

Rulemaking Panel Begins Debate on How to Change Federal Student-Loan Programs - December 13, 2006

By Kelly Field

Washington

A committee that will recommend changes in the regulations that govern federal student-loan programs met for the first time on Tuesday, in a meeting convened by the Education Department.

The group, which comprises representatives of institutions, lenders, guarantee agencies, and students, will submit a package of proposed rules to Secretary of Education Margaret Spellings in the spring.

The meeting marked the start of the second phase of a process known as 'negotiated rulemaking,' in which the government works with stakeholders to craft changes to federal programs. Before convening the committee, the department held a series of four public hearings to discuss potential agenda items for the rulemaking.

Among the items the department included in the preliminary agenda are:

- Colleges' use of 'preferred lender' lists. The Education Department is concerned that some institutions are steering students to lenders based on the benefits the companies provide to the colleges, rather than to students. But colleges say the lenders they recommend provide students with the best rates and benefits.
- 'Illegal inducements' in the guaranteed-loan program. Federal law prohibits student-loan companies and guarantee agencies from offering inducements to secure loan applications, and bars them from engaging in fraudulent or misleading advertising. The panel will consider whether the growing use of 'borrower benefits' to market guaranteed loans and the 'special arrangements between lenders and schools or school-affiliated organizations' are crossing the legal line.
- Income-contingent repayment. Student groups and the Project on Student Debt have asked the department to ease loan-repayment burdens for low-income borrowers. The panel's agenda includes one of their proposals, a plan to create a new 'partial economic-hardship deferment' that would cap borrower repayments at 15 percent of discretionary income and calculate discretionary income using 150 percent of the poverty level as a baseline, taking family size into consideration.
- Loan discharge for victims of identity theft. Under existing regulations, a loan fraudulently borrowed in a victim's name cannot be discharged until a court has determined that a 'crime' has occurred. Critics say that requiring victims to await the outcome of a trial is too restrictive. They have asked the department to adopt instead the definition of identity theft used in the Fair Credit Reporting Act and by the Federal Trade Commission.

Tuesday's meeting began with a discussion of protocol and the agenda. Members debated whether they would speak for the organization, company, or institution they're associated with, or themselves only. In the end, Education Department officials agreed to strike language from the protocols that would have prevented organizations represented by the members from criticizing any regulations the committee proposes.

The committee also considered several additions to the agenda, including a proposal by Eileen K. O'Leary, chairwoman of the National Direct Student Loan Coalition, asking that loan servicers be required to provide borrowers with periodic reminders of their repayment options. Her proposal was tabled for further discussion among department representatives and will be brought before the committee for a vote today or tomorrow. It will be added to the agenda only if all members agree to do so.

The committee will also consider a request by Alisa M. Abadinsky, a student-aid official at the University of Illinois at Chicago, that the group consider requiring the department to return the money it collects on defaulted Perkins loans to the institutions that awarded the loans, rather than to the U.S. Treasury. Institutions have the option of assigning loans that are in default over to the department for collection, which some are reluctant to do because the recovered money does not go back to the college. Ms. Abadinsky represents the Coalition of Higher Education Assistance Organizations, which advocates on behalf of the Perkins Loan program.

A handful of other proposed additions were rejected by Education Department representatives. Among them were a suggestion by Robert Collins of the Apollo Group that the department create a master promissory note in Spanish. Officials said they did not have the 'administrative capability' to do so.

Another request came from Robert Sommer of Sallie Mae, who asked the department to add a waiver to loan applications that would permit lenders to contact students on their cellphones. Officials replied that they could not override federal and state laws barring such cellphone contact.

The panel will meet again today and Thursday to complete its agenda and begin debate on possible regulations.

More information about the rulemaking panel is available on the department's Web site.

Student loans barriers to higher education - December 5, 2006

The Retriever Weekly

By Ryan Walden

Retriever Weekly Contributing Writer

With few exceptions, one generation is usually better off than their parents' generation. Most of the time, new technology allows us to live longer, have more stuff, and spend less time working (or work easier). However, there is reason to be worried that our generation will not be better off. A bachelor's degree is as important now as a high school diploma was a generation ago. To earn those degrees, an increasing number of young people are taking out increasingly larger student loans with increasingly higher interest rates. This puts the economic health and well-being of our generation at risk.

College tuition continues to rise faster than the inflation rate. Adjusted for inflation, tuition at public universities has risen about 35 percent across the country in the past five years. While public university tuition was frozen in Maryland this past year, it has increased 40 percent in the previous three years. Unfortunately, funding to student grant programs has not risen in tandem with tuition increases. The maximum Pell Grant amount has been flat at \$4,050 for five years. Pell Grants cover an increasingly small proportion of tuition, from 77 percent 25 years ago to 40 percent today.

To cover the gap, more have turned to student loans. Paying off student loans is not always an easy task, however. More students are going deeper in debt and it is taking them longer and costing them more to pay it off, as recent legislation has increased student loan interest rates on government loans. Many are having extreme difficulties paying loans off and find that their student debt is having severe effects on their post-collegiate life.

What are the effects? Surveys have shown that significant numbers of young people have chosen to put off buying a home, marrying, and having children due to high levels of student debt. Student debt has a snowball effect; it doesn't just hinder our economic health in the years following college, but by preventing young people from pursuing graduate degrees and from saving for retirement, it can impact us for our entire lives.

One of the worst effects of increased student loans is that many students cannot afford to go into the public sector. Future teachers and social workers are being driven away from those professions because the salary would be too low to pay off student loans. There is a high demand for those who work in the public interest, but we will not be able to meet that demand if the current trend continues towards higher and higher levels of student debt.

There are a variety of measures we can take to help alleviate this problem. However, we cannot just throw money at this problem; we need to correct the inefficiencies too. One such inefficiency is Sallie Mae and the guaranteed loan program. Instead of directly administering all loans themselves, the federal government guarantees some loans administered through Sallie Mae, a private corporation. The federal government pays interest while the students are in school and pays Sallie Mae the entire balance plus accumulated interest if the student goes into default.

Usually, interest rates are contingent upon the level of risk a lender incurs in giving out a loan. That is why, for example, APRs on credit cards are high if you have a low credit rating. However, despite not incurring any risk on their federally guaranteed loans, Sallie Mae's interest rates are not low, reaching double digits in some cases.

Not only does Sallie Mae make money through risk-free loans, they make money through the collection agencies they own. If Sallie Mae collects the money from a student in default, they can keep up to 25 percent. For every dollar owed, Sallie Mae can make up to \$1.25 if the loan goes into default. Whether you pay your loan or not, Sallie Mae is going to make money.

Needless to say, this arrangement has made Sallie Mae an incredibly profitable company. Their stock price has gone up 2000 percent in the last decade and their CEO is worth a quarter of a billion dollars.

Sallie Mae provides financial incentives to schools that drive their students towards the guaranteed loan program instead of the direct loan program administered by the government. This is unfortunate, because the direct loan program is far more efficient. Studies have shown that the direct loan program costs taxpayers five times less per loan than the guaranteed loan program. However, Sallie Mae's contributions to politicians have helped keep this inefficient policy afloat.

If more loans were through the direct loan program, then the money saved could help students in a variety of ways. We could raise the cap on grants, we could lower interest rates on federal loans, and we could provide more loan forgiveness for those who choose lower paying jobs in the public sector. Students in debt would also be helped by graduated payment

programs. Students pay the same amount on the first and last payment of their loan. Why not allow students to make smaller payments when they are just starting out with a low paying job and gradually make larger payments as they progress through their career?

These are some possible solutions, but there has been little clamor for change. In the past, when Congress has cut student aid, they have hardly done so at their own peril. Despite the importance of this issue to our generation, it rarely registers in discussions of the important issues of the day. Too much debt can hold down our passion, our talent, our dedication and our ingenuity, but it is not too late to demand change.

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Student loan bankers on edge - November 27, 2006

LA TIMES

Soon to be out of the GOP's 'trusted hands,' nervous financiers reach out to Democrats.

**By Janet Hook
Times Staff Writer**

WASHINGTON — The college student loan industry has been so well-connected in the Republican-controlled Congress that a powerful committee chairman once assured its bankers and other financiers that their interests were in 'two trusted hands.'

Now that Democrats are about to take control of Congress, those bankers will have to contend with a lawmaker who has compared them to the usurers Jesus drove from the temple of Jerusalem.

'It's time to throw the money-changers out of the temple of higher education,' thundered Sen. Edward M. Kennedy (D-Mass.), who is in line to become chairman of the Senate committee that oversees education programs.

FOR THE RECORD:

Student loans: An article on the college student loan industry in Monday's Section A said that legislation proposed by Sen. Edward M. Kennedy (D-Mass.) would give students new incentives to borrow directly from the government. In fact, the incentives would go not to the students but to colleges, which decide whether their students can borrow directly from the government rather than through private lenders. —

Within the student loan industry, the impending transfer of party control is producing anxiety — in part because Democrats have promised that one of their first acts will be to cut interest rates on federally backed student loans from 6.8% to 3.4%.

Having worked hard over the last decade to make Republican friends in high places, nervous bankers are now moving quickly to open wider avenues of communication with ascendant Democrats, such as Rep. George Miller (D-Martinez), incoming chairman of the House Education and Workforce Committee, who got a last-minute postelection invitation to address a student-loan trade meeting this week.

'Comeuppance is at hand'

Cutting student loan interest rates was part of a six-item agenda that Democrats ran on in the midterm election. The cost to the Treasury would be an estimated \$18 billion or more over five years.

The rate cut could be made without touching the subsidies that the government pays to companies for lending money to college students. But some Democratic lawmakers see the subsidies as excessive and may move to slash them.

'Lenders are obviously concerned, because when you say something is going to cost \$18 billion, the next question is, 'How are you going to pay for it?' ' said John Dean, a lawyer for the Consumer Bankers Assn.

Most borrowers pay 6.8% interest on student loans originated on or after July 1, 2006, but the subsidies usually provide banks a higher return. Lenders are paid allowances equal to the rate of commercial paper — an index set quarterly to estimate banks' cost of borrowing money — plus about 2.3% of the student loan.

The federal government also guarantees student loans against default, meaning the banks take little risk.

Miller spokesman Thomas Kiley said, 'We plan to examine lenders' profitability to determine whether there are excessive profits that should be put to better use helping students and parents pay for college.'

About 8.5 million college students and parents took out \$67 billion last school year in direct federal loans and federally backed private loans. That borrowing was the largest source of federal financial aid for college.

The new pressure on the student loan industry is just one example of how the 2006 election produced winners and losers not just among politicians but among congressional lobbyists.

Most at risk in the transition are industries that have given heavily to and benefited mightily from Republican control of Congress, among them energy interests and pharmaceutical companies, as well as the companies that make student loans.

'Comeuppance is at hand,' said Barmak Nassirian, an official of the American Assn. of Collegiate Registrars and Admissions Officers. 'They are in the line of fire, and they are going to take a bullet here.'

A senior House Democratic leadership aide said the interest rate cut would probably be authorized for just a year, whittling its cost to \$2.6 billion.

Whatever the cost, the rate bill will be an early test of another Democratic campaign promise: to reinstitute budget rules requiring new spending to be offset by cuts in programs or by revenue increases. Democratic aides say it is not yet clear how the cost of the rate cut would be offset.

Republicans argue that cutting interest rates would not address a more fundamental problem: the rising cost of college.

'The interest rates shouldn't be the major issue here. Rather, the principal — the amount of money students are forced to borrow because of skyrocketing costs — should be,' said Steve Forde, a spokesman for Republicans on the House education committee. 'Unfortunately, House Democrats don't see it that way and are taking a Band-Aid approach.'

Democrats promoted two other education ideas during the campaign — bigger tax breaks for tuition payments and larger direct grants for poor students — but neither directly addresses the rising cost of higher education.

GOP connections

Lenders are facing new political exposure because for years they have invested much more heavily in building relationships with Republicans than they did with Democrats:

- Almost 80% of the money given to House education committee members by advocates for the student loan industry and for-profit colleges went to Republicans in the 2003-04 campaign cycle, according to an analysis by the Chronicle of Higher Education. More than half of the money went to two Republicans: then-Chairman John A. Boehner (R-Ohio) and Howard P. 'Buck' McKeon (R-Santa Clarita), chairman of the higher-education subcommittee.
- In the 2005-06 election cycle, the largest single corporate source of donations to the National Republican Congressional Committee was a student loan company, Nelnet, whose employees and political action committee gave \$153,000. Of Nelnet's PAC contributions, 71% went to GOP candidates and 29% to Democrats, according to the nonpartisan Center for Responsive Politics, which monitors fundraising.
- Employees of Sallie Mae, a company that finances student loans, gave more than any other entity to Boehner's political action committee, according to an analysis by the Center for Responsive Politics early this year. The center calculates that during the 2005-06 election cycle, 62% of Sallie Mae's PAC contributions went to Republican candidates, 38% to Democrats.

