INCREASING STUDENT AID THROUGH LOAN REFORM

HEARING

BEFORE THE

COMMITTEE ON

EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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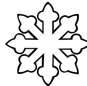

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C O N T E N T S

Page

Hearing held on May 21, 2009 1

Statement of Members:

McKeon, Hon. Howard P. "Buck," Senior Republican Member, Committee on Education and Labor 4

Prepared statement of 8

Additional submissions:

"Why I'm Sticking With FFELP," from Inside Higher Ed, May 21, 2009 6

Letter, dated March 16, 2009, from the Arkansas Association of Student Financial Aid Administrators, Inc. 82

Letter, dated April 1, 2009, from College Goal Sunday 83

Letter, dated March 20, 2009, from the Kentucky Association of Student Financial Aid Administrators, Inc. 84

Letter, dated March 17, 2009, from the Missouri Association of Student Financial Aid Personnel 85

Letter, dated March 13, 2009, from the North Carolina Association of Student Financial Aid Administrators 86

Letter, dated March 20, 2009, from the North Dakota Association of Financial Aid Administrators 87

Letter, dated March 18, 2009, from the New York State Financial Aid Administrators Association, Inc. 88

Letter, dated March 19, 2009, from the Pennsylvania Association of Student Financial Aid Administrators 90

Letter from the Rhode Island Association of Student Financial Aid Administrators 91

Letter, dated March 27, 2009, from the Southern Association of Student Financial Aid Administrators, Inc. 92

Letter, dated March 19, 2009, from the Virginia Association of Student Financial Aid Administrators 93

Letter, dated March 20, 2009, from the Western Association of Student Financial Aid Administrators 94

Letter, dated March 26, 2009, from the Wisconsin Association of Student Financial Aid Administrators 95

Statement of Dr. Philip R. Day, Jr., President and CEO, National Association of Student Financial Aid Administrators 96

Statement of the Consumer Bankers Association 103

Statement of the Coalition of Higher Education Assistance Organizations 108

Miller, Hon. George, Chairman, Committee on Education and Labor 1

Prepared statement of 3

Additional submissions:

Letter, dated April 20, 2009, from Barry Keene, chair, California Student Aid Commission 75

Letter, dated May 21, 2009, from the National Direct Student Loan Coalition 76

Letter, dated May 22, 2009, from Hon. Earl Pomeroy, a Representative in Congress from the State of North Dakota 78

Letter, dated May 21, 2009, from Eric Hardmeyer, president, Bank of North Dakota 78

Prepared statement of Campus Progress Action 79

Letter, dated April 29, 2009, from Mark G. Yudof, president, University of California 80

Graphic: "Pell Grant Maximum Award Levels" 81

Questions submitted to Mr. Drouin 111

Page

Statement of Members—Continued
Miller, Hon. George, Chairman, Committee on Education and Labor—Continued
Additional submissions—Continued
Questions submitted to Mr. Shireman ... 112
Questions submitted to Mr. Remondi ... 122
Petri, Hon. Thomas E., a Representative in Congress from the State of Wiscon, prepared statement of ... 74
Souder, Hon. Mark E., a Representative in Congress from the State of Indiana, "Cohort Default Rates" graphs ... 63

Statement of Witnesses:
Chapman, Chris, president and CEO, Access Group, Inc. ... 44
Prepared statement of ... 45
Drouin, René A., president and CEO, the NHHEAF Network Organizations ... 38
Prepared statement of ... 40
Responses to questions for the record ... 111
Griswold, Anna M., assistant vice president for undergraduate education, executive director, office of student aid, the Pennsylvania State University ... 33
Prepared statement of ... 35
Reed, Charles B., chancellor, the California State University ... 17
Prepared statement of ... 18
Additional submission: "How a New Administration Can Change Federal Policy for the Common Good" ... 24
Remondi, Jack, vice chairman and chief financial officer, Sallie Mae ... 26
Prepared statement of ... 28
Responses to questions for the record ... 123
Shireman, Hon. Robert M., Deputy Under Secretary of Education, U.S. Department of Education ... 11
Prepared statement of ... 13
Responses to questions for the record ... 114
Vedder, Richard, director, Center of College Afforability and Productivity; distinguished professor of economics, Ohio University; adjunct scholar, American Enterprise Institute ... 48
Prepared statement of ... 49

INCREASING STUDENT AID THROUGH LOAN REFORM

Thursday, May 21, 2009
U.S. House of Representatives
Committee on Education and Labor
Washington, DC

The committee met, pursuant to call, at 10:05 a.m., in room 2175, Rayburn House Office Building, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller, Payne, Andrews, Woolsey, Hinojosa, Tierney, Kucinich, Wu, Holt, Davis, Bishop of New York, Loebsack, Hirono, Altmire, Hare, Clarke, Courtney, Shea-Porter, Fudge, Polis, Tonko, Titus, McKeon, Petri, Castle, Souder, Biggert, Platts, Kline, McMorris Rodgers, Price, Guthrie, Cassidy, and Thompson.

Staff present: Tylease Alli, Hearing Clerk; Jeff Appel, Senior Education Policy Advisor/Investigator; Alice Cain, Senior Education Policy Advisor (K-12); Fran-Victoria Cox, Staff Attorney; Denise Forte, Director of Education Policy; David Hartzler, Systems Administrator; Fred Jones, Staff Assistant, Education; Jessica Kahanek, Press Assistant; Mike Kruger, Online Outreach Specialist; Ricardo Martinez, Policy Advisor, Subcommittee on Higher Education, Lifelong Learning and Competitiveness; Stephanie Moore, General Counsel; Alex Nock, Deputy Staff Director; Joe Novotny, Chief Clerk; Rachel Racusen, Communications Director; Julie Radocchia, Senior Education Policy Advisor; Dray Thorne, Senior Systems Administrator; Margaret Young, Staff Assistant, Education; Mark Zuckerman, Staff Director; Stephanie Arras, Minority Legislative Assistant; Cameron Coursen, Minority Assistant Communications Director; Amy Raaf Jones, Minority Professional Staff Member; Alexa Marrero, Minority Communications Director; Susan Ross, Minority Director of Education and Human Services Policy; Linda Stevens, Minority Chief Clerk/Assistant to the General Counsel; and Sally Stroup, Minority Staff Director.

Chairman MILLER [presiding]. Everyone being present, the committee will come to order.

I want to welcome everybody to the committee this morning. The meltdown in our economy as a result of the financial scandals has made the growing college affordability crisis worse for many American families. Escalating tuition prices and college loan payments have become even more burdensome in the face of lost jobs, income and benefits.

Students are graduating with too much debt. We as a Congress need to refocus our efforts back on grant aid rather than loans. Twenty years ago, the maximum Pell Grant award covered about half of the in-state tuition. Today it covers about 30 percent. Over the last 3 years we have worked hard to reverse this trend by increasing the maximum Pell Grant award by $1,500, but work still needs to be done.

Today, our committee will examine how we can continue to make college more affordable by significantly increasing grant aid for students. We can do this at no cost to the taxpayers by transforming the way our student loan programs operate.

First, it is important to take stock of how we intertwine credit markets. Credit and economic crises have altered the student loan landscape. For years, the Department of Education has operated two programs that provide borrowers with the same federal college loans, at the same interest rates, terms and conditions.

One is the Federal Family Education Loan program, or the FFEL program as it is known, under which private companies make loans to students and receive federal subsidies. These loans are virtually risk-free for lenders because they get reimbursed by the taxpayers when borrowers default on their loans.

The other is the Direct Loan Program under which the federal government offers loans directly to students using Treasury capital. It is subsidy free and cheaper for taxpayers.

Last year, as the credit markets froze, many FFEL lenders had trouble financing their lending activity. Some chose to discontinue making loans, while others became highly selective about whom they would lend to. With many students and families deeply worried about their student loan availability, Congress stepped in to perform emergency triage. Our goal was to make sure that families saw no interruption in the access to loans.

We enacted a temporary program that to date has been successful. It allows the Secretary of Education to finance and purchase loans from lenders using Treasury funds, but this was never intended to be, and isn't, a permanent solution.

Meanwhile, seeing that the Direct Loan Program remained insulated from the turmoil in the economy, hundreds of colleges and universities switched to the Direct Loans for the first time.

Two undeniable lessons have emerged from the past year. First, the economic crisis has exposed serious vulnerabilities to the current FFEL structure and students shouldn't have to worry about whether the rollercoaster fluctuations of the financial market will hurt their college opportunities.

Second, FFEL is currently on life support. In fact, the federal government through both the Direct Loan Program and its emergency program are now funding $6 out of every $10 in federal student loans made this year. In short, the status quo has become impossible to defend.

Students and families are not being served as well as they could be and taxpayers are spending billions of dollars annually to finance a broken system. The momentum is building for reforms that will deliver aid to families in a more sustainable way, shielded from the many ups and downs in the markets.

There are already several proposals on the table and we will take a close look at today. In his 2010 budget, President Obama proposed increasing Pell Grant Scholarships by ending lender subsidies and instead using the federal funds to originate all new federal student loans beginning in 2010.

The Congressional Budget Office estimates that this would save about $94 billion over 10 years, all of which is to be redirected back to the students. I think this proposal sets the bar high. It yields an astonishing savings that will help students and make the most sense to the taxpayers and harness the private sector innovation for the public good.

We also will hear about other proposals to reform our nation's student lending. While the means and reforms may be different, any workable plan must meet two basic benchmarks.

It must increase the efficiency of the loan programs so that we have more to invest for our students, and it must increase reliability so the students and families are never again left wondering where to turn in a difficult economy.

We will hear about the experience of one school that entered the Direct Loan Program last year and what other schools might expect under the President's proposal. We will learn more about student's financial needs and how we can best reform these programs to work on their campuses.

Now there are some who like things the way that they are. They have already begun to fight this change, but I think it is the students who have framed the issue candidly. We either can continue sending billions of dollars to the lenders to act as intermediaries or we can start sending that same money to the students and their families who are trying to pay for college costs, the costs that continue to go up, costs that continue to go up faster than inflation and that more and more families find themselves struggling with.

And I think that the question that is before us today is how do we go about providing the best deal for the taxpayers, the students, their families and the institutions? I look forward to today's testimony and I welcome all of the individuals who will be testifying and lending us their expertise and their experience in this field.

And now, I would like to recognize Congressman McKeon, the senior republican on our committee for the purpose of his opening statement.

[The statement of Mr. Miller follows:]

Prepared Statement of Hon. George Miller, Chairman, Committee on Education and Labor

The meltdown in our economy has made a growing college affordability crisis worse for American families.

Escalating tuition prices and college loan payments have become even more burdensome in the face of lost jobs, incomes and benefits.

Students are graduating with too much debt. We, as a Congress, need to re-focus our efforts back on grant aid, rather than loans.

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We can do this at no cost to the taxpayer by transforming the way our student loan programs operate.

First, it's important to take stock of how the intertwined credit and economic crises have altered the student loan landscape.

For years, the Department of Education has operated two programs that provide borrowers with the same federal college loans, at the same interest rates, terms and conditions.

One is the federally guaranteed student loan program—or FFEL—under which private companies make loans to students and receive federal subsidies. These loans are virtually risk-free for lenders because they get reimbursed by taxpayers when borrowers default on their loans.

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First, the economic crisis has exposed serious vulnerabilities in the current FFEL structure. Students shouldn't have to worry whether the roller coaster fluctuations of the financial markets will hurt their college opportunities.

Second, FFEL is on life support. In fact, the federal government, through both the Direct Loan program and this emergency program, is now funding six of every ten dollars in federal student loans made this year.

In short, the status quo has become impossible to defend. Students and families are not being served as well as they could be. And taxpayers are spending billions of dollars annually to finance a broken system.

Momentum is building for reforms that will deliver aid to families in a more sustainable way, shielded from any ups and downs in the markets.

There are already several proposals on the table that we will take a close look at today.

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While the means of reform may be different, any workable plan must meet two basic benchmarks. It must increase the efficiency of the loan program so that we have more to invest in our students.

And it must increase reliability so that students and families are never again left wondering where to turn in a difficult economy. We will hear about the experiences of one school that entered the Direct Loan Program last year and what other schools might expect under the President's proposal.

We'll learn more about students' financial needs and how we can best reform these programs to work on their campuses. Now there are some out there who like things the way they are. They've already begun to fight change. But I think it's the students who have framed the choice candidly. We can either continue sending billions of dollars to banks and lenders or we can start sending it to students.

As many people in this room know, student loan programs have historically been the subject of intense political debate. But this should not be about winning ideological battles. Instead, I hope that today begins an honest and constructive discussion that guides us toward a more reliable, effective and efficient program for students, families and taxpayers

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Mr. McKEON. Thank you, Chairman Miller and good morning. Education, especially a college education, is an engine that drives

the American dream. I would like to see this committee do what it can to help those American dreams come true, and student loans are one tool that allow students and families to pursue that dream.

Today we are going to hear about different student loan plans. We will discuss whether it is better to have loans come directly from the government or through other sources such as private lenders and nonprofits. I believe the American people have already made that choice.

In the Federal Family Education Loan program, which features a public-private partnership, there are more than 4,000 participating institutions. Students attending these institutions have received approximately $66 billion this year.

In the Direct Loan Program, where the loans come directly from the government, there are roughly 1,700 institutions. Students attending these institutions have received approximately $22 billion this year.

This is clearly a case of schools voting with their feet. Much like the secretary told us, families that do when it comes to picking an affordable college, institutions have selected their loan program of choice. They have moved to a program that provides the choice, flexibility, and options to make college affordable thanks to that public-private partnership.

The administration has argued that the FFEL program is on life support and does not provide a stable source of capital. With all due respect, this is like arguing that the federal government should directly manufacture and sell cars because the administration is now assisting Chrysler and GM.

Some in the administration may want to fully take over the automotive industry, but I don't think the American people would agree. Let us just consider the facts. Our nation is in the midst of a global economic meltdown.

Our credit markets became paralyzed and no one, not mortgage lenders, not small business lenders, not consumer lenders and not student lenders was able to secure credit to keep capital flowing.

The federal government stepped in with a temporary measure to restore liquidity, just like it did for the entire banking and financial system, but you don't hear calls for the federal government to make all mortgages or all small business loans, at least I hope not, or all car loans.

No, it is only in the student loan market where political forces are taking advantage of economic peril to create a federal monopoly. So to those who claim the FFEL program does not work, I would only ask you to look back on the 40 plus years before the credit crisis that crippled our entire financial system.

The private sector is a stable source of capital. It is one that has served millions of students and families for decades. Instead of trying to keep private capital and innovation out of the student lending permanently, perhaps we should be looking for ways to bring it back. We have also heard a lot about lender subsidies and so-called waste in this program.

So let me just take a moment to set the record straight. This year, the federal government is expected to make a profit on the FFEL program. The only subsidies being paid are interest benefits so that low income students do not accrue interest costs while they

are in school. But on the whole, the FFEL program is actually returning money to the U.S. Treasury this year.

In a way, that means lenders are subsidizing the federal government and the administration's own budget clearly expects the programs included in the Ensuring Continued Access to Student Loans Act to continue to return money to the government. It seems to me that we should consider those programs as a viable alternative to a complete conversion to the Direct Loan Program.

Finally, what about the 4,000 plus institutions across the country who have decided that the FFEL program works well for their students? Don't they get a say in all of this? In 1993 when the Direct Loan Program was created, it came about mainly because some institutions were not happy with the FFEL program and wanted another option.

If the more 4,000 institutions currently in the FFEL program are happy with the program and wish to keep it, I think we should listen to their wishes just like we did in 1993 to the institutions who wished for change. In that vein, I have several letters from financial aid officers from all around the country who want to keep the options available to them today through the FFEL program.

But this is one of the things that people really don't like when the federal government or any government, local or state, wants to take choice away from them. Why would we want to do that? I would like to see these submitted into the record today.

Mr. Chairman, what is best for schools and the students they serve seems to be lost in this debate and I am not the only one who thinks so. This morning, Inside Higher Ed published an op-ed written by the director of financial aid at Tallahassee Community College.

The article is called "Why I am sticking with FFEL," and he begins by saying, "But for all the talk about budget numbers and politics, the views of college financial aid administrators have been largely lost in the shuffle."

I would also like to insert this article into the hearing record. I hope we will think about people like this financial aid director as the debate unfolds. With that, I would like to thank our witnesses for appearing today and look forward to learning more from them.

[The information follows:]

[From *Inside Higher Ed,* May 21, 2009]

Why I'm Sticking With FFELP

By BILL SPIERS

President Obama's proposal to end the Federal Family Education Loan Program and make all federal student loans through the Direct Loan Program has gotten a lot of media attention. But for all the talk about budget numbers and politics, the views of college financial aid administrators have been largely lost in the shuffle. All FAOs have their own, differing reasons for choosing a particular federal student loan program for their institutions, but I'd like to explain why I favor the FFEL program and why my college will stick with it.

It comes down to this: FFELP provides outstanding service to students and our college and helps our students avoid defaulting on their loans, and competition—between FFEL lenders and between FFEL and direct lending—has provided for choice and, ultimately, excellence.

In the '90s, when direct lending was authorized, many of my friends moved to direct lending, for reasons I understood. Their decisions were based on solid logic and were in the best interest of their institutions. I supported their decision, and continue to support an institution's right to select the program that is in the best interest of the students they serve. Processing issues were abundant in the FFEL pro-

gram at that time; today, however, the processing concerns are gone. Banks are responsive to students and schools. If needed, I can intervene and get things done for my students. The automation we pushed for in earlier years is now in place, and the infrastructure used in the program is solid.

Students are the primary beneficiaries of the simplicity and strong service of the FFEL program. Providing them with options to submit paper applications or to e-sign their promissory note without having to visit the financial aid office makes their life easier. In addition, the automation and verification of eligibility for FFEL funds expedites the delivery of funds to students. Students are confident the funds they receive are accurate and that their promissory notes are securely maintained.

As a community college, we have the responsibility to ensure that our students understand the potential impact borrowing will have after graduation. With the help of our guarantor partners we have implemented financial literacy seminars for all student borrowers. Each new borrower must attend a seminar before their loan funds are released. The materials for this program are provided by guarantors, who are there in person to help make the presentations to our students. The support we receive helps us educate our students about loans and ultimately makes them better consumers of financial products of all kinds. Current budget cuts and reduced manpower would make it impossible to continue a program like this without the support of our partners. In addition to financial literacy, we also receive information on exit interviews and repayment options that are vital to keeping students in repayment and out of default.

