The Student Aid and Fiscal Responsibility Act

A Landmark Investment in America's Economic Future

STUDENT LOANS 101: MYTH VERSUS FACTS

The Student Aid and Fiscal Responsibility Act delivers on President Obama's goal to expand affordable college opportunities for Americans by making historic investments in student financial aid and making federal college loans more stable and efficient – and all at no cost 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) 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 **6 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. Under this bill, this federal program will continue to be a federal program, as it always has been, and private industry will continue to have a role, but one that is more effective and cost-efficient for families and taxpayers.

MYTH: *Student lenders aren't the only industry facing credit market troubles. Why should they be treated any differently from mortgage lenders or auto companies?*

It's misleading to compare the student loan industry to the auto industry or the mortgage industry. The structure of the federal student loan programs has always guaranteed private lenders a taxpayer subsidy above the cost of making loans – a benefit that auto companies or mortgage lenders don't enjoy. If someone buys a $20,000 car, we don't pay the automaker $24,000. Federal student loans, and the decisions made about them, have always been a part of our larger federal financial aid system. It's a different industry, with a different purpose, than other consumer credit industries. Ensuring that students have access to low-cost, reliable federal college loans is directly tied to our ability to build a stronger, competitive workforce and economic future.

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

Wrong. This legislation will actually help us pay down the deficit. According to the Congressional Budget Office, this bill will save $87 billion over 10 years. In addition to increasing grant aid, reducing interest rates on student loans and funding other benefits for students, this bill will direct $10 billion in savings to the U.S. Treasury to reduce our deficit. It's an investment in a stronger economy and a stronger fiscal future.

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MYTH: ***This legislation will drive competition out of the student loan marketplace – hurting students and families.***

What will hurt students is not having access to low-cost, reliable federal loans to help pay for college. The financial crisis has already caused many lenders to leave the federal student loan programs, leaving many students in a bind. The Direct Loan program provides the same low-cost loans to students as FFELP, with the added benefit of complete reliability, even in an economic crisis. And the bill will foster competition among lenders by allowing private companies to compete for bids to service these loans – ensuring that contracts are awarded to lenders who offer the best customer service and innovations for borrowers. This is competition that will help students and build on the best of what private industry can offer to borrowers.

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 the Democratic Congress, the Pell Grant scholarship, today only covers about 30 percent of average college tuition and fees – down 20 percent from twenty years ago. In addition to boosting the Pell Grant for low- and moderate-income students, this legislation will also keep interest rates low on college loans for middle-class students, support programs that help students stay in school and graduate and expand access to campus-based aid. This 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. This legislation builds on the best of what works in the current system by creating a new public-private partnership that will allow lenders to compete for contracts to service Direct Loans. The bill 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.

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 last year's 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.

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

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.

MYTH: ***The Direct Loan program will not be able to handle this increased capacity.***

Colleges and universities that already participate in the Direct Loan program have found it easier to administer, simpler for students and parents, and faster at originating and disbursing loans than FFELP. If this legislation passes on schedule, the U.S. Department of Education will have almost a year to prepare for this increased capacity.

MYTH: ***The Direct Loan program doesn't prevent student loan defaults as well as the federally-guaranteed student loan program does.***

Recent preliminary data released by the U.S. Department of Education shows that in 2007, default rates were *lower* in the Direct Loan program than in FFELP. By allowing private lenders to service these loans through a competitive process, which will include default prevention strategies, this bill will ensure that more borrowers can receive service from lenders that have been effective in keeping default rates low.