Republicans say their legislative agenda has not been influenced by those contributions. Boehner points out he did not shy from trimming lender subsidies in a 2005 deficit-reduction bill that wrung \$13 billion in savings from the student loan program.

Critics say borrowers suffered more than lenders under that measure.

It was while that budget bill was in process that Boehner, at a December 2005 meeting of the Consumer Bankers Assn., reassured lenders, 'I have all of you in my two trusted hands,' according to the Chronicle of Higher Education. (Boehner became House majority leader early this year, and will be minority leader in the next Congress.)

'At the end of the day, I believe, you'll be at least satisfied, or even perhaps even happy' with the final budget bill, he was quoted as saying.

A different message

Kennedy has been sending a different message after this year's election.

'We will reform the student loan program so it works for students and not just the banks,' he said in describing what his priorities will be as chairman of the Senate Committee on Health, Education, Labor and Pensions. He has introduced a bill, similar to one backed by Miller, that would give students new incentives to borrow directly from the government, a measure strongly opposed by private lenders.

But Dean, of the Consumer Bankers Assn., says the loan industry is not single-mindedly wedded to Republicans, noting many companies have Democrats on their lobbying staff.

The bankers association stepped up its outreach to Democratic staff before election day as it became clearer that Republicans were likely to lose control of Congress. But the group's invitation to Miller to speak at its conference in Washington this week did not reach Miller until Nov. 20.

His spokesman said Miller would not attend because of a previous commitment in California.

Education loan rates could drop - November 18, 2006

LA TIMES

BY ALEX DOBUZINSKIS, Staff Writer

As the Democratic takeover of the House sidelines Santa Clarita's Republican Rep. Howard P. "Buck" McKeon, changes are expected in how the committee he chairs handles student loans.

Democrat Rep. George Miller, who's expected to replace McKeon as chairman of the House Committee on Education and the Workforce, wants to halve the interest rate charged on loans to needy students.

He also wants to increase the number of "direct" loans that the government makes to students. The president's budget office found those kinds of loans cost the government less than federally backed loans from private lenders.

"What (Miller) wants to do is to make sure that the high cost of college never stands between a qualified student and a college degree," said Tom Kiley, a spokesman for Miller, of Concord, Calif.

McKeon, who has been on the committee for 14 years and took over as chairman in February, will remain a member after he gives up the leadership role. While Miller's office faults the program that guarantees rates of return to "middleman" private lenders, McKeon says the government's direct loan program is wasteful.

"It seems to me that Democrats are always concerned about people making money,"

McKeon said. "... If people don't make money, they don't stay in business. If they don't stay in business, they don't perform the service they render."

Under McKeon's committee chairmanship, the interest rate charged on student loans increased 2.5 percent July 1. As a variable interest rate, it could have risen even more, but Democrats and Republicans agreed two years ago to increase it to 6.8 percent this year, McKeon said.

Private lenders pressure the government to guarantee a certain rate of return on their student loans, which were historically risky investments. But critics say the system puts lenders ahead of students.

"It drives me crazy how much taxpayer money has been wasted on excessive subsidies for student loan companies, instead of making college more affordable for families," said Michael Dannenberg, director of education policy for the New America Foundation.

This election cycle, McKeon received \$11,000 in campaign money from student loan lender Sallie Mae Inc., and \$10,000 from student loan company Nelnet Inc. While the education sector was the sixth-largest source of contributions for McKeon, Miller got more of his money from unions, according to opensecrets.org.

The federal government gives loans to 6.9 million students a year. About 25 percent of the loans are "direct" government loans through the Department of the Treasury. The rest are made by private lenders.

Students all pay the same interest rates, but there are two kinds of loans. Federally subsidized loans don't accrue interest while students are in school, but those are offered only to needier students.

Miller's plan to halve the interest rate on student loans would apply only to the subsidized loans, which last year accounted for 5.7 million of the program's loans. Officials estimate that a move to reduce the interest rate to 3.4 percent would cost \$18 billion over five years.

In the last election, Democratic opponent Robert Rodriguez accused McKeon of being too cozy with student loan lenders. McKeon easily defeated Rodriguez, winning nearly 62 percent of the vote.

And McKeon stands by his decision to let interest rates go to 6.8 percent, saying that is a relatively low rate.

"They're saying that we did that, but that was a joint effort and (Democrats) pushed us to help do that," McKeon said. "During the election, they beat up on us for doing it."

Back-to-School Work for Congress - August 24, 2006

In coming weeks, thousands of students will return from their summer recess to schools and colleges across the country, ready to tackle a new year of classes and assignments. Congress will soon return from its own summer recess to take up its own assignments on the nation's education agenda, including some that are embarrassingly overdue.

Full funding for the No Child Left Behind Act -- the federal law supporting K-12 school reform -- is at the top of the list. Four years ago, I was proud to stand with President Bush as he signed that law, because I believe strongly in its goal of giving access to a first-class education to every child in America. The Act was intended to be a compact between states, school districts, and the federal government. In exchange for positive results, our schools would receive the funds and other assistance needed to help them improve. But President Bush has repeatedly broken that compact, adopting an irresponsible agenda that admonishes public schools rather than addressing their urgent needs.

This year, President Bush's proposed budget for the No Child Left Behind Act falls \$15 billion short of the funding promised under the law, which would mean an astounding \$56 billion shortfall since it was originally passed. On top of that, the President is trying again to push an ill-conceived plan through Congress to divert \$100 million from the nation's public schools to fund private school vouchers. Meanwhile, public schools continue to be denied the funds promised to help them meet the improvement requirements of the No Child Left Behind Act.

We need to invest in our public schools, not abandon them. We need full funding for the Act. We also need to fine tune the Act to make it more effective in assisting struggling schools, by providing new federal funds for advisors and teacher coaches who are experienced in turning low student achievement around, and by creating new partnerships between high-performing and lower-performing schools.

We can also help give the neediest schools greater access to the best teachers by improving training and encouraging teachers to take charge of their own professional growth, establishing new strategies for teachers to advance and become mentor and master teachers, and by rewarding those who do with higher salaries. It also makes sense to offer incentives for schools interested in expanding the school day or year, in order to increase learning time for students.

Schools need better solutions to respond to the challenges identified by the No Child Left Behind Act. Thanks to the dedication of educators, students and families in the Commonwealth, we're fortunate to have public schools that rank among the best in America. Even so, more than 275 of our 1800 schools have significant numbers of students who need extra attention. More needs to be done to reduce the dropout problem and close the achievement gap between white students and minorities. These are obviously among the challenges that the No Child Left Behind Act was intended to address, and Congress should focus on real support for schools and families to overcome them.

Students and their families also need greater help to deal with soaring college costs and higher interest rates on student loans. Despite commitments to the contrary, the President and Congress have failed to increase the maximum Pell Grant for low-income college students for four years in a row. Instead, they continue to line the pockets of private lenders that participate in the government's student loan program with outrageous subsidies. Last February, in an equally cynical move, they stripped \$12 billion from the federal student loan programs to pay for tax breaks for the wealthy, and simultaneously allowed interest rates on student loans to increase to highest levels in six years.

This reckless rejection of the federal government's long-standing commitment to college access for all Americans comes at an immense human cost. Every year, more than 400,000 college-qualified students decide not to attend a four-year college because they can't afford it, and 170,000 more are shut out of higher education altogether. It's irresponsible to slam the gates of college shut in the face of tens of thousands of students. At a time when six out of 10 jobs require post-secondary training, it's a threat to our nation's competitiveness in the global economy.

I've proposed legislation that will generate \$13 billion in new Pell Grants over the next 10 years -- at no cost to the taxpayer -- by promoting competition between the Federal Family Education Loan Program, which subsidizes private lenders, and the government's far less expensive Direct Loan program. We should expand the income-contingent repayment program for student loans, so that no borrowers have to put more than 15 percent of their monthly income toward their loan payments, and provide loan forgiveness after ten years to those in public service professions such as teaching and law enforcement. We should also end corporate welfare for big lenders of college loans. It's time to throw the money-changers out of the temple of higher education. Millions of young students across the country are anxious to pursue their dreams. Congress deserves a failing grade if we don't take reasonable and long-overdue steps to smooth the way.

Sen. Kennedy Asks Education Secretary to Prevent Colleges from Using Loophole on Lending - August 2, 2006

Sen. Edward M. Kennedy, a Massachusetts Democrat, sent a letter on Tuesday to the U.S. education secretary calling on her to prevent colleges from using a loophole in federal student-aid law to evade new restrictions on colleges that act as lenders to their students.

Congress enacted the restrictions in February in an attempt to curb the growth of the 'school as lender' program, in which colleges lend money directly to their graduate and professional students and then sell the federally guaranteed loans to commercial lenders for a profit.

Concerned about the prospect of universities profiting from the debt of their students, Congress placed a moratorium on the program, preventing colleges from joining it as of April 1.

The lawmakers also set strict limits on the ways in which colleges could use the money they earn from the sale of the loans. But advocates for the program -- which include participating colleges and loan companies that market the deals -- have been promoting an alternative approach that would free colleges from the new restrictions on how they could use their profits.

The alternative takes advantage of a provision in the Higher Education Act. That provision allows entities that are not normally eligible to act as student-loan providers, such as colleges, to do so if they hire banks that participate in the guaranteed student-loan program to serve as trustees for the loans.

The banks would hold the legal title to the loans, and would ultimately be held responsible by the government if the lenders violated statutory or regulatory requirements or could not meet their financial obligations.

Under such 'eligible-lender trustee' arrangements, colleges would no longer be required to use the loan-sale proceeds to provide greater need-based grant aid to students, as Congress has required. In addition, the institutions would not be limited to providing traditional federal loans only to graduate students, as they are now. Colleges, for example, could start offering loans to undergraduates.

Last month, Education Department officials said they believed the practice was legal (The Chronicle, July 14). But in his letter, Mr. Kennedy disagrees. He says that the department should not allow colleges and lenders 'to use loopholes to circumvent the restrictions on the program.' 'Millions of students and families across the nation are struggling to afford college, and they put their trust in the federal government to ensure the integrity of the financial aid process,' he wrote to Margaret Spellings, the education secretary. 'Aggressive enforcement of the restrictions on the school-as-lender program is critical to protecting their interests.'

Lenders Urge University of Illinois to Switch to Controversial Student Loan Program that Will Cost Taxpayers Millions- July 26

CHAMPAIGN, Ill., July 26 /U.S. Newswire/ -- Loan companies have been meeting with top University of Illinois officials to encourage the school to partner with them in the highly controversial 'School as Lender' method of providing student loans, according to Illinois Taxpayers for Responsible Student Lending.

Under School as Lender, loan companies take advantage of federal government loopholes to generate profits off of the university, its students and taxpayers. The scheme has been strongly criticized by national media outlets and education experts.

In a July 18 editorial, the New York Times says the School as Lender arrangement 'creates a financial conflict of interest for the schools.' On a July 13th broadcast, CNN financial expert Lou Dobbs described the program which houses School as Lender as, 'a massive college loan racket and a taxpayer rip-off that benefits banks, not college students.'

State Rep. Jack Franks (D-Woodstock), chairman of the Illinois House of Representatives' State Government Administration Committee; Robert Shireman, former legislative director for Sen. Paul Simon; and Orlo Austin, retired director of student financial aid at the University of Illinois at Urbana-Champaign, sent a letter today to University of Illinois Trustees and administrators, state legislators and Members of Congress outlining their strong opposition to the School as Lender scheme. Leading national student loan organizations, including The National Direct Student Loan Coalition (NDSLCL) and the National Association of Student Financial Aid Administrators (NASFAA) also oppose School as Lender.

'Lenders should not be able to use our state's public universities and students to gouge taxpayers and reap windfall profits,' said Rep. Franks. 'These loan companies and their allies need to know that the University of Illinois' role is to educate our state's children, not to help lenders profit off them. I'm concerned about a conflict of interest if the University partners with lenders because both would profit by encouraging students to enter deeper into debt.'

Currently, the University of Illinois' Urbana-Champaign and Chicago campuses participate in the Federal Direct Student Loan Program, in which students borrow money directly from the U.S. Treasury at low rates. The program, initiated in part by late Illinois Senator Paul Simon, simplified federal student loan delivery and provides students with flexible repayment options with a single loan holder. Direct lending has created a streamlined and accountable system that saves taxpayers billions of dollars and has resulted in lower student default rates and lower administrative costs.

'My dad invested a lot of time and energy into the Direct Lending program,' said Sen. Simon's daughter Sheila, an SIU law professor. 'He saw it as a way to make sure more people could afford to go to college, and provide a better service for taxpayers as well.'

'Before Sen. Paul Simon helped create the Direct Lending system, students and schools were forced to deal with a very complex and abuse-prone student loan process. It was characterized by numerous applications and forms, the sale of loans to multiple lenders, high borrower default rates and inflexible repayment terms,' said Robert Shireman, Sen. Simon's former Legislative Director. 'Sen. Simon helped create Direct Lending so that students would not be at the mercy of loan companies trying to scam the system. I hope lenders do not succeed in turning back the clock on his vision for University of Illinois students.'

