding a radio advertisement in Indiana and Pennsylvania, which are home to some of its facilities, to raise questions about potential job losses under the bill.

Duncan blasted such ads.

"We want the American public to have full knowledge of what's happening here, the reality," he said in a telephone interview. Private lenders "have had a very sweet deal. . . . Our proposal is infinitely better for middle-class, working-class Americans."

The federal student loan program, designed to provide a secure source of college funds for young borrowers, is more than 40 years old. Since the early 1990s, colleges have been able to choose between direct government lending and private lending with a government guarantee against default.

Private lenders have a larger share of the market, but in recent months many colleges have migrated toward direct

lending. As of Dec. 31, the Education Department reported \$30.9 billion in direct loans originated for the current school year, up from \$19.2 billion the year before -- a 61 percent increase. Federally guaranteed loan volume rose 6 percent in that time, the department reported, to \$53.1 billion.

Sen. Tom Harkin (D-Iowa), chairman of the Health, Education, Labor and Pensions Committee, has not introduced his version of the measure passed by the House but has said he plans to move a bill "early this year." Some Democrats have raised questions about the bill, even though most appear to support its broad goals.

Sen. Robert P. Casey Jr. (D-Pa.) has not endorsed the House legislation, according to spokesman Larry Smar, and is exploring alternatives. "There's a whole host of things he likes in the underlying

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bill," Smar said.

Rep. George Miller (D-Calif.), chairman of the House Education and Labor Committee, said, "It's inconceivable to me that the Congress would continue unwarranted subsidies to these lenders."

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