For many years lenders, guarantors and servicers have been active participants in financial aid awareness activities. These organizations devoted considerable financial resources and man hours to help financial aid professionals educate families about federal financial aid programs. From creating publications to high school financial aid nights and community-wide events, students throughout my state and nationwide have benefited from this support. When they apply for financial aid early because of this advice, needy students often receive more grant assistance and reduce or even eliminate their need for loans. In addition to financial aid awareness activities, lenders, servicers and guarantors also offer substantial training opportunities to financial aid staff. The loss of training opportunities could be detrimental to my staff and ultimately to the students we serve.

Default prevention and aversion are critical issues in the community college sector. At the institution I serve, our selection of lenders, guarantors and servicers is based on their company default rates and their default rate at our school. The basic due diligence requirements of the Federal Government in default prevention and aversion simply are not good enough to prevent defaults with the community college sector. Our lending partners must offer exceptional customer service and go well beyond the basic federal requirements for our students. We conduct a thorough review to ensure that our students are well served. We are confident that the people serving our borrowers understand the issues that young, inexperienced student borrowers face. Competition between lenders, guarantors and servicers has pushed them well beyond the basic measures to reach and assist these young borrowers

With the loss of competition that would come from the Obama proposal, we must ask ourselves if this level of commitment to default prevention and aversion will continue. If we are forced to move to direct lending and find ourselves dissatisfied with the default prevention and aversion efforts, what are our choices? Who will help us reach our borrowers? Will our schools have to pay for an outside company to do what our guarantors, lenders and servicers have done free all these many years?

For our students, customer service is vital. They must receive correct information that they can understand the first time they call. Students need help—someone to hold their hands because they are in a learning curve. They don't want to wait on the phone for 30 minutes for help and they won't. By selecting lenders committed to creating long term relationships with student borrowers, we have found that they go the extra mile, and sometimes two, to ensure students are treated well and receive the information they need. The clarity of the information provided from the first day the loan is issued until the student finishes repaying their loans can make a difference for a population that is naive in their approach to borrowing, credit and responsibility. Notice I didn't say ignorant because that isn't true. They do, however, need guidance as they move through this pilgrimage of learning about financial responsibility.

One of the great benefits of FFELP is the ability of the student, and where it is appropriate, their parent to decide with whom they want to do business. Students in direct lending are not given this choice, a clear distinction between the two programs. While we provide a list of lenders that have acknowledged they work with community colleges, a student is free to select any lender willing to issue their loan.

The student—not the school or the government—controls the choice of lender and has the opportunity to evaluate benefits offered by that lender. If a student has a solid relationship with a bank, he or she will often pick that bank as the lender for the student loan.

Competition has fostered excellence in FFELP and DL. The innovations were a direct result of the push to stay viable and technologically advanced so that schools would select or continue to use that program Until recently When lenders also competed for borrowers which led to lower loan costs for our students The default prevention and aversion efforts we enjoy in the FFELP program represent efforts on the part of business partners to meet our demands and compete for marketability. Technology improvements in borrower interface are the result of competition between FFELP and DL. Our students have certainly benefited from that competition.

While the media has focused on the profitability in the FFELP program, little has been said about the fact that the federal government must fund Federal Pell Grant Program increases off the backs of student borrowers. The government borrows money at very low rates, much lower than those available to lenders, yet the government would continue to charge the same interest rates as FFEL lenders. Under the current proposal the federal government isn't providing any breaks to the students and is actually making more off the program than lenders ever could. Wouldn't it be appropriate for the USDOE to set interest rates based on the student's expected family contribution? Or offer borrower benefits that help students during repayment based on their income? Or perhaps set an interest rate that is more in tune with financial markets and allow lenders to compete?

I support FFELP because of the benefits it provides students, parents and institutions. My institution and our students have been well served by this program. Times are changing. I can only hope that the Congress will find a way to maintain a worthy program that has benefited students for decades. And maybe, just maybe, financial aid administrators at over 4100 institutions that currently use FFEL will have an opportunity to be heard.

We are on the front lines every day. And we care about our students.

Bill Spiers is director of financial aid at Tallahassee Community College.

Mr. MCKEON. Thank you, Mr. Chairman. I yield back.

Prepared Statement of Hon. Howard P. "Buck" McKeon, Senior Republican Member, Committee on Education and Labor

Thank you, Chairman Miller and good morning.

Education—especially a college education—is an engine that drives the American Dream. I would like to see this committee do what it can to help those American Dreams come true.

And student loans are one tool that allows students and families to pursue that dream.

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The Administration has argued that the FFEL program is "on life support," and does not provide a stable source of capital. With all due respect, this is like arguing that the federal government should directly manufacture and sell cars because the Administration is now assisting Chrysler and GM.

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small business lenders, not consumer lenders, and not student lenders—was able to secure credit to keep capital flowing.

The federal government stepped in with a temporary measure to restore liquidity. Just like it did for the entire banking and financial system.

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We've also heard a lot about lender subsidies and so-called waste in this program. So let me take just a moment to set the record straight.

This year, the federal government is expected to make a profit on the FFEL program. The only subsidies being paid are interest benefits so that low-income students do not accrue interest costs while they're in school.

But on the whole, the FFEL program is actually returning money to the U.S. Treasury this year. In a way, that means lenders are subsidizing the federal government. And the Administration's own budget clearly expects the programs included in the Ensuring Continued Access to Student Loans Act to continue to return money to the government. It seems to me that we should consider those programs as a viable alternative to a complete conversion to the Direct Loan program.

Finally, what about the 4,000 plus institutions across the country who have decided that the FFEL program works well for their students? Don't they get a say in all of this? In 1993, when the Direct Loan program was created, it came about mainly because some institutions were not happy with the FFEL program and wanted another option.

If the more than 4,000 institutions currently in the FFEL program are happy with the program and wish to keep it, I think we should listen to their wishes just like we did in 1993 to the institutions who wished for change. In that vein, I have several letters from financial aid officers from all around the country who want to keep the options available to them today through the FFEL program.

I would like these to be submitted into the record today.

Mr. Chairman, what's best for schools, and the students they serve, seems to be lost in this debate. And I'm not the only one who thinks so.

This morning, Inside Higher Ed published an op-ed written by the director of financial aid at Tallahassee Community College. The article is called "Why I'm Sticking With FFELP," and he begins by saying—quote—"But for all the talk about budget numbers and politics, the views of college financial aid administrators have been largely lost in the shuffle."

I would also like to insert this article into the hearing record. I hope we'll think about people like this financial aid director as the debate unfolds.

With that, I would like to thank our witnesses for appearing today, and I look forward to learning from them.

Thank you, Chairman Miller. I yield back.

Chairman MILLER. Thank you. And I would like now to introduce our panel of witnesses. Robert Shireman is the Deputy Undersecretary at the U.S. Department of Education, a leading expert on college access and financial aid.

Mr. Shireman has previously served as congressional appointee to the Federal Advisory Committee on Student Financial Assistance and as advisor to Senator Paul Simon and part of President Clinton's White House National Economic Council. Mr. Shireman is the founder of the Institute of College Access and Success and the Project on Student Debt.

Dr. Charles Reed has served as chancellor of the California State University System since 1998. He provides leadership to 46,000 faculty and staff and to 450,000 students on 23 campuses and seven off-campus centers.

Prior to serving as chancellor of the California State University system, Dr. Reed was chancellor of the State University System of Florida from 1985 to 1998. Dr. Reed has served on a number of organizations, including the board of the Urban Serving Institutions, the President's Roundtable for the National Board of Professional Teaching Standards and on the board of the California Chamber of Commerce.

Mr. John F. Remondi is the vice chairman and chief financial officer of Sallie Mae. Prior to joining Sallie Mae, Mr. Remondi worked as a portfolio manager for PAR Capital Management, a Boston-based private investment management firm.

Mr. Remondi will address Sallie Mae's alternative proposal to reform the student lending program, which would allow the private companies to remain in the program while using federal capital to finance student loans.

Ms. Anna Griswold is the assistant vice president of undergraduate education, executive director of student aid at Pennsylvania State University, which has one of the highest loan volumes of any institution in the country.

Prior to working at Penn State, Ms. Griswold was the director of student aid at Washington State University and prior to that she was the director of student aid, Northern Virginia Community College at the Alexandria campus. Ms. Griswold has served in student aid administration for 39 years.

This comes from Ms. Shea-Porter, whoI think is going to make the next introduction. Carol?

Ms. SHEA-PORTER. Thank you, Mr. Chairman. It is my privilege to introduce Rene Drouin to the committee this morning. Rene is the president and chief executive officer of the New Hampshire Higher Education Assistance Foundation or NHHEAF as we call it. Mr. Drouin began his student loan career in 1978 as manager of the claims and recoveries division of New Hampshire Higher Education Assistance Foundation.

He has served as president and CEO of both NHHEAF and the president of the Network Organization. During his over 30 years at NHHEAF, he has overseen a number of enhancements to the organizations' infrastructure, including the establishment of a NHHEAF network education foundation with half a million dollar endowment in 2004.

The charitable mission of the organization has been fulfilled by Mr. Drouin's support for expansion of the Center for College Planning, which annually serves over 30,000 individuals statewide with free college planning programs and services. Mr. Drouin also served as chairman of the board at the National Council of Higher Education Loan Programs from 1999 to 2000.

In October of 2003, Mr. Drouin received a congressional appointment to U.S, Department of Education's Advisory Committee on student financial assistance for a 3-year term and he was reappointed for an additional term in July, 2006. He knows the key to prosperity in this country for America's youth and for America's business is education and he has devoted his life to providing access.

I am delighted that you are here today. Thank you, very much.

Chairman MILLER. Congressman Castle.

Mr. CASTLE. Thank you, Mr. Chairman. I would like to welcome Chris Chapman to today's hearing. Mr. Chapman is the president and chief executive officer of Access Group, a national nonprofit lender and servicer based in my hometown of Wilmington, Delaware.

Although Mr. Chapman joined Access Group last year, Mr. Chapman's been involved in the education financing field since 1994. Immediately prior to his current position, Mr. Chapman served for almost 7 years as president and CEO of All Student Loan, a Los Angeles based nonprofit lender and secondary market.

He has also served as vice president of Student Loan Funding Resources, Incorporated and a director of his joint venture servicing company, Intuition Holdings, Incorporated. Mr. Chapman has also maintained a private legal practice, primarily focused on the representation of a variety of FFEL participants in public finance and general corporate matters.

Mr. Chapman's early career was spent working for two members of the U.S. House of Representatives and the mayor and city council of Cincinnati. Mr. Chapman earned his Bachelor of Arts degree from Xavier University in Ohio and his Juris Doctorate degree from the University of Cincinnati College of Law. We welcome you here, Mr. Chapman.

Chairman MILLER. Thank you and welcome to the committee. Our final witness on this panel will be Dr. Richard Vedder who is a professor of economics at Ohio University. He is the author of a number of books, including "Going Broke by Degree, Why Colleges Cost Too Much."

Welcome to all of you. We look forward to your testimony. Some of you have testified before, in front of Congress, but we do have a lighting system. When you begin to testify, in the small boxes in front of you a green light will go on. We allow you 5 minutes. We hope that you can convey your thoughts in that period of time. I know it is always difficult.

An orange light will go on when you have 1 minute remaining and you should think about wrapping up your testimony. And then at the end of 5 minutes, a red light will go on and we want you to finish in a coherent fashion, but we want you to be mindful there will be a lot of questions.

And unfortunately, I am told that we can expect votes on the floor at around 11:00, so we will begin. Mr. Shireman, welcome to the committee.

STATEMENT OF ROBERT SHIREMAN, DEPUTY UNDER SECRETARY, U.S. DEPARTMENT OF EDUCATION

Mr. SHIREMAN. Thank you. Chairman Miller, Mr. McKeon, thank you very much for the opportunity to testify today.

In his speech to the joint session of Congress in February, President Obama established a bold goal for America and that is to restore our place as the country with the largest proportion of our adult population with college degrees. That was partly about education and the importance of education, but it is also critical to restoring our economy and our place in the world economy.

To achieve that goal, we need our graduating high school seniors to continue on to college. We need our adults, who are either work-

ing or perhaps unemployed right now, to return to college. We need both those populations to thrive in the programs and colleges that they attend, be able to focus on their studies and we need them to complete their degrees. And that is how we can reach that goal for America.

President Obama proposed a number of tools to get there. First, the $2,500 American Opportunity Tax Credit which was adopted for 2 years in the Recovery Act and which his fiscal year 2010 budget would make permanent.

Second, a strong, secure Pell Grant entitlement. This is the core program for low and modest income families. And we need to make sure that money will be there, not just for the folks who are entering college in 6 months, but we need to be able to tell students in middle schools that this is a program that will be there, will be strong and secure, and will have enough for them to help them pay for college.

That we have proposed increasing the Pell Grant instead of having—we have had a number of years where we have had just a flat Pell Grant. We want to be able to increase that by the consumer price index plus one percentage point into the future.

Third, we need a reliable federal student loan program. We really dodged a bullet last year with—almost had a situation where schools had real trouble getting loans. In effect, what the Department of Education was able to do with the swift action of Congress was, in effect, to make direct loans to lenders so that they could make FFEL loans to students.

What President Obama is proposing to do is to cut out the middleman, make those direct loans to students and schools. Schools already have a very efficient system of drawing down Pell Grant dollars for their campuses and it is that same system that is used for drawing down and reconciling Pell Grant dollars. So the switch over, from the perspective of a school, not all of it is new. It is an add-on to an existing system that works very well for colleges.

We want to tap the expertise of private sector entities that are currently involved in the FFEL program to do the very important work of servicing student loans. We want to have a performance-based contract with these servicers that focuses on preventing defaults and delinquencies and making sure we have high levels of satisfaction of the borrowers whose questions need to be answered, as well as the schools that are involved in the program.

By doing this, we save billions of dollars and that money can be poured into the Pell Grant Program. We also will be able to maintain a viable and growing student loan program. And I think there is a chart that will show the growth that we expect.

While the current FFEL portfolio will decline slowly over time—and there has been a lot of talk about jobs—the FFEL loans will decline slowly over time. There will be a lot more loans overall. So overall, there will be more people employed in servicing in the United States than ever before.

Another important element of the President's proposal is to reduce the amount of private student loans that students are having to take out. This is where students really get in trouble.

Non-federal student loans, no cap on the interest rate and our Perkins Loan Proposal is designed to give college financial aid ad-

ministrators the flexible loan funds they need to apply to situations where students need more than what is available in the Stafford Loan Program. We also want to distribute money in a way that encourages colleges to keep college affordable.

Finally, we have proposed and access an completion innovation fund and they really are two important goals of this program. One is to allow state agencies and nonprofit organizations that have been doing important work with the funds that they have earned in the FFEL Program, getting out to high schools, providing information.

We want to be able to allow them to continue those activities. We also want to encourage innovation at colleges and universities and in states on persistence and completion. We have to do a lot better job of helping students to complete those degrees.

Thank you very much.

[The statement of Mr. Shireman follows:]

Prepared Statement of Hon. Robert M. Shireman, Deputy Under Secretary of Education, U.S. Department of Education

MR. CHAIRMAN, MR. MCKEON, MEMBERS OF THE COMMITTEE: Thank you for this opportunity this morning to discuss the Administration's plan for higher education. As you know, President Obama has established a bold goal for America: to restore our place in the world as the country with the largest proportion of adults with college degrees. Having a more educated population is a worthy goal in and of itself. But this goal is about more than individual opportunity and social mobility. It is about the future of our economy and our place in the world. We must continue increasing the number of Americans pursuing higher education and redouble our efforts to ensure that more of them earn a credential.

This renewed American commitment to education spans from cradle to career. The Administration's 2010 budget request lays the foundation for the expansion of early childhood education. It promotes world-class standards and supports and rewards effective teaching. It expands efforts to turn around low-performing schools, including dropout-factory high schools. And for those students who make the grade, we must ensure that they are able to go on to higher education and training. That is what I am here to talk about today.

The American Recovery and Reinvestment Act included a down payment on our higher education agenda. It expanded tax credits for higher education, making them larger and available to more families and to cover more types of expenses. It provided support to states to limit funding cuts and tuition increases at public universities. And it provided funding to pay for increasing Pell Grant costs and support a $500 increase in the maximum grant for students from lower-income families—combined with regular appropriations, the maximum grant will increase from $4,731 to $5,350 for the upcoming award year. We have taken further steps to help ensure that Americans who have lost their jobs know that their financial aid eligibility can be adjusted to reflect the fact that their prior income is no longer available.

Our FY 2010 budget proposal for financial aid aims to (1) secure the future of the Pell Grant program beyond the Recovery Act, (2) ensure reliable access to federal student loans, and (3) partner with states to sustain college access efforts and to intensify the focus on college completion. It is only by improving college retention and completion—for both traditional-age students and returning adults—that we can meet President Obama's challenge.

Pell Grants serve the families who are most struggling in our economy and in our schools. We tend to think of the program as one that serves students who are high school seniors. But how we design the program also sends messages to students, parents, and teachers much, much earlier. We need to be able to tell students in middle school that the Pell Grant program is strong, and will be there for them in four to six years when they're ready to go.

That is why the President's budget calls for making the Federal Pell Grant program an entitlement. It is imperative that our students—from high school seniors to middle-school students—as well as their families, understand that indeed there will be money available for college when they're ready to apply. Research indicates that this is especially important if those students and their families are low income.

Today's discretionary funding of Pell Grants leads to future uncertainty regarding the availability of student financial aid, and the near-term funding shortfalls of mandatory increases in the Pell Grant maximum award provided in the College Cost Reduction and Access Act (CCRAA) only increases that uncertainty. We firmly believe that concrete assurances today about the future availability of financial aid play a critical role in encouraging families to be certain their children undertake the academic preparation necessary for college.

