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Helping Students Instead of Banks

The higher education lobby has rightly criticized Congress for failing to pay for student aid programs at a level that comes anywhere near meeting the national need. But some of those same lobbyists and the universities they represent have opposed a beneficial bill that could potentially produce billions of dollars in new student aid, basically because the banking industry, which dominates the student loan business, dislikes the measure.

The bill, called the Student Aid Reward Act and known as STAR, would encourage colleges and universities to move away from an expensive and heavily subsidized federal loan program - under which students borrow money through banks - and toward a less expensive program under which they borrow from the government through their schools. Under the law, colleges that chose to use the direct method would be allowed to keep half of the money they saved. That money could then be used to give financial aid to low-income students.

The bill, which makes perfect sense to most reasonable people, does not require colleges to use the direct program. It would merely provide them with the option of doing so. Lenders, which oppose the bill because it would cut their profits, have recruited some schools to their side the old-fashioned way - by paying them off in various ways. Under what's known as the "school as lender" program, the universities issue the subsidized loans to students and then sell the loans to banks within a matter of days, earning a handsome profit at taxpayer expense. The arrangement creates a financial conflict of interest for the schools, which can do anything they want with the money.

The STAR program would reserve more money for student aid and inject competition into the current lending scheme. But some higher education groups have argued that merely giving schools the choice between the subsidized scheme and this new program would somehow damage student aid. By shilling for the lenders, these groups have placed their own financial interests above the interests of their neediest students. They have also lost credibility in the battle to win more student aid from Congress.