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

March 7, 2006

Dear Republican Colleague:

With the recent release of the President's FY07 budget, I would once again like to call your attention to a key difference between the federal government's two student loan programs: taxpayer subsidies. Below are the total costs to taxpayers, including all administrative costs, for an identical $100 loan under each program.

Taxpayer Subsidy on Student Loans*

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

Despite the lender subsidy reductions included in the Deficit Reduction Act, **greater use of the Direct Loan program would continue to save taxpayers up to $3 billion a year.**

Last session, I introduced bipartisan legislation, the **Student Aid Reward Act (H.R. 1425)**, to encourage schools to use the more taxpayer efficient Direct Loan program. In exchange, students at Direct Loan schools would receive significantly higher Pell Grants—as much as $1,000 more—financed through the savings generated by Direct Loans. **Last year, the Congressional Budget Office (CBO) reported that the savings from greater use of Direct Loans could be used to increase Pell Grants by $17 billion over ten years, at no additional cost to taxpayers.**

For more information about Direct Loans or the Student Aid Reward Act, please call Tom Culligan at 5-2476.

Sincerely,

Tom Petri

Thomas E. Petri
Member of Congress

* Source: OMB FY07 Budget Documents: http://www.whitehouse.gov/omb/budget/fy2007/pdf/appendix/edu.pdf, page 367. Administrative costs are included for both programs. Subsidy amounts are reported as a percent of the underlying loan.