Putting the Pell Grant program on a strong and predictable financial footing does take considerable resources. Fortunately, our plans for the student loan programs generate significant budget savings. This is accomplished by originating all new loans under the Direct Loan program beginning with the 2010-2011 academic year. Reliable access to student loans is important not just for our students and their families, but also for our entire economy. We have seen the guaranteed Federal student loan system, known as the Federal Family Education Loan (FFEL) Program, come close to collapse this past year. Repeated interventions by the Congress and the Department were required to ensure that every student and parent who needed a Federal student loan received one. While I am pleased to report that these efforts were successful, I am less than pleased to report that the Department will have to replicate this year's efforts—and then some—to ensure continued FFEL availability for all for the 2009-10 academic year. This repair is only temporary, and Congress will need to decide the future of the Federal student loan system.

There are three functions to the student loan system, whether the loan is direct or guaranteed. First is raising the capital—the money that is actually lent to the student or parent borrower. Second is loan origination—providing the money to the borrower in exchange for a promissory note, the borrower's promise to repay the debt. Third is "servicing", which is the bulk of the actual work in carrying out a loan program. Servicing means sending out bills and payment notices, and receiving and applying payments to accounts. Servicing is following up when a borrower does not pay on time. Servicing is collecting on loans that have defaulted. Servicing means answering the telephone calls such as, "Do I have a payment due?" "Am I eligible for a deferment?" "Where do I send my address change?" Servicing is letting people know about the full range of options for repaying their loans. And much more.

In regards to raising capital, absent the extraordinary intervention by the Federal Government with direct Federal funds, FFEL loans would not have been universally available during the current academic year. By extending the loan purchase authority added to the Higher Education Act of 1965 (HEA) by the Ensuring Continued Access to Student Loans Act (ECASLA), Congress has made sure that lenders will have access to capital sufficient to ensure that FFEL loans will be universally available in the 2009-2010 award year. Additionally, the Department has established an asset-backed commercial paper "conduit" to leverage the value investors place on federally-backed student loans to help further ensure the availability of FFEL loans next year. The Department's loan purchase authority, loan participation interest purchase and conduit programs, along with Direct Loans, have resulted this year, and will result next year, in the government's providing a large proportion of the capital to lend to federal student loan program borrowers. The 2010 Budget estimates that the Federal government will finance nearly three quarters of all student loans in both 2009-2010 and 2010-2011 academic years. And, as I said earlier, these loan purchase authority programs will come to an end. Congress must make a decision about the future of the student loan programs. Instead of maintaining this elaborate web of programs designed to prop up the FFEL program, we should originate 100% of new loans through the less costly Direct Loan program.

With respect to expanding the origination of Direct Loans, we already have a uniform, on-site system at every college, university and postsecondary trade and technical school in the country for originating, disbursing, and reporting Pell Grants. The Common Origination and Disbursement (COD) system is a contractor-operated platform through which schools receive their funding authority from the Department, draw down funds from the Department for payments to students, and then provide data back to the Department for those students who received Pell Grants.

Expanding the capability of COD to originate and disburse student loans and then report that information back to the Department is an easy add-on for those schools that do not already disburse Direct Loans. In fact, not only do Direct Loan program participating institutions use COD for this purpose today, but the Department used COD's common student record approach to implement successfully the authorizing, disbursing and reporting requirements for the Academic Competitiveness, National SMART, and Teach Grant programs within extraordinarily condensed timeframes. The single significant difference between administering a Pell Grant and administering a student loan, whether guaranteed or direct, is the promissory note that

must be signed by the borrower. In the FFEL program today, schools must follow certain lender-specific processes, and they must have a signed promissory note in hand prior to disbursing loan funds. Current Pell Grant participating institutions that move from FFEL into Direct Loans may have to learn a somewhat different process, but it is not something that is enormously complicated.

Also with respect to student loan origination, it is important to note that FFEL program lenders by and large do not make the usual underwriting decisions that lenders otherwise make. Outside the student loan arena, lenders decide what interest rates to charge, how much to lend, and to whom to lend to. Indeed, we see this typical lender behavior in the private-label student loan market, in which FICO scores and type of institution attended are important underwriting considerations. In other words, lenders assess risk in making their lending decisions—except for federal student loans. Basically these underwriting decisions are replaced by criteria established by Congress for federal student loan borrowers, including annual and cumulative loan limits, the cost of attendance, and the availability and receipt of other student financial assistance by the borrower, and with the administration and coordination of all these activities accomplished by college and university financial aid administrators.

Let me talk for a moment about loan servicing. In our view, servicing Federal student loans, irrespective of loan program, should address the two main goals that we want to achieve: default prevention and customer service.

Regarding default prevention, the Department's cohort default rate data show wide variation in these rates over the years when arranged by lender. Certainly there may be good reasons for different lenders having different default rates—portfolio composition and expanding and contracting local economies, to name just two—but we do little, if anything, in the FFEL program to encourage FFEL institutions, and prospective and continuing FFEL borrowers to turn to those lenders (or their servicers) that seem to rise to the top of the list in terms of success in preventing defaults.

In fact, before its 2007 repeal, the statutory provision that granted "exceptional performer" status—and thus increased insurance payments—to lenders, servicers, and guaranty agencies was based on an acceptably high compliance rate—97 percent—with the Department's due diligence requirements for loan servicing and collection rather than a straightforward, objective, and transparent measure of success in preventing defaults. In other words, we rewarded FFEL program participants for compliance with process rules instead of for achieving desired results.

Guaranty agencies also have, at least nominally, a role in default prevention. However, the existing guaranty agency financing model creates incentives that arguably favor collecting on defaults instead of preventing defaults. In short, if more value is attached to collecting defaults than preventing defaults, then there are likely inadequate incentives to prevent defaults in the first place.

Nevertheless, we believe many guaranty agencies provide significant and worthwhile services to students and families. The President's Budget calls for the creation of a State-Federal partnership fund aimed at improving college success and completion, particularly for students from disadvantaged backgrounds. States could use a portion of these funds to continue the college outreach and information activities now supported by federal subsidies to guaranty agencies and other state-affiliated FFEL participants. If we think these services are valuable, then we as a Federal government should pay for these services directly instead of hoping that Guaranty Agencies will use a portion of their fees for these worthwhile activities.

Regarding customer satisfaction, good customer satisfaction means that student and parent borrowers receive the information they need when they need it and in the form that they find most useful. So it is important to have the appropriate mechanisms in place to gauge customer satisfaction. The Department has employed such surveys in the past and we know that our Direct Loan servicer has performed as well, and sometimes better, under its contract than its FFEL industry counterparts. We also know that there are FFEL servicers with above-average rated customer satisfaction performance. So, given our increasing portfolio, due both to the recent expansion of the Direct Loan program and our acquiring significant numbers of FFEL loans via the loan purchase authority, the Department will contract with multiple private-sector student loan servicers.

We intend for our servicing contracts to leverage competition among private firms, so that those servicers that do a better job in terms of default prevention and customer satisfaction will receive an increased share of the Federal student loan portfolio to service. Conversely, those firms that are less adept will have a smaller share of that portfolio to service over time.

We are sensitive to the concerns expressed by the FFEL program community and others regarding jobs. However, annual Federal student loan volume is not declin-

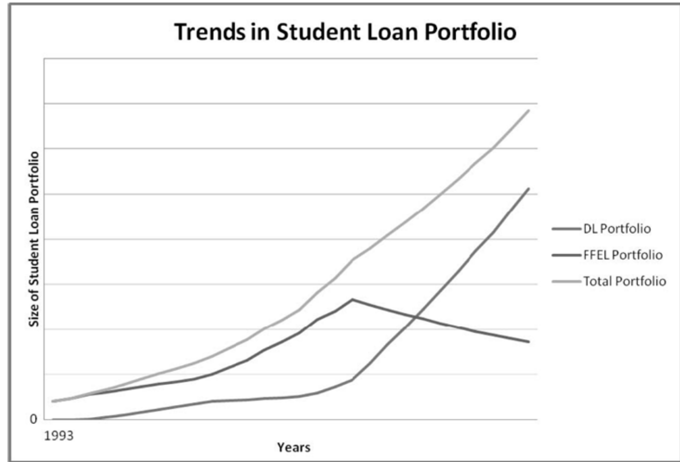
ing. We will need at least as many people in the private sector servicing student loans in the future—whether they are traditional FFEL loans, FFEL loans purchased by the Department, or Direct Loans—as we have today. It will be the Department's job to build into our contracts the proper set of incentives so that we get the best service for our borrowers and the taxpayers.

We are sensitive as well to the needs of those students and families whose circumstances are such that the annual loan limits in the FFEL and Direct Loan programs are inadequate. But, in recent years, too many students have turned to private-label loans without ever considering these Federal loan programs.

To address these issues we are proposing to reinvigorate and refocus the Federal Perkins Loan program. Merely increasing loan limits for all borrowers could lead to over-borrowing. Instead, under our budget proposal, the annual Perkins Loan volume would increase from approximately $1 billion per year to $6 billion. This would be in the form of lending authority for both undergraduate and graduates, allocated to institutions by a formula that may include factors to encourage colleges to control their costs and offer need-based aid to limit indebtedness, and reward colleges for enrolling and graduating students from low-and middle-income families. Our expanded and modernized Perkins Loan program would retain the current five percent interest rate and contain a "hold harmless" for schools currently in the program, while eliminating the burden on schools to service and collect on the new Perkins loans.

In closing, our student aid proposals would address important servicing issues by providing for construction of loan servicing contracts with multiple private-sector firms with appropriate incentives to ensure high-quality customer service while minimizing defaults. Our proposals would minimize program transition issues for institutions through the use the existing common student record approach of the COD system to provide for student loan origination functions for all institutions. As for capital acquisition for federal student loans, it is clear that the Federal Government is now the sole reliable and sufficient source of Federal student loan capital. The Administration's proposed model would provide for a highly efficient student loan system by minimizing the layers between the source of loan capital and the borrower—the ultimate beneficiary of that loan capital. Alternative models add additional layers, which must be evaluated in terms of whether the often uncertain benefits of the additional layers outweigh their certain costs. We must preserve the maximum possible investment in the Pell Grant program and the future of America's college students.

Thank you Mr. Chairman and I will answer any questions you and the other Committee Members might have.



Chairman MILLER. Thank you. Chancellor Reed, welcome to the committee and thank you for your service to the students in our state.

STATEMENT OF CHARLES REED, CHANCELLOR, THE CALIFORNIA STATE UNIVERSITY

Mr. REED. Thank you Chairman Miller and ranking member McKeon and members of the committee. Thank you for the opportunity to discuss the California State University's experience with federal loan programs and with federal need-based aid programs.

As the chairman said, the CSU is the largest and most diverse 4-year university system in the country. We have more than 450,000 students. Fifty-five percent of our students are students of color, mostly from the underserved communities of California. Our mission is to provide high quality, affordable education to meet our state's ever-changing economic needs.

During the 1990s, the direct lending program was created. Ten CSU campuses joined that program then. This year five more campuses have joined the direct lending program and the remaining eight campuses will join next year.

Why this shift? Events of the past few years have contributed significantly. First, changes to federal law through the budget reconciliation process that reduced FFEL lender margins have led to a decline in FFEL lender service and reliability and to a reduction in borrower benefits.

Second, our nation's financial crisis has raised significant concerns about the long-term viability of participating in FFEL.

Third, previous concerns about the future viability of direct lending programs have been eliminated. Stability and reliability in a campus' student loan programs are tremendously important to our students and to our institutions.

When it comes to student aid, the Pell Grant Program, with its focus on student need, is essential to the California State University closing the gap in college enrollment and completion that exists between low income students and their more affluent peers. This is true even at low cost institutions like the CSU.

In the 2009–2010 school year, our average campus tuition plus fees will be $4,155 which is the lowest among any of our comparison institutions and among the lowest in the nation. Even so, many CSU students continue to have financial need.

However, thanks in part to programs supported by Chairman Miller and Mr. McKeon, most CSU students with family incomes of $75,000 or less pay no student tuition or fees at the CSU. Both of you have always focused on our most needy students, so thank you.

Pell is a huge part of this equation in California. This fall we estimate that more than 128,000 of our neediest students will receive Pell Grants for a total of more than $445 million. Your support for Pell has also helped us maintain the CSU's long-standing policy.

This is our policy, increases in federal and state grant programs should reduce our students' loan indebtedness dollar-for-dollar. Over 57 percent of our CSU graduate recipients graduate without debt compared to the national average of 33 percent. And the average debt in California of our students is a little less than $14,000 a year, well below the national average of $20,000.

More than 35,000 Pell recipients received CSU Bachelor's degrees in 2008. The CSU endorses continued efforts to increase this vital aid for students.

This new administration's proposed new $500 million per year post-secondary access and completion fund, which would provide grants to states and nonprofit organizations, to help the underserved population pursue and complete a post-secondary education is very important.

The CSU is very supportive of this concept and would like to offer its experience in developing this new program, should Congress decide to authorize it. The CSU would also support including an incentive for maintaining state funding of higher education in this program, similar to the non-supplanting provision found in Title I of ESEA.

I commend both Chairman Miller and ranking member McKeon for utilizing such maintenance of effort language. It is very helpful for public institutions.

As this committee explores ways to improve educational attainment for lower income and under-represented students, I urge you to consider what I call a big and bold idea, and we sure don't need any more little ideas, and that is to resurrect a concept that was authorized in 1972, which was the original Pell.

It envisioned direct institutional grants to colleges and universities to support the educational services necessary for these students to succeed. The concept was known as the cost of education allowances and was similar to the concept contained in the Elementary and Secondary Education Act of 1965.

A Title I for higher education would provide a flat capitation grant per lower income student for every institution that meets an enrollment threshold of at least 20 percent of these students. The program could require that funds be used to support academic and student service programs designed to assist Pell eligible students.

It would create incentives for public and private institutions to not only enroll but to retain and graduate low or lower middle class income students. Here, too, the amount of the grant award could be moderately increased or decreased based on the maintenance of effort for higher education.

If we are going to improve our nation's achievements in higher education and reach the President's goal we have got to reach out to the underserved communities of this country.

Thank you again for this opportunity, and I will be happy to answer your questions.

[The statement of Mr. Reed follows:]

Prepared Statement of Charles B. Reed, Chancellor, the California State University

Chairman Miller, Ranking Member McKeon, and members of the committee, thank you for inviting me to discuss the California State University (CSU) programs that support access to California's neediest students and the importance of federal student financial aid to help achieve that goal. The CSU commends the committee for its attention to the important task of ensuring that every student that chooses to do so can pursue a postsecondary education. I am pleased to share with you our system's experience with federal student educational loan programs and with federal need-based aid programs.

The California State University—Background

Few, if any, university systems can match the scope of the CSU system. The CSU is the largest four-year university system in the country, with 23 campuses, approximately 450,000 students and 47,000 faculty and staff. The CSU's mission is to provide high-quality, affordable education to meet the ever-changing needs of the peo-

ple of California. Since the system's creation in 1961, it has awarded almost 2.5 million degrees. We currently award in excess of 91,000 degrees each year.

The CSU plays a critical role in preparing outstanding candidates for the job market. Our graduates help drive California's aerospace, healthcare, entertainment, information technology, biomedical, international trade, education, and multimedia industries. Altogether, about half the bachelor's degrees and a third of the master's degrees awarded each year in California are from the CSU.

The CSU faculty's applied research activities in agriculture, water resources, public health, biotechnology and homeland security, to name a few, emphasize real time solutions to support both decision-makers and practitioners.

One key feature of the CSU is its affordability. For 2009-10, the CSU's systemwide fee for full-time undergraduate students will be $3,354. With individual campus fees added in, the CSU's total fees will average $4,155, which is the lowest among any of the CSU's comparison public institutions and among the lowest in the nation. Even with our low costs, many CSU students continue to have great financial need. More than half of our students (255,741) receive financial aid. Thanks in part to federal programs supported by this committee and to California's need-based aid programs, we have been able to keep costs down for those who need the most help; for example, most CSU students with family incomes of $75,000 or less pay no student fees at all.

The California State University—Its Students

CSU students are not necessarily the traditional 18 to 22-year-olds. A recent survey of CSU students revealed the following:

—The average undergraduate age is 24,
—About 92 percent are commuters,
—39 percent are independent from their parents,
—Nearly one in four have dependents,
—Three out of four have jobs, and 18 percent work full time,
—About 35 percent are the first generation in their family to attend college,
—54 percent of CSU students are students of color.

The CSU prides itself on its ability to provide college access to students across California's increasingly diverse population. More than half of our campuses are designated as Hispanic-Serving Institutions. The CSU provides more than half of all undergraduate degrees granted to the state's Latino, African American and Native American students.

Additionally, CSU students are closely connected and committed to the communities in which they live. More than 194,000 CSU students participate in community service annually, donating nearly 32 million hours. The economic impact of this service equates to $624 million.

CSU Participation in the Direct Lending and FFEL Programs

CSU campuses participate in federal student educational loan programs either through the Federal William D. Ford Direct Student Loan (Direct Lending) or the Federal Family Education Loan (FFEL) program. Between the two programs, roughly 147,000 CSU students borrowed just under $1 billion in 2007-08. During the 1990s, after the Direct Lending program was enacted, approximately ten CSU campuses made the transition to that program, and for the most part those campuses have remained with Direct Lending ever since. Earlier this decade, several other CSU campuses decided to make the switch to Direct Lending, such that by this coming fall fifteen of the twenty-three CSU campuses will be in the Direct Lending program.

