Congress Should Take A Pass On Direct Loan Bills

Scorekeeping Bias Overstates Projected Savings; Most Students Left Out

Washington, DC - America's Student Loan Providers (ASLP) expressed serious concerns about legislation (Student Aid Reward Act) introduced today by Reps. George Miller (D-CA) and Thomas Petri (R-WI), and Senators Edward Kennedy (D-MA) and Gordon Smith (R-OR).

"The legislation has a fundamental flaw," said Kevin Bruns, the Executive Director of ASLP. "It's based on numbers that don't add up - and you don't have to take our word for it. A recent study by PricewaterhouseCoopers, and before it, GAO, CBO, CRS and others, demonstrates that budget scorekeeping rules seriously understate the true costs of the Federal Direct Student Loan Program.

"In fact, the House Budget Committee acknowledged in its FY 06 budget resolution report that, 'While the committee supports the Federal student loan programs, the committee is concerned that the Ford Direct Loan Program's subsidy estimates do not reflect the program's true cost to the Federal Government.'

"The legislation's projected savings is a mirage," Bruns said. "It does not reflect reality and, if experience from the last ten years is any guide, the promised savings will vanish.

"ASLP has asked Congress to fix the budget scorekeeping rules for student loan programs. Until then, there should be a moratorium on major program changes. Congress shouldn't be looking to expand the Direct Loan program on the basis of projected savings, because in the end there won't be any."

Under the legislation, a college that switches to the Direct Loan program may receive additional need-based aid. This would be the first time in the history of the Higher Education Act that low-income students at one college would be treated better than those at another for reasons unrelated to need.

"Students who attend 80 percent of America's colleges would not be eligible for the additional need-based aid promised by the bills" said Bruns. "Dozens of congressional districts don't have any colleges that participate in the government-run program. The Student Aid Reward Act would discriminate against the overwhelming majority of students who have chosen to attend schools that best meet their education and career goals.

"The bill is an attempt to reverse the seven-year decline in participation in the Direct Loan program. More than 500 schools have left the program since 1998. Schools are choosing the Federal Family Education Loan Program because its lenders offer lower-cost loans, superior service, a broader array of services, and the ability to customize loans and services to meet the needs of students.

"The competition and choice that exists between the Direct Loan program and FFELP have been good for colleges and students." Bruns said. "There's really no reason for Congress to pass legislation that gives one loan program an advantage over the other, especially at the expense of students."

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.