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EDITORIAL

Banks and Student Loans

Despite the credit crunch, there is little danger that students who need federally backed college loans will not be able to get them. That's partly because of a law signed last month — the Ensuring Continued Access to Student Loans Act — that will help lenders raise money to make new loans. It is also because the federal government offers loans both privately, through lenders that earn subsidies to participate in the program, and publicly, through its direct-lending program.

These programs are not equal. The credit crunch, which has caused banks to tighten lending standards, is new evidence that the direct-lending program is far preferable to its private counterpart. In *The Times* on Monday, Jonathan Glater reported that some of the biggest banks in the country have closed their doors to students seeking loans for community college, which are smaller — and less profitable — than loans for the elite, four-year colleges that the bankers covet.

Those loans are guaranteed by taxpayers' dollars, and with more than 40 percent of the country's undergraduates enrolled in community colleges, those students must be served as fairly and as well as their more affluent counterparts in four-year institutions.

Other lenders are coming to take the community-college business, but some administrators fear the turmoil might cause students to lose focus or to drop out temporarily before securing new loans. The whole point of the subsidized lending program was to prevent this kind of thing from happening. By paying the lenders a handsome subsidy — and guaranteeing the loans against default — the federal government hoped to keep the lenders in place, during good times and bad.

The community colleges that have been jilted by the private lenders need to join the direct-loan system, which allows students to borrow directly from the government through their schools. This would require slightly more administrative work by the schools. But the direct-lending program doesn't experience the kinds of disruptions that were highlighted in Monday's news article. The direct-lending program, which is much less costly, is better for the taxpayers than the private-lending system, which requires a federal subsidy.

In the short run, Congress has ordered its investigative agency, the Government Accountability Office, to review how the loan access law is being enforced. Lawmakers may have to put new requirements on banks that want to continue to receive the subsidy.

The ultimate goal, however, should be to phase out the subsidized system and handle all student loans directly.

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