Historically, campuses that chose the Direct Lending program tended to view the following characteristics as advantageous:

- Single point of contact for schools, student, and parent borrowers o Easier for schools to administer
- Financial aid software incorporates the Direct Lending process much better than FFEL
- Easier for staff to deal with students and offer better customer service
- Direct Lending disbursement process mirrors Pell, ACG and SMART Grants in dealing with COD (Common Origination and Disbursement) system with US Department of Education
- Schools do not have to deal with multiple lenders, servicers, and guarantors o Elimination of inconsistencies between lenders and lender response times to students
- Faster origination and disbursement compared to FFEL
- Funds not tied to individual students and loan types o School can determine which students and loan types to disburse

- Re-allocating funds from Subsidized to Unsubsidized loans is much easier ? This situation is caused by recalculation of eligibility due to enrollment changes or other aid coming later such as scholarships and stipends
- Direct Lending offers standard borrower benefits
- Income Contingent Repayment Plan is better than FFEL

At the same time, these campuses tended to deem some aspects of the FFEL program to be less desirable:

- Students and the university must deal with multiple lenders, servicers, third party systems for loan processing, guarantors
- Each entity wants to meet with university personnel (particularly those in financial aid) to promote their particular business/services to the school and its students
- The campus must initiate a Request for Information (RFI) to all lending partners in order to analyze services and benefits and determine if schools want to use them on their preferred lender lists
- University must adhere to "sunshine" provisions dealing with lending partners
- Students and the university must deal with multiple contacts with each entity to set up loan process o Guarantor flow, lender flow, school flow, etc.
- Campus must return funds to third party disbursing agent by Master Check for students rather than individual check for each student

During the 1990s and into early this decade, roughly half of the CSU campuses continued to participate in the FFEL program. Those that chose to do so were apt to find the following characteristics of the program appealing:

- Multiple lenders, servicers, guarantors leads to competition; schools and students have choices
- Traditionally, customer service was thought to be better than it is with Direct Lending (though less true in current financial environment)
- Lenders and guarantors offered more default prevention activities and services to schools and borrowers
- Lenders were able to choose to give better borrower benefits than Direct Lending (many have now stopped or drastically reduced given the current fiscal situation)

FFEL campuses also were likely to have the following concerns about the Direct Lending program:

- Single entity o The lack of competition could lead to complacency in addressing issues related to processing and customer service
- If there is a problem with a student record, must wait until Direct Lending Servicer fixes problem
- Political Uncertainty o In the mid to late 1990s, Congressional limitations on the percentage of institutions that could shift to Direct Lending kept many campuses from doing so
- Congressional debate and continuous attempts to eliminate the Direct Lending program raised concern about the future viability of the program

In 2008-09, 10 CSU campuses participated in Direct Lending. For 2009-10, 5 more CSU campuses have moved to Direct Lending, and the remaining 8 CSU campuses are in the process of moving to Direct Lending for 2010-2011.

Many of these campuses were considering changing to Direct Lending anyway, but events of the past few years have contributed significantly to this shift. First, changes to federal law through the budget reconciliation process that reduced FFEL lender margins over the last two Congresses have led to a decline in FFEL lender service and reliability and a reduction in borrower benefits. Second, our nation's financial crisis, which has hit the banking industry particularly hard, has raised significant concerns about the long-term viability of participating in FFEL. Third, previous institutional concerns about the future viability of the Direct Lending Program have been eliminated.

Stability and reliability in a campus's student loan program is tremendously important to our students and our institutions. Given this situation, coupled with the ready availability of a proven alternative in Direct Lending, beginning last year I strongly encouraged all of our remaining FFEL campuses to make the switch to Direct Lending.

Increases to Student Aid

Pell Grants Increases

The Pell Grant program continues to represent the foundation of federal student financial aid programs. As the most need-focused federal financial aid program, strengthening Pell is essential to closing the gap in college enrollment and completion that exists between low-income students and their more affluent peers. A continued commitment to the Pell Grant program, and to increases in the maximum

Pell Grant award, are essential to ensuring access for disadvantaged students. Across the CSU System, 124,000 students received $364 million in Pell Grant awards in academic year 2007-2008 (the last year for which data are available). The average CSU Pell Grant recipient receives $2,943 per year from the program, and Pell Grants account for 18 percent of the funds awarded to CSU students. The recently enacted American Recovery and Reinvestment Act includes a $619 increase in the size of the annual Pell Grant, raising the maximum grant to $5,350 in 2009-10. We estimate that this will result in over 128,000 of our most financially needy students receiving an additional $81 million in 2009-2010, bringing total Pell Grant funding received by our students to $445 million. CSU's long-standing financial aid policy will continue to require that increases in all federal and state grant programs reduce our students' loan indebtedness on a dollar-for-dollar basis. Approximately 30,000 Pell recipients received CSU bachelor's degrees in 2006-2007. On behalf of CSU students across California, I would like to thank the members of the Committee for that support. The CSU endorses continued efforts to increase this vital aid for students.

Effect of Increased Federal and State Grants on Loan Indebtedness for CSU Students

CSU's relative affordability, coupled with increases in the Federal Pell Grant and increases in CSU's grant programs, have enabled us to hold down the extent to which CSU students incur debt to finance their education. Over 57% of our baccalaureate recipients graduate from CSU without any debt, compared to the national average of 33%. Of the 43% of our baccalaureate degree recipients who assume student loans, the average debt is substantially below state and national averages: $14,013 for CSU graduates, $17,215 for all other students graduating in California, and $20,098 for students who graduate nationally. Keeping student loan indebtedness low for CSU students is a direct result of the commitment of Congress to increase funding for the Federal Pell Grant.

Furthermore, the CSU has taken an extra step in making this kind of financial information about student debt, lower-income student access, actual cost or "Net Tuition" available to students, families and taxpayers. The CSU has committed to providing data on student learning, student engagement, and enrollment and graduation as part of a national initiative called the Voluntary System of Accountability. Each of the 23 CSU campuses has developed a web-based page called the College Portrait that is designed to specifically communicate accountability data to the public. In addition, the CSU is going beyond the VSA College Portrait and has developed its own unique "public good" contributions page. Included in this page is campus specific information on total degrees awarded, the contribution of CSU students to the workforce, the number of Pell Grant recipients, average net tuition to attend a CSU and fees paid per student, as well as the average loan debt for CSU bachelor's degree recipients. A copy of the CSU Systemwide Public Good page is also available. For more information, see *http://www.calstate.edu/PA/news/2008/accountability.shtml.*

Concern about Year-Round Pell Implementation

The CSU is thankful to members of this Committee, and particularly to Chairman Miller and Ranking Member McKeon, for their inclusion of a year-round Pell Grant in the Higher Education Act. Year-round study enables students to complete their academic degree in less time than might otherwise be required. This reduces the amount of time that a student spends in school, saves the student money (and reduces borrowing), and permits more efficient use of campus facilities and resources at a time when those resources are being stretched due to increasing enrollments and tightening state budgets. Increasing enrollment demand will be a national trend for the foreseeable future, and we fully expect a number of institutions to utilize a year-round calendar as a resource management strategy. The CSU is concerned by reports that the Department of Education may be considering tightening the definition of students who are eligible for year-round Pell Grants by requiring them to have completed 24 hours of academic credit during an academic year to qualify for continuing Pell Grant funds during the following summer. As noted earlier, the average age of CSU undergraduates is twenty-four. In addition, seventy-five percent of our students work, and eighteen percent work full time. Consequently, many of our students are not in a position to enroll full-time each term. Requiring students to complete 24 hours of academic credit during an academic year to qualify for a year-round Pell Grant will disadvantage non-traditional students served by institutions like the CSU and the community colleges. We urge the committee to oppose such an interpretation if necessary.

Proposed Access and Completion Fund

The CSU notes that the Administration has proposed a new $500 million per year postsecondary "Access and Completion Fund." This proposal would provide grants to states and non-profit organizations to help underserved populations pursue and complete a postsecondary education. Funding would be mandatory, and funding would be on a competitive basis. The CSU is very supportive of this concept, and would like to offer its experience in developing this new program, should Congress decide to authorize it.

Access to and completion of a postsecondary education for low-income and underrepresented individuals is a primary purpose and function of the CSU. The CSU provides more than half of all undergraduate degrees granted to the state's Latino, African American and Native American students, and roughly one-half of CSU campuses are Hispanic-Serving Institutions (HSIs). Approximately 35 percent of CSU students are the first in their family to attend college. For Academic Year 2006-2007, 37 percent of CSU's undergraduate students were Pell Grant recipients. Currently, over 50 percent of CSU students (255,741) receive some financial aid.

In order to best serve these students and ensure that they have the tools to complete their education, the CSU has undertaken a number of initiatives. For example, the CSU encourages students from underserved populations to prepare early for and pursue college through initiatives such as its "Steps to College" poster, which describes for middle and high school students (grades 6-12) and their families the steps they need to take to prepare and apply for college and financial aid. More than 1 million copies of the award-winning poster in eight languages have been distributed to students throughout California and in many states throughout the country.

CSU is also working with churches in the Southern California (Los Angeles Basin) and the Bay Area (Oakland, San Francisco, San José, and Vallejo) that serve African American congregations in an effort to increase the pool of African American students, particularly males, to become eligible to attend a four year university. In February/March 2008, CSU held "Super Sundays" at 22 churches in Los Angeles, reaching over 57,800 people. In the Bay Area, CSU "Super Sunday" programs were held at 30 churches reaching over 29,285 people. CSU campus presidents, and members of the Board of Trustees and Board of Governors, are given the opportunity by the participating churches to speak about how to get to college as part of the church service. The participating campuses set up booths to distribute materials and answer any questions regarding college preparation, admittance, retention and graduation. CSU's "Steps to College" posters were distributed to over 29,000 parents, grandparents and students. This program has resulted in the identification of a contact person at every church who is dedicated to college knowledge and college preparation.

One of the most important tools the CSU has developed to reach high school students is the Early Assessment Program, known in California as simply the "EAP." CSU created this early assessment of college readiness program in collaboration with the California Department of Education and the State Board of Education. It provides 11th grade students a 'snapshot' of their mathematics and English/language arts proficiency. The test incorporates the CSU's placement standards into the California Standards Tests for English and math.

The EAP identifies students—before their senior year—who need to do additional work in English and/or mathematics prior to entering the CSU. The EAP informs students, families, and high schools of a student's readiness for college-level work in these subjects. Most importantly, it provides an opportunity for the high school to work with the students while they are enrolled in 12th grade to help them to master the requisite English and math skills expected of a graduating high school senior. The three key components of the EAP are: (1) early assessment in 11th grade in English and mathematics, (2) supplemental high school preparation in 12th grade, and (3) teacher professional development designed to equip high school English and mathematics teachers with the tools necessary to ensure student mastery of the content standards. Although the EAP is voluntary, last year almost 330,000 students took the EAP English test, and approximately 148,000 took the mathematics test.

The CSU is a major participant in the federal TRIO and GEAR UP programs, which provide low-income students the skills, encouragement, and academic preparation needed to enter and succeed in high school and postsecondary education through partnerships between schools, universities, the private sector, and community organizations. In academic year 2007-2008, the CSU received $6.8 million in TRIO funding to serve 56,500 students. Since 1999, the CSU has received $112 million in GEAR UP funds to serve 29 California schools and 12,144 students.

Finally, the California State University is developing a new "Center to Close the Achievement Gap," which will be a partnership between the business community

through California Business for Education Excellence (CBEE) and the CSU, and will transform preparation and performance of new teachers and administrators in participating CSU Colleges of Education across the state. Teachers and administrators graduating from participating campuses will have enhanced skills to: (1) significantly reduce achievement gaps in reading, writing and math; (2) prepare high school graduates with the skills to succeed at college level work; and (3) decrease college remediation rates while increasing degree completion rates.

The CSU and similar institutions are building the foundation to ensure that all Americans have the chance to pursue and complete a college education, and gain the skills they need to play a productive role in the economy of the future. As you consider this proposal, we hope that you will allow us to play a key role.

Access and Completion: A CSU Proposal for a New Kind of Institutional Aid

As this committee contemplates ways to improve educational attainment for lower-income and underrepresented students, I also urge you to consider a bold, new direction. In the early legislative history of what is now the Pell Grant program, Congress developed federal student aid grants to help economically disadvantaged students attend higher education institutions of their choice. In recognizing the educational disadvantage and substantially higher cost for educational services that accrue to the colleges and universities where many lower-income students enroll, the originally authorized Pell Grant or BEOG legislation envisioned direct institutional grants to colleges and universities that would accompany Pell Grant recipient students. These institutional grants were designed to provide the appropriate educational services necessary for these students to succeed and eventually graduate.

This original program, which was authorized in 1972 but never funded, was known as the "cost of education allowances" and was based on a similar concept advanced in the Elementary and Secondary Education Act (ESEA) in 1965, known as Title I. At the heart of this concept is the widely accepted premise that economically disadvantaged students cost more money to educate than students from wealthier backgrounds. Title I was created to provide supplemental federal funding to those elementary and secondary schools with above-average numbers of lower-income students. In 1972, the cost of education allowances program was authorized to achieve the same objective by providing supplemental resource support to colleges and universities in order to provide essential educational assistance to Pell Grant recipient students.

The time has come to resurrect this idea. This policy would provide a specific flat "capitation" institutional grant per lower-income student to every college and university that meets a minimal enrollment threshold of 20 percent. To ensure that these funds are properly devoted to student enrichment, this current proposal could be shaped to require that federal funds must be used to support campus-based academic and student service programs specifically designed to assist Pell Grant-eligible students. Such a program could also create important and much needed fiscal incentives for public and private institutions to not only enroll, but to retain and graduate more lower-income and lower-middle income students. Also, the amount of the federal flat grant award to institutions could be moderately increased or decreased, based on state support for higher education. This would provide an incentive for maintaining certain levels of public funding of higher education, similar to the non-supplanting provision found in Title I of ESEA. This additional maintenance of state effort provision could help better stabilize higher education funding, and thus better stabilize student tuition and fees as well. Developing new federal policies that encourage states to maintain their commitment to financing widespread access and completion in higher education is essential if our nation is to reverse the relative international decline that we have experienced over the last few decades. If we are going to improve our nation's achievements in higher education, America must invest in our most needy students, while also investing in those institutions that will serve them.

A more detailed discussion of this proposal is attached as Appendix A.

Conclusion

The CSU has long appreciated this committee's efforts to provide assistance to our neediest students. We welcome the opportunity to be a resource to you as you continue to explore ways to ensure access and success in higher education.

[Additional material submitted by Mr. Reed follows:]

Institutional Aid (Title I) and Higher Education:

How a New Administration Can Change Federal Policy for the Common Good

By CHARLES B. REED and F. KING ALEXANDER

In a February address to Congress, President Obama stated that by 2020 our nation would need to regain its prominence as the world's higher education leader if we are to enjoy the same kinds of economic success and stability that we have experienced during previous decades. This marked the first real admission by a U.S. president that we are no longer the global leader in higher education access and educational attainment. Furthermore, this statement indicates that we can no longer continue business as usual in the world of higher education policy, and that we must do more than simply argue at the federal level every two to four years about how much to increase Pell Grant maximum or the aggregate subsidized loan cap for undergraduates. This limited discourse has resulted in stagnant progress for our nation while much of the rest of the world has developed new and more innovative policies. For us to get back on track and reach President Obama's higher education objective by 2020, we need much higher levels of educational attainment for lower-income and underrepresented students.

Instead of promoting the same old arguments, we recommend a new direction—one that ironically has been excluded from federal policy dialogue for over 30 years—despite being an important component of the original Pell Grant or BEOG legislation in 1972.

In the early legislative history of what is now the Pell Grant program, Congress developed federal student aid grants to help economically disadvantaged students attend higher education institutions of their choice. In recognizing the educational disadvantage and substantially higher cost for educational services that accrue to the colleges and universities where many lower-income students enroll, the originally authorized Pell Grant or BEOG legislation envisioned direct institutional grants to colleges and universities that would accompany Pell Grant recipient students. These institutional grants were designed to provide the appropriate educational services necessary for these students to succeed and eventually graduate.

This original program, which was authorized in 1972 but never funded, was known as the "cost of education allowances" and was based on a similar concept advanced in the Elementary and Secondary Education Act (ESEA) in 1965 known as Title I. At the heart of this concept is the widely accepted premise that economically disadvantaged students cost more money to educate than students from wealthier backgrounds. Title I was created to provide supplemental federal funding to those elementary and secondary schools with above average numbers of lower-income students. In 1972, the cost of education allowances program was authorized to achieve the same objective by providing supplemental resource support to colleges and universities in order to provide essential educational assistance to Pell Grant recipient students.

The time has come to resurrect this idea. If we are going to change the way colleges and universities approach economically disadvantaged students, we need to provide actual federal funding for these "cost of education allowances." Currently, there are no fiscal incentives for colleges and universities to attract and graduate lower-income students. In fact, current federal direct student aid programs in their totality encourage colleges and universities to pursue more free market agendas by providing incentives for tuition-based financial strategies. This essentially means that higher cost institutions, both public and private, have disproportionately benefited from federal student aid funding due to the cost sensitivity embedded within the system. Additionally, by supporting tuition and fee-based strategies, the federal government has also allowed state legislatures to more readily opt out of their funding responsibilities resulting in continuous reductions in state tax support of public higher education. An indirect result of this existing system is that there are no incentives for lower cost institutions that serve the masses or states that strive to keep higher education affordable. One important, but unanticipated, outcome has been that as states increasingly withdraw their public support of public institutions, many universities have found other alternatives to educate more costly lower-income students, such as increasing out-of-state enrollments in exchange for less wealthy in-state students.

Also working against colleges and universities enrolling more lower-income students are current national ranking systems and the use of very simplistic institutional measurements by state authorities. Rankings such as the popular U.S. News & World Report indirectly encourage universities to reduce their lower-income student enrollments by rewarding higher graduation rates, admissions selectivity, and other variables that are aimed at promoting institutional prestige above common

purpose. This is just wrong. Many state authorities have also begun prioritizing very simplistic institutional measurements such as graduation rates without any regard for the aggregate numbers of graduates or the socioeconomic status of the students educated at the various institutions.

In light of the many fiscal and cost-related disincentives for enrolling more lower-income students, it should not come as a surprise that we continue to see four-year public and private universities decrease their commitments to larger numbers of lower-income students. In fact, from 1972 to 2006 the nation has witnessed an overall decline in Pell Grant-eligible students as a percentage of the total student population. At public universities, the drop was from 41 percent to 34 percent, and from nearly 22 percent to 14 percent on all private four-year college and university campuses. These significant declines have occurred despite the nearly $100 billion in federal direct student aid grants, subsidized loans, and tax assistance currently available. We think this becomes a civil rights question.

However, for the colleges and universities that have maintained their commitment to lower-income and economically disadvantaged students, which have primarily been state comprehensive universities like the California State University and community colleges, the fiscal disincentives remain problematic. Over the last 30 years, public comprehensive universities and community colleges have seen a substantial decline in fiscal competitiveness when compared with higher tuition public and private institutions. The irony, of course, is that those institutions that serve the broader public good are increasingly fiscally disadvantaged for maintaining these critical missions.

