

## Money for College is Out There

*The Columbus Dispatch* - October 3, 2007

By: Encarnacion Pyle

It seems the only thing more difficult than getting into college these days is figuring out how to pay for it.

Despite concern over the number of students turning to high-priced private loans, college financial-aid officers and high-school guidance counselors say there are always ways to cut costs.

For starters, high-school students and their parents, as well as students already in college, should adopt the mantra from Cuba Gooding Jr. in the movie *Jerry McGuire*: "Show me the money!"

"By some accounts, there's millions -- maybe even billions -- of untapped scholarship money out there," said Wayne Ferne, a counselor at Pickerington Central High School.

The key is to find the scholarships, as well as grants and government-backed loans with interest rates that are capped, for which you are eligible and then applying, Ferne said. "Too many people simply decide it takes too long to do an exhaustive search.

"But in this case, I'd say, 'Your time might mean money.' "

And who doesn't need extra cash when the bills keep getting bigger? Students and their families are paying on average \$90 to \$1,238 more this year than last in tuition and fees, according to the latest College Board figures.

Add four years of tuition, fees and room and board, and the average public university price tag is \$51,184; for a private college, it's about \$121,500, the College Board says.

"A lot of people get price-tag shock," said Soni Williams, director of Ohio University's Office of Student Financial Aid. "What they don't realize is the actual cost is often a lot less, especially after their financial-aid package is worked out."

During the 2005-06 school year, about \$135 billion in financial aid was distributed to undergraduate and graduate students nationwide in the form of grants, work study, federal loans and federal tax credits and deductions.

And while federal funding hasn't kept pace with growing enrollment and tuition increases over the past decade, colleges have dipped into their own funds to make up and, in many cases, surpass the difference, the College Board says.

"We give away every penny we can," said Julia Benz, OSU student financial-aid director. "It's important for students to get through college as debt-free as they can."

However, many colleges are offering more loans, rather than grants, than they did a decade ago. And many students are taking out private loans -- even after getting a low-interest, government backed-loan -- to pay for such things as books, child care, rent and transportation.

"The last thing we want to see is a lot of students get into heavy debt because of high-interest loans," said Martin Maliwesky, dean of enrollment services at Columbus State.

Miami University Associate Provost Chuck Knepfle is so concerned about the issue that he was in Washington, D.C., lobbying lawmakers yesterday. He'd like to see the government start regulating private lenders and stop them from being able to buy student names from credit reports.

"People get more information about the odds of winning a McDonald's game piece than they do about the variable rate of these alternative loans, which I've seen range from 9 percent to 18 percent," Knepfle said.

Many financial-aid officers suggest that students check out private scholarships from community and national groups and companies before borrowing money from a private lender.

The College Board alone boasts a scholarship database of more than 2,300 sources of college funding, totaling nearly \$3 billion. And it's just one of many free Internet sites that can match students' educational interests, talents and backgrounds to the thousands of available scholarships.

However, many scholarships are limited by restrictions created by donors. For instance, Ohio State has grant money for high-school graduates from Coshocton County, but only nine students applied this year out of nearly 60,000 students, Benz said.

Experts also caution against paying a consultant to handle your financial-aid search when you can sit down with a college financial-aid officer free of charge, whether you enroll at that school or not.

"It's almost never too late to apply for some kind of aid," Knepfle said.

## Congress Approves Student Loan Overhaul

*New York Times* - September 7, 2007

By Diana Jean Schemo

Congress gave final approval to a broad overhaul of federal student loan programs today, sharply cutting subsidies to lenders and increasing grants to needy students.

In quick succession, both the House and Senate approved the changes, allowing Democrats to say they had made good on one of their campaign promises last year to ease the strain of rising college costs. In the Senate, the bill passed 79 to 12, reflecting broad bipartisan support, while in the House it passed in a voice vote.

The Education Secretary, Margaret Spellings, said that she was recommending that President Bush sign the bill because it "answered the president's call to significantly increase funding" for Pell grants for low-income students. The administration had issued a veto threat against an earlier House version of the legislation.

Republicans in the House expressed disappointment at the administration's change of course, arguing that the cuts in lender subsidies went too far.

The legislation, hammered out in a House-Senate conference committee this week, alters many of the ground rules for financing higher education, offering forgiveness on student loans to graduates who work for 10 years or more in public service professions like teaching, firefighting and the police, and limiting monthly payments on their loans to 15 percent of their discretionary income. It also raises the maximum Pell grant, the basic federal grant for middle- and low-income students, to \$5,400 from its current level of \$4,310 over the next four years. To pay for the changes it slashed federal subsidies to lenders by roughly \$20 billion.

Democrats likened the legislation to the G.I. bill that sent millions of veterans to vocational training and college after World War II. "Today we need a similar bold new commitment to enable the current generation of Americans to rise to the global challenges we face," said Senator Edward M. Kennedy, the Massachusetts Democrat who is chairman of the education committee. "Today will help millions of students achieve the American dream."

Representative George Miller of California, the Democratic chairman of the House education committee, said that last year, Republicans took nearly \$12 billion from student Pell grants. "We took \$11.39 billion and put it back into Pell grants," Mr. Miller said. "That's the difference that an election makes."

Campaign trail promises aside, the changes reflect the steep and sudden decline in the fortunes of the \$85 billion student loan industry, after years of generous subsidies and support in Congress. Investigations by Congress and the New York attorney general revealed a series of potential conflicts of interest as lenders had provided free travel, gifts, and financial incentives to colleges and college officials in the hope they would steer student borrowers their way.

Lenders, who had campaigned hard against the subsidy cuts, warned they would compromise the federal loan program, forcing some of them out of business, reducing competition and, inevitably, services to students.

Kevin Bruns, executive director of America's Student Loan Providers, said the law "punishes the industry," while Joe Belew, president of the Consumer Bankers Association, said it would "come to be viewed as irresponsible legislation that undermined rather than expanded college opportunity."

Mr. Kennedy rejected the complaints, saying, "The reality is that our bill restores the balance to this grossly unfair student loan system by directing funds to the students, not to the banks."

House Republicans, some of whom had received generous campaign contributions from lenders in the past, derided parts of the legislation as a form of socialism — particularly the forgiveness of loans for certain professions.

Representative John Boehner of Ohio, the Republican majority leader and former chairman of the education committee, predicted the subsidy cuts "will cripple the private sector loan program," which he credited with bringing "lots of innovation" to students and parents.

Howard P. McKeon of California, the ranking Republican on the House education committee, said the law created new entitlement programs, like forgiveness of student loans, that would ultimately drive up taxes. "This legislation does nothing at all to reduce the cost of college," he said.

But advocates for students said lenders had little credibility in the public mind.

"It's an industry where we've seen exceptional and enormous profits at the expense of taxpayers," said Luke Swarthout, a specialist in higher education at the U.S. Public Interest Research Group. "I don't know how we can treat banks as credible arbiters of what appropriate subsidies should be."

With the law, Congress is reducing federal subsidies to lenders by roughly \$20 billion and gradually halving the interest rate on student loans over the next five years. Some \$11.4 billion of that money will go toward stepping up Pell grants.

For the first time, the government will now auction off the right to make federally-backed educational loans to parents in each state, instead of setting the rate from Washington. The two lowest bidders will win the right to make subsidized college loans to parents.

## **MVNU to change federal financial aid approach**

From the *Mount Vernon News*

Tuesday, August 28, 2007

MOUNT VERNON — Mount Vernon Nazarene University recently announced that it will channel all federal student loans through the Federal Direct Loan Program. This comes in an effort to minimize confusion for students and parents and protect them from unsatisfactory lenders.

During the past seven months there has been an on going national investigation of the student loan industry, specifically, loans certified through the Federal Family Educational Loan Program. Under this program, Federal Stafford Loans and Federal Parent Loans for Undergraduate Students are processed for students who need assistance in paying for their education. At MVNU, this is 83 percent of the undergraduate student population.

As a result, Congress is working on legislation in the Reauthorization of the Higher Education Amendments that will mandate college and universities to provide more consumer information to justify any recommendation of lenders to students and parents. Lenders have begun to circumvent these new rules by increasing their direct marketing to students.

To help MVNU students avoid confusion caused by lenders' direct marketing, the MVNU leadership began exploring alternatives for federal student loans. After extensive research, it determined that the Federal Direct Loan Program best fit the needs of the students and MVNU's mission.

"Through the Federal Direct Loan Program, the students borrow directly from the federal government and will not be inundated or confused by lenders' marketing tactics. When MVNU students graduate and make arrangements for repaying their loans, they will still have a choice of all benefits and repayment options that are available to them when it is applicable," said Michelle Saigh, director of financial aid at MVNU. "MVNU students can choose to consolidate through the Federal Direct Loan Program or through other private lenders. The program does not eliminate choice of lenders for MVNU students when the choice is really needed."

One of the many benefits of the program is that it eliminates the need for universities to maintain "preferred lender" lists or other means of managing the over 3,500 lenders in the financial institution operated by FFELP. Colleges that participate in the Federal Direct Loan Program also avoid a constant stream of marketing representatives trying to increase their share of student loans. Plus, since MVNU administers the Federal Pell Grant, ACG and SMART programs, the processes are already in place to administer Federal Direct Loans, which are fully integrated with the federal financial aid process.

"As a family who is trying to figure out what to do for loans, we're starting from scratch and we have a lot of people telling us a lot of different things. We get 10 pieces of mail every day for scholarships or loans and we're working with the bank too," said Joe Widecan, father of freshman Adam Widecan, of Painesville. "The financial aid staff at MVNU has been awesome. We've spent so much time with them. It feels overwhelming at times, but we know that attending MVNU is a huge opportunity for our son. We believe that this new federal loan program will just be one more tool for us to leverage."

Beginning with the 2008-09 academic year, all MVNU federal Stafford and PLUS loans will be processed through the Federal Direct Loan Program. Private/alternative loans will continue to be processed through private sources of funding as there are no other alternatives for this resource.