School as Lender was originally and primarily intended to allow schools to serve as lenders of last resort to their students having difficulty in obtaining loans to meet educational expenses. School as Lender has now become a distorted business model that allows lenders to extend a line of credit to schools with assurances of profit if they choose to partner with them. Loan companies have embraced the School as Lender scheme because of a federal loophole guaranteeing them large taxpayer subsidies, and repayment if students default on loans.

Taxpayers will suffer if the University of Illinois abandons direct lending in favor of School as Lender. According to President Bush's FY2006 education budget, the Treasury will earn \$2.06 for every \$100 loaned through the Direct Loan Program. However, because of lobbyist-protected government loopholes and subsidies that benefit lenders, student loans made through the program which houses School as Lender will cost the Treasury \$8.91 for every \$100 loaned. The University of Illinois' Urbana-Champaign and Chicago campuses provide over \$261 million in Direct Loans annually. If they switch to the program housing School as Lender, taxpayers would lose over \$28.6 million per year.

Lenders believe that if the University of Illinois' huge Chicago and Urbana-Champaign campuses become School as Lender, they will be able to lure other Illinois public universities to participate in the scheme. Currently Illinois public universities have a combined total of \$485,425,330 in Direct Loan volume. It would cost taxpayers nearly \$53.25 million if these loans were made through the federal program which houses School as Lender.

'As someone who was responsible for the University of Illinois at Urbana-Champaign Office of Student Financial Aid, it is very disturbing that the University is seriously considering shifting loans from the tax-saving, student service oriented Direct Lending program, to the tax-wasting School as Lender model,' said Orlo Austin. 'I agree with the National Association of Student Financial Aid Administrators that the schools who participate in School as Lender are in a conflict of interest when they make more money if their students go deeper into debt.'

Austin continued, 'The lending industry lures universities with the promise of a great amount of money at the expense of the taxpayer. It is bad economics, bad policy and bad precedent. I hope the university will stand for students and not special interests. I hope they use an ethical decision making process and support Direct Lending, a good public policy.'

'Despite the promises lenders are making to the University of Illinois, School as Lender does not necessarily guarantee the best benefits to the student borrower,' explained Austin. 'Most students cannot satisfy the repayment requirements these lenders demand to get the low interest rates. If the University of Illinois implements School as Lender, borrowers could lose the possibility of income contingent repayment.'

Rep. Franks concluded, 'I'm going to do everything in my power to protect Illinois students and taxpayers from getting fleeced by the interests promoting School as Lender.'

Numerous media reports show how taxpayers and students lose out when loan company lobbyists use highly questionable tactics to encourage schools to leave the Direct Loan system, as the University of Illinois is considering. Visit <http://www.ResponsibleStudentLending.org> to read media criticism of the School as Lender model, and to learn about conflicts of interest that arise when schools and loan companies get in the business of making money off students.

<http://www.usnewswire.com/>

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Student Aid Generates Revenue - July 17, 2006

One of the richest men in Washington, D.C., does not make his money off of real estate, oil or technology. He's in a business every bit as profitable: student financial aid. Al Lord, with a net worth of more than \$225 million, made his fortune in the financial aid business as the CEO of student loan giant, the SLM Corp., commonly known as Sallie Mae.

Sallie Mae is the largest player in an industry which, with assistance from the federal government, generates billions in profits annually. 'There is a whole host of intermediaries, and every one of them takes a little bite,' said Barmak Nassirian, an executive director of the American Association of Collegiate Registrars and Admissions Officers.

According to the latest annual report, the company has seen a 2,000-percent increase in Sallie Mae's stock in the past 12 years. The financial aid industry is highly profitable because the federal government subsidizes all student loans. These subsidies make it nearly impossible for companies such as Sallie Mae to incur losses, said Ralph Nader, former presidential candidate and political activist.

According to the U.S. Department of Education budget office, the federal government has set aside \$9.8 billion for the current fiscal year to cover projected subsidies to the industry and provide 'borrower benefits' to students such as subsidized interest while in school. Sallie Mae was created in 1972 as a Government Sponsored Entity by the federal government. As a GSE, the company was granted a limited charter allowing it to act as a secondary market for loans, encouraging banks to take risks on students who otherwise might not have the credit to get a student loan. For decades Sallie Mae was the backbone of the student aid system, buying loans from lenders to protect them from losses.

Over the years the company grew, and in 1996 Congress allowed the company to begin to sever its ties to the federal government. Martha Holler, a spokeswoman for Sallie Mae, said the rationale behind the move toward privatization was that Sallie Mae had achieved its original purpose, with a number of lenders now available for students and a greater willingness for these lenders to take a chance on loans for students. Sallie Mae was then recreated as a state-chartered corporation, began paying taxes and lost its guarantee of a federal bailout in the event the company failed, Holler said. Its new charter allowed for a move into other areas of the financial aid system including primary lending and debt collecting.

It completed its separation from the government in 2004, four years before its required deadline. 'They make money on origination, guarantee and when a loan goes into default,' said Michael Dannenberg, a researcher for The New America Foundation, a Washington think tank. 'They are getting a piece of the pie at every stage.' Michael Lea, a consultant to Sallie Mae during privatization, said this type of vertical integration was natural since the company had the most knowledge and experience in the industry.

Critics of Sallie Mae say that its dominance in the industry is reducing competition. 'The dangers are the same with any industry in an oligopoly or monopoly,' said Robert Shireman, director of the Project on Student Debt, a non-partisan organization which researches student debt. 'When one industry dominates, they are able to set terms and conditions.'

According to a 2005 report written by Lea, the industry remains competitive despite Sallie Mae's growth. 'I don't think you can find anyone who would say that a 25 percent market share constitutes an oligopoly,' Holler said. In the decade since privatization, Sallie Mae's stock has soared substantially and continues to climb, but Holler said one should not be so quick to attribute this to privatization. She pointed out that an increase in college enrollment and tuition costs have led to a greater demand for all student lending services.

Sallie Mae's critics have pointed to the incredible power wielded by its political action committee, which gives generously each year to candidates on both sides of the political spectrum. 'They essentially write their own paycheck. This is an industry that is entirely parasitical on federal law,' Nassirian said. Sallie Mae PAC has made it in the top 50 list of corporate donations published by the Federal Election Committee in the 2004 election cycle at No. 47. Dannenberg said Sallie Mae PAC's lobbying expenditures soar immediately before every major piece of legislation which could benefit them. He said the company has a history of lobbying for laws which hurt student borrowers. One 1998 law supported by the company, he said, made changes to the bankruptcy code making it more difficult for students to escape their student loan debt through bankruptcy in the event of default. In a written statement, Holler said Sallie Mae does not receive money off of defaulted loans. That money goes directly to the government, she said. However, in the same statement, Holler said Sallie Mae is a top provider of debt collection services, including defaulted debt for the federal government, for which it is compensated.

Critics of the financial aid industry say they want to see the Federal Direct Loan Program strengthened as an alternative to loans by for-profit lenders. Direct loans are loans made from the federal government to students without intermediaries, and no profit is made on them. 'Turn it back to the Department of Education. Financial aid is a public function,' Nader said.

When the direct loan program was created under former President Bill Clinton, around the same time Sallie Mae began to privatize, lawmakers envisioned that it would grow and possibly replace all other loans. Lawmakers hoped to achieve around a 60 percent market share for the program, according to Lea's report, but the actual market share is now roughly equal to that of Sallie Mae, at around 25 percent. Lea went on to write that there is evidence that the privatization of Sallie Mae has forced greater competition between private lenders and the direct loan program. He added that while government estimates of the cost of direct loans show that they are cheaper to the federal government, private entities such as Sallie Mae offer other benefits such as greater efficiency. Nassirian said Sallie Mae was created with the best intentions, but its priorities have shifted. 'Every movement begins with an idea, becomes a business and ends up a racket,' he said.

Colleges Find a Way to Keep Profiting From Loans - July 14, 2006

Supporters of a program that allows colleges to turn a profit from the federal guaranteed-student-loan program may be heading for a showdown with Congress.

In February federal lawmakers tried to thrust a stake through the heart of the 'school as lender' program, in which colleges lend money directly to their graduate and professional students and then sell the loans to commercial lenders for a hefty gain.

Concerned about the prospect of universities profiting from the debt of their students, Congress placed a moratorium on the growth of the program, preventing colleges from joining as of April 1. The legislators also set strict limits on the ways in which colleges can use the money they earn from the sale of the loans.

But instead of backing down, advocates for the program — which include college participants and loan companies that market these deals — have been promoting an alternative approach that would allow colleges to continue acting as lenders, but would free the institutions from the restrictions that Congress had placed on them.

The alternative works by taking advantage of a provision in the Higher Education Act. It allows entities that are not normally eligible to act as student-loan providers, such as colleges, to do so if they hire banks that participate in the guaranteed student-loan program to serve as trustees for the loans they make. The banks would hold the legal title to the loans, and would ultimately be held responsible by the government if the lenders violated statutory or regulatory requirements or could not meet their financial obligations.

Under the 'eligible-lender trustee' arrangements, colleges would no longer be required to use the loan-sale proceeds to provide greater need-based grant aid to students. In addition, the institutions would not be limited to providing traditional federal loans to graduate students, as they are now. For example, colleges could provide PLUS loans, which are higher-interest federal loans that the parents of undergraduates and graduate students can use to cover the full cost of an education; and consolidation loans to those who wish to refinance. Institutions could even start offering loans to undergraduates.

While the eligible-lender-trustee option has been available in the federal loan program for some time, few colleges have made use of it. Loan-industry officials, however, believe there is a lot of interest among the 150 institutions that are eligible to participate in the school-as-lender program.

Just how these developments will play out on Capitol Hill has yet to be determined. But a key Democratic senator — Edward M. Kennedy — has already introduced legislation (S 3593) to discourage colleges from going down this path.

'Earlier this year, Congress sent a clear message when it acted to require schools in the school-as-lender program to use any revenues stemming from the program for need-based aid,' Senator Kennedy said in a written statement to The Chronicle about the bill. 'Efforts to circumvent the law to get around this and other restrictions only highlight the urgent need to reform the student-loan programs.'

But advocates of the school-as-lender program say they are not trying to circumvent the law. The Higher Education Act clearly allows institutions to pursue this option, they say, and colleges, unlike other types of entities that use the eligible-lender-trustee option, would primarily do so to pump more money into their student-aid budgets.

'Why shouldn't schools be able to do it, when they can use the proceeds to help their students?' asked Jeffrey R. Andrade, a former Education Department official who has been lobbying on behalf of the U.S. Education Finance Corporation, which has aggressively marketed the school-as-lender program.

Even some lenders who are sympathetic to the school-as-lender program believe that its advocates have misplayed their hand.

'It's just not smart,' says one loan-industry official, who wished to remain anonymous because his company works with colleges that act as lenders. 'They're basically thumbing their noses at Congress.'

Aggressive Marketing

Colleges have been able to act as lenders from the very start of the guaranteed-loan program in 1965.

At the time, few banks wanted anything to do with the new program. Commercial lenders were largely unfamiliar with student loans and believed them to be too costly to administer. By allowing colleges to lend money, lawmakers were trying to ensure that low- and middle-income students would have access to loans.

By the late 1970s, after lawmakers had added enough sweeteners to coax thousands of banks to take part in the program, the availability of loans was no longer a problem. As a result, Congress changed the law to prevent colleges from providing federal loans to their undergraduate students, except in limited cases. Colleges could still act as lenders for the graduate students, but only a small number of the richest institutions chose to do so.

Only in recent years has colleges' participation in the program grown significantly, as lenders have begun selling the program aggressively. Newer, less-established companies, like the Education Lending Group, Nelnet, and the U.S. Education Finance Corporation, all of which entered the business within the last decade, have had to find creative approaches to win market share. In turn, more-established lenders, like Sallie Mae, have been forced to offer the product so they could protect their loan portfolios.

Advocates of the school-as-lender program say it has injected a healthy dose of competition into a loan program that is becoming increasingly dominated by a select group of companies. They cite Education Department data that show that the top 25 lenders made over 70 percent of all guaranteed loans last year.

Given the market concentration, it's no surprise that the Consumer Bankers Association — which represents many of the top lenders on the department's list — has been leading the fight to derail the school-as-lender program, the program's supporters say. 'The only people who would benefit' from the program's collapse, says Henry B. Howard, president of U.S. Education Finance Corporation, 'are the already entrenched, monopolistic lenders.'

Raising Alarms

But the advocates' arguments have largely fallen flat on Capitol Hill. During debates on student loans last year, lawmakers from both political parties expressed concern that the school-as-lender deals create a potential conflict of interest for colleges because the institutions, which are supposed to have their students' best interests in mind, profit from their graduate students' indebtedness. Lawmakers also questioned whether colleges have been using the proceeds from the sales to supplement their student-aid budgets, as they have claimed, or to free up money for other uses.

