Administration's Student Loan Proposal

America's Student Loan Providers (ASLP) believe that the nation is best served with a strong private-sector based student loan program that offers borrowers and schools a choice of lenders and extensive default prevention services. This model has successfully served 60 million Americans since 1965 and is preferred by an overwhelming majority of postsecondary institutions. Moreover, providing schools with a choice of a private option and a public option in federal student loans has made both programs more effective, to the benefit of families and taxpayers. In fact, in fiscal year 2008, the customized default prevention programs developed by Federal Family Education Loan Program (FFELP) participants led to the successful return of $60 billion in delinquent FFELP loans to repayment status.

- We oppose the Administration's proposal to assume full control of federal student loans.
- This government takeover would eliminate consumer choice and important student services and would *cost thousands of men and women their jobs*. Instead, the Administration and Congress should work together *to achieve bipartisan reform that preserves FFELP's consumer choice and default prevention model while achieving gr*eater cost effectiveness.
- In the interim, to guarantee that students at every institution have access to federal loan funds, an immediate extension of *the emergency law, "Ensuring Continued Access to Student Loans," is essential to* ensure that an orderly consideration of effective reform is possible.
- Bipartisan, alternative reform proposals are on the table that would achieve the President's goals for cost savings, while preserving jobs, consumer choice and competition, and important student services.

ABOUT THE PRESIDENT'S PROPOSAL A CHRONOLOGY

In February 2009, the President's proposed Budget for FY 2010 included a proposal to eliminate FFELP, effective **July 1, 2010**. On that date, every eligible postsecondary institution in the country would be required to participate in the Federal Direct Loan Program (FDLP) in order for their students to obtain federal student loans. As a part of the final Budget Resolution for FY 2010, the education authorizing committees were instructed to report out a bill that effectively included the elimination of FFELP.

After only one committee hearing, the President's proposal to eliminate FFELP was introduced in the House in July of 2009 as a part of the Student Aid Financial Responsibility Act (SAFRA), which also increased funding for other education programs, including the Pell Grant program. The House Education and Labor Committee later approved SAFRA and sent it to the floor for consideration. The bill passed the House by a vote of 253 to 171 on September 17, 2009.

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The Senate has not taken any action on the legislation. No hearings have been held in the Senate on the President's proposal, and no bill has been introduced.

Earlier this month the President released his proposed Budget for FY2011, beginning on October 1, 2010. The new budget repeats the call to eliminate FFELP. (See below for more information.) According to the budget, SAFRA will cost taxpayers $52 billion over 10 years.

✓ *From here "President's proposal" and the legislation "SAFRA" will be used interchangeably.*

THOUSANDS OF JOBS ELIMINATED

In dozens of communities, student loan providers employ hundreds of individuals and stimulate their local economy. An estimated 35,000 men and women are employed nationwide by organizations that participate in FFELP, according to a survey conducted by the National Council of Higher Education Loan Programs, the Consumer Bankers Association, the Education Finance Council and the Student Loan Servicing Alliance. This figure neither represents the entire FFEL community nor does it account for the related economic impact of these jobs in local communities. In many communities, other related jobs and economic development would be jeopardized under this proposed government takeover. So the overall employment number – and economic impact of the Administration's proposal – is greater.

Thousands of men and women will lose their jobs if Congress passes President Obama's proposed student loan overhaul. At least 6,600 jobs, and likely more, have been eliminated since August 2007 due to federal budget cuts and the credit crisis, according to recent estimates by Mark Kantrowitz, publisher of www.finaid.org. Total abolition of the program is sure to have as direct and proportionate an impact.

CRITICAL STUDENT SERVICES WILL BE LOST

Throughout the nation, students who attend or attended FFELP schools receive extensive default prevention services. These customized services, which typically begin even before students leave campus, are offered free of charge and for the life-of-the-loan. They often include counseling on responsible borrowing, debt management and financial literacy. Also offered in many communities is a wide range of college awareness and preparation programs.

Under the President's proposal, most of these comprehensive services would cease. A recent NCHELP survey found that in the last year, FFELP organizations provided hands-on financial literacy, college awareness and financial aid training to more than 1.4 million students and parents, hosted 10,000 financial aid nights, and trained more than 26,000 school guidance counselors, who then assisted thousands of students to pursue their postsecondary goals.

The reliance on these services is a major reason why the overwhelming majority of schools, which are held accountable for their default rates, still prefer working with lenders and guaranty agencies, rather than the U.S. Department of Education's Direct Loan program. "Schools need the support of lenders, such as assistance with entrance and exit counseling, to help keep our default rates down," according to Sybrenna Harris, Coordinator, Alabama A & M University.

If FFELP is eliminated, students and schools will lose access to these cost-free services and programs. It's likely that default rates will increase, with significant consequences for borrowers. "If we go to DL across the board the default rate will definitely increase and service to our students and parents will suffer," Kevin Cannon, Director of OSFS for Notre Dame, wrote.

COMMUNITY PROPOSAL SAVES MONEY, AVOIDS JOB LOSSES

In July 2009, a diverse coalition of lenders, guaranty agencies, secondary markets and servicers representing all sectors of the student loan community -- non-profit, for-profit and state-based -- released a reform proposal that was built on President Obama's student loan plan.

The student loan community's proposal combines the cost-saving features of the President's proposal with tried and true program elements that have served families well since 1965: consumer choice, superior service, innovation, local administration and borrower default prevention programs.

