The Student Aid and Fiscal Responsibility Act

Investing in Students, Not Banks

MYTHS VS. FACTS

The Student Aid and Fiscal Responsibility Act invests billions of dollars in students and families, at no costs to taxpayers. Not surprisingly, critics are using scare tactics to try to mislead the American public about this effort. They're desperate to preserve the status quo – a system that for too long has favored banks at the expense of students and taxpayers.

MYTH: This is another back-door government takeover of the student loan industry.

It's ridiculous to argue this is a government takeover, when the federal student loan programs are already a federal program, established and subsidized by the federal government. The Federal Family Education Loan Program (FFELP) is broken and now depends on taxpayer dollars not just for subsidies that reimburse lenders when borrowers default on loans, but also for the capital to finance their lending activity altogether. ***Taxpayers now fund 8.8 of every 10 dollars in federal student lending activity***. They absorb all the risk. There's simply no reason to keep pumping taxpayer dollars into a broken system when the federal government can provide the same low-cost federal loans more reliably for students and at a lower cost for taxpayers.

MYTH: Lawmakers are trying to sneak student loan reform into reconciliation.

Reconciliation has **always** been the vehicle for student loan reform. Last year's House Budget Resolution for Fiscal Year 2010 included instructions for the House Education and Labor Committee to enact student loan reforms that produce $1 billion in savings to help reduce the deficit over the next five years. The education reconciliation provisions meet that mark: they will reduce the deficit by at least $10 billion over the next 10 years.

MYTH: Cutting lenders out will lead to massive job losses in an already devastated economy.

Actually, this legislation will help **keep jobs in America.** Under the bill, 100 percent of Direct Loans will be serviced by private lenders, which will guarantee borrowers high-quality customer service and preserve jobs. Unlike loans made by banks, Direct Loans can only be serviced by workers in the U.S. Last year, Sallie Mae was forced to bring 2,000 jobs back to U.S. soil to win a direct loan servicing contract. Sallie Mae is now one of four private banks servicing 4.4 million direct loans. These provisions will ensure that borrowers receive only the best customer service, and jobs will be maintained in communities across the country.

MYTH: This bill will only add to the federal budget deficit at a time when we can least afford it.

Wrong. In addition to increasing grant aid and funding other benefits for students, this bill will reduce the deficit by at least $10 billion over 10 years. It's an investment in a stronger economy and a stronger fiscal future.

MYTH: Switching to 100 percent Direct Loans would limit customer choice.

Under current law, both the Direct Loan and FFEL programs must lend student loans on virtually the same rates, terms and benefits. In FFEL, students often do not even know who they are borrowing from. Millions of students borrow with one lender only to find that their loan has been sold to a completely different bank.

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MYTH: The Education Department borrows money at 2.8 percent from the Treasury and turns around and lends it to students at 6.8 percent. This bill would overcharge students and spend the difference, or "savings," on new programs.

Under 100 percent Direct Loans, the government will not be "overcharging" student loan borrowers and the government would not make money off of students from this bill. The Congressional Budget Office estimates the bill would save $61 billion over 10 years by eliminating unnecessary subsidies to banks, not from making money off of student loan interest payments. The $61 billion in savings is what it costs to run the Federal Family Education Loan program, which is a more expensive program than the Direct Loan program because the government currently pays banks more than is required to induce them to lend to student borrowers.

MYTH: The Federal Family Education Loan program promotes competition, which benefits students.

Replacing the FFEL program will create more competition that will result in better customer service for students. The FFEL program has been about entitlements for banks, not competition. Banks get their loan guarantee and interest subsidy entitlements whether they treat students well or not. Under 100 percent Direct Loans, loan servicers compete for Department of Education contracts, and they win them based on what is best for students: good customer service and keeping default rates low.

MYTH: ***This is nothing but a redistribution of wealth. Why should we finance grant aid increases for the poorest students at the expense of the middle class?***

Both low-income and middle-class students will benefit from this legislation. Despite recent investments made by President Obama and Democrats, the Pell Grant scholarship today only covers about 30 percent of average college tuition and fees – down 20 percent from twenty years ago. This legislation will not only make college more affordable for students while they're in school, but will also help reduce college debt after graduation – a strategy that can help improve purchasing power of the Pell Grant and strengthen our economy over time.

MYTH: ***Big government is too bureaucratic to run student loans. Services for families will suffer; they may not even get phone calls returned.***

The federal government has already proven that it can originate loans more efficiently and reliably than private lenders. Where private lenders have excelled is in servicing loans to students – meaning ensuring that borrowers pay back loans on time, providing financial literacy, and helping prevent loan defaults. That's why this bills allows private lenders to service 100 percent of all Direct Loans.

MYTH: ***It will cost colleges and universities already facing deep budget crises millions to switch to direct lending – leading to more tuition hikes for families.***

This is nothing more than a myth cooked up by critics to scare colleges; there is simply no evidence to back this up. Colleges and universities that have switched to Direct Loans, including those that converted in the midst of the 2008 credit crisis, report that it was a fairly easy and inexpensive process, in part because schools are able use the same on-site system currently used to administer Pell Grant scholarships. Penn State, for example, did not have to hire extra staff or increase its budget during this switch last spring.