Besides imposing the moratorium, the legislators required that colleges use the earnings to increase spending on need-based grant aid and 'to supplement, and not to supplant' their institutional-aid budgets. In addition, the bill required the colleges to submit to annual compliance audits and expressly forbade the institutions from making consolidation loans and PLUS loans, as some colleges had been doing.

The legislation, however, did not have the desired effect. Instead of stemming the flow of colleges into the school-as-lender program, it accelerated it. In the weeks leading up to the moratorium, which started on April 1, dozens of institutions rushed to apply. Officials at some of these institutions say they haven't decided whether they will act as lenders but wanted to keep their options open.

Meanwhile the program's advocates, who had been shocked by the actions Congress took, began to push the eligible-lender-trustee option, which they believed would allow the institutions to serve as lenders without being subject to the new restrictions. But most colleges were reluctant to move forward without knowing how the Education Department would view these arrangements, loan-industry officials say.

In May the department alerted the program's supporters that it agreed with their interpretation.

Now opponents of the program are raising alarms. They are particularly worried that these arrangements could cause a sea change in the way federal loans are delivered. Once colleges realize they can make profits from all their student-loan borrowers — including undergraduates — there will be little reason for them to remain in the traditional federal loan programs, opponents say.

'I fear that colleges would be wooed by the promise of profits to a scheme that is rife with conflict of interest and inherent incentives to increase the cost of education,' says Eileen K. O'Leary, director of student aid and finance at Stonehill College, in Easton, Mass., and a member of the National Direct Student Loan Coalition, which, along with the consumer-bankers group, has fought vigorously against the school-as-lender program.

Mr. Andrade says such fears are exaggerated. He does not believe many colleges will be rushing to use the trustee arrangements to provide loans to undergraduates. He says he has specifically advised his clients not to do so because colleges have long been prohibited from doing it.

'While legally there are no restrictions, most people don't want to give the appearance that they are trying to get one over on the government,' he says.

CASHING IN ON STUDENT LOANS

In February, Congress approved a bill that was meant to halt the growth of the 'school as lender' federal student-loan program. Supporters of the program, however, have found ways to evade the ban. Under the program, colleges make deals with lenders that allow the colleges to lend money directly to their graduate and professional students and then sell the loans back to the lenders for large profits.

Top 5 college lenders, 2005 (in millions)

1. Nova Southeastern U. \$392
2. U. of Phoenix \$214
3. Webster U. \$103
4. U. of Pennsylvania \$94
5. Michigan State U. \$92

New college lenders

The following is a sample of the 64 universities that rushed to apply to become lenders shortly before a congressionally required moratorium on the 'school as lender' program went into effect.

Boston U.
Carnegie Mellon U.
Emory U.
Fordham U.
Georgetown U.
Johns Hopkins U.
Marquette U.
Northeastern U.
Oklahoma State U.
Purdue U.
Temple U.
Tulane U.
U. of Illinois
U. of Maryland at College Park
U. of Minnesota
U. of Pittsburgh
U. of Vermont
Vanderbilt U.

SOURCE: U.S. Education Department

Letter to the Editor - June 15th, 2006

STAR Act Would Save Taxpayers

The June 5 editorial clearly underscores the need for federal student-loan reform.

Fortunately, more members of Congress are coming to understand this problem and endorsing a fiscally responsible and bipartisan solution.

Last year, Congressman George Miller and I, along with U.S. Senators Ted Kennedy and Gordon Smith, introduced the Student Aid Reward (STAR) Act (HR 1425), to allow colleges that choose to participate in the more cost-effective student-loan program to receive some of the savings in return. The Congressional Budget Office reported that, if enacted, the STAR Act would save taxpayers \$13.4 billion over the next 10 years.

Instead of funding unnecessary subsidies to lenders, these savings would be reinvested as additional Pell Grant aid (up to \$1,000, per year, per recipient) for low- and middle-income students as well as toward deficit reduction - both at no additional taxpayer expense.

Furthermore, this proposal is completely budget neutral and 100 percent voluntary, which is fair for taxpayers as well as participants in both student-loan programs. The STAR Act would inject much-needed competition into the system as both programs would strive to have the lowest taxpayer-subsidy cost annually in order to maintain or grow their market share.

There's simply no similar incentive in the system right now.

It is indeed time for Congress to reform the federal student-loan system.

- Thomas E. Petri, U.S. Representative (R-Wis.), Washington, D.C.

Overhaul Lending For College Students; Save Money By Cutting Out The Middleman - Monday, June 5th

Consolidate now. That's the short fix and the best advice for graduates who owe money on student loans. They need to lock in the lowest possible rates before July 1, when rates for the popular Stafford loan will jump to 6.54 percent.

The more complicated fix: The nation should re-examine its system for how students borrow money for college. The system wastes money, and the Office of Management and Budget has the numbers to prove it.

Student loans made through private lenders cost the federal government 10 times more than direct loans provided by the Education Department, an OMB report released last year found. Some students borrow directly from the government. More and more, however, they borrow guaranteed student loans through private lenders such as Sallie Mae. For every \$100 spent on student loans, the government spent only 84 cents for direct loans, compared to about \$12 for government-guaranteed loans from private lenders, the study found.

Clearly, going through a middleman costs taxpayers a lot more.

Best course of action: Expand direct government lending to students.

The government is already in the business of direct lending. And the government already assumes the risk of loan default for everyone with a student loan - whether that loan came directly from the feds or from a private lender.

When Congress created the loan program, lawmakers were afraid lenders wouldn't want to grant unsecured loans to young people. So they guaranteed repayment to lenders if students default. What a deal - for lenders. Collect interest, fees and penalties from borrowers. If the borrowers default on their loans, the government will pick up the cost. Little risk, big profit.

It's such a great deal, the last thing lenders want to see is more people borrowing directly from the government through direct-loan programs. So lenders did exactly what one would expect in responding to the OMB study: disputed the findings. Lenders argue that direct loans actually cost taxpayers more than private loans and that the OMB didn't figure in certain costs associated with student-loan programs, including administrative expenses.

The government does incur administrative costs by directly lending to students. But common sense dictates that directly loaning money to students costs less than funding a middleman. Especially when the middleman takes a chunk of the money earned on interest, is beholden to make a profit for its stockholders and is paying high CEO salaries.

According to the OMB, taxpayers could save billions if the government cut out the middleman private lender and expanded direct lending to students. That's money that could be used to make education more affordable.

Fortuitous Error - June 2, 2006

The Washington Post

Congress mistakenly undercharged some student loan borrowers, which might be good news.

Friday, June 2, 2006; A18

IT'S ONE OF those classic, only-in-Washington situations: In December, Congress passed a bill designed to cut the federal deficit -- and made a mistake. One of the "money-saving" measures in the bill (in fact a money-raising measure) increased the interest rate on guaranteed student loans made to parents from 7.9 percent to 8.5 percent. However, in their eagerness to get out of town before Christmas, members drafted the legislation in such a way that parents borrowing money using banks and other lending institutions make the new payment, while parents borrowing through the Direct Loan program, which comes directly from the government, will still be paying the older, cheaper rate.

Congress had always intended to fix this anomaly, which kicks in on July 1. But in the meantime, the whole matter has become rather awkward. For one, the error drew attention to the little-noticed fact that parents of college students are being squeezed to pay down the deficit. There has also been some unseemly lobbying by banks -- and, alarmingly, by some college financial aid officers -- to get the government to raise the rates on the direct loans. Many school financial aid offices operate symbiotically with lending institutions, accepting gifts of equipment and other perks in exchange for directing students their way. Clearly, they didn't relish competition from direct loans -- nor did they seem to feel their role involved lobbying for lower rates all around.

The deepest irony, though, is that study after study has shown that direct loans are cheaper for taxpayers than loans that flow through middlemen. But because of the incentives that those middlemen offer colleges, not as many students wind up using the direct loans. Perhaps Congress should just leave its mistake in place, and let students start clamoring for the direct loans -- which would, in the long term, help cut the federal deficit.

Fuss Over a Financial Aid ‘Fix’ – May 31, 2006

When Congress [hurriedly passed a mammoth bill](#) designed (in name, at least) to cut the federal deficit in December, lawmakers intended to raise the interest rate on [loans taken out by parents](#) to 8.5 percent from 7.9 percent as of July 1. Yet in their haste to get the legislation passed before Congress shut down for the year, those who drafted it mistakenly made the change only for PLUS loans available through lenders in the guaranteed student loan program, leaving at 7.9 percent the rate on loans available to parents through the competing direct loan program.

Although President Bush signed the bill into law, it was widely assumed that Congress — with the enthusiastic urging of lenders — would as a matter of course find some way to correct the oversight before July 1.

With that date rapidly approaching, however, nothing has yet been done, and financial aid officers and other higher education officials are increasingly at odds over what if anything to do about it.

In recent weeks, amid a flurry of letters, retractions and e-mails, some leading financial aid officers have urged Congress to “fix” the differing rates in the interests of “fairness” and “equity,” so that some families are not charged a higher rate than others. But others, including the head of the National Association of Student Financial Aid Administrators, who sent a letter this month gently rebuking those who had lobbied for the “fix,” have argued that it is unseemly for college officials to be seen as supporting any effort to raise the interest rates students pay — even a change Congress thought it had already made.

Like most issues or conflicts surrounding the federal student loan programs, this one is not nearly as simple as it appears. The programs have as their underlying purpose to help students afford college, but the political and economic interests of the other involved parties — institutions, lenders and lawmakers — sometimes cloud that underlying purpose. That’s especially true because of the continuing (and often distracting) conflict between the direct and guaranteed loan programs.

The seeds for the current controversy were sown last year, when Republican leaders in Congress made the decision — highly unpopular with virtually all groups in higher education — to inject parts of legislation to renew the Higher Education Act into a \$40 billion deficit reduction measure, and to tap into the federal student loan programs to produce nearly a third of the bill’s total savings, through a series of cuts and changes.

Despite partisan bickering over how much of the savings would come out of the pockets of students and families versus lenders, some of the shifts had the clearcut impact of raising the costs to individuals, which college officials, in vain, strenuously opposed. The plan to increase the interest rate for PLUS loans, which was designed in part to help cover the costs of allowing graduate students to benefit from the subsidized loans for the first time, was one such example.

But like many bills, the slapped-together budget legislation contained mistakes, including the failure to note the planned change in the PLUS loan interest rate for borrowers in the direct lending program. Most college widely assumed that the error would be fixed when Congress enacted legislation to renew the Higher Education Act this spring, but that measure has been stalled and may not see the light of day this year, despite continued vows by Congressional leaders to get it passed. So that has other supporters of the “fix” looking for other ways to get the job done, perhaps by attaching it to an emergency appropriations bill making its way haltingly through Congress.

Those most interested in seeing the gap in the PLUS loan rates eliminated are, not surprisingly, the banks and other lenders that make PLUS loans in the guaranteed loan program. They argue that it would be inappropriate for parents and graduate students at institutions that participate in the government’s direct loan program to be eligible for loans at such a sharply lower rate than the significant majority who are in the guaranteed loan program. In 2005, about 72 percent of the PLUS loans distributed by the federal government were in the guaranteed loan program.

“The goal and rationale for why it must be fixed is simple: It’s an issue of equitable treatment of borrowers,” said Alexa Marrero, vice president of communications and industry relations for the Education Finance Council, which represents state-based secondary markets that help students in their states gain access to loans. “Providing for a disparate interest rate in one program or another goes against the fundamental principle that the two programs be equal.”

College Parents of America, which lobbies on behalf of parents of current and future students, also urges Congress to act to fix the error. “The staff of the United States Senate has made a careless mistake, parents across the country will pay higher PLUS loan interest rates as a result, and now is the time to come to the aid of those parents,” said James A. Boyle, the group’s president.

College financial aid directors have also weighed in, but in mixed ways. In mid-May, with the July 1 deadline for the interest rate changes fast approaching, several financial aid directors — some of whom held leadership positions in regional branches of the National Association of Student Financial Aid Administrators — sent letters and e-mail messages suggesting that their colleagues write their members of Congress urging action.

For instance, Bruce Foote, the financial aid director at William Rainey Harper College and head of the federal relations committee of the Midwest Association of Student Financial Aid Administrators, sent a May 16 e-mail that included a proposed letter that peers could send to lawmakers. “This has been widely recognized as a simple, unintentional drafting mistake that needs to be corrected before 7/1/06 so that borrowers are not advantaged or disadvantaged by virtue of which federal program their school participates in,” Foote wrote.

In the letters they shared, Foote and others, including Richard Eddington-Shipman, director of financial aid at Michigan State University, which participates in the guaranteed loan program, advocated a compromise — advanced by the Education Finance Council and the National Council of Higher Education Loan Programs — that would set the interest rate for both programs at 8.3 percent (higher than the 7.9 percent now slated for the direct lending program, but lower than the 8.5 percent now set for the guaranteed program).

“This proposal is fair and provides for modest federal savings,” Eddington-Shipman wrote. (His letter did say that “ideally, we’d prefer that all rates be lowered to 7.9 percent.” But it added, “If that is not feasible, however, we ask your support to set the PLUS loan rate to 8.3 percent for both programs.”)

