



NATIONAL DIRECT STUDENT LOAN COALITION

September 21, 2009

Dear Member of Congress:

President Obama's proposal to transfer billions* from lenders to students merits your support.

The President's education budget proposal includes changes to the status quo of higher education funding that will result in stabilizing and increasing Federal Pell Grants for needy, qualified students. Under the President's plan, Pell Grants for financially at-risk students would not only increase significantly in the short term, but also increase systematically going forward, indexing increases to the Consumer Price Index (CPI) plus 1%.

It is not fiscally responsible for the government to support two student loan delivery systems. However, for the past 15 years, Congress has supported both the Federal Family Education Loan Program (FFELP) and the Federal Direct Student Loan Program (DL).

- FFELP ideally (though not currently) uses private capital to loan to students, encouraged to do so by statutorily set federal subsidies, special allowance payments, and guarantees against defaults. For the foreseeable future, it is funded by Treasury just like DL. There are thousands of entities who participate in FFELP loan delivery - including banks, other lenders, and more than 30 guaranty agencies and numerous servicers.
- DL delivery is a simplified system in which students receive their loans from the Department of Education, through their school, using the same process for delivering Pell, ACG, SMART, and TEACH.

Today, Congress leaves the choice of loan delivery selection to the discretion of schools. However, this allows colleges and universities to decide how \$87 billion in taxpayer subsidies will be spent. We are not aware of any other government program where this is allowed.

You have undoubtedly heard from FFELP industry lobbyists arguing against the President's proposal and House bill H.R. 3221, as well as from organizations proposing hybrid loan delivery ideas that are incomplete, unproven, and inherently more expensive for taxpayers than DL. As a grass-roots organization representing financial aid administrators at approximately 2000 Direct Loan schools, we want to reassure you that the DL program is strong, proven and simple and has been working very well for students and schools for over 15 years. We have prepared the enclosed fact sheet to provide you additional information on the DL program that we hope will assist you as you deliberate this historic legislation to shift precious federal resources from lenders to students.

We remain concerned about the inclusion of non-competitively bid carve-outs for non-profit servicers and/or guaranty agencies – a factor that could cause confusion and complexity for students and schools, and also may jeopardize program integrity.

Please accept our best wishes and heartfelt thanks for all you do for our students, assisting them in affording the higher education they so desperately want and our country needs. You may call upon any member of the NDSLCLC's executive board for further information, data, or clarification.

Sincerely,

The National Direct Student Loan Coalition

*Congressional Budget Office (CBO)

Direct Loan Facts

Is choice of lender or delivery system an essential element of a successful federal student loan system?

- No other federal financial aid program provides a choice of fund delivery methods.
- Loan benefits are statutorily set and virtually no FFELP lenders are providing differentiated benefits; the concept of “choice” is not relevant.

Won't a move to DL increase the national debt?

- Direct Loans are an investment that pay for themselves and make a profit for the government. While the proceeds of Treasury auctions used for DL may be temporarily part of the national debt, the debt is paid for by the repayment of the loans. FFELP loans are considered a “contingent liability” of the federal government and, as such, are also a part of the total real debt of the government.

Can all schools transition successfully to DL by 7-1-2010?

- Every school that transitioned to DL has done so successfully and in a short time frame.
- All schools with Pell students successfully brought two new federal grant programs (ACG and SMART) into operation in a four month period in 2007. These new programs were quite complex and no vendor software existed to support these programs. For DL, these institutions will use the same origination and reconciliation process they currently use through COD for Pell. Given the Department's success in getting these institutions into the new grant programs, it is disingenuous to state that they would not be successful in bringing the current FFELP schools into DL before the July 2010 deadline.
- The Department is prepared for the rush to transition and has proven its capabilities in nearly doubling DL school participation in the last six months alone.

Can the Department of Education provide superior, consistent service in DL?