To attempt to change this ominous direction to focus on the new generation of students with the greatest educational needs, it is imperative that we revisit the "cost of education allowances" program and develop a federal Title I type program for higher education institutions. This policy would provide a specific flat "capitation" institutional grant per lower-income student to every college and university that meets a minimal enrollment threshold of 20 percent. To ensure that these funds are properly devoted to student enrichment, this current proposal could be shaped to require that federal funds must be used to support campus-based academic and student service programs specifically designed to assist Pell grant eligible students. Such a program could also create important and much needed fiscal incentives for public and private institutions to not only enroll, but to retain and graduate more lower-income and lower-middle income students. Also, the amount of the federal flat grant award to institutions could be moderately increased or decreased, based on state support for higher education. This would provide incentive for maintaining certain levels of public funding of higher education, similar to the non-supplanting provision found in Title I of ESEA. This additional maintenance of state effort provision could help better stabilize higher education funding, and thus better stabilize student tuition and fees as well.

This recommendation advanced by the California State University has earned support from numerous higher education economists and leaders, as well as from national organizations such as the American Association of State Colleges and Universities (AASCU) and in the College Board's recent report "Rethinking Student Aid" where a similar concept was advocated. Developing new federal policies that encourage states to maintain their commitment to finance widespread access and completion in higher education is essential if our nation is to reverse the relative international decline that we have experienced over the last few decades.

For nearly four decades, the federal government has prioritized an individualistic and market-oriented approach to funding higher education by simply putting resources in the hands of students. While this approach has been worthwhile, it has created a series of perverse fiscal and institutional incentives that could be remedied by the implementation of a new policy already authorized as part of the original 1972 legislative strategy. Creating financial incentives for institutions to remain committed or to recommit themselves to the public needs of society should be among the federal government's highest priorities.

If we are ever going to reach President Obama's goal of 2020, America is going to have to invest in our most needy students who are disproportionally students of color while also investing in those institutions that will serve them.

Charles B. Reed is chancellor of the California State University. F. King Alexander is president of California State University, Long Beach.

Chairman MILLER. Mr. Remondi.

STATEMENT OF JOHN F. REMONDI, VICE CHAIRMAN AND CHIEF FINANCIAL OFFICER, SALLIE MAE

Mr. REMONDI. Good morning, Chairman Miller, ranking member McKeon and members of the committee. My name is Jack Remondi, and I am the vice chairman and chief financial officer of Sallie Mae.

On behalf of Sallie Mae's 8,000 employees and the more than 20 million college savings and student loan customers, I thank you for the opportunity to testify on federal student loan reform and the opportunity to provide for increasing student aid.

The administration has made an important proposal to reform the federal student loan programs. At the outset, I want to underscore the significant agreement between Sallie Mae and the administration's objectives of reforming the federal student loan program and increased funding for Pell Grants.

Sallie Mae proposes to build on this model, with modifications that would preserve beneficial competition in the delivery of loans, create incentives to materially reduce defaults, and eliminate the risk of requiring more than 4,000 schools to convert to a new loan delivery process within the next 9 months.

We believe our suggestions would preserve the value added by loan originators, including state and nonprofit providers, help all students better manage their debt burden, and increase the savings available for the Pell Grant Program.

The President's proposal builds a solid foundation for a new federal student loan program by utilizing federal funding, establishing common loan terms and replacing the subsidy model with a fee for service model. We believe, however, that it could be made better.

Specifically, we recommend the following six enhancements. One, we would allow schools to choose the loan originator that works best for them and the students that they serve. We would introduce risk sharing so that all servicers have skin in the game and loan defaults are minimized.

We would allow originating lenders to retain servicing regardless of their size; and permit schools to choose their loan servicer. We would require the Department of Education to set origination fees via market mechanisms, to preserve a broad participation of originators, including state and nonprofit service providers.

And finally, we would require the Department of Education to fund default prevention initiatives, such as financial literacy programs and student counseling.

The benefits of these programs and these modifications are significant. Using the existing loan delivery infrastructure eliminates the risks and costs associated with the conversion of more than 4,000 schools to a loan origination platform that they did not choose.

After 16 years of FFEL and direct lending competing side-by-side, it is fair to say that schools have chosen the loan delivery system or process that works best for them and their students.

Great products and services result from consistent competition. Competition through the choice of loan providers and servicers will drive innovation and improvement in these programs. Mandating that all schools use a single loan originator will eliminate this competition and any incentives in innovation for improvement.

Today, loan originators add significant value beyond the delivery of funds. The new income-based repayment program or IBR is a great example of how competition adds value. IBR will help lower-income borrowers shrink their payments to a manageable portion of their income.

For students to benefit from this new tool, however, they need to be aware of it and know how to use it. To make sure this is the case, Sallie Mae has held school-based workshops on IBR since January, 6 months before the launch and has been asked by several direct lending schools to provide these same workshops for their students.

These efforts are an example of how competition creates enhanced services, because we compete, lenders, secondary markets and guarantee agencies are all incented to create value-added programs and services.

These initiatives are particularly valuable to schools and families with limited resources and some of the examples include financial literacy programs and tools like paying for college calculators and seminars, customized technology interfaces for schools, and outreach programs that help families understand, plan, and pay for college including customized programs for Hispanic, Latino and African American students and families.

A specific example is Sallie Mae's Education Investment Planner, a free tool that helps students and families save, plan and pay for college. I would also like to highlight the cost-saving aspects of our suggestions, some of which may not be captured by CBO models but are real nonetheless.

Our risk sharing proposal would generate substantial savings. A modest 10 percent reduction in default rates, only one-third of the 30 percent that Sallie Mae has actually achieved, would prevent more than $1 billion in loans from defaulting, sparing several hundred thousand students from the negative consequences of default.

A delay in the conversion of the more than 4,000 schools into the Department of Education's loan origination system would materially reduce the savings and could potentially disrupt student's access to loans. By allowing schools to use the origination platforms that work best for them, implementation is guaranteed and the savings would be realized.

Finally, using a market-based process for setting fees will insure the lowest cost to the taxpayer year-after-year. I hope I have been clear. Sallie Mae supports the administration's objectives in reforming the federal student loan programs in increased funding for Pell Grants.

We are not trying to preserve lender subsidies. We are offering recommendations that build on the foundation of the President's proposal, particularly the use of low-cost Treasury funding for all loans.

And with such changes, we and our competitors can guarantee the seamless delivery of student loans and meet the financial objectives of the administration, this committee, and America's students and families.

Thank you, and I would be pleased to answer any questions you may have.

[The statement of Mr. Remondi follows:]

Prepared Statement of Jack Remondi, Vice Chairman and Chief Financial Officer, Sallie Mae

Good morning Chairman Miller, Ranking Member McKeon and Members of the Committee. My name is Jack Remondi. I am the Vice Chairman and Chief Financial Officer of Sallie Mae. I am here on behalf of Sallie Mae's 8,000 employees, 1 million college savings plan customers and 10 million student loan customers, and I thank you for the opportunity to testify on federal student loan reform and the opportunities it provides for increasing student aid.

The student loan reform proposal in the President's FY 2010 budget outline continues an important discussion about improving access to postsecondary education, and as a saving-, planning- and paying-for-college company with a 37-year history of helping make higher education accessible and affordable for America's students, Sallie Mae is grateful for this opportunity to add our voice to the discussion.

Overview

First, I'd like to take a moment to introduce you to Sallie Mae. Since our creation in 1972, we have helped more than 21 million Americans pay for college. Through our Upromise affiliates, the company manages more than $17 billion in 529 college-savings plans for more than 1 million families, and is a major, private source of college funding contributions in America with 10 million members and more than $475 million in member rewards.

Sallie Mae is a shareholder-owned, for-profit business. We are proud to employ more than 8,000 workers in 17 states. As a participant in the Federal Family Education Loan Program (FFELP), Sallie Mae has raised billions in private sector capital to lend to students and parents to help them meet the cost of college. In the last decade alone, Sallie Mae has provided approximately $120 billion in federal student loans to students and parents.

At the outset, I want to underscore significant areas of agreement between Sallie Mae and the Administration. Sallie Mae fully supports the Administration's objectives of assuring stable funding of the federal student loan program while generating tens of billions of dollars in taxpayer savings that can be used to increase need-based grant aid for students, specifically to put the Pell Grant program on stable footing. Sallie Mae also supports the objective of achieving the most efficient and effective student lending infrastructure, which should preserve an important role for private student loan originators, including smaller, regional, state and non-profit providers.

Within this context, Sallie Mae proposes improvements to the Administration's outline that would meet these objectives, and do so in a manner that eliminates transition or implementation risk, and preserves beneficial competition in the delivery of service to schools and students.

Our objective is straightforward: construct a responsive, evolving student loan program that best meets the needs of students and schools, while delivering the best value to taxpayers. We propose using a competitive student loan delivery infrastructure to originate, service and collect student loans on behalf of the government, on a fee-for-service basis, using low-cost federal funding direct from the United States Treasury.

We believe that the best program for the long term is one that allows consumer choice and competition to drive efficiency, innovation and improvement. The Administration's proposal acknowledges the benefits of competition by reserving a role for competitively bid loan servicing and collections. Retaining these positive forces in the loan origination process as well will ensure that the individual needs of students and schools will continue to be met in the new program. By combining choice, competition and innovation with low-cost and stable direct government funding, we will have a system that serves the needs of students, schools, taxpayers, and the 35,000 people who work directly for student loan providers—all without risk of transition problems or unnecessary additional school expenditure.

And we do know for a fact that such a program would work, because it did this year.

Sallie Mae's ability to meet the growing demand for federal student loans today is due to the programs established by the Ensuring Continued Access to Student Loans Act (ECASLA). ECASLA, which is the direct result of the leadership and hard work of this Committee, authorized the programs that allow every student at every school to have access to student loans this year and next. In fact, unlike virtually every other consumer loan market, with or without government support, every eligible student or parent who sought a federal student loan got one. This is an amazing statistic in this economic climate. Sallie Mae is very proud of the role it played in making this happen.

The temporary ECASLA programs have done more than see students through this uncertain time; they have demonstrated a way forward.

The Administration's proposal and the ECASLA programs share the savings-generating component of federal ownership of student loan assets. The major difference is the process and timing of how and when the government owns the asset. Under ECASLA, lenders originate the loans and decide whether or not to sell them to the government. Under the Administration's proposal, the loans are originated by the government and owned by the government. Our suggested modification to the Administration's proposal authorizes lenders to originate the loans for the government, with government capital, on a fee-for-service basis—ending lender subsidies altogether.

Under this construct, as in the Administration's, the government, not the lender, enjoys the economic benefit of loan ownership from the beginning, so lender subsidies are eliminated. Under this construct, as under ECASLA, schools and students remain free to choose the loan origination process and service provider that works best for them.

The Administration's proposal, once a detailed version of it is officially evaluated by the Congressional Budget Office (CBO), will likely generate tens of billions of dollars in budget savings that can be used to pay for increasing Pell Grants. We agree that major budget savings should be a feature of loan reform. Modifying the Administration's proposal as we suggest will likewise generate tens of billions of dollars of budget savings for Pell Grants, in addition to other benefits that may not be fully captured within the budget-scoring model.

The Administration's proposal would end the politically set lender subsidy rates that have been the cause of so much contention. We support that outcome completely, and elimination of lender subsidies is a feature of the Administration's plan we would leave unchanged.

The Administration's proposal guarantees that loan capital always will be available and insulated from volatile capital markets. We, too, support a structure that achieves that result.

We enthusiastically support creation of a program that generates savings by capitalizing on low-cost federal funding—the heart of the Administration's proposal—and that offers students and schools the ability to choose the loan origination platform and processes that best meets their needs, fosters competition and shares risk to enhance the level of service, lowers costs for taxpayers and preserves 35,000 existing private sector jobs in the student loan industry.

Specific Enhancements and the Resulting Benefits

By utilizing federal funding, establishing common loan terms, and replacing a subsidy model with a fee-for-service model, the President's proposal builds a solid foundation for a new federal student loan program. We respectfully submit, however, that it could and should be made better to ensure it is even more accountable to students, schools and taxpayers. Specifically, we recommend the following key enhancements to the Administration's student lending reform proposal:

- Allow schools to choose the loan delivery platform and loan originator that works best for them, including the Department of Education's Direct Lending infrastructure;
- Introduce a new risk-sharing program that requires all student loan servicers to have "skin in the game" so loan defaults are minimized;
- Allow originating lenders the opportunity to retain servicing if they meet the Department's basic criteria (e.g., price, quality, financial controls, compliance, etc.), with no minimum thresholds for servicer size;
- Permit schools choosing the Direct Lending originations process, or those choosing private lenders who do not provide servicing, to choose a loan servicer from among the Department's servicing contractors;
- Require the Department to set origination fees via market mechanisms designed to preserve broad participation of originating lenders, including smaller, regional, state and non-profit lenders; and
- Require the Department to set parameters for other school-based and borrower-based default prevention initiatives—such as financial literacy programs and borrower counseling.

Avoidance of Implementation Risk

The Administration's proposal would require all schools to originate loans through a single, Department of Education-run platform. This would require more than 4,000 schools to convert from the platform of their choice.

Moving to a Direct Lending-only delivery system would quadruple the volume of loans delivered by the federal government within one year, and rely on one delivery "pipe" for some 6,000 schools and $90 billion in loans annually.

In contemplating such a drastic increase in volume, one should consider that in 2008, in the midst of unprecedented fears over the credit crisis, only about 400 schools converted to the Direct Lending delivery platform and actually made loans through the Direct Lending system. A wholesale move to the Direct Lending platform by July 1, 2010 would mean converting more than 10 times as many schools to the Direct Lending origination system than have ever converted in a single year. In fact, the July 1, 2010 date is misleading as most schools must start processing loans as early as February 2010, less than 9 months from now.

By maintaining a competitive delivery network, such as the one that currently serves 75 percent of colleges and universities, the risks associated with requiring thousands of schools to switch to the Direct Lending origination platform—potentially disrupted student access to loans and the consequent lost savings for Pell Grants—are removed completely.

Preservation of Choice for Students

Two years ago, Congress passed legislation requiring that schools participating in FFELP include at least three lenders on a preferred lender list. This requirement guarantees that borrowers have a choice of lender during the loan process, to say nothing of the fact that then and now borrowers have been free to choose any qualified lender, including their hometown bank or credit union. We know that competition and choice are good for consumers. Great products and services come from entities that have great competition. When customers can be lost through competition, the pressure to innovate and improve products and services is unrelenting.

Competition from Direct Lending forced private lenders to invest in and improve their loan delivery systems. Undoubtedly, competition from private lenders forced Direct Lending to invest in its loan delivery system. Mandating that every student at every school must use a single loan originator, irrespective of suitability, will eliminate any incentives for future investments in a loan delivery system. Monopolies, even governmental ones, are antithetical to high-quality service and innovation. Absent competition and investment in loan origination systems, it is unlikely that what works for students today will continue to work for them tomorrow.

Preservation of Choice for Schools

Since the inception of Direct Lending in 1993, schools have been free to convert to the Direct Lending program, and indeed many schools have. After peaking at 34 percent of volume in academic year 1998-99, the Direct Lending program now serves about 25 percent of colleges and universities. However, the fact that the Direct Lending origination platform works for some schools does not mean it will work for all of them. Schools utilizing the Direct Lending program tend to be larger schools, which are more comfortable dealing directly with a federal department and more adept at performing the required functions, such as reconciliation of funds and promissory note collection.

To illustrate this point, I note that 30 percent of public, 4-year colleges are in the Direct Lending program. Only 10 percent of community colleges, which have smaller student bodies, lower tuition, and smaller staffs, are in the Direct Lending program today. Requiring all schools to use the Direct Lending origination platform may pose significant and ongoing burdens on schools least able to absorb additional implementation, programming and staffing costs. With the changes to the Administration's plan that we propose, no school would be required to convert to the Direct Lending delivery system, but every school would retain the freedom they have today to convert if they choose.

No Additional Costs to Schools

By not requiring all schools to convert to Direct Lending, our proposal would save staff time and expense—sometimes ranging into the hundreds of thousands of dollars—that might otherwise be passed on to students or state taxpayers.

Risk Sharing in Loan Servicing

We believe that it is in everyone's interest to require all servicers to have "skin in the game" by sharing in the performance of every loan. Loans originated and serviced by Sallie Mae have a roughly 30 percent lower cohort default rate by school type compared with the Direct Lending Program. In fact, if Sallie Mae had been servicing the Direct Lending portfolio for borrowers entering repayment in 2005 and 2006, we estimate that we could have helped 15,000 borrowers avoid the consequences of default, and saved taxpayers $200 million in avoided defaults.

We attribute this superior performance to the fact that Sallie Mae has "skin the game" in the form of fees and costs we incur to originate loans and a three percent risk-sharing component that provides a strong incentive to reduce defaults. Direct Loans are serviced on a pure fee-for-service basis. To maintain the incentives that have driven superior default prevention results by Sallie Mae, we propose adding a three percent risk sharing arrangement to the servicing structure to create the incentives for all servicers to help borrowers avoid default and save taxpayer dollars. If this modification reduces defaults by only 10 percent, hundreds of thousands of students would avoid the increased fees, damaged credit, and obstacles to obtaining other credit, housing, and professional advancement that result from a default, while saving taxpayers billions of dollars.

Value-Added Services in Private Sector Loan Delivery

Loan originators add significant value to students and schools beyond the delivery of funds. It is important to preserve the role they play at 75 percent of the nation's colleges and universities. In evaluating any one benefit or service, it is important to remember that from the student's perspective, the act of paying for college is not a series of steps that begins with "origination" and ends with "servicing." For the student, the process begins with planning and saving for college, continues with debt counseling, applying for a loan, receiving the funds, graduating, managing the debt and paying the money back.

Student lenders bring expertise, insight and understanding to that entire borrowing lifecycle and know how to present the right information and options at the right time.

The upcoming launch of Income Based Repayment (IBR) illustrates this concept. IBR is a welcome, new, borrower-friendly repayment option Congress provided to student borrowers starting July 1 of this year. IBR will help lower-income borrowers lower their monthly payments to a manageable portion of their income.