Representatives from the U.S. Department of Education were on campus Aug. 17 to give MVNU financial aid staff an overview of the program, to prepare the staff for the switch on loan programs, and to answer any specific questions.

For more information about federal direct loans, contact Saigh in the MVNU Financial Aid office at (800) 686-8243, by e-mail at [msaigh@mvnu.edu](mailto:msaigh@mvnu.edu) [msaigh@mvnu.edu](mailto:msaigh@mvnu.edu) , or online at [financialaid.mvnu.edu](http://financialaid.mvnu.edu).

## College Credit that Fails Students - August 28, 2007

From the *Los Angeles Times*

College credit that fails students

Congress has given the student loan industry far too much leeway in collecting debt and charging outrageous fees.

By Alan M. Collinge

August 28, 2007

For four months this year, while Congress was overhauling student loan laws, I traveled the country in a beat-up RV meeting with citizens and legislators. My mission was simple: Persuade Congress to restore consumer protections to student loan borrowers. After 22,000 miles, 42 states and five flat tires, I can't help but feel that my efforts were a waste of time. And gas.

Sure, the House and Senate passed HR 2669, the College Cost Reduction Act. After reconciliation, it will soon be on its way to the president's desk. The bill includes some attractive provisions for those headed back to campus this fall, including interest rate reductions, loan forgiveness for public service, Pell grant increases and income-contingent repayment plans for future graduates. But it doesn't fix a fundamental problem: Basic consumer protections were stripped from student loans in the mid-1990s. This act does nothing to bring them back.

Reacting to much-publicized stories of student-borrower bankruptcies and a default rate of 22% in the late 1970s, Congress mandated seven years of repayment before borrowers could declare bankruptcy on federal student loans. In 1998 -- under an extremely business-friendly Congress -- this qualifier was done away with, rendering all federal student loans non-dischargeable except in the most dire circumstances, such as total and permanent disability.

Big lenders, such as Sallie Mae, even persuaded Congress to remove bankruptcy protections for private loans in 2005 -- these are the nongovernmental loans we've been hearing about lately, whose interest rates can exceed 18%. Credit card companies and payday lenders could only dream of this kind of congressional giveaway.

Congress also took away the freedom of borrowers to shop their student loans around in a competitive marketplace. Many college students graduate with two or three types of student loans and choose to consolidate them either to simplify repayment or to pay them back over more time. But once they've consolidated, borrowers become captive to that one loan company. They can never refinance again, no matter how interest rates fluctuate or how badly their lenders treat them.

But this is only the tip of the iceberg: Sallie Mae and other student loan interests also had lobbied heavily for legislation that took away other standard consumer protections, including adherence to the Fair Debt Collection Practices Act (student loan companies were specifically exempted in 1996), and statutes of limitations (removed for student loans in 1999). Student loans were also exempted from "truth in lending" regulations, the rules that require lenders to point out key information -- annual percentage rate and fees -- to borrowers on all loan documents.

Congress also let lenders levy massive fees -- often as high as 25% of the balance of the loan -- on those having trouble making payments. Student loan companies got draconian collection powers, including the right to garnish a borrower's wages, tax refunds and Social Security or disability payments. Some states even got into the act, suspending professional licenses of student borrowers in default. No other lender has these kind of powers -- not credit card companies, not payday lenders.

This has led to serious abuse. Between 2001 and 2005, Sallie Mae's fee income (penalties and fees collected on delinquent debt) increased by a whopping 107%. In 2003, Albert Lord (then Sallie Mae's chief executive) actually bragged to shareholders that the company's record profits were attributable to this increase. Financial statements of other lenders show the same trend.

This is no small problem. Between 3 million and 5 million Americans -- nearly 15% of all borrowers -- end up in default on their student loans. And some have taken desperate measures to escape their ballooning debt.

During my road trip, I heard from many of them. For instance, David, a chiropractor in Texas, couldn't renew his license after he defaulted on his loans, so he now drives a truck in Amarillo for a living. He says his debt has more than quintupled. Or Jason, an attorney who -- drowning in fees and penalties -- emigrated to start a new life in Asia. Finally, I heard from a mother in Oregon whose son, Michele Lorenzo Guidoni, got locked into high 1980s interest rates. By the time he was approaching his doctorate degree, he owed more than \$200,000. His mother says he saw no end to the compounding debt and took his own life in 2005.

This cannot be what Congress intended in 1965 when it created the grants and loans programs of the Higher Education Act. Then, Congress was trying to help Americans achieve the dream of higher education. Now, it is time to help those whose lives have been turned into nightmares by the student loan industry.

Perhaps when Congress returns in September, I'll gas up the old RV and hit the road again. It's obvious that Congress wasn't listening the first time.

## **Congress Takes on Student Aid Reform - August 6, 2007**

By: Erin Olivella-Wright

*The Daily Californian*

Congress is currently debating a number of bills aimed at making student loans more affordable and fair after a series of investigations found certain companies to have cozy relationships with universities.

Coming on the heels of investigations and a Government Accountability Office study released last week pointing to a lack of government regulation of the private loan industry, the Senate is considering a bill entitled the Private Student Loan Transparencies and Improvement Act.

The bill, authored by Connecticut senator and democratic presidential candidate Christopher Dodd, would clearly define regulations and guidelines aimed at monitoring student lenders.

If passed, it would require lenders to provide clear disclosures about interest rates, terms, fees and deferral options, and would require them to notify students if they qualify for federally guaranteed loans.

In addition, the bill would prohibit lenders from using names, logos or mascots of schools on printed materials.

While UC Berkeley was not investigated for any connections with private lenders, Cheryl Resh, director of the financial aid office on the UC Berkeley campus, said the Dodd bill is a needed step toward regulating the private loan industry.

"Because there has been some abuse I think it's good that Dodd is trying to reign in control of the alternative loan to make it more like the federal loan," she said.

UC Berkeley is a direct loan school, Resh said, meaning money for student loans through the school comes directly from the federal government.

Resh added that the preferred lender for the UC system is Citibank, although the university has never received any funding from the company and does not have a formal agreement with them.

Two other bills aimed at making higher education more affordable are also making their ways through a joint Senate-House committee.

There, they are set to be reconciled into one bill to be submitted to President Bush.

The College Cost Reduction Act of 2007, sponsored by House Rep. George Miller, whose district includes Richmond, outlines a proposed cut of \$19 billion in federal subsidies to private lenders.

It also proposes a consequent cut in federal student loan interest rates, an increase in Pell Grant awards and the introduction of a federal loan forgiveness program.

"Many would-be students are holding off on going to college altogether because they can't afford it. This is unfair for students and bad for our economy. Reducing college costs is the right thing to do for students and for our future," said Rachel Racusen, spokesperson for Miller and the House Education and Labor Committee, in an e-mail.

At UC Berkeley, the average loan debt for students at graduation is \$14,751, according to the College Board.

Resh said she thought the proposed legislation would especially benefit students at UC Berkeley, pointing to the 7,400 undergraduate Pell Grant recipients on campus.

"This will ... help the students in Berkeley," she said. "Congress has voted to help the students over the lender's profits."

But some critics of the bill, including those in the student loan industry, say cutting subsidies to the private lenders may lead to higher costs for students seeking private loans.

"The perception that lenders are making huge profits is wrong," said Kevin Bruns, executive director of America's Student Loans Providers, an industry group. "The results would be that many lenders would just stop offering loans to their customers. Those that remain would end up cutting back the discounts on the fee and interest rates."

Racusen said she hopes the bill will hit the president's desk soon.

"Our goal is to send a student aid bill to the President as soon as possible so that students and their families can get the financial and they urgently need," she said.

## **Bill Aims To Overhaul Student Loan Program - July 30, 2007**

By: Mark Matthews  
KGO TV

There's a bill working its way to the floor of Congress that promises big changes in the cost of borrowing money for college. Supporters say it's the biggest benefit since the G.I. Bill. But opponents say it's going to making higher education even more expensive.

We like to track the bills our Bay Area lawmakers are putting out there. This is a bill authored on the House side by Bay Area congressman, George Miller. He is the chairman of the House Education and Labor Committee and his bill is promising billions in benefits to students at colleges and universities.

**Lauryn Holloway** just graduated from U.C. Berkeley. She borrowed a lot of money to get through four years.

Lauryn Holloway, U.C. Berkeley Student: "Over \$21,000 dollars and more once I finish my masters."

In another month she'll start grad school and another round of loans. But if she goes ahead with plans for a career in public education, she may not have to pay it all back.

**Rep. George Miller**, (D) Concord: "This is the largest increase in federal assistance to students in college and to their families since the G.I. Bill."

Congressman George Miller's bill, which has already passed the House, is promising all kinds of help for students and paying for it by cutting government subsidies to the private companies that have been offering student loans.

George Miller: "So we made the decision instead of wasting this money on excessive subsidies, let's put it to work for students and the families by cutting the interest rates on student loans, by increasing the Pell Grants, by giving loan forgiveness to people who are going to become teachers and firemen."

Miller says \$18 billion dollars worth of subsidies can and should be cut, and the money to be spent on increasing student grants and lowering interest rates.

**Kevin Bruns** represents the loan companies.

Kevin Bruns, America's Student Loan Providers: "The immediate effect of basically emasculating the profits that lenders -- small lenders, large lenders -- can earn on federal student loans is that students' loan costs will go up." Bruns says small lenders will be forced out of the business. There will be less competition and loan costs will go up. But the director of Berkeley's financial aid office thinks the industry is crying wolf.

**Cheryl Resh**, U.C. Berkeley Financial Aid: "No one wants to them not to be able to be profitable, we just are taking the excess profits and giving them back to the students."