- Proven through repeated internal measurements and feedback from DL schools and borrowers, the U.S. Department of Education provides consistent and superlative service from origination of loans and borrower contact, through servicing and eventual collections. Schools continue to report their high satisfaction with contractors selected and hired by the Department to handle the DL operations. These contractors are selected based on competitive bidding process with compensation tied to performance measures.
- Servicing in DL is handled by private sector companies, under competitively let contracts with the government. It is misleading to argue that the service would be worse, given the servicers would be the same as in FFELP.
- All DL schools have successfully delivered student loan funds to their students during the credit crisis; this cannot be said about FFELP.

Will default rates go up if all schools use the DL delivery system?

- The Department of Education has published the comparative default rates for DL and FFELP for each year in which the programs have operated concurrently, up to cohort year 2007. The most recent cohort default rate for DL is 4.8% as compared to 7.2% for FFELP.
- In the FFELP profit model, there exists a perverse incentive in which profits are increased when borrowers default, as late fees, penalties, and collection costs are capitalized before lenders are reimbursed for the defaulted loans. Balances are so high, that many borrowers can never recover.
- In the DL model, there is no profit motive driving servicers to increase borrower indebtedness. In fact, they are rewarded for keeping defaults down. Borrowers have no reason to default since Income Based Repayment and Income Contingent Repayment options can provide relief to all, regardless of their financial circumstances.

What about the loss of services that lenders and guaranty agencies provide?

- The non-statutory outreach programs currently provided by many guarantors can be worthwhile. However, the continued existence of these programs is not contingent upon FFELP's existence, and could certainly be paid for by Congress outside of the guaranty agency funding structure.
- Services currently provided by some lenders and guaranty agencies are duplicative of the training and outreach available from the U.S. Department of Education. The fears of loss of these services are unfounded.
 - The Department of Education provides training to all schools in all areas of federal financial aid management, including DL.
 - The Department provides annual conferences, webinars, Dear Colleague Letters, etc., to educate financial aid administrators and others in legislative, regulatory, and operational issues.
 - The Department has a default management program called "Late Stage Delinquency" which has successfully assisted borrowers to prevent default. Schools are able to participate in the process or may leave the efforts to the Department. In fact, the Department's good work in default prevention has resulted in a 4.8% cohort default rate for DL – an excellent result especially when compared to the 7.2% FFELP rate.
- Schools are not and should not be dependent upon lenders and guaranty agencies for financial literacy information for their students. Many schools have mandatory financial literacy courses, and others provide superior web programs, including an exceptional course from the National Endowment for Financial Education available to all institutions at no cost.

Will the loss of FFELP mean employee layoffs?

- It is expected that current FFELP entities will participate in the competitive bidding process and become new DL contractors for the U.S. Department of Education as volume shifts from FFELP to DL. (Sallie, NelNet, PHEAA, and Great Lakes have already contracted with the Department to do such work.) Therefore, many FFELP employees will not see job loss, just job change.
- Many of the employees engaged in FFELP activities are involved in FFELP servicing operations. Their companies have billions in outstanding student loans that will continue to need servicing and these FFELP servicers are in a position to compete for servicing contracts with the government. It is incorrect to state that all of these employees will be laid off if the President's proposal is adopted.
- Job opportunities will increase because private contractors selected to participate in DL servicing cannot legally hire foreign nationals to perform the duties inherent in the contract (as they currently do in FFELP).

Has competition among FFELP lenders and between Direct Lending (DL) and FFELP really resulted in improvements to both programs?

- Undoubtedly, the competition among FFELP lenders has resulted in improvements to FFELP.
- Historically, the U.S. Department of Education has not sought to increase DL market share since its inception and as such has not competed with FFELP for market share. As a result, the Department's improvements have been instigated by their mandate to manage all federal financial aid programs to the highest standards.
- The most significant improvement to DL delivery in recent years is the implementation of the Common Origination and Delivery (COD) system, which was created as a simplified and single method for all student financial aid to be disbursed to students, including PELL, ACG, SMART, and DL.

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