PUTTING STUDENTS AHEAD OF PRIVATE BANKS: SAFRA MYTHS-FACTS

The Student Aid and Fiscal Responsibility Act redirects billions of dollars in corporate welfare to students and their families. It delivers on President Obama's goal to make college more affordable for Americans by making historic investments in student financial aid and making federal college loans more reliable and efficient – and all at no cost to taxpayers. Not surprisingly, critics are using scare tactics to try to mislead the American public in their effort to preserve the status quo – a system that for too long has favored banks at the expense of students and taxpayers.

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.

FACT: Under 100% 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.

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

FACT: 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.

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

FACT: It's ridiculous to argue this is a government takeover **-** 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. <u>***Taxpayers are absorbing all the risk of student loan defaults, while private corporations bank all the profit.***</u>

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

FACT: Reconciliation has **always** been the vehicle for student loan reform. Last year's FY10 Budget Resolution included instructions for the Senate Health, Education, Labor, and Pensions Committee to enact legislation that produces $1 billion in savings to help reduce the deficit over the next five years. ***In order to meet these reconciliation requirements, any student loan reform will have to help reduce the deficit.***

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

FACT: Wrong. This legislation is entirely paid for. According to the Congressional Budget Office, this bill will save tens of billions of dollars over 10 years. In addition to increasing grant aid, reducing interest rates on student loans and funding other benefits for students, this bill will reduce the deficit by at least $1 billion over five years.

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

FACT: While this legislation will trim the profits of CEOs and big banks, it will not lead to enormous jobs losses. By maintaining a servicing role for both large and smaller lenders, this bill will preserve jobs and, unlike in the FFELP program, keep them from being shipped overseas. The legislation will also ensure that smaller state non-profit lenders can keep servicing loans. Borrowers will receive only the best customer service, and jobs will be maintained in communities across the country.