**ABC7's Mark Matthews**: "To the tune of \$18 billion dollars?"

## **Guaranteed Loans: Just Plain Expensive** - June 22, 2007

*The Chronicle of Higher Education*

By THOMAS E. PETRI

The investigation of New York State's attorney general, Andrew M. Cuomo, into the questionable practices of lenders in federal student-loan programs has helped raise public awareness of one of the greatest scams in our government: The Federal Family Education Loan program, otherwise known as the guaranteed-student-loan program, is unnecessarily expensive, structurally broken, and rife with corruption. It is increasingly clear that our convoluted federal student-loan delivery system, through which private lenders provide government-backed loans to students, cannot be fixed by incremental reform. It deserves a swift and timely death.

The recent series of scandals involving student financial-aid administrators and a Department of Education official's acquiring and holding stock from a student lender is merely the latest in a string of problems that have plagued federal student-loan delivery for years. On April 4, the New America Foundation's Higher Ed Watch first reported that it had found that several financial-aid administrators had 'significant personal investments in a publicly traded, for-profit student loan company,' Student Loan Xpress. It also discovered a potential similar conflict of interest with an official who oversaw lenders participating in the guaranteed-loan program at the Department of Education.

Subsequent investigations and news-media reports have uncovered many troubling examples of gifts from lenders to financial-aid offices, including company stock, generous travel and lodging, exclusive advisory-board memberships, and lavish conference sponsorships. The list of questionable inducements should be disturbing to all students and taxpayers who foot the bill for such unethical practices.

But it would be shortsighted to blame only the financial-aid administrators for the situation, or to assume that is the extent of the problem. The structure of the guaranteed-student-loan program, combined with the lack of departmental and Congressional oversight, has allowed the scandals to develop. By permitting institutions to develop preferred-lender lists and by failing to clearly define and track lender inducements, Washington has let lenders make college-aid administrators their primary clients, instead of the student borrowers they are supposed to serve. As a result, the so-called competition among lenders in the program has not provided substantially different terms or options for borrowers, but rather incentives for institutions.

Above all, the guaranteed-loan program is just plain expensive. The government has to pay subsidies to lenders and guarantors to make sure they can earn a profit on their loans to students. The president's budget for the 2008 fiscal year shows that in the 2006 fiscal year, taxpayers provided 14 cents in student-loan bank subsidies for every dollar borrowed. That has resulted, on average, in roughly \$5-billion annually over the last 15 years paid to lenders, with no impact on the terms or benefits to student borrowers. Moreover, it's probably fair to say that a portion of those taxpayer funds are filtering down to colleges as lender incentives.

By contrast, the subsidy in the other student-loan program administered by the Department of Education, the direct-loan program, was less than 4 percent. George Miller, a Democrat from California and chairman of the U.S. House of Representatives' education commission, and I have introduced the Student Aid Reward Act, commonly known as the STAR Act, to encourage colleges to switch from the guaranteed-loan program to direct lending. The billions in wasteful subsidies that the legislation would save would either be used to bolster Pell Grants or returned to the Treasury.

Given that such huge government subsidies are at stake, it is not surprising that, according to The Hill, lenders spent more than \$16-million last year on lobbying efforts to protect their gravy train. And they have been quite successful in deflecting criticisms of their excessive subsidies by challenging the government budget estimates.

Despite unanimous agreement on the excessive costs to taxpayers by the Office of Management and Budget, the Congressional Budget Office, the Treasury Department, and the U.S. Government Accountability Office under Presidents Bush and Clinton, lender half-truths, self-supported reports, and outright lies have succeeded in confusing consumers and policy makers. In a program as archaic and convoluted as the guaranteed-loan program, lenders have capitalized, both literally and figuratively, on this confusion to protect their interests.

Recent data, however, are undermining their efforts and providing much needed clarity to the public. The lenders' primary argument against the government's formula is that it failed to consider certain market characteristics such as cost of capital, administrative costs, and competitive pressures. An excellent report, recently presented to a conference on 'Measuring and Managing Federal Financial Risk' at the Kellogg School of Management at Northwestern University by Deborah Lucas and Damien Moore, applies the lenders' own preferred 'market value' formula to budget data to demonstrate that, despite the formula used, the guaranteed-loan-program costs to taxpayers exceed those of the direct-loan program.

'Administrative costs are accounted for inconsistently across programs, complicating cost comparisons,' the authors conclude. 'Nevertheless, it appears that the guaranteed program is fundamentally more expensive than the direct program.' Fundamentally more expensive indeed — using the lenders' preferred formula, the authors found that guaranteed loans still cost more than 1.5 times as much.

With little else to hide behind, the lenders have desperately resorted to attacking default rates in the direct-loan program. However, the department's own data actually prove that the direct-loan program has a significantly lower cohort default rate than the guaranteed student-loan program. The cohort default rate is different from the lifetime default rates cited by the guaranteed-student-loan lender; the cohort rate represents the actual defaults in a given year, whereas the lifetime rates are estimates based on formulas.

While default rates remain at historically low levels over all, the direct-loan program's default rate, 4.1 percent, is substantially lower than the 5.3-percent rate of the guaranteed-student-loan program. Of course, some critics of the guaranteed-loan program allege that the 1.2-percent higher default rate in the guaranteed-loan program may be because some lenders also own collection services that are allowed to keep 23 percent of any collections on top of the full federal guarantee for the loan.

By any objective analytical review, the guaranteed-loan program is a failure — and a costly one at that. It's hemorrhaging too much money, failing to provide substantive benefits to students beyond the federally required minimums, and clearly prone to unethical abuse. Often in debate, we forget that federal-loan programs were not designed to serve or benefit banks, but rather to provide a quality service to students on behalf of taxpayers. Students and taxpayers deserve better.

Congress must stop its Band-Aid approach to the waste and abuse of our largest student-aid program. Instead, my colleagues should decide whether it's appropriate to switch all new loans to the less-expensive direct-loan program or, alternatively, establish an auction to allow lenders to competitively bid for taxpayer guarantees under strict and clear guidelines.

Either approach would end the terrible abuses and ultimately save taxpayers billions of dollars in wasteful spending each year. Whether those savings are returned to students as grant aid or to taxpayers as deficit reduction, we can all agree that either would be a far better use of these dollars.

Congress has been far too lenient with taxpayers' investment in student loans for too long. We cannot settle for shortsighted 'fixes' to the current program, nor should we accept anything less than a robust debate resulting in comprehensive reform. Banks are commercial enterprises that should be free to pursue profitable returns, but not at the expense of students and taxpayers, and not as part of the federal student-loan program. Ultimately, we must kill this beast to save the public trust in federal student-loan programs.

*Rep. Thomas E. Petri, Republican of Wisconsin, is a former vice chairman of the Committee on Education and the Workforce in the U.S. House of Representatives.*

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## **Fixing the College Loan Mess** - June 22, 2007

*The New York Times*

*Editorial*

Congress has reacted to the college loan scandal with several strong proposals that would go a long way toward ending corruption while making loans more affordable for students and taxpayers. The House has passed a bill that would make it a crime for lenders to solicit business by offering college officials anything of value and force lenders to disclose any existing deals. And both houses are on the verge of approving legislation that would cut some \$19 billion in wasteful subsidies to the Federal Family Education Loan Program.

Under that program, the government pays commercial lenders to make loans to students and protects them from defaults. The money saved by cutting subsidies would be spent on Pell Grants, need-based loans, scholarships for aspiring teachers and loan forgiveness for graduates who go into public service. The bill would also lift federal student loan borrowing limits and cap payments at 15 percent of the borrower's taxable income.

Another important proposal by Representative Tom Petri, Republican of Wisconsin, would trigger a study of an auction system in which lenders would compete for the right to issue loans. If successful, it could drive down costs to both taxpayers and borrowers and eventually lead to the end of subsidies.

Senator Michael Enzi, Republican of Wyoming, has offered a worthy proposal that would phase out a lucrative and clearly unethical program that permits colleges to skim off loan profits while serving as middlemen for the lenders. Created at a time when it seemed that the college loan business might not be profitable enough to attract real lenders, this program is no longer necessary. It's also prone to exploitation by for-profit schools that accept unqualified students solely to strip them of the money they receive through federally backed grants and loans.

It's time to do away with all of these abuses.

## **A Math Lesson on College Loans** - June 13, 2007

*The New York Times*

Madeleine Kunin

Burlington, VT

THE Department of Education's proposed new standards for overseeing student loans — a response to the growing scandal involving kickbacks from lending institutions to university student-aid officials — are a step in the right direction. But the department and the Bush administration could go further in making student loans cheaper, less cumbersome and, most important, not susceptible to corruption.

In fact, the method for achieving this is already on the books: the William D. Ford Federal Direct Loan Program, which omits the middleman and allows the government itself to give loans to students. It needs to be expanded.

Since 1994, the Education Department has given universities a choice between the traditional Federal Family Education Loan Program, under which the government guarantees loans from 3,500 eligible banks and other lenders, and the Ford direct loan system.

This direct loan program was one of the first education initiatives of the Clinton administration; we thought it would save taxpayers money and simplify the lending process for both students and universities. Indeed, as anyone who has ever tried to negotiate his way through the paperwork involved in the traditional loan program will attest, the direct loan system has proved to be one of those rare cases in which the federal bureaucracy is far more streamlined than the private sector.

It also saves taxpayers a lot of money. According to President Bush's 2007 budget, the government will pay a subsidy of 1.7 percent on the dollar value of its direct loans, as opposed to the 7.5 percent it will pay on guaranteed loans by private lenders. (There are many reasons for this disparity — which changes from year to year — including variations in expected loan volumes and the extra monetary rewards needed to attract private lenders to the guaranteed loan program.)

The Office of Management and Budget projects that students and parents will borrow \$76 billion this year from the guaranteed loan program. If all these loans were direct loans, the O.M.B. found, the Treasury would save nearly \$4.5 billion.