Supporters of the direct lending program and leaders of student groups slammed the aid officers to supporting increases in interest rates for borrowers. “It is alarming that financial aid administrators, whose jobs are to package the best and most affordable deals for students and look out for their interests, are openly advocating higher interest rates for students and parents, to the benefit of private lenders,” said Luke Swarthout, higher education associate for the State Public Interest Research Groups. “Students trust them to look out for their best interests, and not the best interests of Sallie Mae.”

Eileen O’Leary, assistant vice president for finance and director of student aid and finance at Stonehill College, which participates in the direct lending program, said she thought it was “outrageous” that the aid directors would encourage Congress to raise rates for students in the direct lending program. “Why aren’t we saying, let’s decrease the rate for all the [guaranteed loan] students?” O’Leary acknowledged that some of the letters did say that lawmakers should lower all the rates to 7.9 percent, but that line seemed like a half-hearted throwaway, she said.

“Why should financial aid administrators be giving Congress the easy way out?” she added, noting that the draft letters from the financial aid directors largely mimicked letters that lending groups themselves had distributed.

As those letters circulated and criticism mounted, Dallas Martin, president of the National Association of Student Financial Aid Administrators, [felt obliged to weigh in](#). He sent [his own May 18 letter](#) asking the national group’s members to “resist the impulse” to support the fix — at least now. First, Martin said, doing so at this point would take away any leverage that financial aid officials might have to push for improvements in other parts of the Higher Education Act reauthorization bill.

“It is entirely possible,” he wrote, “by holding out against such a fix now, that later the price of our support for the overall bill may result in improvements elsewhere in the legislation.” And second, he said, supporting the fix would abandon the idea, which NASFAA and other college groups pushed unsuccessfully last year, of capping PLUS loan rates at 7.5 percent. “Some argue this would be ‘cost prohibitive,’ but I would say, Congress can find the offsets if it has the political will to do so.”

In an interview, Martin said that his letter followed a discussion in which NASFAA leaders thought it was a mistake for any aid officers to be appearing to support an increase in what students and families pay, especially in a “bad economic time for families” when “everything is going up.”

“If one group of students has a better deal, I don’t want to take that away from them,” he said. “I want to get the other students down to that same deal.”

Martin noted that the conflict between the two loan programs sometimes leads officials at institutions to take positions that aren’t necessarily in the best interests of students. “Sometimes when we’re caught up in this, the thinking is, ‘My kids are not going to come out as well as somebody else’s,’” he said. “It’s easy to get caught up in the heat of things. But in our discussion, we agreed unanimously that we ought to be talking about what is best for students.”

Foote, Eddington-Shipman and other aid directors who had sent out letters that appeared to endorse the higher-rate compromise promptly sent letters clarifying their positions and backing away from appearing to favor raising the interest rate for some parents. "For the record, it is the [Michigan State] position that the disparity between the two programs is a matter of concern and Congress should correct it. It is also our position that the interest rate should be 7.9% for both programs."

— **Doug Lederman**

The original story and user comments can be viewed online at <http://insidehighered.com/news/2006/05/31/loans>.

Loan Consolidation a Must for Iowa State U. Students - May 18, 2006

Lisa Swolley graduated from Iowa State in December 2005 with almost \$40,000 in debt. She worries about how she will make her monthly payments when her grace period is up in July. After Swolley graduated, she consolidated her loans and set up her repayment plan so that she will make monthly payments for 20 years. But Swolley has been unable to find a job in her field of marketing, so she works at Trade Home Shoes in Omaha, Neb. 'I don't think I make enough money to cover my other bills and pay for my student loans,' Swolley said.

Consolidation has become an option for students with loans from different issuers at different interest rates, and can help lower monthly payments and interest accrued. 'Consolidating loans is something every student should do,' said Sean Bremer, junior in management. 'We are all going to have a lot of money to pay back so why not keep that [debt] from growing even more and giving more of it to the government.' Bremer also believes that Iowa State University should have a required financial class for students. He said this class should cover budgeting, consolidation and home buying. Those with federal loans are required to undergo exit counseling, an online lecture with a multiple-choice quiz at the end that can be retaken as many times as is necessary to pass.

According to the 2006 Edition of America's Best Colleges by U.S. News and World Report, 68 percent of ISU students graduate with a debt of more than \$27,000 -- which is \$8,000 more than the national average of federal student loan debt for graduating seniors, according to the 2003-04 National Postsecondary Student Aid Study. Although debt is increasing, so is tuition. During the last five years, the cost of attending Iowa State has increased approximately \$5,000, according to the ISU Fact Book.

The increases in tuition aren't being matched by federal aid, said Roberta Johnson, director of financial aid at Iowa State. Most of the aid now comes from the state, which generally has other spending priorities, she said. At the same time, scholarship money is decreasing. The average scholarship award between 2004 and 2005 decreased by \$144 per person, according to the Fact Book. Because of this decline, many students are turning to loans. But interest rates are rising on several types of loans. 'In order to save money, many students are consolidating,' said Johnson. 'If they consolidate, they will save money by locking in a lower interest rate.' There are two different types of consolidation for students. In-school consolidation allows a student to lock in the current interest rate for loans they have taken out previously. Any loans taken after July 1 will be at the fixed rate of 6.8 percent. Out-of-school consolidation allows recent graduates to lock in the current interest rate on all their loans.

On Feb. 8, Congress passed the Budget Reconciliation Act, cutting \$12.7 billion in student loan programs and changing the options students have for consolidation. After July 1, students will only be able to consolidate their loans at graduation time, not while in school. The act also cuts benefits to non-governmental lenders who might offer interest rate deduction promotions to students. Congress also passed the Deficit Reduction Act on Feb. 8, said Doug Borkowski, financial counselor for the Financial Counseling Clinic. Stafford Loans have a variable interest rate that is currently 4.7 percent. Once the act takes effect on July 1, Stafford Loans will have a fixed interest rate of 6.8 percent.

The act also increases the amount of federal money that freshman and sophomore students can borrow. 'Since there will no longer be a variable interest rate, students should take this opportunity to lock in the low interest rate,' Borkowski said. Students have many lenders to choose from when consolidating loans. Borkowski said students should analyze at their situation and determine which company is best for them. 'Students need to realize that if they consolidate while in school with a company other than a federal consolidation firm they will lose their grace period, if you consolidate after graduation you don't lose that grace period,' Borkowski said.

Borkowski said Direct Loans is the most flexible consolidation option for students who run into problems paying their loans back. Other companies may offer a lower interest rate, but Direct Loans will try to work with students so that they don't default on their loans. Borkowski added that Direct Loans also has options for students who become unemployed or are unable to work for various reasons. Students can also track their application and repayment information online. Married students face even more dilemmas when trying to decide whether they should consolidate their loans together or separately. Borkowski explained that married students who get a divorce after consolidation are equally responsible for the debt and should one spouse choose not to pay his or her share of the debt, the other spouse is responsible for the whole amount. Also, should one spouse die the remaining one is then held responsible for the entirety of the debt amount.

Students can apply for consolidation by paper, phone or online. 'If students are considering consolidation, they need to get their application in as soon as possible,' Borkowski said. He said that the application process usually takes a couple weeks, but may take longer because many students are trying to lock in the low interest rates before July 1. Many lenders

offer a repayment calculator that students can use to see how much their monthly payment would be for a particular interest rate.

For example, if a student has borrowed \$20,000 with an interest rate of 4.7 percent, then that person would pay \$209.71 each month for 10 years. With interest and the principal of their loan, the student would pay \$25,105.26, according to FinAid.com, a comprehensive online financial aid resource established in 1994. Swolley believes that her experience at college was well worth the money she had to pay. Swolley studied abroad, which she said was the best part of her college career. 'Would you rather die with money in the bank or in debt?' Swolley said. 'I want to die in debt. I had a good time while in school and received a good education. I would rather be a happy person and know I am enjoying life than worrying about how I will pay for my education.'

Sallie Mae's Success Too Costly? Does The Lender's Success Come At Too Steep A Cost To Students And Taxpayers?

May 7, 2006

(CBS) It's May, the season when millions of college students are scrambling to find a way to pay next year's tuition. Most will borrow, and the odds are good those loans will come from a company called Sallie Mae.

When Sallie Mae was created in 1972 as a quasi-governmental agency, its purpose was to encourage private banks to loan to students who were considered to be a credit risk. It did not make the loans itself.

But nine years ago Sallie Mae severed its ties to the government and became a private lender, much like a bank. That transformation has proved lucrative for Sallie Mae, to say the least. Since 1995, the company's stock price has gone up almost 2,000 percent.

The question is: does Sallie Mae's success come at too steep a cost to students and taxpayers?

Correspondent Lesley Stahl reports.

Graduation is a day of achievement and promise. But for two-thirds of every graduating class, the future includes serious debt. That can spiral out of control, as it did for Alan Collinge.

"I graduated with degrees in aerospace engineering in 1999. I borrowed about \$45,000 for school. Since that time, my student loan debt has exploded to where currently I owe about \$103,000," Collinge explains.

In and out of work, Collinge has struggled since he got his undergraduate degree. Sallie Mae let him defer payment on his loans for a while, but that meant compounding interest. When he finally defaulted, his loan was turned over to a guarantor. Collinge knew that sometimes credit card companies will reduce the debt. He hoped the guarantor would do the same.

"And I was refused at every step in the way," Collinge says.

Asked why, Collinge says: "I don't know why. They just refused. They said no. They said you will pay the penalty you will pay the fees. You will pay the interest on the penalties and fees."

For some borrowers, the system is unforgiving. But it has worked well for lenders like Sallie Mae, which has 10,000 employees in 19 states and manages \$123 billion in student loans. Sallie Mae declined to give **60 Minutes** an on-camera interview, saying they didn't think they'd get a fair shake.

"If you just can't pay, why does it make sense to squeeze you if you can't do it?" Stahl asks Collinge.

"Well, the student lenders know that at the end of the day if they run out if they've exhausted their opportunities for you, the government's going to pay them," he says. "They're still going to make money. They're guaranteed."

"Guaranteed" because Congress, wanting to help students who otherwise would not qualify for a loan, created "the guaranteed loan program" for private lenders, under which the government covers most of the student loans made by Sallie Mae.

"It may be called 'private' by the people in the system. But it's not private at all," says Michael Dannenberg, who analyzes student loan policy at the New America Foundation, a non-partisan think tank.

"What do you call it?" Stahl asks.

"Frankly, it's a socialist-like system," he says. "It's not as if this private entity is assuming any risks. No, no, no. The law makes sure that this so-called private entity has virtually no risk."

On top of that, Sallie Mae also owns some of the biggest collection agencies in the country. Once a student borrower goes into default, the government pays Sallie Mae all the principle and compounded interest that have accrued.

The loan then passes into the collection phase. If Sallie Mae is the collector, it gets to keep up to 25 percent of whatever

is recovered. In 2005, nearly a fifth of its revenue came from its collection business.

"Sallie Mae makes money if you pay back on time. And Sallie Mae makes money if you don't pay back on time," says Elizabeth Warren, a professor of bankruptcy law at Harvard Law School.

Warren says it's a mistake to allow Sallie Mae to be both a lender and a collector.

"It shouldn't be the case that Sallie Mae gets to play every hand at the poker table while the government is the one that keeps anteing up the money," Warren tells Stahl. "But let's be clear. That by itself isn't enough. We have to decide collectively as a country: do we want to encourage the young people who are trying to get college diplomas? And if the answer to that is yes, the way to encourage them is not to double and triple the amount that they owe when they get into financial troubles."

By law, private lenders must offer payment options, but that usually means the loans just balloon. So even though 95 percent do pay up over time, many are burdened with heavy debt. In a statement, Sallie Mae told *60 Minutes* it makes far more money from those who pay on time, than from those who default, like Alan Collinge.

"If you can't afford the payments why don't you go out and just get a better-paying job? You have the education. You have the wherewithal," Stahl asks Collinge.

"I'm seeking a better-paying job. Believe me, I would love nothing more than to make enough money to be able to pay this debt. I would like nothing more," he replies.

Sallie Mae says Collinge could have tried a lot harder to pay. He works at a non-profit and recently got a second job as a technical writer.

"Are you depressed? Has that kind of stymied you from being more aggressive?" Stahl asks.

"Yeah, I mean, it really does affect — it does affect your self-esteem," says Collinge. "I mean, there's a certain shame involved. And when you have to dance around the question about creditworthiness, you know, everywhere you go, it really takes its toll,"

In a horrible Catch-22, he says his credit troubles with Sallie Mae mean he can't get a job as an aerospace engineer.

"It would be very tough for me to get anything but the lowest level of security clearance with my credit record destroyed, as it is," Collinge says.

Collinge simply stopped paying and has now started a Web site, studentloanjustice.org, for people like Brit Napoli, who was wiped out in the California earthquake of 1994.

"I lost everything. I lost my dwelling, I lost my automobile," says Brit.

"You went immediately from solvency to default?" Stahl asks.