This new benefit might be considered a "servicing" issue because it is technically a repayment option, but that would be a mistake. For students to benefit from this new tool, work needs to be done. Schools need to counsel their current students on this option before they leave campus. Future students need to learn about this option and what it means to them, and they need to have this information with them at application, during origination, and before going into repayment.

Sallie Mae began holding workshops and in-person school visits to discuss IBR in January—six months before it becomes available. Sallie Mae has been asked by several Direct Lending schools to provide these same briefings on how students can get the most of a new benefit, an example of how competition leads directly to enhanced services.

Starting in March, Sallie Mae began to identify students who are likely to benefit from the new program and started educating those individuals about it with targeted counseling. Sallie Mae has posted information and worksheets and employed an interactive presentation on our website to educate borrowers (*www.salliemae.com/ibr*). We have built, and will launch in early June, a robust payment calculator that allows borrowers to model whether IBR makes sense for them. In a non-competitive environment, these value-added services would exist only if specifically called for by contract terms.

In these economic times, it is more important than ever that the borrower benefits Congress builds into the federal student loan programs reach each eligible student. Student loan providers have the expertise, ability, and incentives to make that happen.

Other Examples of Loan Provider "Value-Added" Services

School-Specific Services: Private sector loan originators tailor loan delivery systems and support services to meet the needs of every school type, regardless of IT systems, staffing levels, special requirements or sophistication.

The real world of school financial aid is an often hectic environment with a seasonal crush of work at the beginning of the semester, serving students and families that are increasingly stressed by the weak economy. School financial aid offices range from one or two professionals to many dozens, and information systems range from name brand "enterprise" systems to those that are "home grown."

In delivering loans to 75 percent of schools, competitive private sector loan providers have adapted to the needs of many different types of schools, with many different types of administrative systems to get the job done. The result is that schools are better able to manage the seasonal crush of volume and students and families have the opportunity to get high-quality service, regardless of the institution they attend.

In addition to providing customized technology interfaces, private sector loan providers also offer schools extensive technical and program policy support. For example, Sallie Mae's dedicated school loan delivery services team provides comprehensive technical and process training to institutions and responds to approximately 750,000 school questions and requests for support every year at more than 4,000 institutions.

In contrast, a single origination platform would be a "one size fits all" approach. This may work for some schools, but it is not tested to address the tremendous diversity of administrative and technology environments and support needs represented by the school community as a whole.

Front End Default Prevention Programs: Many loan originators and guarantors provide end-to-end debt management and default reduction programs that begin with education before students take out their first loan, and continue through successful repayment. Today, guarantee agencies also provide a variety of debt education and debt management programs, which further strengthens the quality of outreach at the "front end" of the lending process.

Other Value-Added Programs and Services: Because they compete for business, private sector lenders, secondary markets and guaranty agencies are incented to provide a variety of "value added" programs and services that directly support the needs of students and families, and strengthen the ability of schools to serve students and families. These initiatives are particularly valuable to schools and families with limited resources. Examples include:

- Financial literacy programs and tools (e.g., paying for college calculators, paying for college seminars, information on maintaining good credit). Sallie Mae's Education Investment Planner is a recent example of this. The Education Investment Planner is a free tool for students and families to show them that with planning, knowledge, and smart decisions, a college education is within their reach. It also provides families with the information they need to make knowledgeable decisions about which school is right for them. The Planner is available at *www.salliemae.com/content/landing/planner/eip.*
- Access programs (e.g., scholarship search tools, customized outreach programs—about college planning and funding—for Hispanic/Latino and African American students and families); and
- Tools to help schools counsel borrowers on changing regulations and repayment options.

Innovation: Competition among loan providers and between the FFEL and the Direct Lending programs has made each program better over the years. Competition has driven investment and innovation in more automated and streamlined disbursement processes, and in web sites, brochures, and other materials that explain the myriad of financial aid options to students and families.

Competition creates a culture of accountability for customer satisfaction. Removing incentives to innovation and accountability for customer satisfaction will result in a complex, nearly $100 billion per year lending program that will be left with just one model, prescribed completely by government specifications, with no choice for schools or borrowers to "vote with their feet" if their needs are not being met.

Preservation of Jobs

In passing the budget resolution last month, this Congress clearly expressed a preference for moving forward in a way that minimizes job losses in this difficult economic time. It is worth reiterating that most of the savings of the Administration's proposal and the structure we recommend are driven by government ownership of student loan assets, not from the intentional elimination of good private sector jobs.

Further, we believe that the job-preserving policy option, in which the existing structure is utilized, is the more promising, more efficient, less risky course of action, even if concern for jobs is taken out of the equation.

Additional Benefits to Taxpayers (and Financial Aid Recipients)

I want to highlight that some additional benefits of the structure we are proposing may or may not be captured by the Congressional Budget Office's assumptions. Nonetheless, these benefits will bring value to the taxpayer and possibly generate additional resources for student aid. They are:

- Savings from Lower Defaults: The value of the lower defaults we expect to generate by introducing the risk-sharing component is substantial. Even assuming a modest reduction of 10 percent from current default rates (e.g., 13.5 percent vs. 15 percent lifetime default rate), taxpayers would collect on more than $1 billion per year in loans that would have otherwise defaulted.

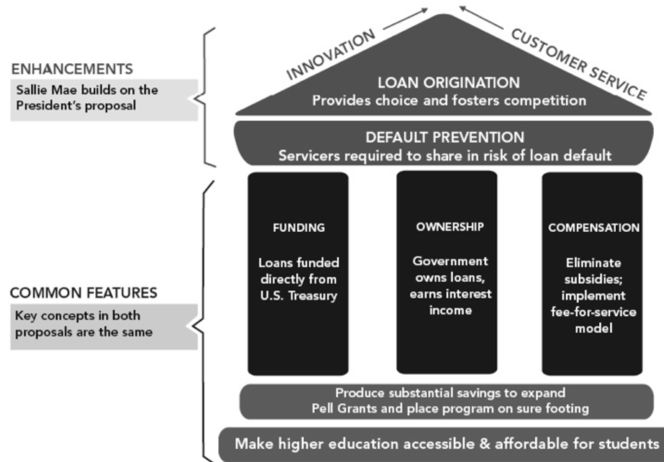
• Savings from Immediate Implementation: Much of the savings assumed by CBO occur in the first years of implementation. This means that any delay in the conversion of more than 4,000 schools to the Direct Lending program would have severe consequences to the estimated savings of the Administration's proposal. By using the existing FFEL loan delivery infrastructure, there is no risk of a delay in program implementation, and the savings are realized immediately.

• Savings from Competitive Fee Setting: We recommend that after two years of operating the new program with a set fee, a market-based process be used to drive further efficiencies into the program, saving taxpayers yet more.

Conclusion

In conclusion, Sallie Mae supports the Administration's objectives of reforming the federal student loan programs and increasing funding for Pell Grants. We are not trying to preserve lender subsidies, nor are we trying to preserve the FFEL program as we know it. We are offering recommendations that build from the foundation of the President's proposal, to make that proposal even better, and to guarantee that it seamlessly delivers the shared objectives of the Administration, this Committee, and America's students and families.

Thank you. I would be pleased to answer any questions you may have.



Chairman MILLER. Thank you.

Ms. Griswold?

STATEMENT OF ANNA M. GRISWOLD, ASSISTANT VICE PRESIDENT FOR UNDERGRADUATE EDUCATION AND EXECUTIVE DIRECTOR FOR STUDENT AID, PENNSYLVANIA STATE UNIVERSITY

Ms. GRISWOLD. Good morning, Mr. Chairman and ranking member McKeon and members of the committee. My name is Anna Griswold, and I am the assistant vice president and executive director for student aid at Penn State University. Thank you for the opportunity to be here today to talk about Penn State's experience converting to the Direct Loan Program this past year.

Penn State University is a large, public, multi-campus research university enrolling just over 90,000 undergraduate, graduate, medical and law students at 23 campuses. Seventy-three percent of our students receive some form of financial aid. Twenty-three percent of our undergraduates receive Pell Grants. About one-third of

our undergraduates are first generation college students for their families.

The federal student loans represent over 50 percent of our student aid funding. Last year, more than 46,000 Penn State students borrowed $466 million in federal loans to help pay their education costs.

Last year's turmoil in the financial markets threatened to destabilize both the federal student loans and our efforts to maintain an efficient and student-friendly loan delivery model in the FFEL program.

As lenders across the country began to terminate or suspend their participation, this quickly became cause for alarm among our students and parents that relied heavily on Stafford Loans. To allay their concerns, we needed to act quickly and decisively to assure students that they would be able to get their loans.

In our case, some 38,000 current student borrowers were with a single lender that announced it would have to suspend making loans last year. Given the uncertainty about future lender participation and the new restrictions that limit schools' use of preferred lenders, we knew this would be a challenge for our students.

So, Direct Loans was really the logical solution for us. In March 2008, Penn State began implementing the Direct Loan Program. A core team of 10 to 12 existing staff from several Penn State offices started the conversion, linking our system to the department's common origination and disbursement system, one already familiar to us for processing Pell Grants.

We also developed a communication plan to inform students and parents of the change in how they would secure their loans and the steps that they would need to take. Students readily accepted this change.

Our existing staff did all the work. We did not hire additional staff to convert to direct lending and the cost to convert was within normal budgetary costs required for any new student aid program implantation that comes along.

Our circumstances were quite unique last year. First, as I mentioned, there was a need to move quickly when we learned in February that our primary lender would no longer be serving our students for the coming year. We needed to move quickly and to convert to direct lending by July.

We have one of the largest student loan volumes in the country, a homegrown computing environment, and our own programmers to run our student aid system. We do not use vendor-supported software.

Most schools will not face these same circumstances and would not require the same resources that we used. Smaller schools with fewer resources will likely be able to convert to Direct Loans without too much trouble, especially if they have vendor-supported student aid systems or if they use the department's EDExpress software.

Ample lead time may be necessary for most and is always something welcomed by aid administrators. It is testimony though to the streamlined nature of the Direct Loan process, the single point of contact model it represents, that we were able to convert fairly

quickly. It helps that Direct Loans uses the same COD system that schools use for Pell.

We had excellent technical support from the Department of Education's Direct Loan and COD staff. Our first Direct Loan disbursements went very smoothly. Our bursar's office reports great satisfaction with the disbursement and reconciliation functions, having reconciled summer 2008 loans in 4 months ahead of the required deadline.

The cash draw down system, already familiar to us as well with other student aid programs, has greatly improved cash flow at Penn State. Our frontline staff reports that this program is very simple to explain to students.

Staff feel more in control of advising them about the status of their loans and my written statement contains a number of comments from staff about their experience with Direct Loans.

In summary, we believe that by entering the Direct Loan Program, we have shielded our students from uncertainty in the financial markets and we have gained greater efficiency in processing student loans.

The state of the economy makes adequate student aid funding an even more important consideration for students and their families in deciding if college enrollment is possible. We encourage Congress to take whatever measures possible to increase appropriations in the Pell Grant Program as we all work toward insuring college access and affordability for students from low and moderate income families.

I would be happy to answer any questions.

[The statement of Ms. Griswold follows:]

Prepared Statement of Anna M. Griswold, Assistant Vice President for Undergraduate Education, Executive Director Office of Student Aid, the Pennsylvania State University

Good morning Mr. Chairman and members of the Committee. My name is Anna Griswold and I am the Assistant Vice President and Executive Director of Student Aid at the Pennsylvania State University. Penn State is a large public, multi-campus, research university enrolling just over 90,000 undergraduate, graduate, medical and law students at 23 campuses. Over 60,000, or 73%, of our students receive some form of financial aid, including 23% of undergraduates receiving Pell Grants. About one-third of our undergraduates are the first generation in their families to attend college. Increased funding and simplifying and improving student aid programs and systems are matters of great importance at Penn State. The entire university is committed to maintaining a student-centered focus in all areas of service to students.

The federal student and parent loans represent over 50 percent of all our student aid funding. Last year, more than 46,000 Penn State students borrowed $466 million in federal loans to help pay their education costs. However, last year's turmoil in the financial markets together with changes in federal regulations affecting school use of preferred lenders threatened to destabilize both the federal student loans and the efforts of our student aid office to maintain an efficient and student-friendly loan delivery model in the Federal Family Education Loan (FFEL) Program.

As lenders across the country began to terminate or suspend participation in the FFEL Program, this quickly became a cause for alarm for students and parents that relied heavily on both the Stafford student loan and Federal PLUS/Parent Loan. To allay the concern of our students and their families, we needed to act quickly and decisively to reassure them that they would still be able to find federal student and parent loans to help pay their costs. We turned to the Federal Direct Loan Program. We had 38,000 current student borrowers using a single non-profit lender with whom we had worked for years and who had provided loans to our students, a lender that, unfortunately, had to suspend making loans last year. All these students were in need of locating another lender. Given the uncertainty about future lender

participation, and the new restrictions that limit schools on advising students about lender selection, we felt we had few tools with which to guide our students. Direct Loans offered a logical alternative to the FFEL Program in light of our circumstances.

I would like to add that for about a decade, with the majority of our students selecting the Pennsylvania Higher Education Assistance Agency (PHEAA) as their lender, we were able to build compatible systems between Penn State and PHEAA to better facilitate the data exchange between us for processing of student loans. This certainly served students and our institution well. By trying to use a single lender, we had replicated most of the Direct Loan model within the FFEL Program, with the exception of cash draw down and return of funds. However, students choosing lenders outside this process required different handling depending on the lender, guarantor or servicer. Having had a good experience in FFEL as long as the majority of our students used PHEAA, we are pleased that Direct Lending is designed as a single lender program. That, and the added features of cash draw down and return of funds further enhanced the model we previously had in place for processing student loans.

In March, 2008, Penn State announced it would enter the Federal Direct Loan program. This offered several benefits to students including access to a secure source of funds, elimination of the need to find a new lender on their own, and providing a more efficient, single point of contact to transact their loans. In addition, Direct Loans would provide better loan repayment and loan forgiveness options.

In early March we identified a core team of 10 to 12 existing staff from Administrative Information Systems, the Bursar's Office, and the Student Aid Office and began the work of developing new automated systems and processes between the U.S. Department of Education's Common Origination and Disbursement (COD) system and Penn State's homegrown integrated student information system. Other staff in these offices also participated in supporting roles during the period of implementation. For example, in addition to the technical programming work, we executed an extensive communication plan to ensure that students and parents understood the changes in how they would now secure their loans and the steps they would need to take. We heard little resistance to this change and students reported on the ease of signing their electronic master promissory notes on the Department of Education's Direct Loan website.

Our existing staff did all the work; we did not hire additional staff to convert to direct lending and the cost to convert was within normal budgetary costs required for any adjustments that schools must make when regulations change. The work was not unlike implementing other new student aid programs such as ACG, SMART and Teach Grants in recent years. In some respects those programs presented greater challenges. During Direct Loan implementation, we were also implementing changes due to the increase in student borrowing limits and we were implementing new automation and the use of Commonline for alternative loan processing. When new programs are enacted into law or new regulations are passed, preparing systems to administer those programs is simply a part of the normal work of student aid offices. These types of changes do take extra time and effort. However, it is important to keep in mind Penn State's unique circumstance last year: 1) the need to move quickly to convert to Direct Lending (four months), 2) our loan volume and the large number of students across 23 campuses that we needed to inform ($466M and 46K borrowers), and 3) the fact that we have a homegrown computing environment and use our own computer programmers (no vendor supported software) to run our student aid program. Most schools will not face these circumstances and would not require the same resources.

With adequate lead time, even most of the smaller schools will likely find converting to Direct Loans a manageable process, especially for those with vendor supported student aid software. I think most schools have such software. One smaller institution in Pennsylvania with whom I spoke began the conversion this January and is now ready to submit their first direct loan records to COD. They have vendor supported software and indicate that they were able to incorporate implementation tasks into the normal operational activity of their office. Since resources do vary across institutions I am certain that the Department of Education will be ready to offer assistance where needed for schools that may need help and, the Department's ED Express software works very well for schools with smaller loan volumes.

It is testimony to the streamlined nature of the direct loan process and the single point of contact model it represents, that we were able to convert fairly quickly. Like most schools, we were already familiar with the COD system used for Pell Grant processing. Direct Loans uses this same system. We had excellent technical support from the Department of Education's Direct Loan and COD staff. Ideally, an institution would benefit from having a year's lead time to implement this program. But

many schools that I am aware of have done so in less than a year. We often implement program changes with less time. Our first Direct Loan disbursements in summer of 2008 and the larger volume disbursed for the fall and spring semesters went very smoothly.

Our Bursar's Office, with whom we partnered closely during the implementation, manages the loan disbursements, adjustments, cash drawdowns (G5), and reconciliation function. They indicated that the reconciliation in FFEL was not a required formal monthly process but was to match receipts with postings to students' accounts on a daily basis. Now, under direct lending, we formally reconcile monthly and this task takes about a few hours a month to perform. This adds greatly to program accountability. For summer 2008, we completed reconciliation four months ahead of the deadline. Other time savings with Direct Loans comes with the return of funds which are simply netted out of the cash drawdown. This compares to actual return of funds to the lender as required in the FFEL Program. Cash drawdown in direct lending takes us two days from origination of the loan to receipt of funds by the University. This is a one day improvement over the FFEL Program and represents a significant improvement in cash flow.

In summary, we believe that by entering the Direct Loan Program, we have shielded our students from the impact of turmoil in the financial markets.

The state of the economy will make the availability of student aid funding even more important considerations for families in choosing a college or in determining whether they can even send their children to college in the coming years. Returning adult students face this same challenge. We continue to work hard to advocate in the best interest of our students for increased funding in the federal and state student aid programs. We encourage Congress to take whatever measures possible to increase appropriations in the Pell Grant program as we all work toward ensuring access and affordability of higher education for students from low and moderate income families.

I would be happy to address any questions you may have. Thank you.

Comments from Staff about Penn State's first year in the Direct Loan Program

As you know student lending has become very complicated and needs to be simplified. One loan from one lender seems to fit well. I can attest to this first hand because I have just spent the last week helping my graduating medical students sort out their loans, servicers and repayment options. It has been exhausting for all parties.