Even if only a small percentage of borrowers moved into the direct loan program, the savings could be enough to provide more grants for needy students. Democratic leaders in the House and Senate have proposed bills to create such a redistribution, and they deserve support.

Unfortunately, direct lending has a troubled history in Congress. Back in the early '90s, lending institutions, which see student loans as easy money, lobbied strongly against creating the direct loan program. It survived only because Democrats tucked it into the 1993 budget agreement.

Although the law permitted up to 60 percent of American universities and colleges to move to direct lending, the number participating has never topped one-third and it is now down to about 25 percent. Why? When Republicans took control of Congress in 1994, they passed a law that prohibited the Education Department from encouraging or requiring colleges to switch to the direct loan program.

While this might seem a good way to ensure competition, it has not worked in practice. According to a study by the New America Foundation, lenders "profiting from the guarantee system could use their substantial resources to lure or retain colleges and universities, while the direct loan program was not allowed to make its own case."

This very idea — that banks "lure" universities into doing business — brings us to perhaps the best argument on behalf of direct lending: it eliminates any possibility of corruption, favoritism or abuse. The traditional bank loan program will always depend on volume for its earnings. No matter how many regulations are issued by Washington, there will always be an incentive for lenders to win over financial aid officers by any means possible.

Another advantage of direct lending is that universities do not have to try to sort out which of the thousands of private lenders would be best for their students. With direct loans, the government can ensure the lowest costs for taxpayers and students.

An additional benefit for students (and the nation) is that the direct loan program offers income-contingent loan repayment options, which can lower premiums, and that after 25 years of repayment, loans are forgiven. These features make it easier for debt-ridden students to take lower-paying jobs that serve the public interest without having to worry about defaulting on their loans.

More than ever, achieving the American Dream depends on access to a good, affordable college education. Expanding the direct lending program is a sensible and cost-effective way for Congress and the Education Department to help more of our young people realize it.

Madeleine May Kunin, a former governor of Vermont, was the deputy secretary of education from 1993 to 1996.

## **Belated Insight** - May 20, 2007

The education secretary on the student loans scandal

*Washington Post*

Sunday, May 20, 2007; B06

'FEDERAL STUDENT aid is crying out for reform. The system is redundant, it's byzantine and it's broken.' That was Education Secretary Margaret Spellings testifying before a House committee this month. It's encouraging that she recognizes the weight of the problems that have plagued federally funded student loan programs, particularly since New York Attorney General Andrew M. Cuomo (D) enterprisingly detailed the misdeeds that some loan companies have perpetrated. But just how 'broken' is the system, and what has Ms. Spellings done to fix it?

Mr. Cuomo recently publicized a raft of abuses that the Education Department should have been working to eliminate many years ago -- such as profit-sharing between loan companies and universities that put them on 'preferred lender lists,' or preferential stock deals for financial aid officers. But the Education Department, Ms. Spellings claimed, does not have the power to do much more than investigate, which it did vigilantly, she said. Further, she said, the unethical practices of some private lenders are only one problem with the student loan system. A department spokeswoman points out that Ms. Spellings convened a commission to examine higher education shortly after starting as secretary and has long been concerned with issues such as the complexity of the paperwork and procedures students must endure to get loans.

Ms. Spellings and the Education Department, however, could have better investigated and publicized the manner and scale of the collusion that some lenders were engaged in. And why wasn't there a greater sense of urgency when she was an adviser at the White House drafting education policy? Ms. Spellings is right, though, that the system needs a lot of work beyond tightening ethics rules. Student loans have long needed a fundamental reexamination -- and that means doing more than just streamlining 'byzantine' procedure.

Why, for example, should taxpayers continue to fund hefty subsidies to private loan companies when the Congressional Budget Office and the Office of Management and Budget have both concluded that the federal government's direct loan program can do the same job at a smaller cost to the federal treasury? Recent misbehavior only bolsters the arguments for lowering or eliminating the subsidies that prop up a public-private arrangement seemingly engineered to waste money.

## **Federal Aid Fails Needy Students** - May 16, 2007

From the *Baltimore Sun*

By Kate Sabatini and Pedro de la Torre III

Kickbacks, conflicts of interest, multimillion-dollar out-of-court settlements, high-profile resignations and suspensions under a veil of shame - if only we could throw in an illicit affair. It's hard to believe we are talking about something as unsexy as student loans.

Ninety percent of students who receive loans choose their lender based on their school's recommendation. In an age where students leave college with an average of more than \$19,000 in loan debt, students should be able to count on their schools for impartial and helpful advice as they navigate a complicated and stressful process.

But beneath the unsavory revelations of the past several months, there is a deeper scandal lurking: Even more appalling than the misbehavior of a handful of loan officers is how careless and wasteful our government is in its efforts to provide greater opportunity and financial relief.

In Baltimore, the scandal hit close to home when the Johns Hopkins University learned that Student Financial Services Director Ellen Frishberg received \$65,000 in consulting fees from a lender that her office recommended to students. Nearly every week we learn of another scandal - lenders sponsor dinner cruises and lavish trips, schools accept payments from lenders based on loan volume, lenders pay university officials as if they are on the payroll, a lender settles for \$2.5 million for its kickback arrangements.

Last week, Rep. George Miller, a California Democrat and chairman of the House Education Committee, grilled Education Secretary Margaret Spellings about the failure of her department to adequately monitor the student loan program. Recent revelations suggest that some officials tasked with overseeing the program may have been more focused on their stock portfolios.

The House last week passed the Student Loan Sunshine Act by an overwhelming 414-3, and the Senate is poised to add similar provisions in the Higher Education Act next month. The House bill would, among other things, regulate the ways that schools recommend lenders to students; require more disclosure of the relationships between schools and lenders; ban gifts, participation on advisory boards, and other inducements to school financial aid officials; and require that schools and lenders inform students of their borrowing options.

This bill represents a huge step forward. But let us not lose sight of what is at stake - and how hard it is for the average student or family to afford a college education.

Every year, the government pays billions to private student lenders, primarily in the form of interest rate subsidies as part of the government-guaranteed loan program. Yet, the loans that students can access in the direct loan program, where the government lends directly to the student, are virtually identical. The difference is that the direct loan program costs the government significantly less money. The scandal? Direct loans account for about 20 percent of federal student loans, while the more costly and wasteful guaranteed loans claim the lion's share of around 80 percent.

Using figures from the president's 2008 budget, we estimate that between 1992 and 2007, the government could have saved more than \$38 billion had all of the loans made during that period been direct. In 2006 alone, the government could have saved more than \$7 billion - about half of what the Pell Grant program, which provides need-based grants for lower-income students, will disburse this year and enough to provide about 1.8 million additional students with grants at the current maximum of \$4,050. Need-based grants that students never have to repay will do far more to expand access and affordability than moderate reductions in interest rates on loans.

We need to get back to basics. How do we make college more affordable for all of our students? And how can we best leverage precious taxpayer dollars to do so? Perhaps some officials at our schools and some of our lawmakers in Congress have lost sight of these fundamental goals.

In response to calls for direct loans, the lending industry and some conservative lawmakers often talk about how they prefer the "market-driven" approach of the guaranteed loan program, because the "market" will be more efficient. Markets are good - when they work. For the loan market to work, lenders would need to compete both for the government subsidies and for the students' business by offering real comparative value instead of offering financial aid officers "consulting fees" over filet mignon.

If we're ready to really let the markets work, then let the most affordable and efficient lender win. As it stands now, direct loans offer the best bang for our buck.

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## **Congress and the Student Loan Scam - May 8, 2007**

May 8, 2007, Tuesday

*(NYT); Editorial Desk*

Republicans in Congress have generally defended corporate welfare for companies involved in the student loan business: lenders that collect billions of dollars in federal subsidies in return for issuing government-backed loans that represent no real risk to the companies themselves. But support for these wasteful subsidies is waning in both parties, thanks to recent revelations showing just how corrupt and costly the program has become.

Yesterday, The Times published a front-page article by Sam Dillon that offered chapter and verse on how the Department of Education, which is supposed to oversee the lenders, was virtually taken over by the companies it was supposed to regulate. The story focused on Jon Oberg, a department researcher, who notified the government back in 2003 that the lenders were improperly collecting hundreds of millions of dollars a year in subsidy money.

Mr. Oberg told the department that it could just shut off the subsidies by simply sending the lenders a letter. But his bosses feigned ignorance and twiddled their thumbs for three more years while the lenders grew fat off billions that should have been going directly to needy students. Worse still, one well-connected company was allowed to keep \$278 million in subsidies after the department's inspector general found them improper.

The giveaway at the Education Department is closely related to the payoffs and kickbacks that lenders have recently been found to be paying to colleges that steer borrowers their way. These schemes are driven by excess money that would substantially dry up if Congress cut the subsidy rate. Beyond that, however, Congress needs to get out of the business of artificially setting the subsidy rate, as it does now. It could do that, and drive down costs, by forcing lenders to compete for the right to participate in the loan program at all.

Under another proposal, Congress would phase out the subsidized loan program and send students toward the less costly direct-loan program, under which they borrow directly from the government. That, too, would be an improvement over the current dismal situation. It is not so common that big problems have such easy and obvious solutions. There is no excuse for inaction in Congress.

## **Lender's Paradise: Rethinking the business of student loans** - April, 23, 2007

*Washington Post, A16*

BAD BEHAVIOR is not the only reason to scrutinize the federally subsidized student loan business. But it is a good place to start after reports of ethical lapses at student loan firms.

First, an investigation by New York Attorney General Andrew M. Cuomo revealed that financial aid officers at a number of prominent universities held stock in a loan company that they recommended to their students. The company's executives appear to have brokered deals, presumably intended to persuade those university officials to recommend its services. Last week, Mr. Cuomo announced that he will sue Drexel University for sharing revenue with a student loan firm it recommended. Industry groups have insisted that keeping private lenders in the student loan game enhances choice and, therefore, maximizes benefits to students. Universities can recommend the companies with the best rates and the best services to their students. Now, students will have to wonder if that advice reflects impartial judgment or inappropriate industry lobbying.