"I received some assistance from FEMA; I received some assistance from [the] Red Cross, but I did not receive any sympathy from Sallie Mae," he says.

"Nobody said, 'This is a special case because this poor man is destitute and homeless because of the earthquake?'" Stahl asks.

"No one," Napoli replies.

On loans of \$38,000 from Sallie Mae, he says he now owes \$71,000. While these borrowers are suffering, former Sallie Mae CEO Al Lord told an audience in 2003 that he, at least, was making a bundle.

"It would be very hard for me to tell you that what I make is not a lot of money," Lord said.

Said to be worth a quarter of a billion dollars, Al Lord is building his own private golf course and made a bid to buy a professional baseball team.

During the past 13 years taxpayers have spent \$40 billion on guaranteed student loans. Sallie Mae would not tell **60 Minutes** how much of that went to them.

It is true that Sallie Mae performs an important service: it has helped 21 million students pay for college.

But there is a less costly way to make student loans, called "the direct loan program," run by the Department of Education. Sallie Mae disputes this, but studies by three different government agencies say it costs taxpayers about five times less per student loan.

Still, most universities guide their students to private lenders like Sallie Mae. One reason is because they offer incentives to some of the schools, which Michael Dannenberg calls "kickbacks."

"Kickbacks?" Stahl asks.

"Payments, cash payments to colleges," Dannenberg replies.

Asked if that's legal, Dannenberg said: "Yeah. It's done through a loophole called the school-as-lender program. But it's legal."

School-as-lender is a program Congress sanctioned that allows private lenders like Sallie Mae to pay universities money to help administer the Sallie Mae loans; in turn universities steer their students to Sallie Mae.

"Are you saying the colleges are fronting in a way, then, for the Sallie Mae types?" Stahl asks Dannenberg.

"A number of them are through the school-as-lender program. And they make a pretty penny on it," he says.

Universities are required to pass a small portion of that money along to students in the form of cheaper fees and student grants. Republican Congressman Thomas Petri sponsored legislation to permit the direct loan program to offer similar "incentives."

"All we were asking is that the lower-cost program be allowed to compete on a more equal basis," Rep. Petri explains.

"And we think the result will be that we'll save money for the taxpayer. And it will provide exactly the same benefits and a few more to students."

But, he says, Sallie Mae lobbied to get his bill killed.

"Would you say that the Sallie Mae's lobby is one of the most effective up here?" Stahl asks.

"Well, there's no question about it in the education area," the congressman replies.

Since 2002, the company and its employees have doled out more than \$2.7 million to congressmen and their political action committees, including more than \$200,000 to House Majority Leader John Boehner and his PAC. Over the years, Congress has written laws that give the student loan industry special advantages.

"If you don't pay Sallie Mae, then Sallie Mae gets to come after you in ways that virtually no other creditors in America can do," says Elizabeth Warren.

Asked if he ever considered going into bankruptcy, Alan Collinge says he thought about it. "But in the case of student loans, it doesn't matter because bankruptcy is not an option for the vast majority of borrowers for student loans."

"The bankruptcy laws were written, once again, to give this extraordinary protection to the student loan agencies, to Sallie Mae. The idea behind ..." Warren explains.

"A special law just for them on this?" Stahl asks.

"A special law just for those who make student loans," Warren continues. "Credit card companies don't get that kind of protection despite all tier lobbying. Home mortgage lenders don't get that kind of protection."

And Congress passed more laws that squeeze the student borrowers.

"Suppose you get hurt and you have to live on disability insurance from your Social Security," Warren says.

The government can attach that. Stahl asks if there are any other cases where Social Security funds are garnished.

"Only child support," Warren replies.

But all these special protections have produced results. The default rate, over 20 percent in the late 1980s is now down below 5 percent.

"Why wouldn't Sallie Mae say, 'Look, this is a law that worked?' " Stahl asks Alan Collinge.

"It has worked very well for Sallie Mae," he replies. "It's working very well for the federal government, but it hasn't worked well for the students."

It hasn't worked well for some students such as Lynnae Brown. She got loans from Sallie Mae starting in 1985 to go to college and then to film school.

"How much will you have paid them when you're finished?" Stahl asked.

"Over a quarter of a million dollars. \$262,383 to be exact," Brown replied.

"For an original loan of what?" Stahl asked.

"\$60,000," Brown said.

She started falling behind in her payments early on. "My sophomore year in undergraduate school, I was diagnosed with an illness. It does affect my daily existence, if you will, and it does affect the choices I make or can make," Brown says. "And, yet, there's no consideration for people's lives."

Lynnae Brown has never gone into default, but she may never catch up.

"I think the general idea of student loan program is excellent," she says. "I mean, I'm very fortunate that I was able to get an education. I think the problem with the system is it doesn't seem to keep in mind that people have human problems. Things happen."

It's a system that Congress created with good intentions, to help kids go to college, but it has ended up saddling hundreds of thousands with debt while guaranteeing that a lender like Sallie Mae can become what Fortune Magazine says is one of the most profitable companies in the world.

"How do you lose in a game like that? It's a great business model. I win from here; I win from there. It's the protected market," says Elizabeth Warren.

"It's not a free market?" Stahl asks.

"It's a market in which the protection goes to the lender," Warren replies. "And the students get served up like turkeys at the Thanksgiving dinner."

Students Get Tuition Edge with Petri Bill - Tuesday, April 11, 2006

Finding money to go to college has been the top priority of most every university student for years. It's almost an insult that Congress isn't equally interested in putting several hundred more dollars into student hands without having to raise taxes.

The Student Aid Reward Act co-authored by U.S. Reps. Tom Petri, R-Fond du Lac, and George Miller, D-Calif., would assign the federal government the responsibility for issuing student loans instead of relying on middlemen who cost more to the taxpayers. In one well-publicized example, a University of Wisconsin-Oshkosh student eligible now for \$4,050 in Pell Grants would be eligible for about \$800 more if the Petri-Miller bill became law. Right now, Congress isn't doing this bill much of a favor. The House of Representatives denied this bill (and, to be fair, several others) a vote on the floor. There is hope that U.S. senators may want to introduce the bill on their side of Congress. No matter what happens, Petri shouldn't grow discouraged. He has our support and should re-introduce this bill in 2007. There is too much good in this bill to avoid having it become law.

Right now, the federal government lets loans be available through the Family Federal Education Loan program. But there are middlemen in this program and, therefore, the government pays more to administer loans this way.

The bill by Petri and Miller would transfer the issuance of those loans to existing resources of the federal government and its Direct Loan program. The Direct Loan program doesn't have the additional costs that the Family Federal Education Loan program has.

In the bigger picture, estimates show the Pell Grant program would receive \$10 billion more. This all would happen by transfer responsibility for the loan. Federal taxes wouldn't have to increase in order to do this.

Petri and Miller were smart in another respect, too. One's a Republican and one's a Democrat. They're showing that this bill can have bipartisan support. Also, they know that the nation is serious about cutting its deficit. So, their bill allocates \$3.35 billion for federal deficit relief.

This bill has 'common sense' written all over it. Petri and Miller have crafted a piece of win-win legislation that should become law. Best of all, it increases the dollars available to students who don't have to work any harder to find several hundred more dollars to pay for their college education.

The Final Thought: A congressional bill co-authored by U.S. Rep. Tom Petri, R-Fond du Lac, should become law in the name of putting more money in the hands of college students.

Education Secretary Takes Action to Keep Direct Loans Competitive

- March 24, 2006

The U.S. Education Department has quietly announced that it will continue to provide borrowers in the federal direct-lending program with financial incentives to repay their student loans on time.

The department made the announcement this month in a letter to colleges and lenders that it posted on its Web site on a Friday evening. The letter detailed how the department would enact changes Congress made in the federal student-loan programs as part of the \$39-billion deficit-reduction package that it approved. President Bush signed the bill into law last month.

The statute had left it up to Education Secretary Margaret Spellings to decide whether the department would retain the controversial repayment incentives. Advocates for direct lending applauded her decision, saying it would allow the program, in which the Education Department provides loans directly to student through their colleges, to continue to compete with the much larger guaranteed-loan program, in which private lenders provide government-backed loans to students.

'We are extremely pleased,' said Eileen K. O'Leary, chairwoman of the National Direct Student Loan Coalition, which lobbies on behalf of direct lending.

Controversial Discounts

Since the fall of 2001, students at colleges in the direct-loan program have paid an upfront fee of 1.5 percent of the amount they have borrowed. Borrowers who fail to make 12 on-time payments on the loans, however, are required to pay the government an additional 1.5-percent fee.

Before leaving office, President Bill Clinton introduced the incentive for on-time payment to keep direct lending, a program he helped create in 1993, competitive with the bank-based program. At the time, private lenders had started flooding the market with offers of generous discounts on the origination fees and interest rates that students in the guaranteed-loan program pay on their loans, in an attempt to lure colleges away from direct lending.

Private lenders have long questioned whether the Education Department had the legal authority to reduce origination fees in the direct-loan program, which Congress had set at 4 percent.

This past fall, the Republican leaders of the education committee in the U.S. House of Representatives, who share private lenders' concerns, drafted a budget-cutting bill that would have barred the education secretary from offering discounts in direct lending and 'from providing any repayment incentive before the borrower enters repayment.'

Instead, that legislation would have, over five years, gradually reduced to 1 percent the origination fees that borrowers in both federal loan programs are charged. Under that plan, however, students at colleges in direct lending would have been required to pay a 3-percent fee in the 2006-7 academic year, double what they now pay upfront.

The House committee's leaders said they were trying 'to level the playing field' for the two loan programs. But aid administrators at colleges in direct lending fought the bill, saying it would put students at their institutions at a disadvantage. While the legislation would have prevented the education secretary from discounting the fees, it would have allowed private lenders to continue to pay the fees on behalf of students with guaranteed loans. As a result, while direct-loan recipients would have had to pay a 3-percent fee, many guaranteed-loan borrowers would not have had to pay any at all.

Compromise Reached

The Senate, however, rejected the House provision. The final compromise measure omitted the restrictions and instead left the decision of whether to provide the rebate up to the discretion of the education secretary.

While direct-loan supporters applauded the secretary's decision, they are unhappy with some other changes lawmakers made in the budget-cutting bill.

For example, starting in July, direct-loan borrowers will no longer be allowed to consolidate their loans while still in college, as they can now. In addition, direct-loan borrowers with less than \$30,000 in debt will no longer be able to take advantage of the Education Department's 'extended repayment plan,' which gives borrowers up to 25 years to repay their loans.

However, Republican Congressional leaders inadvertently gave direct lending one advantage over the bank-based program. As part of the budget-cutting bill, the lawmakers intended to raise the interest rate on certain federal loans available to parents, known as PLUS loans, from 7.9 percent to 8.5 percent as of July 1, while allowing graduate students to take advantage of them for the first time. But because of a drafting error, the interest-rate increase will occur only in the guaranteed-loan program.

The student-loan industry is expected to lobby hard to get Congress to revisit that issue this year.

Rep. Petri Receives ASACC's Student Life Award - March 20, 2006

Over 400 students from across the country are in Washington this week to lobby Congress as representatives of the American Student Association of Community Colleges (ASACC). One of the top items on their agenda is to advocate Rep. Tom Petri's Student Aid Reward (STAR) Act, a bill which would boost Pell Grants through encouraging colleges to use the most cost-effective of the federal government's two major student loan programs.

Petri said that his Student Aid Reward Act would save billions of dollars if the nation's colleges provided loans from the federal government through the efficient Direct Student Loan Program rather than through the much older Federal Family Education Loan (FFEL) Program which operates by heavily subsidizing private banks. To encourage schools to switch to direct loans, Petri said his bill would return half of the savings to participating colleges in order to strengthen Pell Grants for low-income students by up to an extra \$1,000 per grant.

For students, the terms of FFEL and Direct Loans are the same. Savings made from switching to Direct Loans would come solely from greater efficiencies inherent in the management of Direct Loans.

At a breakfast event Monday morning Petri received the ASACC's Student Life Award for his efforts on behalf of student aid and other educational initiatives. The award was presented by Ruth Lucatero, a Sheboygan native and ASACC Representative of the Great Lakes Region who said, 'He has done a wonderful job.'

Petri said, 'I think it's important that students not only work hard to get a good education leading to a good job, but [also] take the time to figure out how different programs work and try to make them better. And they are visiting from all across the United States - some 400 students from Wisconsin, from California, from New York and other places, to advocate the most cost-effective programs that they possibly can to help Congress do a better job of providing access to higher education.'

Borrowers in Direct-Lending Program Get Continued Incentives to Repay Loans on Time-Monday, March 13, 2006

The Chronicle of Higher Education

The U.S. Education Department quietly announced on Friday that it would continue to provide borrowers in the federal direct-lending program with financial incentives to repay their student loans on time.

The department made the announcement in a letter to colleges and lenders that it posted on its Web site Friday evening detailing how it would enact changes Congress made to the federal student-loan programs as part of the \$39-billion deficit-reduction package that it approved. President Bush signed the bill into law last month (The Chronicle, February 2).

