Congress of the United States
House of Representatives
Washington, DC 20515–4906

March 27, 2006

Increase Pell Grants at No Additional Taxpayer Cost...

Support the Petri-Miller 'Student Aid Reward (STAR) Amendment' to the Higher Education Act this week

Dear Colleague,

Today, more than ever, millions of low and middle-income families are struggling to help their children attend college in the face of rising tuition costs and limited financial assistance. Last year, we introduced the ***Student Aid Reward (STAR) Act* (HR 1425), which would provide billions of dollars in additional aid to students at no additional cost to taxpayers**. Now, we are asking for your support for the *Student Aid Reward Amendment* we plan to offer to the Higher Education Act when it is considered this week. This amendment will provide billions of dollars in urgently needed money to students and families—including those in your district—through increased Pell Grants and need based graduate fellowships. At the same time, we would also save taxpayer dollars by utilizing the most efficient student aid program and devoting some of those savings to deficit reduction.

The plan is simple: the *Student Aid Reward (STAR) Amendment* encourages more schools to utilize the less expensive of the federal government's two main student loan programs.

Currently, the federal government has two main student loan programs: the Federal Family Education Loan program (FFEL) and the Direct Loan (DL) program. In the FFEL program, private banks provide the capital to make loans, while the federal government guarantees the loans against default and guarantees returns to the banks. In the Direct Loan program, the federal government acts as the lender and provides the money for loans through the sale of U.S. Treasury bonds.

Taxpayer Subsidy on Student Loans *(per $100 loan)*

Fiscal Year	*2005*	*2006*	*2007*
Federal Family Education Loans	$16.87	$10.74	$7.59
Direct Loans	$ 3.08	$ 3.67	$1.70

While the FFEL and DL programs deliver the same loans and interest rates to students, the DL program is less costly to taxpayers because it eliminates the need for a middleman, cuts out unnecessary subsidies and secures capital at lower rates. **As a result, the DL program offers taxpayers considerable savings of up to $6 for every $100 lent.**

In the face of rising tuition and soaring debt **we should provide additional student aid as an incentive for schools that choose to participate in Direct Loans—the *STAR* amendment does this at no additional cost to taxpayers - all the while devoting a quarter of savings to deficit reduction.** The amendment would give schools half of the federal savings generated by their switching from the FFEL to DL program. The final quarter of savings would increase Pell Grant money at schools already using the DL program since they are already saving taxpayer dollars.

Ultimately, these savings would be used to provide up to an additional $1,000 each year in Pell Grants to students with financial need. Our amendment would lower federal student loan costs *and* boost financial aid for low and middle-income students. Under the *STAR* amendment, students, colleges and taxpayers all win.

If you would like additional information on this important opportunity to divert wasteful spending to critically-needed student aid, please contact Tom Culligan in Mr. Petri's office at 5-2476 or Ellynne Bannon in Mr. Miller's office at 6-2068.

Sincerely,

Tom Petri

THOMAS E. PETRI
Vice-Chairman
Education & the Workforce Committee

George Miller

GEORGE MILLER
Senior Democratic Member
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