The Post's Amit Paley reported this month that student loan companies had improperly gained access to a government database containing a huge amount of sensitive student information. An official at the Education Department believes that they did so to harvest information that would assist them in marketing loan consolidation services. The department shut down the database last Tuesday. Federal managers must be more vigilant in restricting access to legitimate queries. In this case, more caution is better than less.

All of this misbehavior leads to a broader question: Why continue to subsidize these firms? Currently, universities can participate in the public-private program, in which private lenders pony up the principal and collect low-interest payments from students while receiving a government subsidy that, in effect, increases the interest these companies receive. Or universities can choose to have their students borrow money directly from the government. Either way, Congress sets the general interest rates students pay on most loans. And the Congressional Budget Office and the Office of Management and Budget have both concluded that the government's direct lending program is significantly cheaper for taxpayers.

As Congress prepares to take up education policy, it should look to enforce stricter ethics rules on private lenders and to cut their federal subsidies, wasteful corporate welfare that removes much of the risk of doing business. Savings might go to enhancing the Pell Grant program, to deficit reduction or to other worthy causes. Some would also like to see private companies compete for the privilege of lending to students, a program that might more efficiently set student loan rates than congressional fiat can. It is an idea worth considering.

## Education Department Official Implicated in Widening Student Loan Scandal - April 5, 2007

By Stephen Burd

*Higher Ed Watch Blog*

Higher Ed Watch has learned that a top Education Department official held at least \$100,000 worth of stock in a student loan company that may have substantially benefited from its ties to him.

According to a Securities and Exchange Commission (SEC) filing by Education Lending Group (see chart on page 18), the Education Department official, Matteo Fontana, held at least 10,500 shares in Student Loan Xpress as of September 2003. Fontana is currently in charge of overseeing lenders and guarantee agencies that participate in the Federal Family Education Loan Program (FFELP). Mr. Fontana's shares were offered for sale at just under \$10 per share in September 2003, according to SEC filings. The extent of his total holdings in September 2003 and today is unknown.

Mr. Fontana, who is a good friend of Student Loan Xpress's president Fabrizio "Breeze" Balestri, joined the Education Department in November 2002 and was put in charge of the National Student Loan Data System (NSLDS), a gigantic computer database that keeps track of the student aid awards of tens of millions of students who have received federal financial aid.

It's unclear whether Mr. Fontana disclosed his stock holdings -- which he held for almost a year while at the Department -- to his superiors at the agency. Mr. Fontana didn't return Higher Ed Watch's calls.

Meanwhile, the Education Department released a statement late on Thursday that didn't address whether Mr. Fontana had made the disclosures. "The Department takes this matter very seriously and our Office of the General Counsel is actively reviewing it," Samara Yudof, a spokesperson for the agency stated.

What is clear is Student Loan Xpress, which started in 2001 primarily as a student loan consolidation company, stood to benefit significantly from having such a close colleague in charge of NSLDS, which includes detailed personal data on individual federal student-loan borrowers.

According to several key sources, civil service employees at the Education Department have long complained that officials in charge of the Federal Student Aid office allowed loan consolidation companies to mine NSLDS records so they could steal away borrowers from the Department's Direct Student Loan Program.

Over the last five years, private lenders have been extremely aggressive in marketing consolidation loans to Direct Loan borrowers, offering them rebates on fees and interest rates that the government is prohibited by law from matching, despite the fact that Direct Loans are less expensive for taxpayers than the FFELP alternative. According to Education Department data, as reported by The Chronicle of Higher Education, close to 800,000 Direct Loan borrowers, with a total debt of about \$17 billion, left the Direct Loan program between 2003 to 2005 to refinance their loans with private loan providers, such as Student Loan Xpress.

The misuse of NSLDS by companies marketing consolidation loans and other entities appears to have been so rampant that the Department's Inspector General sent a memo to Terri Shaw, the Chief Operating Officer of the Federal Student Aid office, in 2005 demanding that the office limit access to the database. As a result of the Inspector General's prodding, Mr. Fontana sent out his own notice to lenders warning them that NSLDS information was not to be used for "the marketing of student loans or other products."

Revelations that Mr. Fontana owned a stake in Student-Loan Xpress come a day after Higher Ed Watch uncovered that financial aid administrators at three major universities had received significant shares of stock from the company. As a result of our investigation, Columbia University placed its aid director, David Charlow, on leave pending a full review by the institution. Columbia also alerted New York Attorney General Andrew Cuomo to our findings. Mr. Cuomo promptly issued a subpoena to Columbia University and sent letters to the other two universities in question -- the University of Southern California and the University of Texas at Austin -- seeking more information about the administrators' stock ownership.

Higher Ed Watch continues to believe that the problem of corruption in America's student loan system stems from excessive taxpayer subsidies going to the student loan banking industry instead of families and needy kids.

This problem has to be addressed at its root.

*Michael Dannenberg, Editor of Higher Ed Watch, contributed to this report.*

## **Opinion: Student Loan-Gate** - April 4, 2007

By Anya Kamenetz  
*Yahoo News*

New York State Attorney General Mario Cuomo has got the student loan industry running scared by pointing out an open secret: Student lenders pay various kickbacks to financial aid offices to drive business their way, rather than negotiate the best deals for students. With barely a few letters sent, six schools have agreed to repay students \$3.27 million on private loans, while Citibank, one of the largest student lenders, is paying \$2 million into a financial education fund.

No one is admitting any wrongdoing. But cash speaks louder than words. \$5 million, in an \$85 billion industry, is a small price to pay to deflect further scrutiny of the obvious conflicts of interest inherent in this system. To take another example, lenders have been involved in marketing "enrollment management" software to help financial aid offices allocate grant aid to the most attractive students, leaving needier students to borrow more.

When I wrote my first piece about the student debt crisis in the Village Voice in June 2004, the future looked grim. Average student loan burdens doubled in the 1990s to nearly \$20,000, and in February 2006, barely a year ago, Congress passed the largest cuts to student aid in history.

I never would have guessed that the tide would turn so quickly and that the loan industry, with its fat profits, billions in government subsidies, private jets and baseball teams, would be on the defensive. But here we are.

Cuomo's investigation has already found its counterpoint in Senator Kennedy's Student Loan Sunshine Act, which would bring full disclosure to the process. This is part of a larger bundle of reforms and relief packages, many with bipartisan support.

A 50% student loan interest rate cut was the most popular measure passed in the Dem's first 100 hours. Then, in a real surprise, Bush proposed a hike in the largest federal student grant from just over \$4,000 to \$5,400, to be paid for by a half-a-percentage point cut in lender subsidies--a move described by analysts as "throwing the student loan industry under the bus."

I say, let them go play in traffic. There's a much-cheaper-for-taxpayers student loan alternative that already serves 1/4 of the market: The Direct Loan Program. Switching, as described in the reintroduced STAR Act, would save billions we could then use for much needed grant aid. And a "single payer" Direct Loan program would save on marketing costs and limit the potential for scandals like the current one.

# **Bush Would Pay for Pell Grant Increase With Cuts in Lender Subsidies and Supplemental**

**Grants Program** - February 6, 2007

*By Kelly Field*

Last week, higher-education lobbyists got the good news on President Bush's proposed budget for the Education Department in 2008. He would increase spending on the maximum Pell grant to \$5,400 over the next five years.

On Monday, they got the bad. He would pay for it by cutting lender subsidies and eliminating the Supplemental Educational Opportunity Grant program (SEOG), which augments Pell Grants for low-income students. Under the president's budget, officially unveiled on Monday, the maximum Pell Grant would grow to \$4,600 next year, while the maximum award for academically talented low-income students in the Academic Competitiveness Grant program would increase by 50 percent in 2008, to \$1,125 for freshmen and \$1,950 for sophomores. Taken together, the maximum grants would cover all tuition and fees and up to \$4,000 in living expenses for community-college students, and tuition and fees for sophomores at an average four-year public institution, in 2008.

But the increases would come at a cost to some low-income students and to lenders in the federal government's guaranteed-loan program. Those companies would see their federal subsidies slashed for a third time in a year, this time by \$18.8-billion. To achieve additional savings, the budget would also abolish SEOG and several other higher-education programs, while requiring colleges to return the federal share of money they use to make new Perkins Loans.

At the same time, it would provide \$24-million for a new grant program aimed at increasing the number of speakers of so-called 'critical languages,' and \$25-million for a study of a database that would track the educational progress of students.

## **Lenders React With Alarm**

Lobbyists for the lending industry called proposed cuts 'debilitating' and warned that they could force lenders to scale back borrower benefits like lender-paid origination fees, rate reductions for on-time repayments, and financial literacy and default prevention.

'In essence, these tax cuts are a tax on middle-class families who rely on student loans to achieve the American dream,' said Kevin Bruns, executive director of America's Student Loan Providers, a group formed by loan-industry officials to advocate on their behalf.

Others lobbyists said the cuts could drive some lenders from the guaranteed loan program, leaving students with fewer borrowing options.

'Student lenders cannot sustain cuts of this magnitude,' said Joe Belew, president of the Consumer Bankers Association.

Shares of several student-lending companies, including Sallie Mae and Nelnet, fell by more than 6 percent or more on Monday as the stock market reacted to news of the cut.

But the U.S. secretary of education, Margaret Spellings, said there is little evidence that the subsidy cuts will harm lenders. 'We have all seen the lending industry continue to be highly profitable' in the face of recent cuts, she said in a conference call with reporters.

'We are strongly supportive of private sector lending, but it's important for us not to compromise access for students, as resources are scarce,' she said, adding that the department would work with Congress 'to find the right calibration' between subsidy cuts and Pell Grant increases.