The statute had left it up to Education Secretary Margaret Spellings to decide whether the department would retain the controversial repayment incentives. Over the weekend, advocates for direct lending applauded the secretary's decision, saying that it would allow the program, in which the Education Department provides loans directly to student through their colleges, to continue to compete with the much larger guaranteed-loan program, in which private lenders provide government-backed loans to students.

'We are extremely pleased,' said Eileen K. O'Leary, chairwoman of the National Direct Student Loan Coalition, which lobbies on behalf of direct lending.

The secretary's decision essentially keeps in place some of the actions the Clinton administration took in its last years to keep direct lending, a program whose creation it had championed, competitive with the bank-based program. At the time, private lenders started flooding the market with generous discounts on student loans in an attempt to lure colleges away from direct lending.

To counter those efforts, Richard W. Riley, then education secretary, discounted the origination fees that direct-loan borrowers must pay to obtain their federal loans. First, Mr. Riley announced in 1999 that he would reduce the upfront fee that direct-loan borrowers paid to 3 percent of a borrower's total loan balance. The rate had been 4 percent.

A year later, Mr. Riley lowered the fee further, to 1.5 percent. However, borrowers would have to make 12 on-time payments after they graduated to retain the discount. In other words, borrowers who failed to meet that goal would be retroactively charged an additional 1.5 percent of their loan balance.

Loan-industry officials and the Republican leaders of the education committee in the U.S. House of Representatives were outraged by Mr. Riley's actions, accusing him of flouting the law to give direct lending a competitive edge over the guaranteed-loan program.

Last year the committee's leaders pushed through the House a version of the budget-cutting bill that would have reversed Mr. Riley's actions, by barring the education secretary from offering discounts in direct lending and 'from providing any repayment incentive before the borrower enters repayment' (The Chronicle, November 21, 2005).

Instead, that legislation would have, over five years, gradually reduced to 1 percent the fees that borrowers in direct lending and the guaranteed-loan program are charged. Under that plan, however, borrowers would have been required to pay a 3-percent fee in the 2006-7 academic year, double what students with direct loans now pay upfront.

The committee's leaders said they were trying 'to level the playing field' between the two loan programs. But aid administrators at colleges in direct lending fought the bill, saying it would put students at their institutions at a disadvantage. While the legislation would have prevented the education secretary from discounting the fees, it would have allowed private lenders to continue to pay the fees on behalf of students with guaranteed loans. As a result, while direct-loan recipients would have had to pay a 3-percent fee, many guaranteed-loan borrowers would not have had to pay any at all.

The Senate, however, rejected the House provision, and the final compromise measure omitted the restrictions.

Despite that victory, direct-loan supporters were not happy with some other changes lawmakers made. For example, starting in July, direct-loan borrowers will no longer be allowed to consolidate their loans while still in college, as they can

now. In addition, direct-loan borrowers with less than \$30,000 in debt will no longer be able to take advantage of the Education Department's 'extended repayment plan,' which gives borrowers up to 25 years to repay their loans.

However, Republican Congressional leaders inadvertently gave direct lending one advantage over the bank-based program. As part of the budget-cutting bill, the lawmakers intended to raise the interest rate on certain federal loans available to parents, known as PLUS loans, from 7.9 percent to 8.5 percent as of July 1, while allowing graduate students to take advantage of them for the first time. But because of a drafting error, the interest-rate increase will occur only in the guaranteed-loan program.

The student-loan industry is expected to lobby hard to get Congress to revisit that issue this year.

The Education Department is expected to issue another letter soon that will explain how it plans to enact two new grant programs, created as part of the budget-cutting package, for high-achieving Pell Grant recipients (The Chronicle, January 6).

Report Finds Flaws in Debt Policies - February 24, 2006

The Chronicle of Higher Education

Government policies that are designed to help borrowers who have taken on unmanageable levels of federal student-loan debt are "well intentioned but flawed" and need to be revised, according to a report released this month.

The report, "Addressing Student Loan Repayment Burdens," is the work of the Project on Student Debt, an effort being led by Robert M. Shireman, a former senior education-policy adviser in the Clinton administration.

The project, which is being financed by the Pew Charitable Trusts, is aimed at developing public-policy proposals to reduce the burden of student debt on those least able to afford it.

The government now allows borrowers who are unemployed or can otherwise demonstrate "economic hardship" to seek to have their loans put into deferment. Under that arrangement, borrowers defer payments on their student loans for up to three years, without being charged interest or incurring penalties.

The report recommends an alternative approach that has been promoted by Sandy Baum, an economics professor at Skidmore College and a senior policy analyst for the College Board, and Saul Schwartz, a professor of public policy and administration at Carleton University. Their proposal would set acceptable levels of debt for borrowers at different income levels.

Such a policy, the report says, would establish "a more uniform definition of hardship, and phase out the benefits as borrower incomes rise."

The report also explores how the federal tax code could be used to help those with unmanageable levels of debt. Borrowers can deduct from their taxable income the interest they pay on student loans. However, that policy "is not well targeted," the report says. For example, low-income borrowers who do not earn enough to pay taxes receive no benefit.

In addition, because it is a deduction, borrowers with higher incomes receive a larger benefit than those with lower incomes. The report recommends changing the tax deduction to a tax credit and tying it to borrowers' incomes.

The report also recommends extending to all borrowers a repayment option that is now available only in the direct-loan program. In direct lending, which provides loans directly to students through their colleges, borrowers can enter "income contingent" repayment, an option that allows them to repay their loans as a percentage of their incomes for up to 25 years. That option is available anytime they are having trouble with their loan payments.

Loan Shark - February 10, 2006

The New Republic

When scandal-plagued Tom DeLay finally gave up his quest to regain the leadership of congressional Republicans, the preternaturally tan Ohio Republican John Boehner sat down and drafted a 37-page political manifesto to win the votes of his colleagues. Boehner, himself long known as a friend to K Street, issued a tempered critique of the Republicans' sale of indulgences to lobbyists like Jack Abramoff. House Republicans should elect him majority leader, Boehner wrote, because he believes that "[w]e need to constantly earn the trust of our constituents: They need to feel that they can trust us to produce policies that will respond fairly to their needs, respect their values, and offer greater opportunities for reaching their own dreams."

The platitudes apparently resonated. Boehner won. But anyone wanting proof that Boehner is no reformer need only look at the changes to federal student-loan programs that he just helped push through Congress as part of this year's budget reconciliation bill. The alterations reduce government subsidies for student loans by \$13 billion over the next five years. One of the key provisions: higher fixed interest rates that will increase the payments of students and their parents by hundreds of dollars a year.

With Boehner's approval, Congress switched the interest rate on most student loans from a variable one, which this year averaged an attractive 5.3 percent, to a fixed rate of 6.8 percent. The variable rate over the last 14 years has averaged just 6.1 percent. The Congressional Budget Office (CBO) estimates that the variable formula would have generated rates of about 6.4 percent on average in the future. But, thanks to the new fixed rate that takes effect on July 1, a member of the class of 2010 who borrows the typical \$17,000 during school will likely have to pay as much as \$1,000 more than a student under the old system, according to calculations provided by the American Council on Education (ACE). The rates will jump even more for the increasingly popular federal loans that allow parents to borrow the full cost of their child's education. The Parent Loan for Undergraduate Students (plus) rate will rise from the current 6.1 percent (and a ten-year average of 6.9 percent) to 8.5 percent in July. That means repaying the typical one-year plus loan of \$10,000 taken out this fall will cost up to \$1,200 more than repaying one taken out this spring, according to ACE. The Republican leadership, with Boehner serving as point man for the issue, studiously avoided alternative proposals for student-loan reforms that nonpartisan experts, such as the Government Accountability Office (GAO) and the CBO, as well as many Republican House members, reported could have achieved similar tax savings without costing students and their families. Doing so, however, would have required a larger government role in administering student loans--something that is anathema to pro-business ideologues like Boehner. The alternatives also would have cut into the profits of the private lenders who make student loans and who have been very generous donors to Republicans, especially Boehner, in the last several years.

Boehner says he cares about his constituents' dreams, but the Republican changes to the student-loan program clearly make it tougher for students to realize theirs. And Boehner talks about respecting constituents' values, but the groups whose values he served best in this case were those of his political donors, the companies that make money offering student loans.

Educational lending companies and their employees have given a total of \$3.5 million to members of Congress since the 2004 election cycle, according to data provided by the Center for Responsive Politics (CRP)--three-quarters of that amount to Republicans. And more than half a million dollars went to just two men: the chairmen of the subcommittee and committee that handled the changes to the student-loan program. Howard P. "Buck" McKeon of Santa Clarita, California, chairman of the Twenty-First Century Competitiveness Subcommittee, collected the most: \$262,000. Boehner, who headed the House Education and the Workforce Committee until stepping down to assume his new leadership post, came in a close second with \$236,000. Sallie Mae, the nation's largest educational lender, has been the single biggest donor to Boehner's PAC since 1989, contributing a total of \$122,000, according to CRP data.

This is hardly the first time Boehner has been vulnerable to charges of undue lobbyist influence. He is notorious for having once handed out tobacco lobbyist checks on the floor of the House. And The Chronicle of Higher Education reported that, in December, Boehner told a meeting of lenders anxious about the pending changes to the student-loan program, "Relax. Stay calm.... At the end of the day, I believe you'll be at least satisfied, or even perhaps happy" with the changes. "Know that I have all of you in my two trusted hands," he said.

Boehner says that, despite appearances, his two trusted hands actually delivered for students and parents. The changes don't raise borrowing costs. The tax savings, he claims, are really coming from the profits of middlemen like Sallie Mae, Nelnet, and Citibank, which market, process, and package the loans. (These companies raise capital to lend out to students, but the government pays a portion of the interest and guarantees against most of the risks of default.) It's certainly true that the bill did take some savings out of the hides of the lenders. It phases out the 3 percent origination fees

that some (though fewer and fewer) banks were charging students. Congress also made lenders absorb 1 percent more of the cost of student defaulters. And--in a move that Boehner initially opposed--it phases out a controversial program that would have guaranteed some lenders annual profits of 9.5 percent on a comparatively small group of loans (an estimated \$17 billion out of the \$400 billion outstanding).

But other subtle changes in the bill will create new business and profits for the lenders that should offset these losses. Congress put a stopper on an increasingly popular program in which universities themselves lend to students, thus saving the lenders from increased competition. It also upped the maximums that freshmen, sophomores, and graduate students can borrow from the federal government, increasing the amount of guaranteed-return business lenders can do. At the same time, it kept the total amount of federal debt undergraduates can accrue capped at \$23,000, thus allowing for the continuing boom in the far more profitable private educational lending market. All in all, Wall Street analysts and lenders say, the bill won't hurt business.

Congress could have achieved the same or even greater savings without forcing already financially pressed students and their families to shoulder even more debt had it been willing to take some business away from Sallie Mae and other lenders. Congress could have expanded a Clinton-era program in which schools forward loan applications directly to the federal government, rather than to middlemen. Several GAO and CBO studies have found that the direct-lending program costs taxpayers much less than extending loans through lenders like Sallie Mae. Government watchdogs have estimated that every dollar loaned through these middlemen costs the federal government at least 9 cents. The government, of course, can borrow more cheaply than businesses can. And it doesn't have to pay investors dividends or CEOs eight-figure pay packages like the \$95 million taken home from 2000 to 2004 by Sallie Mae Chairman and former CEO Albert Lord. Little wonder that various analyses have found that loans made directly may actually earn the government 2 percent, or, at the very worst, lose only about 2 percent. Having schools funnel consolidation loans--which new graduates typically take out to combine all of their federal education debts into one fixed-rate loan--directly to the federal government could have saved more than \$3 billion a year, the GAO says.

Boehner and other Republican leaders not only torpedoed any expansion of the direct-lending program, they even made subtle changes (taking away the program's guaranteed funding, for example) that will likely reduce the direct-lending program's scope in the future, thus costing taxpayers more over the long run. The end result, says Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers, is that lower- and middle-class families will pay more to give their kids the education now needed to have a chance at a decent job, "while the playing field is tilted in the favor of lenders," who happen to be big contributors to Boehner and his party. Concludes Nassirian, a longtime observer of educational politics in Washington, "Boehner will be a worthy successor to Mr. DeLay."

Direct Lending Backers Give Reconciliation Failing Grade

- January 24, 2006

Direct lending supporters fear a provision in the budget reconciliation bill to shift funding for college financial aid administration from mandatory to discretionary spending could jeopardize financing for universities to operate the program.

Supporters of the language, including House Education and the Workforce Chairman Boehner, say the change would bring college financial aid in line with all other Education Department programs, whose administrative expenses are financed using discretionary dollars. "This is a good government reform.

Administrative funding should not be on auto-pilot," a spokeswoman for Boehner said. It would trim about \$2.2 billion in mandatory spending over five years by moving the account that pays for administration of the Free Application for Federal Student Aid and other college aid programs, in addition to direct lending to discretionary funding.

