

## Frequently Asked Questions Student Loan Community Proposal

### Has the Student Loan Community Proposal received an official score from the Congressional Budget Office?

The Student Loan Community Proposal has been submitted to CBO and we look forward for the official analysis showing exactly how it compares to other proposals.

### Does the H.R. 3221 the Student Aid and Fiscal Responsibility Act, save \$15 billion more than the Student Loan Community Proposal?

No. The Community Proposal has not been scored by CBO yet. From a scoring standpoint, the Community Proposal differs in many important respects from H.R. 3221 and other proposals. It includes several measures that will increase the cost savings and put it in line with the \$87 billion in budget savings projected by the President's own plan. The proposal will also ensure the continuation of local services that have been customized to meet the needs of students and schools and the continuation of a strong federal partnership with state and nonprofit agencies to fulfill the mission of providing access to higher education.

Some media reports have suggested that the student loan reform in the Community Proposal scores \$15 billion less than the reform proposed in H.R. 3221. First, an official score on H.R. 3221 has not been released, nor has the Community Proposal been scored, hence there is no way to accurately compare the savings from the two proposals. The \$15 billion in savings appears to be an estimated comparison of the President's original proposal scored by CBO at \$87 billion over 10 years, not H.R. 3221, and an earlier proposal from Sallie Mae which unofficially saved \$72 billion.

### How would the Community Proposal save as much as the President's proposal?

The Community Proposal should generate similar savings to the President's budget proposal and H.R. 3221. In all three proposals, the majority of the savings is generated from federal government ownership of all student loans and the use of federal funds to originate these loans. The \$87 billion in mandatory budget savings over 10 years is simply the government earning a spread, or the difference between the federal government's cost of fund (treasury rates) to make loans and the interest rate paid by borrowers) on all federal student loans that it owns. In addition, the student loan community proposal includes several provisions that should generate significant additional budget savings:

- Risk-sharing: Under the community proposal, student loan servicers would pay 3% back to the federal government if a loan defaults. By having "skin in the game," servicers would have a strong incentive to lower defaults. The lower defaults will create savings for both taxpayers and students.
- Consolidation & Extended Repayment: Borrowers would have more options to manage their debt, extend their repayment without consolidating, and lower their monthly payment. Under

the Community Proposal, consolidation would be a term of servicing contract, rather than a separate origination fee (an important improvement from all other proposals).

- Additional fees from consolidation loan financing: Last year's programs to assure stability in the student loan program have generated billions in budget savings. The Community Proposal would expand one critical financing program to include federal consolidation loans, which are the majority of outstanding federal student loans, thereby generating billions in additional federal revenue (another improvement over other proposals).

It is anticipated that these additional savings provisions will offset the costs of providing beneficial borrower assistance and advocacy for all student loan borrowers.

### **How are the administrative expenses of originating and servicing federal student loans paid for under the Student Loan Community Proposal?**

Under the President's proposal, H.R. 3221, and the Community Proposal, the administrative expenses to originate loans are paid through annual appropriations. The costs associated with allowing schools a choice of loan originator are not counted in mandatory spending, nor are the costs associated with the Department of Education becoming the sole loan originator for every school in the nation. Importantly, the Community Proposal will avoid imposing additional costs on schools across the country to convert to direct lending and to make up for the essential services provided by private, state, and not-for-profit service providers that will be lost to them under the President's proposal.

Therefore, the Community Proposal maintains fees for origination but aligns them with other administrative expenses, just like the Federal Direct Loan Program, and proposes that they be funded on the discretionary side along with all other expenses for originating and servicing student loans. The appropriations committee will be able to compare administrative costs and results together as they annually allocate funds, providing additional incentive to keep these fees low.

### **Why was there apparently a \$15 billion difference between the Sallie Mae proposal and the President's proposal?**

CBO's analysis of the Sallie Mae proposal has not been released. However, it is assumed that CBO did not estimate any taxpayer savings associated with the risk-sharing (and resulting lower default rates) included in servicing of all student loans.

Secondly, the Sallie Mae proposal provided for the payment of origination fees out of mandatory funding, whereas the Community Proposal accounts for origination costs the same way H.R. 3221 and the President's proposal do.