At a separate briefing for higher-education lobbyists on Monday, Sara Martinez Tucker, under secretary for education, said the administration had analyzed where lender subsidies go and concluded that 'a small percentage of the subsidies pass through to students.'

'We don't believe it's going to hurt students,' she said.

Congress cut subsidies to lenders by \$8-billion last year as part of budget deficit-reduction measure that created the Academic Competitiveness Grant program. This year lawmakers are considering a bill that would cut lender subsidies by an additional \$6-billion to pay for a proposal to halve the interest rate on student loans. That bill, which was passed by the U.S. House of Representatives last month, would achieve a third of its savings by trimming the subsidies that the government pays to lenders in the guaranteed-loan program by one-10th of a percentage point.

The president's budget would go even further, cutting the subsidy rate by a half a percent. It would also double the origination fees that lenders pay the government when making consolidation loans, and reduce the amount of money that the government reimburses most lenders for loans that go into default, from 97 cents to 95 cents of every dollar that is unpaid.

The president's plan also would:

Reduce the amount of money that guarantee agencies can keep for themselves from the money they recover from borrowers who default.

Change the way the department calculates an administrative fee that it pays to guarantee agencies.

## **Gains in Pell Offset Elsewhere**

Additional dollars for the increases in the Pell Grant program and the competitiveness grants would come from the elimination of the \$880-million Supplemental Educational Opportunity Grants. This year, 1.3 million students will receive SEOG awards of up to \$4,000; roughly 300,000 of them would gain under the administration's proposal, which

would increase the maximum Pell Grant for fiscal 2008 by \$290 over the 2007 level passed by the House (the Senate has yet to act on a 2007 budget for the Education Department). But one million students who received SEOG grants of greater than \$300 would actually lose money that first year, according to an analysis by the American Council on Education.

'Symbolically, it's a very important step for the president to call for a substantial increase in Pell,' said Terry W. Hartle, the council's senior vice president for government and public affairs. 'Unfortunately, it's difficult to be enthusiastic about a proposal that will leave one million students worse off.'

Lobbyists for students said that while they were pleased with the proposal to trim lender subsidies, they wished the administration would increase overall federal student aid rather than move money among existing program.

'They're robbing Peter to pay Pell,' said Luke Swarthout, a higher-education associate for the State Public Interest Research Groups.

Asked why the administration chose to abolish the SEOG program, Ms. Tucker told lobbyists at the briefing that 'while some campuses see SEOG as highly effective, candidly, the money isn't going to the neediest students.' She noted that on campuses enrolled in the program, 70 percent of low-income students get 46 percent of the SEOG money. The SEOG program also costs 250 times more to administer than the Pell Grant program, she said.

The cuts would not stop with SEOG, however. The budget proposal would also terminate the \$64.5-million Leveraging Educational Assistance Partnership program, which matches each dollar that states commit to need-based aid, and the \$40.6-million Robert C. Byrd Honors Scholarship Program. Both programs have been slated for elimination in the past and are likely to survive the budget ax again in Congress.

But some of the proposed eliminations were new, such as the \$12-billion from the 'Strengthening Alaska Native and Native Hawaiian-Serving Institutions' program. And some of the administration's perennial targets were spared, including two of the federal TRIO programs for disadvantaged students, and Gear Up, which helps financially needy middle-school students prepare for college. Most of the other student-aid programs would receive flat funding or a slight decrease.

### **Recommendations Tied to Commission**

In explaining the eliminations, the Education Department said it was following the advice of the secretary's Commission on the Future of Higher Education, which described the federal financial aid system as needlessly complex and duplicative and called for consolidating its programs. The programs that were specified for elimination have either 'achieved their original purposes, duplicate other programs, are narrowly focused, or are unable to demonstrate effectiveness,' the department wrote in its budget summary.

SEOG, for example, is awarded 'under an outdated statutory formula' and 'not optimally allocated based on a student's financial need,' the department wrote in its summary.

Among other things, the president's budget proposal would:

Eliminate the Perkins Loan Program and require colleges to return the federal share of the money they use to make new Perkins Loans to students.

Provide \$24-million in grants of \$1-million each to colleges and school districts that work together to educate students in languages critical to national security, such as Arabic, Chinese, Japanese, Korean, and Russian.

Revive a proposal to create a national student unit-record tracking system. The department first offered that plan in 2004, but it was roundly rejected by members of Congress from both parties, who raised privacy and security concerns. This time around, the administration has made a more modest request, asking Congress for \$25-million for a pilot program 'to assess the feasibility of implementing a system that would safeguard privacy of individual data.'

Raise the interest rate on PLUS loans from 7.9 percent to 8.5 percent for borrowers in the Direct Loan program. Congress raised the rate to that level for borrowers in the guaranteed loan program last year, but because of a drafting error in the bill, direct loan borrowers were spared the increase.

Increase annual subsidized loan limits for juniors and seniors by \$2,000, to \$7,500, the first such increase since 1992. Congress raised the loan limits for freshmen, sophomores, and graduate students last year, but did not increase them for juniors and seniors.

Make Pell grants available year-round, while limiting Pell eligibility to the equivalent of 16 semesters.

Eliminate the Pell Grant rule related to tuition sensitivity. This rule limits the amount of support that students attending low-cost institutions can receive under the program.

Exclude amounts held by students and parents in Section 529 savings and investment costs from the federal formula used to determine financial need.

## **A Bid for Better Student Loans - Billions Could Be Saved by Having Banks Compete for Subsidies** - February 5, 2007

By Michael Dannenberg and Phillip Longman

The average graduate of a four-year college now sets off in life burdened by almost \$20,000 in student loans. Among those graduating from four-year private schools, it is not uncommon to owe \$40,000 or more. Responding to this unprecedented burden on Americans seeking to improve themselves, the House recently passed a bill that, on average, would reduce the loan interest paid by college students by about \$30 a month.

That's welcome relief. But by forcing banks to compete for the right to make government-guaranteed student loans, we can do much more to ensure that young Americans are not sunk by debt before they get a chance to start their careers and families.

How much could interest rates and government subsidies for student loans fall without causing banks to stop lending? Probably a lot, though no one can say for sure because there is no market mechanism for determining the price of student loan subsidies. Instead, the federal government guarantees banks that the student loans they issue will be repaid in full, and then, through the political process (i.e., after listening to bank lobbyists), promises banks a profit set in law by formula. Separately, Congress also sets the interest rates that borrowers pay.

Those terms leave the good folks who make student loans with little to complain about. Loan giant Sallie Mae makes a 43 percent return on its cost of capital while incurring virtually no risk. Such rich rewards suggest that guaranteed profits on guaranteed student loans could be cut substantially without reducing the number of Americans who can obtain such loans. But finding exactly the right subsidy price or market-clearing interest rate for student loans is not something Congress or anyone else can divine in the absence of a market.

Fortunately, there is an easy solution: Make lenders bid for the right to sell federally guaranteed student loans.

As the commercial says, when bankers compete, you win. The right to originate loans guaranteed against default by taxpayers is something of great value that the government currently gives away for free to the banking industry. Why shouldn't banks have to bid against one another to secure this sure source of profit, especially when it's the taxpayers who create this 'business opportunity'? Banks could compete by offering the highest bid for the right to sell guaranteed student loans to designated schools or by agreeing to accept the lowest amount of subsidy.

How much revenue would such an auction raise? It's hard to say exactly in the absence of a market. But recently, one of the country's largest lenders, the Missouri Higher Education Loan Authority, sold off half its portfolio of student loans at a premium of 7.1 percent. This hints at the market value of government-guaranteed student loans and suggests that taxpayers could save \$15 billion to \$20 billion over the next five years if Washington relied on market mechanisms instead of backroom politics to establish subsidy rates.

We could use all that extra revenue to benefit needy college students directly through grants or by cutting interest rates on their loans. Or we could extend the No Child Left Behind Act into high schools, as the Bush administration wants. Really, we should do all three.

The idea of such an auction is hardly radical. The government auctions off its Treasury debt, as well as spectrum licenses and offshore drilling rights, among other things. These auctions are not without their flaws, but they are preferable to the government simply giving away public assets to the well-connected.

From the borrower's perspective, loan terms would not change. Banks with winning bids would be required to make the same government-guaranteed loans that are available today.

Yes, the auction system might reduce the number of lenders, but the difference wouldn't be much. According to the Education Department, 32 lenders control 90 percent of the market, and one, Sallie Mae, already owns more than half of all outstanding federal family education loans.

Besides, in the event of poor service, colleges that don't like the winning bidders would retain the option of shifting to the government's own Direct Loan program, which provides the same loans under the same terms and conditions as the subsidized bank alternative. And if borrowers are upset with the winning bidders' service, they could refinance with another lender, as millions who hold consolidated student loans already have.

The American system of financing higher education needs reform, and soon -- but we must do it by moving away from the current system of government price controls. Conservatives should approve of a system that lets a market mechanism determine the cost of student loans, while liberals should applaud the dismantling of one of the country's most egregious examples of corporate welfare.

*Michael Dannenberg is director of education policy and Phillip Longman is a senior fellow at the New America Foundation, a nonpartisan public policy institute.*

## **Editorial: Petri, not Democrats, offers progressive plan for student loans** - February 1, 2007

The Democrats' first 100 hours as the new majority are less than they seem.

Take, for example, student loans. Democrats had a chance to overhaul an expensive system of student loans channeled through private lenders. Instead of passing real reform, however, Democrats arbitrarily cut interest rates and left a bad program intact.

There's a better way, and a Republican Congressman who used to represent Tomah appears to be the only politician in America who gets it right.

Representative Tom Petri (R-Fond du Lac), who represented eastern Monroe County until the 2000 redistricting, is a champion of the Direct Student Loan Program, where the federal government loans money directly to students who meet certain income guidelines. Unfortunately, the program runs side-by-side with the Family Education Loan program, in which private lenders make loans that are guaranteed by the federal government.