Some direct lending proponents say this places the program, which allows students to borrow directly from the Treasury, at a competitive disadvantage with the other federally operated student loan program, the Federal Family Education Loan Program, which uses subsidized lenders. Direct lending schools rely on the money to train financial aid administrators, while lenders in the FFEL program generally cover those costs for schools, Senate aides said. Eileen O'Leary, past chairwoman of the National Direct Lending Coalition, said the language also would force direct lending to compete with other Education Department programs for scant administration funding. "One could use this as a way to squeeze the direct loan program funding to make it difficult to operate well," O'Leary said. She acknowledged that it is unlikely opposition to the provision could derail the budget measure.

One Senate aide disagreed, noting that some state schools in large states like Ohio and California participate in the direct lending program and will communicate their concerns to House members who are expected to vote on final passage of the budget measure early this session. O'Leary said the provision is part of an effort by Republicans to "undermine" the direct lending program, created in 1993 by President Clinton and a Democratic Congress. Boehner's spokeswoman disputed that contention, saying he has worked to preserve schools' right to choose between the programs. Senate Health, Education, Labor and Pensions ranking member Edward Kennedy, D-Mass., House Education and the Workforce ranking member George Miller, D-Calif., and others point to OMB and GAO studies they say demonstrate direct lending is cheaper to administrate than FFEL. Boehner and some other Republicans say these studies do not compare the two programs accurately.

Changes in student loan plans - January 15, 2006

The San Francisco Chronicle

The federal government's college-loan program is getting its biggest makeover in more than a decade this summer. In the short run, the changes probably will cost borrowers more money, but their long-run impact remains to be seen.

The biggest change: The interest rate on government-guaranteed college loans will switch to fixed from variable, but only for loans disbursed on or after July 1. This change was included in a federal law passed in early 2002. Congress was responding, in part, to students who wanted more predictable loan repayments.

Under that law, the rate on all new Stafford student loans will be fixed at 6.8 percent. The rate on Plus loans, for parents, will be fixed at 7.9 percent (but could jump to 8.5 percent under a pending bill).

For more than a decade, Stafford and Plus loans have had variable rates. The rates change once a year on July 1, and are pegged at certain margins above the three-month Treasury yield in late May.

Variable-rate loans issued before July 1, 2006, will continue to adjust each year. (Many borrowers have already refinanced these loans into a fixed-rate consolidation loan.)

All new loans disbursed on or after July 1, however, will have fixed rates. The fixed rates are higher than today's rate on variable-rate loans, but they might not look so bad if short-term interest rates continue to soar.

Stafford and Plus loans are made by banks and other specialty lenders, such as Sallie Mae, and by the federal government through a direct-lending program. Because they are federally insured, they generally have been cheaper than most other types of education loans.

In addition to this switch, Congress is close to passing a bill that would make additional changes to the federal financial aid program. Most of these changes, included in the deficit-reduction act, are designed to save the government money. The main ones would: -- Set the fixed rate on new Plus loans at 8.5 percent (instead of 7.9 percent), effective July 1. -- Increase Stafford loan limits for first- and second-year college students.

Starting July 1, 2007, the limit for freshmen would rise to \$3,500 from \$2,625. Sophomores could borrow \$4,500, compared with \$3,500 today. The limit for juniors and seniors, \$5,500 per year, would not change. -- Let graduate and professional students take out Plus loans, effective July 1. This would vastly increase their access to federally insured loans, because the limit on Plus loans is the total cost of attendance (including travel and books) less other financial aid received. -- Phase out Stafford origination fees. The government charges an origination fee equal to 3 percent of the loan amount on Stafford and Plus loans. Some lenders pay this on behalf of borrowers. Under the bill, the origination fee on Stafford loans would fall to 2 percent on July 1, then fall by one-half of a percentage point per year until reaching zero in 2010.

The government would continue to charge a 1 percent default fee, also called a guarantee fee. Some lenders have been paying this fee for borrowers as well. -- Create new grants for low-income students.

Students who pursue an academically rigorous program in high school could receive a \$750 grant their first year in college and \$1,300 their second year. In their third and fourth years, low-income students could receive up to \$4,000 per year if they major in math, science, technology, engineering or in a foreign language that is critical to national security.

Unlike loans, grants don't have to be repaid. To qualify for the new grants, students must be eligible for federal Pell grants, which means their household income generally must be less than \$40,000.

The Senate has passed the deficit-reduction bill and the House is expected to pass it in early February, says Cheryl Watson, a spokeswoman for Nelnet, a student loan company.

The financial aid provisions would save the federal government an estimated \$13 billion over five years. Most of the savings would come from reducing subsidies to lenders, with a smaller amount coming from the proposed increase in parent-loan rates.

Will these changes, along with the switch to fixed rates, be good or bad for borrowers?

"It's a mixed bag for students and not good for parents," says James Boyle, president of College Parents of America, an advocacy group for current and future college parents.

Back in 2001, student groups endorsed the switch to a fixed rate. Many borrowers like the predictability of fixed rates, says Boyle.

Whether the switch saves them money depends on what happens to interest rates.

Today, the rate on Stafford loans disbursed since July 1998 is 4.7 percent if the student is in school or 5.3 percent if the student is out of school and repaying the loan.

Those rates will go up on July 1. Based on current Treasury bill rates, they could go to about 6 percent and 6.5 percent, respectively. (The actual rate will depend on May's T-bill rate. The rate is capped at 8.25 percent.)

That's below the fixed rate on new Stafford loans, which will be 6.8 percent whether the student is in school or in repayment.

If short-term interest rates go higher, the fixed-rate loans could be a sweet deal.

If interest rates go down, the fixed-rate loans will look expensive.

Unlike fixed-rate home loans, neither Stafford nor Plus loans can be refinanced at a lower rate if interest rates drop. They can be consolidated into fixed-rate loans, but the rate on consolidation loans is a weighted average of the rates on loans being consolidated.

"Twenty years of research shows that students overall are better off if they are in variable-rate loans," says Nancy Coolidge, coordinator of student support in the University of California president's office. "I think students and families are going to pay more (as a result of the change to fixed rates), but it's gamble."

For parents, the fixed rate on Plus loans will be 7.9 percent or, if the deficit-reduction bill passes, 8.5 percent.

Variable-rate Plus loans are at 6.1 percent now. If they were repriced today, they'd be at 7.35 percent, based on current T-bill rates. (The variable Plus-loan rate is capped at 9 percent.)

Raising the Plus loan rate to the "8 percent ballpark" makes them less competitive with other financing options, such as home-equity loans, says Boyle.

Many lenders today offer discounts on Stafford and Plus loans. In addition to waiving origination fees, some offer lower rates to borrowers who make on-time or automated payments.

Although the proposed cuts in lender subsidies will save taxpayers money, they could cause lenders to rein in their discounts.

Tom Joyce, a spokesman for Sallie Mae, says his firm has no plans to change its discounts, but "it's certainly possible that across the industry, you could see reductions in borrower benefits." He says it could even lead some lenders to exit the business.

A Borrower Be - January 8, 2006

The New York Times

WITH the last college application mailed off, it's time for would-be freshmen and their parents -- not to mention returning students -- to turn to the subject of financial aid. Increasingly, that quest means selecting a loan from a bewilderingly varied range of offerings. Now there's a double-whammy: not only are you likely to be borrowing more, you can expect to pay higher interest rates as well.

Student loans recently overtook grants as the leading form of financial aid for undergraduates, a trend likely to accelerate as college costs continue to rise. Two-thirds of students graduate with some debt: the average for a senior in 2004 was \$19,200, according to the United States Department of Education, and for a newly minted M.D., \$125,800. "Borrowing, unfortunately, will become the price of postsecondary education," says Brett Lief, president of the National Council of Higher Education Loan Programs, which represents private lenders. "In the future, just about everyone's going to have to borrow."

All that borrowing will almost certainly become costlier, too: a bill that nearly passed Congress days before the holidays would raise interest rates on student loans and impose fixed rates, thus eliminating most incentives to consolidate loans to lower your payments. One benefit for students: the legislation would reduce the origination fees that many borrowers pay when taking out loans. The Senate and House are expected to reconcile differences when they reconvene after the winter break.

Federal loans come in three types: the Perkins, Stafford and PLUS (the Parent Loan for Undergraduate Students). A growing number of borrowers are supplementing these with private loans, whose terms vary widely. For families shopping for loans, here are the choices, in order of most desirable to least:

PERKINS LOANS -- For students with exceptional need, the Perkins, at a fixed 5 percent interest rate, should be the best deal this year. But total Perkins borrowing maxes out at \$20,000 for an undergraduate's entire college career.

STAFFORD LOANS -- With \$50 billion to lend, Staffords are the biggest program and come two ways: for those with financial need, the government pays the interest until the student is out of college; unsubsidized loans are available to everyone, and begin to charge interest right away. Low rates have made Staffords especially appealing, but that will change on July 1, when the rate rises to 6.8 percent. (Unfortunately, students cannot lock in the current rate, 4.7 percent, for the next academic year.) Most students are limited to \$23,000 in total Stafford money. For those not supported by parents, the cap doubles, and increases to \$138,500 for graduate students.

While the Stafford is federal, only about 25 percent of this money represents direct lending from the government. Most colleges provide Staffords through banks or other private lenders and send students lists of preferred ones. But borrowers are free to hunt around. Many lenders give discounts for prompt repayment or when payments are debited directly from bank accounts. "Look for discounts that are immediate," says Mark Kantrowitz, publisher of the Web site findaid.org, adding that borrowers must pay attention to the terms of the loans: "It's very easy to have one late payment" and forfeit the discount.

PLUS -- Parents can borrow up to the total cost of undergraduate education, minus other aid. Under the new legislation, interest rates would rise to 8.5 percent, from 6.1. But for the first time, graduate students would be allowed to borrow up to \$12,000 annually in their own name. PLUS loans have historically been underused, Mr. Kantrowitz says, perhaps because parents are reluctant to sign for their children and because PLUS traditionally requires borrowers to begin repayment 60 days after disbursement.

PRIVATE LOANS -- These loans constitute the business's fastest-growing segment, with an estimated \$14 billion now on loan. Most charge much higher rates than Stafford or PLUS and, unlike those loans, set higher rates for applicants with poor credit. In the past, borrowers were often graduate students, for whom PLUS wasn't an option. And with a cap on the amount of federal money that can be borrowed, many students have no choice but to turn to these loans, which have ceilings of \$100,000 for undergraduates, \$150,000 for graduate students and no limit with a cosigner. Also, parents are often released from their obligation if the student establishes a good repayment record. Some lenders, like myrichuncle.com, cut rates for top-performing students who are headed for lucrative careers.

[Findaid.org](http://findaid.org), Mr. Kantrowitz's Web site, lists private lenders. For those navigating the loan maze, he advises: "Live like a student now, so you don't have to after school."

Government Could Save Billions by Tying Student-Loan Consolidation to Direct Lending, Report Says - January 6, 2006

Washington

Consolidating federal student loans exclusively through the U.S. Education Department's direct-loan program could save the government as much as \$3.1-billion in the 2006 fiscal year, according to a report released on Thursday by the Government Accountability Office.

The report, which was requested by Rep. George Miller of California, the top Democrat on the House of Representatives Committee on Education and the Workforce, acknowledges that the estimate is inexact. "Actual savings would remain unknown until all loans made in fiscal year 2006 are repaid," a process that could stretch on for decades, says the report.

When Mr. Miller asked the GAO, the investigative arm of Congress, to determine the savings such a change would produce, the House committee was in the midst of a fierce debate over the future of the federal loan-consolidation program, which allows borrowers to combine and refinance their government-backed student loans (The Chronicle, March 26, 2004).

Pushed by loan-industry officials, the panel's Republican leaders were championing a proposal that would have shifted the interest rate on consolidation loans from a fixed rate to one that varies from year to year. Such a change, they said, would bring great savings to federal coffers because the government would no longer need to make up the difference to private lenders when interest rates they are guaranteed to receive -- which vary with financial conditions -- exceed those that borrowers have previously locked in.

Some Democrats on the committee suggested that the government could save money by barring private lenders altogether from consolidating federal student loans. As an alternative, they said, refinancing could be done exclusively through the direct-loan program, which provides loans directly to students through their colleges, bypassing the banks and student-loan-guarantee agencies that make up the rival guaranteed-loan program.

The debate over the future of the federal loan-consolidation program was pretty much resolved last month, when both the House and the Senate approved a \$40-billion deficit-reduction package for the next five years. Under the bill (S 1932), which must now return to the House for a second vote before it can be finalized, borrowers who refinance their student loans through either of the federal student-loan programs will continue to be able to lock in interest rates for up to 30 years (The Chronicle, January 6).

In the report, the GAO says that allowing borrowers to consolidate through direct lending only would generate most of the savings by eliminating payments the government would otherwise make to private lenders. The agency notes, however, that some of those savings would be illusory because the cost of the direct-loan program would grow with the added administrative burden resulting from the change.