Whenever a student makes an entry error in the system, an incorrect social security number or birth date, we can now easily fix the error on-line while we are talking with the student. Then we know that we can tell the student exactly when their funds will be available to them.

We feel more in control of the process. The COD system is easy and quick to review and determine the status of a student's loan. We feel empowered to resolve problems for students quickly and efficiently. There is no need to call another agency to make the correction or to explain the student's problem.

The students like it when they call with a question about their loan or when they need to change the amount of their loan and find out that we can help them without their needing to contact another entity. We can work on their behalf. It's easier for us and saves time for the student.

The change to direct lending was the right decision at the right time for our office and our students.

Direct lending gives schools the authority to be immediately responsive to the needs of its students without "middle-men", time delayed transactions.

To reconcile multi-million dollar transactions to the PENNY raises the bar on accountability to unprecedented levels, unmatched in the FFEL Program.

When several of the law school's preferred lenders quit lending last year, I was so grateful that we went into direct lending. I was not so sure at first because our lenders did a good job for our students. But direct loans provided an immediate solution and a less complicated and labor-intensive process.

Parents of Penn State students with children at other colleges that are not Direct Loan schools often comment that they wish getting the loan we as easy at the other school as it is here at Penn State.

Time for Change and Value Added Opportunities

Pennsylvania schools and students have benefited for decades from the services of the Pennsylvania Higher Education Assistance Agency in its role as the State Grant Agency and the Guaranty Agency. Agencies such as PHEAA certainly have a role to play in the Direct Loan Program, many with infrastructures and systems already in place to facilitate servicing. In addition, PHEAA and other agencies can

offer value added services within the Direct Loan Program should Congress so chose to deploy them to accomplish new goals and objectives for federal student aid. Many offer financial literacy programs within their states or regions, debt management tools and college outreach programs to encourage access to and planning for college. Congress should consider this opportunity to blend the strengths of the Direct Loan Program with the strengths of higher education agencies for servicing and value added program delivery.

Chairman MILLER. Thank you.
Mr. Drouin.

STATEMENT OF RENÉ DROUIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW HAMPSHIRE HIGHER EDUCATION ASSISTANCE FOUNDATION

Mr. DROUIN. Chairman Miller, Mr. McKeon, and members of the committee, thank you for inviting me here today to testify. I also want to personally and professionally thank Congresswoman Shea-Porter for her dedication to higher education. For the record, I am Rene Drouin, and I am president and CEO of the nonprofit New Hampshire Higher Education Assistance Foundation NHHEAF network organizations.

It is an honor to participate in this discussion on behalf of the students and parents that we serve and on behalf of the organization's dedicated and talented staff of over 200 New Hampshire residents.

I have been asked to describe ideas for loan reform which increase student aid through cost-saving, make federal loan funding more reliable, and preserve the best aspects of the existing FFEL program and DL programs.

I have dedicated 30 years of my life to making higher education more accessible through my work with the FFEL program. Still, I see clearly that the student aid program is in need of transformation. However, to suggest that the federal government or its big contractor located outside the state of New Hampshire could do a better job of supporting New Hampshire college students, their schools and their communities, is unimaginable.

Under NHHEAF's proposal, a student completes the master promissory note from the designated local provider. That would be NHHEAF in the state of New Hampshire. All post-secondary schools would utilize the department's current systems to administer all federal aid, common origination disbursement system, COGS and G5 Web site.

Once the loan is approved through COGS, NHHEAF would disburse the funds to the school. Both technologies were built with taxpayers dollars and should be used to administer this new loan program.

The biggest advantage for schools should be, with these systems, includes managing payments and data across multiple programs. From the loan perspective, it would provide a uniform way for agencies and schools to share information for more efficient processing and, more importantly, default diversion practices.

The credit crisis has made it clear that the federal student loan program would benefit from changes which ensure the availability of funding from the Treasury. NHHEAF would then participate each loan 15 days after the initial disbursement and then put the

loan or sell the loan to the department after 120 days of final disbursement.

The key is that NHHEAF continues to support schools and students with entrance and exit counseling, financial literacy programs and local compliance expertise. This leaves one loan program with standard terms, conditions and administration.

It simplifies the process of students and schools while ensuring funding for the program and guaranteeing excellence in borrower education in compliance while the student is in school.

Loans in periods of grace or repayment are then serviced by the originating private lender in line with the department's servicing and pricing standards. This creates life of loan servicing, which we credit in New Hampshire to our achievement of continuously low default rate. This drives service excellence with pay-for-performance pricing which will result in savings to the department and innovation in servicing.

Moreover, it utilizes existing infrastructure and knowledge at the state and nonprofit agencies and supports borrowers from application through final payment. This is critical to successful default prevention. The most recent draft cohort default rate for NHHEAF is only 3.1 percent while the national default rate is 6.9 percent.

It has been said that going to 100 percent DL puts the taxpayer's interest first. But the reality is that in every category of loan FFEL default rates are lower than DL's. We need a plan that allows students to enjoy higher level of service and effective default programs offered by FFEL agencies.

Our reputation has been built on personalized service to students. Our greatest strength is by far the dedicated New Hampshire-based employees who provide borrowers in repayment with expertise throughout the life of their loan.

There already exists the infrastructure to provide the K through 12 outreach, entrance and exit counseling, compliance for schools and community outreach program. Under the new budget proposal, no small nonprofit agency will qualify to service the Direct Loans, only the big players.

I wholeheartedly believe that smaller, well-managed agencies can be most-effective because they are nimble and can respond to rapidly changing national priorities and local realities.

Finally, this model allows agencies like ours to continue the commitment to creating a college going culture locally. President Obama has passionately expressed that expanding college access and success is a national priority. New Hampshire is well prepared to actualize this vision.

In fact, increasing college aspirations has been NHHEAF's highest goal. We provide programs throughout the educational continuum for all populations of students, foster youth, adult learner, dislocated worker, rural student, and grad students.

So the report that going 100 percent DL would help students, not lenders, simply does not apply to nonprofit loan providers. In New Hampshire, we serve 30,000 individuals each year with direct, personal service.

This plan incorporates the best aspects of DL Web-based administrative tools and reliable funding. This plan also incorporates the best aspects of FFEL, expert default prevention practices, personal-

ized and local service and commitment to creating a college going culture locally.

The FFEL program has provided education funding to millions of Americans since its inception. I ask you to carefully consider the significance of eliminating FFEL nonprofit organizations like NHHEAF and instead choose to imagine a loan program that upholds the best aspects of the public, non-for-profit, private partnerships which in so many ways has worked so very well for so very long. Thank you.

[The statement of Mr. Drouin follows:]

Prepared Statement of René A. Drouin, President and CEO, the NHHEAF Network Organizations

Chairman Miller and Members of the Committee: For the record, I am René A. Drouin, a resident of New Hampshire and the President and CEO representing the nonprofit New Hampshire Higher Education Assistance Foundation (NHHEAF) Network Organizations. The Organizations are comprised of four 501(c)(3) nonprofit agencies that provide students and families with the resources and funding to pursue higher education aspirations. Funds generated by the Organizations make its charitable mission possible as student loan earnings are reinvested in programs and services that benefit citizens of New Hampshire.

It is an honor to participate in these discussions on behalf of the students and parents we serve and on behalf of the Organizations' dedicated and talented staff of over 200 New Hampshire residents.

I have been asked to describe ideas for loan reform which: increase student aid through cost saving, make federal loan funding more reliable and preserve the best aspects of the existing Federal Family Education Loan (FFEL) and Direct Loan (DL) programs.

I began my career at NHHEAF in 1978 managing its default claims. I experienced first-hand the value that a local nonprofit agency can have on the repayment of federal loans. I have served as Chair of the National Council of Higher Education Loan Programs where I came to appreciate the importance of dedicated people and infrastructure in every region to serve students and parents. And, as a two-term member of the Advisory Committee on Student Financial Assistance, I have been actively involved in advocating for financial aid policy which increases opportunities for low-income students. I have dedicated 30 years of my life to making higher education more accessible through my work with the FFEL program. Still, I see clearly, that the student aid program is in need of transformation. However, to suggest, as the President's 2010 budget proposal does, that the federal government, or its big contractor located outside of New Hampshire, could do a better job of supporting NH college students, their schools and their parents is unimaginable. So, the NHHEAF Network Organizations has developed the following conceptual loan program in response.

Proposed Loan Flow & Rationale

Under NHHEAF's proposal, the following occurs:

1. A student completes the Master Promissory Note (MPN) from the designated local provider (For discussion, in New Hampshire NHHEAF would be a designated provider.)

2. All postsecondary schools would utilize the Department's current systems to administer all federal aid—Common Origination & Disbursement System (CODS) and G5 Website. Once the loan is approved through CODS, NHHEAF would disburse funds to the school. Both technologies were built with taxpayer dollars and should be used to administer this new loan program. The biggest advantage for schools with these systems includes managing payments and data across multiple programs. From the loan perspective, it would provide a uniform way for agencies and schools to share information for more efficient processing and default aversion practices.

3. The credit crisis has made it clear that the federal student loan program would benefit from changes which ensure the availability of funding from Treasury. By leveraging federal funding, NHHEAF then participates the loan within 15 days of initial disbursement to the Department and sells or "puts" the loan within 120 days of final disbursement. The key is that NHHEAF continues to support schools and students with entrance and exit counseling, financial literacy programs and local compliance expertise. And, the Department holds the asset—keeping the interest

from the loans it already subsidizes resulting in cost savings to fund increases in Pell and other aid programs. This leaves one loan program with standard terms, conditions and administration. It simplifies the process for students and schools, while ensuring funding for the program and guaranteeing excellence in borrower education and compliance while the student is in school.

4. Loans (in periods of grace or repayment) are then serviced by the originating private lender (in line with the Department's servicing and pricing standards). This creates "life-of-loan" servicing (which we credit with our achievement of continuously low default rates.) This drives service excellence with pay for performance pricing which will result in savings to the Department and innovation in servicing. Moreover, it utilizes existing infrastructure and knowledge at the state and non-profit agencies, and supports borrowers from application through final payment. This is critical to successful default prevention. The most recent draft cohort default rate for NHHEAF is only 3.1%, while the national default rate is 6.9%. It has been said that going 100% DL puts the taxpayers' interests first. But, the reality is that in every category of loan, FFEL default rates are lower than DL's. We need a plan that allows students to enjoy high levels of service and effective default prevention programs offered by FFEL agencies. Our reputation has been built on personalized service for students. And, our greatest strength is, by far, the dedicated New Hampshire-based employees who provide borrowers in repayment with expertise throughout the life of their loan. There are 40,000 FFEL staff nationally. There already exists the infrastructure to provide the K-12 outreach, entrance and exit loan counseling, compliance for schools and community support. Under the new budget proposal, no small agency will qualify to service the Direct Loans but the big players. I wholeheartedly believe that smaller, well-managed agencies can be most effective because they are nimble and can respond rapidly to changing national priorities and local realities.

Finally, this model allows agencies like ours to continue the commitment to creating a college-going culture locally. President Obama has passionately expressed that expanding college access and success is a national priority. New Hampshire is well prepared to actualize this vision. In fact, increasing college aspirations has been NHHEAF's highest goal. We provide programs throughout the educational continuum for all populations of student: foster youth, adult learner, dislocated worker, rural student, grad student. So, the retort that going 100% DL would "help students, not lenders" simply does not apply to nonprofit loan providers. In New Hampshire, we serve 30,000 individuals each year with direct service. And, ninety-three percent of the public high schools rely upon our programs and materials. When asked last year to describe how our agency has impacted his students, a very well-respected and experienced guidance director replied, "NHHEAF is the best thing to happen to higher education since I started teaching in 1978."

This plan incorporates the best aspects of DL: web-based administrative tools and reliable funding. This plan also incorporates the best aspects of FFEL: expert default prevention practices, personalized and local service and commitment to creating a college-going culture locally.

A proposal like this could fundamentally change the way student loans are provided while simplifying and enhancing that which already exists. The FFEL Program has provided education funding to millions of Americans since its inception. As the Committee compares options, I ask you to carefully consider the significance of eliminating FFEL completely and, instead, to choose to imagine a loan program that upholds the best aspects of the public private partnership which in so many ways has worked so very well for so very long.

Considerations in the Development of the Proposal Included:

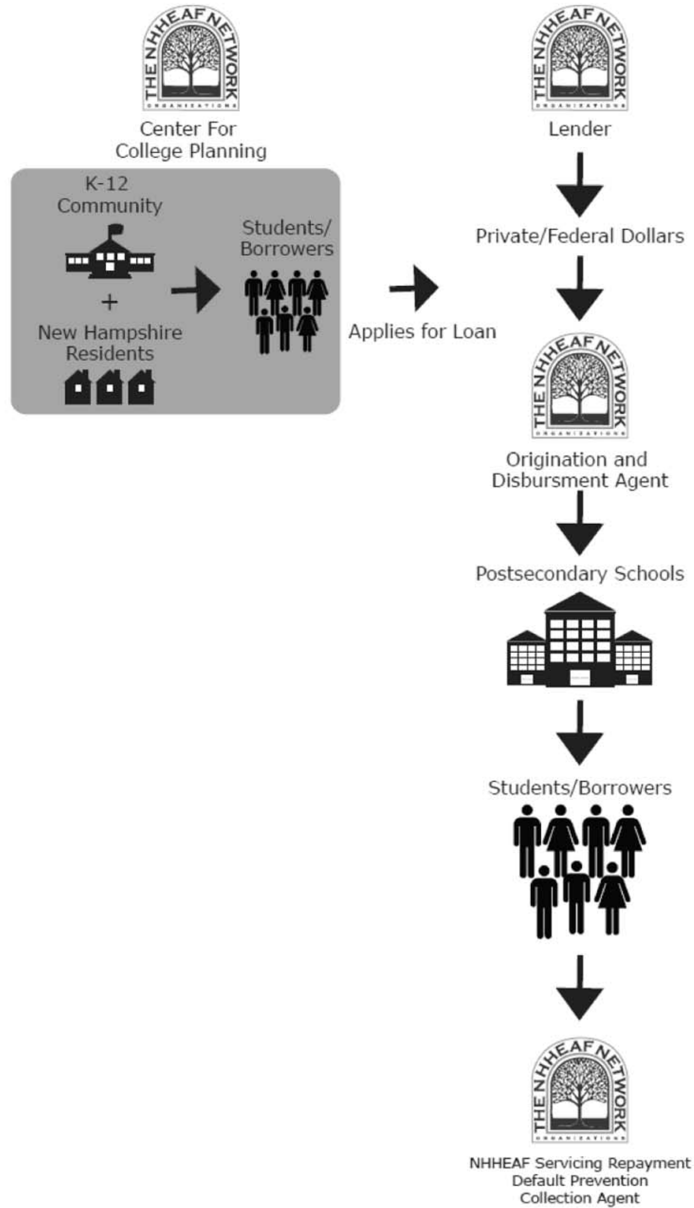
- Preserve local nonprofit agencies' ability to facilitate college access and successful student loan repayment
- One common loan program for simplicity and standardization
- Access to federal agency COD system by non-profit participants
- Funding advantage with combination of public/private funding combining bridge funding and restructured participation and "put" funding
- Support budget savings goals while maintaining competition and choice by preserving the best aspects of the FFELP & DL system
- Pay for performance incentives to ensure default prevention and customer service excellence
- Restructure guaranty agency role to focus on default prevention and financial literacy

Features

- Hybrid Private/Federal Funding—Private Loan Bridge Funding, Participation to ED within 15 days of disbursement, "put" to ED within 120 days of final disbursement.
- Participate direct to ED—no custodian
- Ability to participate daily
- Eliminate Lender Fee
- No SAP or Interest Subsidy
- Loan Terms—One loan program providing standard terms and conditions with two loan channels, direct and private.
- Lender provides short term funding and loan origination customer service support
- Servicing—Meet student/borrower needs by allowing existing nonprofit student lenders to choose a loan servicing provider in line with ED's servicing and pricing standard criteria.
- Guarantor restructuring to focus on default prevention activities for successful borrower repayment—pay for performance pricing.
- Monthly pre-claim letters during delinquency—a series of eight auto-generated preclaim letters sent monthly to delinquent borrowers.
- "Don't Default" Literature Mailing—outlines borrower options save prevent student loan default.
- Handwritten "Quick Memo"—requests borrowers to contact us to assist them in preventing default.
- Late Stage Delinquency—persistent contact attempts via phone, email, and mail to borrowers and references
- Extensive Skip Tracing—to locate both borrowers and references, including the use of Internet tools.
- Borrower contact for education and assistance, focusing on life circumstances, completion of paperwork, and follow up to ensure the borrower completes the appropriate steps in order to prevent default.

Benefits

- Supports cost savings to the President's budget
- Strengthens default prevention programs through performance based pricing
- Provides stability, simplicity, and competition to benefit schools and borrowers
- Preserves best practices in the industry to support default prevention efforts, customer service excellence, and low cohort default rates
- Local support to schools and borrowers
  - Minimizes local job loss
  - Drives innovation, efficiency, and service excellence through competition performance based criteria



Chairman MILLER. Thank you.
Mr. Chapman.

STATEMENT OF CHRISTOPHER CHAPMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ACCESS GROUP

Mr. CHAPMAN. Thank you, Mr. Chairman, ranking member McKeon, and members of the committee. My name is Chris Chapman, and I am the president and chief executive officer of Access Group, Incorporated, a national, nonprofit, student loan provider and loan servicer.

Access Group was formed in 1983 and we currently originate more than $1 billion of FFELP loans annually and hold more than $6 billion of FFELP loans in our portfolio, making us one of the top 10 lenders nationwide.

Access Group is mission-based. As I said, we are a not-for-profit entity and mission-based, you know, implies more than making loans with low rates and good terms and excellent service.

As you have heard today from some of the other members of the panel, there is much more that goes along with making loans that relate to outreach services, education services for schools, students, and parents. These are done all in support of our programs, and as a nonprofit who does student loans, nothing else, it is all that we do.

Again, as I said this isn't unique to Access Group, certainly within the nonprofit arena. The more than three dozen nonprofit entities that currently operate all across the country and in many, many states perform these services and they, as Mr. Drouin mentioned, are adapted to local realities.