FFEL is promoted as the "private-sector" alternative to government lending, but FFEL hardly operates under private-sector rules. Absent from the FFEL program is that most basic of private-sector principles: risk. Since the government guarantees every loan, FFEL rakes in guaranteed profits and has no incentive to efficiently manage its loan portfolio. As Petri explains it:

"FFEL is so heavily subsidized and protected from risk that the providers actually function as semi-public bureaucracies. It's mainly their profits and lobbying which still resemble the private sector."

It's Petri, and not House Speaker Nancy Pelosi or the Democratic leadership, who has the real progressive vision of student loans. Petri offers two alternatives that Democrats should readily embrace:

\*The Student Aid Reward Act, which encourages colleges and universities to voluntarily participate in the more cost-effective direct loan program and allows them to apply the savings toward additional Pell Grants. Petri estimates Pell Grants could rise by \$800 million and still leave \$3 billion in taxpayer savings.

\*The Income-Dependent Education Assistance Idea Act, which creates an income-contingent loan repayment plan with direct IRS collection. Petri believes it would greatly help students manage their debt loads after graduation.

Stockholders and bureaucrats who benefit from FFEL will use their lobbying muscle to kill these plans, but Petri can win this battle with vocal bi-partisan support (Ron Kind would be a good start). If Democrats are sincere about taking on special interests, they'll reach across party lines to support innovative ideas that benefit both students and taxpayers.

Democrats, your 100 hours are over. Now pass real reforms.

## College-loan fight looms for banks in Congress - January 26, 2007

By Kevin Drawbaugh

WASHINGTON (Reuters) - Student loan giant Sallie Mae and some of the nation's biggest banks are bracing for a fight in the Democratic-led Senate over a problem facing many middle-class voters -- how to pay for college.

In hearings expected to start early next month, Sen. Edward Kennedy will seek support for legislation he introduced on Monday directly threatening Sallie Mae and big student lenders such as Citigroup, Wells Fargo, Wachovia, Bank of America, JPMorgan and Nelnet.

The Massachusetts Democrat -- an old liberal lion brought back to committee leadership power in November's elections -- wants to reward colleges for steering more students to direct government loans instead of the government-guaranteed loans that furnish handsome profits for Sallie Mae and the banks.

The Kennedy proposal hits the lenders 'in the pocketbook,' said Mark Kantrowitz, a consultant and author who runs a Web site, FinAid.org, devoted to student financial aid issues.

'Diverting loan volume into direct lending means the banks will have less income ... and be forced to compete,' he said.

Direct loans are cheaper, Kennedy said in a statement, citing estimates from President George W. Bush's 2007 budget.

The lending industry disputes such figures and defends the cost and efficiency of the loans that private-sector lenders make under the Federal Family Education Loan Program (FFEL).

'This is a very successful program. It's in every congressional district. Students are getting better rates. It just doesn't make sense to cut the FFEL program,' said Kevin Bruns, head of lender group America's Student Loan Providers.

Sallie Mae Chief Executive Tim Fitzpatrick put it more bluntly on January 18 in a teleconference with market analysts in which he said direct loans have fallen short of expectations.

'Unfortunately, Sen. Kennedy has attempted to smear the integrity of Sallie Mae, the student loan industry, and the financial aid professionals. I'm certainly personally disappointed in his baseless and insulting attacks,' said the Sallie Mae CEO, according to a teleconference transcript.

### BATTLEGROUND SHIFTS

The two sides have squared off before over this issue, but in some ways, things look different this time around.

Kennedy now chairs the Health, Education, Labor and Pensions Committee that oversees student loans.

The House has already approved a bill to halve interest rates on many student loans to 3.4 percent over five years. Kennedy's bill proposes that and additional steps.

It also would boost funding for federal Pell grants, which are given to students and need not be repaid; let students cap their loan payments at a percentage of income; forgive loans after 25 years; allow students to consolidate loans; cut direct loan fees; and widen the tuition tax deduction.

Outside Washington, New York Attorney General Andrew Cuomo is looking into allegations that college financial aid officers have been getting perks -- such as sporting event tickets -- in exchange for listing certain companies as preferred lenders.

Virginia-based Sallie Mae said last week it is cooperating with the Cuomo inquiry. People familiar with the probe said it is certain to spread to other lenders.

Student loan group Nelnet said separately last week it agreed to settle with the Department of Education to resolve a dispute over certain loan payments. Kennedy said the Nelnet 'scandal has cast a black mark on the student loan industry.'

Legal troubles like these put the industry on the defensive just as it confronts the Kennedy bill, Kantrowitz said.

Another new development is a drop in the stock price of Sallie Mae, known formally as SLM Corp., in an otherwise bullish market. SLM shares closed on Thursday at \$45.41 on the New York Stock Exchange, down from \$55 a year ago.

In other ways, the student loan debate is unchanged.

U.S. college costs continue to rise, with the average, in-state expense of attending a public four-year college approaching \$13,000 a year, up 35 percent since 2002. Private college costs are averaging about \$30,000 a year.

## Democrats Look to Large Lenders to Shoulder Rate Cuts in Student Loans - January 12, 2007

*Chronicle of Higher Education*

By Stephen Burd

*Washington*

The Democratic leaders of Congress spent much of Thursday rallying support for their proposal to halve the interest rate on federal student loans, and told college lobbyists they would pay for the cut by trimming the profits of the largest student-loan providers.

Lawmakers plan to introduce the bill, which would gradually reduce the student-loan interest rate to 3.4 percent from 6.8 percent over five years, in the U.S. House of Representatives today and bring it to a floor vote next Wednesday.

In the push for support on Thursday, key Democrats from the House and the Senate attended a news conference held by student groups and liberal advocacy organizations touting the plan. They also urged the higher-education lobbyists -- some of whom have expressed misgivings about the proposal -- to come behind it.

Late Thursday, the American Council on Education sent a letter, on behalf of itself and 16 other associations, to Rep. George Miller, the California Democrat who is chairman of the House Committee on Education and Labor, supporting the bill. "We look forward to working with you to ensure its passage and to making significant progress towards our shared objective of achieving a \$5,100 Pell Grant this year," wrote David Ward, the council's president.

In their meeting with college lobbyists, aides to the Democratic leaders revealed how the lawmakers plan to pay for the proposal, which they said would cost the government about \$5.9-billion over five years. Nearly one-third of the money needed to pay for the interest-rate cut would come from savings generated by reducing the profit margin that the top private lenders receive on federal loans.

In the guaranteed-loan program, the government assures lenders a rate of return that is separate from -- and, over the last decade, usually higher than -- the rate students are charged. Under the Democratic plan, the top 1 percent of lenders, who hold 90 percent of the loan volume, would see the guaranteed rate reduced by one-tenth of a percentage point. For example, the current rate that lenders are guaranteed is 5.38 percent. Under the proposal, the rate would drop to 5.28 percent.

The lawmakers said that about 30 lenders would be affected, including Sallie Mae, which is the nation's largest student-loan provider, and Citibank, Wells Fargo Bank, and Bank of America.

Loan-industry officials wasted no time attacking the proposal. "This penalizes the lenders that have shown the deepest commitment to the program by their size," John Dean, a lawyer for the Consumer Bankers Association, said on Thursday.

Critics of the student-loan industry said that limiting the rate reduction to the largest lenders is a savvy move, as it will protect Democrats from one of the Republicans' main lines of attack. "This insulates the Democrats from charges that their proposal will force small lenders out of the loan program," said a student-loan analyst, who did not want to talk publicly until the bill was formally unveiled.

### Other Proposed Changes

In addition to the cut in the rate of return that the top lenders receive, Democrats plan to propose making changes in the guaranteed-loan program, effective July 1, that would:

Reduce the amount of money that the government reimburses most lenders for loans that go into default, from 97 cents to 95 cents of every dollar that is unpaid.

Eliminate a program in which the government fully reimburses lenders it deems "exceptional performers" for loans that are not repaid. The Education Department awards that designation to lenders that it believes provide the most reliable service to students. Those lenders tend to be large ones like Sallie Mae, Citibank, and the National Education Loan Network, a major for-profit student-loan provider based in Nebraska that is commonly known as Nelnet.

Increase to 1 percent, from 0.5 percent, the one-time fee that lenders in the guaranteed-loan program must pay the government when making student loans.

Reduce to 20 percent, from 23 percent, the amount that guarantee agencies can keep for themselves from the money they recover from borrowers who default. The proportion would drop to 16 percent by 2010.

In a written statement, Kevin Bruns, executive director of America's Student Loan Providers, a group formed by loan-industry officials to advocate on their behalf, said that changes "of this magnitude" would "jeopardize the features of the program" that students, parents, and colleges value, such as the ability of lenders to offer generous discounts to borrowers who consistently make their payments on time.

He noted that Congress had cut the payments that lenders receive from the government to make student loans by \$8-billion last year, as part of legislation pushed by Republicans to reduce the federal budget deficit (The Chronicle, February 2, 2006).

"Congress cannot cut the guaranteed-loan program twice in 12 months and not have it affect borrowers," Mr. Bruns said. "Proposing to hit the loan providers again may be good politics, but it's the students and families they serve who would ultimately pay the price."

The Consumer Bankers Association has also warned that cuts in federal subsidies to lenders could ultimately come back to harm student-loan borrowers (The Chronicle, January 10).

But Democrats and advocates for students defended the planned cuts, noting that most of them had previously been proposed by the Bush administration and Congressional leaders. For example, President Bush had called for cutting the amount of money that the government reimburses lenders for defaulted loans as part of his 2006 fiscal year budget request (The Chronicle, February 8, 2005). The Senate, meanwhile, passed a budget-cutting bill more than a year ago that would have eliminated the Education Department's program for rewarding lenders it deems exceptional (The Chronicle, December 21, 2005).