The CBO estimates that there will be 185 million new student loans over the next decade, of which 70 percent are assumed to be originated from the FFELP.<sup>1</sup> Given the recent conversion of schools to Federal Direct Loan Program, it is expected that the actual percent for FFELP could be materially lower. For these fees to cost \$15 billion, CBO must assume that the new program would originate 90

---

<sup>1</sup> Table 2, CBO Interested Parties Memo, March 20, 2009

percent of all new student loans or that the market-mechanism to set fees after 2012 would raise the fees substantially, rather than reduce them as anticipated.

**The President's budget savings rely on the ambitious target of transitioning more than 4,000 schools to a single loan delivery system by July 1, 2010. What happens to the savings if schools can't make the transition?**

The community's proposal guarantees the full savings on July 1, 2010, by using the existing loan delivery systems that schools use today. It does not rely on transitioning thousands of schools to the government's single loan origination system and process. It also avoids imposing the unfunded structural costs on colleges and universities that come with transition and implementation. Under other proposals, any delay in converting more than 4,000 schools to a single delivery system will reduce budget savings, creating a risk of fewer dollars available to fund increased Pell Grants for low-income students.

**Does the community proposal provide real choice for students and schools?**

Yes. In fact, choice and competition is what differentiates the Student Loan Community Proposal from HR 3221 and the President's proposal. The mandated conversion of over 4,000 schools in a couple months' time to the Department of Education's single loan origination system and process is a risky endeavor that will consume countless hours, create unknown costs, and eliminate existing support systems for schools. It is a real possibility that some schools will have untimely disruptions in their ability to provide loan funding to students and families. Additionally, all 6,000 schools have always had the ability to go through the Department of Education but the majority of them – particularly less affluent schools – have chosen not to because the government doesn't offer as many services as non-federal service providers do. More fundamentally, such a mandated conversion denies schools and students any choice about which of the hundreds of originators works best for them and their students. Having that choice has meant that schools and students get the best service and systems because those delivering their loans know that their true customers – the students and schools of America – have other options. Forcing all schools to use the Department's delivery system means they will have no choice and nowhere else to turn. That's exactly why the Community Proposal allows for real choice for schools and students.

**Will smaller entities like nonprofit providers be able to continue to participate in delivering loans and student counseling?**

Yes. That is why many guarantors, state agencies, and non-profit loan providers from across the country are supporting this proposal to improve the President's plan and increase Pell Grants. The Community Proposal allows all providers, regardless of size, to be able to continue to do the great work they do each day providing information about postsecondary education options and the financial aid available, delivering loans, counseling students and schools about the importance of only borrowing funds that are needed and the repayment options available, lowering defaults, and providing financial literacy tools and resources. These high-touch services are currently missing in direct lending.

### **Why do we need competition in originations?**

A single delivery system, by definition, eliminates any competition and, thereby, any incentives to improve, innovate, and respond to the needs of students and schools. Prior to the creation of the Direct Loan program, lenders did not do a very good job of responding to students and schools. The creation of the Direct Loan program actually made lenders improve the delivery of student loans. The delivery system improved so much in FFELP that many schools that had left FFELP returned.

Competition from FFELP lenders forced the Department of Education improve the DL delivery system (known as “CODS”) so that it is much better today than it was five years ago. Students and schools have benefited from this competition, but both H.R. 3221 and the Administration would eliminate it and would freeze the loan delivery system in place as it is today. Without competition, it will fall behind and be inadequate in a matter of a few years, unable to adapt to the rapidly evolving ways that students and schools access information.

The Department’s recent contract award for student loan servicing, where they picked four FFELP servicers over the existing DL servicer, demonstrates the need to keep a vibrant competitive role for current providers in the originations business. The Education Committee claims that “now all students will have access to high quality servicing” that results from FFEL competition, even while prohibiting the application of those same benefits in the origination process.

### **Under the President’s Proposal, won’t the 35,000 jobs that comprise the existing student lending infrastructure be redirected to other individuals by the federal government?**

These jobs are currently located throughout all regions in the country and are held by individuals with years of experience in serving students and schools. Under the President’s plan, there would be a centralized contract for services.