The arguments for Congress's proceeding with the Community Proposal are strong and clear-cut, as follows:

- *Equivalent Savings*. Over $82 billion in savings to fund higher Pell Grants and other Administration priorities, according to the Congressional Budget Office. This projection nearly matches whatever savings the President's proposal would achieve.
- *Immediate Savings*. Savings would be immediate, because the alternative can be implemented right away, unlike the Administration's proposal. Alas, many schools are deeply concerned that they or the department won't be ready by July 1, 2010.
- *Pro-Consumer*. By preserving consumer choice, families get to keep their student loan options; they, not bureaucrats in DC, would get to decide which lender best meets their needs. Schools too keep their program options.
- *Student-Centric Services*. Borrowers get to keep using the customized default prevention and financial literacy programs offered by non-profit agencies and lenders. Considering that we're in a recession, with default rates and unemployment numbers climbing, that makes eminent sense.
- *Major Downsides Avoided*. The community proposal avoids five huge problems associated with the President's proposal:
    - 3,000 schools won't be forced to spend scarce resources to convert to the government's direct loan program when they prefer to use the FFEL Program,
    - At-risk and first-generation students won't lose valuable services,
    - Tens of thousands of employees keep their jobs and continue to provide expertise to students and schools,
    - The country avoids a government monopoly in student loans. Nor will we see the kind of meltdown being experienced by the UK's student loan program.

SCHOOLS OVERWHELMINGLY OPPOSE FFELP TERMINATION

Ever since Congress created the Direct Loan program in 1993 and gave schools the right to choose which program best met their students' needs, an overwhelming majority of schools have chosen FFELP over direct lending. Until this year, FFELP's share of schools never dropped below 65 percent. Since direct lending's high watermark in 1998-99, FFELP's market share increased annually, reaching a high of 80 percent of schools and loan volume in 2008-09.

FFELP's success is attributed to three program attributes:

1. Superior service – lenders and guaranty agencies have simply done a better job meeting the needs of schools and borrowers. They offer schools, students and parents not only more convenient processes and more responsive services, but also a wider range of services, including default prevention, financial literacy and college awareness programs.
2. Consumer choice – in FFELP, families get to choose the lender they want to work with, not Congress or bureaucrats in Washington, DC.
3. Cheaper loans – For years, loan providers offered interest rate discounts; many also waived the upfront fees (set by Congress) for the borrowers. The result: hundreds of thousands of borrowers today are saving money because of lower monthly loan payments.

Hundreds of schools have written Congress directly or through their state and regional financial aid associations, urging that FFELP be preserved. More than 1,560 financial aid professionals have signed an independent, online petition opposing the Administration's proposal.

CHOICE, STUDENT LOANS AND HEALTH CARE

Consumer choice and competition are at the heart of the Democratic health reform proposals. The President himself last fall stated in his address to Congress, "So let me set the record straight here. My guiding principle is, and always has been, that consumers do better when there is choice and competition. That's how the market works."

Likewise, choice and competition are important to the millions of families who rely on student loans to pay for college, as well as the schools that serve them. The President's proposal to eliminate competition in federal student loans is diametrically opposed to the principles of market competition that he and the Congress support in the areas of health care, as well as cable television, airlines, computer chips and so on.

PRESIDENT'S NEW BUDGET (FY 2011) IN BRIEF

On February 1, 2010, the Administration issued its $3.8 trillion Fiscal Year (FY) 2011 budget proposal to Congress, which sets funding levels for the Department of Education and other federal agencies. The request includes $49.7 billion for the Department of Education's discretionary programs, an increase of $3.5 billion over fiscal year 2010. Notably, the budget requests $34.9 billion for Pell Grants in 2011 and would make the funds mandatory, for a maximum award of $5,710.

The new budget proposal also calls for the origination of all new loans in the Federal Direct Lending Program, with the money to be redirected toward the aforementioned Pell Grant increase and other higher and early education initiatives. It expressly offers support for SAFRA and calls for its passage by the Senate. As noted in the budget documents, eliminating FFELP would save $2.3 billion in 2010, $25.1 billion over the five-year budget window (2011-2015) and $43.3 billion over 10 years (2011-2020) under OMB scoring.

[It should be noted that the President's budget proposal is a formal request for funding that is traditionally issued to Congress on February 1. The proposals contained in the budget request are

subject to Congressional approval for their enactment. By analyzing the funding levels for programs, one can usually determine the policy focus of the Administration.]

The budget indicates actual Stafford and PLUS volume for both the Direct and Federal Family Education Loan Programs of $103.1 billion in FFY 09, the first time volume has exceed $100 billion in the history of the loan programs. The FFEL Program represents 63 percent of the total. The budget estimates total loan volume in FFY 10 of $120.8 billion, with the FFEL Program representing 44 percent of the total. The estimate for FFY 11 equals $132.4 billion and is attributable entirely to the Direct Loan Program. Using the budget estimates, and a conservative annual growth estimate of 10 percent, over $2.1 trillion will be needed in additional federal borrowing to originate direct loans over the next decade.

Are the projected savings from eliminating FFELP real?

The short answer is "No."

The federal government's top budget agencies are tens of billions of dollars apart: the Congressional Budget Office (CBO) says it will save $87 billion over 10 years, and the Office of Management and Budget (OMB) estimates $43 billion over 10 years.

But these estimates are unreal. By law both agencies are prohibited from taking into consideration normal economic fluctuations, a calculation public companies must make in their accounting. When CBO did such a calculation for Sen. Gregg (R-NH), it chopped $33 billion off of its savings projection.

Finally, government cost estimates don't include the Department's costs for administering direct loans, an amount that surely has grown and will continue to grow if FFELP is eliminated. These and other flaws have been well documented by the CBO, OMB, Congressional Research Service, PricewaterhouseCoopers, and the Department of Education's Office of the Inspector General, among others.

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