The Democrats also pointed to a report put out by financial analysts at Citigroup last week that said the proposed cuts would be "manageable" for Sallie Mae. The analysts actually characterized the news as positive for Sallie Mae because the proposed cut in the rate of return for top lenders was less severe than they had initially feared it would be.

Meanwhile, at the news conference organized by student groups and liberal advocacy organizations on Thursday, Sen. Edward M. Kennedy said the profits that private lenders make from student loans are "a sham" and "a scandal."

Mr. Kennedy, a Massachusetts Democrat who is chairman of the education committee in the Senate, said his party's leaders would turn to expanding the Pell Grant program after they pass the rate cut through Congress.

"We must end corporate welfare in the student-loan programs and repeal the outrageous federal subsidies that still exist for government-guaranteed loans," Senator Kennedy said. "It's time to throw the money changers out of the temple of higher education."

Student leaders, citing their own debt, said that the crushing loan burden that students are taking on is dissuading them from considering entering some of the country's most important professions.

"The joy that comes from teaching does not pay the bills," said Anthony Daniels, an Alabama A&M University graduate student who is chair of the National Education Association's student program.

*Josh Keller contributed to this report.*

## Democrats Rally for Debt Relief - January 12, 2007

*Inside Higher Ed*

By Elizabeth Redden

In what was basically a pep rally for improving access to college Thursday, Democratic lawmakers highlighted legislation that would halve student interest rates on subsidized Stafford loans and, again and again, heralded the bill as a “first step” in the new majority’s plans to deal with issues of college affordability.

“You demanded that we reverse the raid on student aid. I’m telling you that we will fulfill that promise,” Rep. George Miller (D.-Calif.), the new chairman of the House Committee on Education and Labor, said in reference to \$12 billion in savings that were squeezed from the student loan programs last year as part of the Higher Education Reconciliation Act.

H.R. 5, which is set to be formally introduced today and for a House vote on Wednesday, is one of six provisions under consideration in the Democrats’ first 100 hours of legislative activity. It would reduce lender subsidies, with a focus on the largest providers of loans, and use those funds to cut the interest rate on subsidized student loans for first-time borrowers from 6.8 to 3.4 percent over the next five years. An analysis by U.S. PIRG estimates that the average four-year college student with subsidized loans starting school in 2011 or beyond would save \$4,420 over the life of a loan. For those closer to college age, a student starting school this fall, for instance, could expect to save about \$2,280. The Project on Student Debt released a similar analysis Thursday.

The lawmakers speaking at Thursday’s press conference on Capitol Hill repeatedly mentioned other agenda items they hope to pursue. Sen. Edward M. Kennedy (D.-Mass), the new chairman of the U.S. Senate Committee on Health, Education, Labor & Pensions, described plans to increase the maximum Pell Grant award from \$4,050 to \$5,100, cap student loan payments at 15 percent of a borrower’s discretionary income, forgive student loan debt for individuals who continue in public service careers for 10 years, and generate \$13 billion in additional need-based aid by reforming the student loan programs to encourage the use of the less expensive direct loan program.

Some in higher education, however, have quietly questioned the Democrats’ decision to tackle cutting interest rates before pushing for more Pell funds for the neediest students, and have wondered how much money will really be left for Democrats to fund the rest of the laundry list.

When asked about that topic, Jennifer Pae, president of the United States Student Association, repeated the mantra of the day: “This is a pivotal first step.” Increases to Pell Grants, which have been stagnant for five years, and restoration of funding for programs like Upward Bound, are also on her group’s agenda, she said.

Democrats have been pushing higher education leaders to get behind the rate cut, and Thursday, the American Council on Education and 16 other college groups sent a letter to Miller expressing their support for the idea — though in less-than-effusive terms. “The College Student Relief Act will help an estimated 5.5 million low- and middle-income students and their families pursue their goal of a higher education,” the groups wrote, managing to work in a line about their preferred priority. “We look forward to working with you to ensure its passage and to making significant progress towards our shared objective of achieving a \$5,100 Pell Grant this year.”

Lenders have criticized the effort to reduce interest rates by cutting several subsidies that the government pays to banks, saying that the cuts proposed to fund H.R. 5 would, on top of the \$12 billion in cuts last year, amount to \$20 billion — jeopardizing “features of the program that make it the overwhelming favorite of students, parents and schools,” Kevin Bruns, executive director of America’s Student Loan Providers, said in a statement.

“Proposing to hit loan providers again may be good politics, but it’s the students and families they serve who would ultimately pay the price.”

*The original story and user comments can be viewed online at <http://insidehighered.com/news/2007/01/12/congress>.*

## **Making Student Loans Easy** - January 11, 2007

*Georgetown Voice*

As part of its one hundred-hour legislative agenda, the newly elected Democratic majority aims to make college education more affordable. Next week, Congress is expected to pass a bill that cuts interest rates on federal student loans in half, a move that would shave about \$4,400 from the \$17,500 of debt that the average student graduates with. In the future, the Dems want to increase the maximum Pell Grant to \$5,100 a year. While important moves, they should only be the beginning of an expansion of access to higher education. The federal government should manage student loans itself instead of using taxpayer money to hire lending companies.

In the American economy, expanding college education is one of the most important methods of ending poverty and reducing inequality. Those with a college degree earn 80 percent more than those with no more than a high school diploma. Although America has traditionally been touted as the land of equal opportunity, rising tuition and cuts in student aid threaten to deny the poor a fair shot at achieving social mobility. While 82 percent of those in the top quartile of income have a bachelors degree by the age of 24, only 12 percent of the bottom half do.

Today, the federal government doles out loans indirectly, hiring lending companies—the biggest one being Sallie Mae—to manage the Federal Family Education Loan Program. The government should cut out these middlemen and make direct loans to students. Sallie Mae makes windfall profits, about a 37 percent return on revenues. These profits are high because the government insures Sallie Mae against risk by guaranteeing it a certain return on their loans and compensating them for defaulted ones. By switching completely to direct lending, the government would save \$4.5 billion annually, enough to fund the Democrats' interest rate cut or 1.5 million Pell Grants. Though the government would have to create more bureaucracy for this, this seems to be a unique case where doing so will actually save money. And the government could merely expand on the small direct lending program they currently run.

Georgetown and other colleges currently have a choice between direct lending and the FFELP. However, the lending companies give colleges incentives to choose the FFELP, so 77 percent of colleges, including Georgetown, choose the lenders.

Taxpayer dollars are padding corporate profits instead of helping needy students reduce their debt. With a tight federal budget and without increasing taxes, it will be difficult to find a lot of money for college education funding. Here's a solution: cut out the middleman.

## Higher Education Act May Finally See Action - January 10, 2007

*Education Week*

By Alyson Klein

Teacher-quality programs could get extra attention—and resources—when Congress finally tackles the reauthorization of the Higher Education Act, a piece of unfinished business that the incoming chairmen of the House and Senate education committees say will be a priority this year.

The reauthorization of the HEA, which was last renewed in 1998, has been languishing on Capitol Hill. Many of the law's provisions were set to expire in 2003, but Congress has passed numerous extensions. The most recent renewal extends the measure to June 30.

The broad legislation authorizes many federal higher education programs, including Pell Grants, student loans, and initiatives in teacher education.

Democratic victories in the midterm elections have placed two lawmakers with a long interest in teacher quality at the helms of the education committees. During the last Congress, Rep. George Miller of California, who now chairs the House Education and Labor Committee, and Sen. Edward M. Kennedy of Massachusetts, the chairman of the Senate Health, Education, Labor, and Pensions Committee, sponsored the proposed Teacher Excellence for All Children Act. Known as the TEACH Act, the measure would have bolstered professional development for new and veteran educators, expanded loan forgiveness for some teachers, and helped ensure that proven teachers were working in high-poverty schools.

"I think it's all about teachers now," Jane E. West, the vice president of government relations for the Washington-based American Association of Colleges for Teacher Education, said of the effort to improve education. "There just seems to be an increasing consensus that we really need to address the critical shortage of teachers, and we need to move from thinking about highly qualified teachers to thinking about effectiveness. Knowing your content doesn't necessarily mean you can instruct well."

Some of the provisions from the TEACH proposal could be attached to the HEA renewal, possibly including a proposal calling for more money to develop data systems that track teachers' quality by measuring their students' gains from year to year. The data systems could eventually be used to evaluate the relative effectiveness of individual teacher education programs.

A Senate Democratic aide said that the bulk of the TEACH bill could be incorporated into a reauthorization of the No Child Left Behind Act, which is also on Congress' plate for this year, rather than into the HEA.

### Student Loans

Higher education advocates also expect the new Democratic majority to place a higher priority on financing higher education programs, particularly federal student aid. During the midterm election campaign, House Democrats sharply criticized Republican leaders for trimming over \$12 billion from the student-lending program through the Deficit Reduction Act of 2005 and pledged to cut federal student-loan interest rates in half, from 6.8 percent to 3.4 percent.

That proposal, which Rep. Nancy Pelosi, D-Calif., the new speaker of the House, has said would be passed within the Democrats' first 100 hours in the majority, could eventually be attached to the HEA reauthorization, some lobbyists speculated. In the Senate, Mr. Kennedy has called for an expansion of the direct-lending program, which allows students to borrow from the federal treasury rather than from subsidized lenders, and expanding student-loan forgiveness for public-sector employees, such as teachers.

Democrats have generally been critical of Republicans' flat-funding or outright cuts to Pell Grants, campus-based aid programs, including federal work-study, and college-preparation programs, such as TRIO. Education lobbyists say the Democratic-controlled House and Senate could bolster funding for those programs.

"While the new majority will undoubtedly face fiscal constraints," said Bill Parsons, an associate director of government relations for the American Council on Education, an association representing 1,800 colleges and universities, "their stated commitment to halve at least some student-loan interest rates and achieve a \$5,100 maximum Pell award has begun a completely different conversation on higher education policy in Washington, D.C."