ASLP Statement on Post and S 371

Washington, D.C: February 17, 2005 - America's Student Loan Providers issued the following statement on a Washington Post editorial published today concerning the Federal Family Education Loan Program (FFELP) and the introduction by Sen. Kennedy (D-MA) of S. 371, the College Quality, Affordability, and Diversity Improvement Act of 2005 (the Quad Act):

Since 1965, the FFELP has provided $547 billion in loans to students and parents. It has done so by harnessing the competition between hundreds of private sector lenders and non-profit companies to deliver exceptional service to schools and families, while at the same time delivering essential support services to those seeking a college education.

The Washington Post editorial breaks no new ground in the debate about the true cost of the FFELP and the Direct Loan Programs. It re-states an argument that has been going on for at least a dozen years as if it had found something new. The rules of the federal budget process make direct loans appear far cheaper to the government than they actually are. Over and over, unbiased reviews have found that rosy predictions of cost savings claimed by Direct Loan Program advocates are wrong.

To quote the Government Accountability Office: "From fiscal years 1995 through 2003, total cash outflows exceeded total cash inflows by about $10.7 billion.... Over the same period, the Federal Direct Loan Program's actual cash flows (principal receipts, interest receipts, origination fees, and collections on defaults) were $4.2 billion less than estimated, primarily because Education overestimated interest receipts."

It is also misguided for the Washington Post to charge that hard-working school officials are simply puppets being preyed upon by "financial institutions [that] lobby heavily to persuade universities to use their services." College financial aid officers are in the best position to determine what loan services best meet their students' needs. They are fortunate that the FFELP provides many different services and loan products for their students. Choice and competition among lenders has given schools better financial aid options for their students. To force schools into a government-run program paid for by phantom savings will harm schools -- and the students who depend on the student loan program to finance their education.

The timing of the Post editorial is not coincidental. It is an attempt to build support for legislation introduced by Sen. Ted Kennedy (D-MA) - the Quad Act. America's Student Loan Providers opposes the "Direct Loan Rewards" proposal contained in the Quad Act - and similar legislation expected to be introduced in the House.

The Direct Loan Rewards proposal serves only one purpose. It is an attempt to reverse the exodus from the Direct Loan program, which has lost more than 500 schools since 1998. To do this, the legislation would discriminate against the overwhelming majority of needy college students who attend a school that participates in the FFELP. This change overturns the fundamental principle of the Pell Grant program and other need-based student aid, which is to grant assistance equally to all students based only upon their need. It simply isn't fair - not to mention good public policy - to give one student more aid because of the school they attend.

America's Student Loan Provider's believes that Congress should reject legislation that pays cash for benefits now out of phantom savings that are hoped to come from the Direct Loan Program. In addition, Congress should reject legislation that would disadvantage needy students simply because they attend a school that uses the FFEL Program.

America's Student Loan Providers represents more than 80 education and financial firms and organizations that provide federally guaranteed student loans through the Federal Family Education Loan Program (FFELP), a public-private partnership of schools, students, loan providers, loan guarantors, and the federal government. By leveraging private financial markets and competing for the right to lend to students, the FFELP brings value to students, schools, and taxpayers. Students benefit through lower interest rates, and simplified loan application and approval processes. More than 500 schools have switched to the FFELP since 1998 because it allows them to choose the lender that best meets the financial needs of their students. More information is available at www.studentloanfacts.org.

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