In my career as I have had the opportunity to work in a number of entities in different geographic locations, the role we played has been very localized and very adaptive to the circumstances and the problems not only of the geography but of the time.

I would also like to thank this committee and Congress for moving swiftly on ECASLA last year. The crisis that hit the financial world did not spare anyone including student lenders. Due to quick action and the quick implementation by the Department of Education and lenders getting together, no student was left without a loan or no student was materially disrupted in the timing of that loan last year.

We also thank you for the extension into the 2009–2010 academic year and we think this year will be even smoother.

What I would like to focus my testimony on primarily is what is called phase two of the ECASLA which is the asset-backed commercial paper conduit that has just been implemented and gone into effect within the past few weeks.

As you may know the conduit is utilizing the federal liquidity out of the federal financing bank coupled with a program from the Department of Education to finance loans made under the Federal Family Education Loan program.

The whole idea of the conduit is it is structured to utilize private capital in the program and not have to have federal government borrower $1 or utilize one Treasury dollar in order to fund the program.

Though it has only been up a few weeks this is an extremely positive path. By June 4th about $10 billion will be funded in the program. The program is executed at pricing levels well within ex-

pectations and at levels which are very similar to those prior to the credit crisis.

What this proves is that student loans can be financed in the private markets, even in today's environment. Given the right circumstances, which in this case includes potentially a federal back top, ensuring investors that if they need to get out of their investment they can, which in a credit crunch, during a credit crisis, is the crux of the problem.

We are here to encourage continuation of the ECASLA principles as a means of going forward and funding the student loan programs under FFELP. The reason we say that is we believe keeping private capital in the program ensures continuing a diversity of providers, a diversity of origination systems, and diversity of servicers which will retain choice, competition, and the superior service that FFELP has provided for 40 years.

Now I admit that as the conduit sits today it is not nirvana for everyone. There are some issues that need to be worked out with the conduit to ensure broader participation but they are certainly workable within the current structure and at no cost to the government.

I want to conclude by emphasizing that there aren't just two choices here. There is not a choice of 100 percent direct lending or the status quo. You have heard a number of options that have come along the table as we have moved on here.

I encourage the committee to look at them closely and I encourage you to retain the option that ensures the choice, competition, flexibility and superior service remain in the FFELP program for years to come. Thank you.

[The statement of Mr. Chapman follows:]

Prepared Statement of Chris Chapman, President and CEO, Access Group, Inc.

Mr. Chairman, Ranking Member McKeon, and members of the Committee, my name is Chris Chapman and I am the President and CEO of Access Group, a Delaware-based, national nonprofit student loan provider. During my career, I worked for several other nonprofit student loan entities—immediately prior to my current position, I served as President and Chief Executive Officer of ALL Student Loan Corporation, a nonprofit loan provider based in Los Angeles, California. I might also note that my career began as a staff member for a long-time House Democrat from Ohio named Tom Luken. Thank you for inviting me to come before you today and for holding a hearing to discuss the issue of student loan reform.

Access Group is a nonprofit student loan provider with over 25 years experience specializing in federal financial aid and graduate and professional student loans. Student loans are our only business. We originate more than $1 billion of FFELP loans annually and currently hold more than $6 billion of FFELP loans. Moreover to support and maximize our charitable mission to enhance access to higher education, we conduct outreach and educational programs that support students, parents, school administrators and other interested constituencies. Our in-person sessions that range from information about financing an education, to understanding and maintaining your credit score, to life after graduation, are supported by a panoply of free educational material, available online and in print.

It may sound cliché that as a nonprofit entity we are free to focus on “stakeholders” rather than “shareholders”. But it's true. Furthermore, as a board member of the Education Finance Council—the national trade group for nonprofit student loan providers—I can tell you that this outlook and sense of mission is broadly shared by the three dozen nonprofit student lenders based in states all across our Nation. These entities have historically and consistently channeled loan revenue back into the program in the form of discounted student loan rates, origination fee waivers, and the implementation of college outreach and access efforts. This is because the question that each of their management teams and boards of directors

must face every day is "how do we help more Americans achieve their higher education dreams?" rather than "how do we maximize shareholder return?" This is not a value judgment, and should not be interpreted as an indictment of for-profit entities—but, rather, it should be construed as the core basis for the distinction and importance of nonprofit loan providers in supporting the policy goals of a strong and diverse student loan program.

I think I speak for all FFELP lenders in expressing thanks to this committee for drafting last spring the Ensuring Continued Access to Student Loans (ECASLA) legislation that has maintained the ability of all eligible students to get a FFELP loan during the 2008-09 academic year—and for extending the legislation through the upcoming 2009-10 academic year. Access Group has financed more than $800 million of new FFELP loans for the 2008-09 academic year through the participation interest facility created by the Department of Education under the ECASLA authority. We are also among the first issuers to finance student loans through the student loan asset-backed commercial paper conduit, also created under ECASLA.

I intend to focus in my testimony today on the commercial paper conduit facility, and its potential implications for the future of student loan finance.

As mentioned earlier, just last week, Access Group became one of the initial lenders to issue commercial paper backed by loans financed through the conduit. $1 billion in commercial paper was issued on May 11, of which $250 million was backed by Access Group loans. This successful funding was the culmination of months of shared effort put forth by members of the last Administration, members of the current Administration, and a number of private-sector entities

I was a member of the initial conduit advisory board, which was created when the conduit was first being structured late last year, and I have continued as one of the five members of the advisory committee overseeing the implementation of the facility. I feel there are lessons to be learned from this effort that suggest a positive path forward for federal student lending and a way to keep private capital involved in the federal student loan program. This path could enable the Administration, the Congress and student loan providers to achieve the widely-shared objective of making available increased private funding for federal student aid at no additional budgetary cost. And it would simultaneously allow for the retention of the key virtues of the current FFELP, such as the maintenance of a diverse array of originators, servicers and financers of federal student loans, and the choice, competition, flexibility and service that only such diversity can deliver.

As you are aware, ECASLA was enacted to address an environment in which the yield on FFELP loans was set at an all time-low and the financing costs had reached unprecedented highs due to the broad-based seizure of the credit markets. Student loans played no part in the creation of the financial crisis, but the capital markets effectively shut down, leaving lenders unable to finance new loans beyond already committed capital.

Based on its initial performance, it appears that the conduit has been successfully structured to persuade investors to purchase student loan assets at yields similar to those that existed prior to the severe credit market downturn. This indicates that is possible to finance new FFELP originations—even at the existing low statutory yield and the current extremely abnormal capital market environment—so long as there is federal liquidity support involved.

Of course, no discussion of federal student loan policy and the associated programs that support a given policy is complete without considering their budgetary impact.

Direct lending scores large federal budget savings because—at least the way the program is scored—it allows the loans to be financed at Treasury bond rates. For instance, the Office of Management and Budget assumes that direct loans originated in Fiscal Year 2010 will be financed by Treasury notes yielding a weighted average of 2.8-percent. The most common borrower rate on these loans will be 6.8 percent, creating a 400-basis point spread for the Government. This works as long as long-term Treasury borrowing rates remain low—and as long as scorekeepers continue to omit consideration of the increased government-wide economic cost of that additional Treasury borrowing on the scale required to directly finance all federally-backed loans will bring. The Analytical Perspectives volume of the budget projects Government federal direct loan accounts (the largest of which is the direct student loan program) to grow from nearly $200 billion in 2008 to $1.6 Trillion in 2019. Presumably, most of this $1.4 Trillion increase in the loan-backed public debt is attributable to the projected expansion of the direct student loan program.

The conduit also can reduce program cost by leveraging Treasury support, but in this case the support comes not from leveraging Treasury borrowing directly, but rather from leveraging the Treasury's liquidity strength. The advantage of using only the liquidity support is that it would prevent the necessity of borrowing rough-

ly $100 billion a year to finance all new student loan originations. Under the conduit—or any other liquidity "backstop"—the Government only needs to actually step in and finance loans when the conduit is unable to refinance maturing commercial paper—an event made extremely unlikely even in financial crises due to the existence of the backstop itself. This allows for a reduction in student loan financing costs that would simultaneously produce revenue to the Government. In short, the Administration's recommendation of leveraging Treasury support could be implemented in a manner that also leverages private capital.

On May 7, the Administration released its detailed FY 2010 Budget Appendix, which shows that student loans subject to the various ECASLA programs created by the Department of Education are projected to perform at a level much better than the "budget neutrality" required by ECASLA. Rather, they are projected to generate more than $8 billion in income for the Treasury. The conduit alone is projected in the budget to generate $1.4 billion in net revenue from $25 billion in student loan volume—even after including life of loan administrative expenses. This revenue is generally from fee income, since participants pay 25 bps as a fixed liquidity fee and 5 bps (escalating to 25 bps over time as a fixed put fee. The actual savings could increase significantly beyond this projected total, as demand for the program increases and investors accept lower yields as more comfort with the program is achieved. This is because the Government captures 80-percent of the benefit if the financing cost sets below a specified target rate. So there is a significant additional upside potential to the Government, but virtually no downside. There is little downside because the expected conduit revenue included in the budget numbers is essentially fully collateralized fee income, which makes it more predictable and reliable than projected savings from the direct loan program—which are highly dependent on future interest rate projections.

To illustrate the peril in projecting future interest rates, we need only to look to past student loan program projections. Indeed, according to the re-estimate chart in the President's Budget Appendix the actual cost of the $250 billion in direct loans disbursed since the program was created is nearly 20 times higher than original estimates—$11.7 billion, rather than $600 million. Another way of looking at this is that direct loans when issued were scored as costing a fifth of a penny per dollar loaned out, but those same loans are now projected to cost close to five cents per dollar loaned. FFELP loans, in contrast, cumulatively cost $12.5 billion less than original projections. If this pattern were to hold going forward, the actual savings from a transition to 100-percent Treasury-financed student lending would save only a fraction of what scorekeepers currently project.

In sum, the most recent budgetary data demonstrates that policy makers have a range of options available and considerations to take into account in pursuing the objective of increasing student aid spending through student loan reform.

I will point out that the conduit as it stands is not financing nirvana for every student loan provider—especially nonprofit providers. While Access Group and several other nonprofit providers are able to utilize the facility effectively, its one-size-fits-all nature necessarily limits its accessibility for many. But this need not be the case going forward. More portable and flexible versions of the conduit could be created, operating under the same fundamental principle of federal liquidity support, provided in order to make possible low-cost capital for financing student loans, with lenders paying a fee(s) that generates revenue for the Government.

Along these lines, it is worth noting that the House Financial Services Committee majority just last week posted on its website draft legislation—the "Municipal Market Liquidity Enhancement Act of 2009"—authorizing the Federal Reserve to establish new, federally-supported liquidity facilities for the financing of certain municipal securities. That bill seems to clearly envision an array of liquidity facilities that need not conform to one specific format.

There obviously needs to be some exploration of potential facilities, and how they could be best structured to encourage lender participation while generating projected budgetary revenue. The practical example of the existing student loan conduit, however, provides a useful new precedent that gives policymakers actual experience and data with which to work.

Federal fiscal considerations aside, the bottom line consideration should be that, from the borrower and school standpoint, there is tremendous value in a system that enables a diverse array of student loan providers to continue to finance, originate and service federal student loans in a manner that maintains the long-standing, productive partnerships forged over time. Avoiding the massive job displacement and loss of experienced borrower support personnel that would arise from an uprooting of these partnerships should be a goal of any student loan reform effort.

Students have benefited from having their choice of student loan provider and from all of the services provided by the FFELP community. I urge the committee

to explore the use of federal liquidity support structures as an avenue for creating savings for student aid that preserves the best elements of the current student loan program.

Chairman MILLER. Thank you.
Mr. Vedder?

STATEMENT OF RICHARD VEDDER, PROFESSOR OF ECONOMICS, OHIO UNIVERSITY

Mr. VEDDER. Thank you, Chairman Miller. Belated happy birthday by the way and——

Chairman MILLER. Thank you.

Mr. VEDDER [continuing]. Mr. McKeon, you will be joining the Medicare generation in another year and be part of the——

Chairman MILLER. Thank you for your opening remarks. [Laughter.]

Mr. VEDDER. I have three points I want to make today. First, the law of unintended consequences has led to outcomes far different than intended as Federal Student Assistance has expanded over time.

Proposed additional expansions will likely not have the intended effects on student participation, access and equality of educational opportunities. Second, the proposal to end the FFEL program and replace it with direct federal student lending will have negative consequences on students, it is fiscal madness and the alleged financial benefits to the federal government are likely illusionary.

Third, the proposal to sharply expand the Pell Grant Program and make it an entitlement is likewise fiscally irresponsible and potentially might add to already inflated college costs.

Turning to the first point, the rate of increase in educational attainment in the United States slowed significantly beginning in the mid 1970s. From the mid 1950s to the mid 1970s, before Pell Grants and large federal student loans programs higher education enrollments almost quadrupled.

The era of exploding federal financial assistance has paralleled a significant slowdown in enrollment growth. The notion that federal financial aid has promoted college access to the United States is a myth not a reality.

Expanding these programs will not promote higher access. Moreover, the era of greater federal aid is a period of declining equality of educational opportunities. When Chairman Miller completed his higher education in 1972, I have been reading up on you, before the Pell Grant Program, persons from the top quartile in the income distribution had about six times as likely a probability of earning a bachelor's degree by age 24 as by persons in the bottom quartile.

Today the upper income student has eight times the probability of getting the degree.

Regarding the second point it is highly debatable whether an expanded direct student loan program will reduce federal budgeted outlays. CBO scoring appears to have ignored Direct Loan administrative costs and not scored the corporate income tax revenue loss in student loan firms.

Moreover, people prefer choices to monopolies. FedEx, UPS, and email are booming while the federal postal monopoly wanes. Col-

leges have largely shunned the direct lending program because of the additional choices in services offered by private providers. As a financial aid person put it in an email to me yesterday, "the direct lending program is more like an ATM machine, with very limited much needed personal contact with students."

Private providers are not earning monopoly profits from federal subsidies, as recent exits from the industry and falling stock prices that loan providers indicate. Moreover, federal financing of student loans increases federal government borrowing precisely when we are recklessly expanding public debt and expansion is foisting a large burden on future generations of Americans.

This is not only fiscally irresponsible but immoral. The powerful are foisting burdens on young persons who are weak all in the name of frankly political expediency. Regarding the last point, as previously indicated empirical evidence quests whether the Pell Grant Program effectively promotes equal educational opportunities.

Moreover, the present value of the funded, unfunded liabilities of federal entitlement programs now exceed $50 trillion for the entire value of the physical capital stock of this nation. It is the height of irresponsibility to add to that liability; rather you should be working to reduce it.

Finally, significantly expanding total federal student aid as proposed almost certainly will contribute to the tuition price bubble that is one factor in the slowdown in the growth in college participation.

When someone else pays the bills, costs rise, and statutory moves to stop this will simply lead to denied student access, reductions in academic quality, and/or more bloated university bureaucracies. Thank you very much, Mr. Chairman.

[The statement of Mr. Vedder follows:]

Prepared Statement of Richard Vedder, Director, Center of College Afforability and Productivity; Distinguished Professor of Economics, Ohio University; Adjunct Scholar, American Enterprise Institute

Chairman Miller and members of the committee. I appreciate the opportunity to be here. I have testified on several occasions before this committee and appreciate the opportunity to appear again today.

I have three points I wish to make. In addition to this statement, my views are more elaborately outlined in the attached study on federal student financial assistance prepared by my colleague at the Center for College Affordability and Productivity, Andrew Gillen.

First, the law of unintended consequences has led to higher education outcomes far different than intended as federal student assistance has expanded over the past 35 years. For example, I think it is hard to demonstrate that enhanced federal assistance has either significantly expanded college participation or brought about much greater access to higher education by those who are financially disadvantaged. In their totality, federal programs have contributed to the "tuition bubble" that has been an unfortunate feature of American higher education. The proposed additional expansions contemplated will likely not have the intended effects on student participation, access and equality of educational opportunity.

Second, the proposal to end the Federal Family Education Loan (FFEL) program and replace it with direct federal student lending will have negative consequences on students quite independent of the alleged financial consequences to the federal government. People like to have choices, and private loan providers do not follow the one-size-fits-all model implicit in the federal direct loan program. I understand that there is some dispute on the potential savings arising from a budgetary perspective to going to direct loans, and I suspect the true savings are in fact exagger-

ated, but even if that is not the case, the move away from diversity in provider offerings is a step backward.

Third, the proposal to sharply expand the Pell Grant program by making it an entitlement offered to far more students than presently, with larger sized grants, is fiscally irresponsible. It may even be a potential factor in raising college costs, statutory provisions to control costs notwithstanding.

Turning to the first point, in their latest book Harvard professors Claudia Goldin and Lawrence Katz argue that the rate of increase in educational attainment in the United States slowed significantly beginning in the mid 1970s.[1] Speaking of the twentieth century, Goldin and Katz assert that "during the first three quarters of the century educational attainment rose rapidly, but during the last quarter of the century, it stagnated."[2] It is not entirely a coincidence, I think, that the major federal grant program, Pell Grants, and, even more importantly, federal student loans, began around 1975.

From the mid 1950s to the mid 1970s, higher education enrollments almost quadrupled, before Pell Grants existed and before federal student loans were large and universally available. Tuition tax credits were decades away during this era of huge enrollment growth. The era of exploding federal financial assistance has paralleled a significant slowdown in enrollment growth. From 1955 to 1975, enrollments grew at a compounded annual rate approaching 7.5 percent a year.[3] From 1975 to 2007, enrollments rose under 1.6 percent a year, not dramatically more than population growth. In the one-third of a century since 1975, when Pell Grants were just getting underway, enrollment growth has far less than doubled, at a time that the American population has grown well over 40 percent. America has fallen behind a double digit number of nations in the proportion of young adults with bachelor's degrees. The notion that federal financial aid has promoted college access in the United States is more a myth than a factual reality. Large expansion of these programs will almost certainly not promote higher access; this is particularly true of the student loan programs which are quantitatively larger in importance than Pell Grants, which have some possibility to have positive access attributes.

Now I am aware that other things are occurring in this era as well. Changes in income, the cost of college, the college-high school earnings differential, and changing state appropriations for colleges are a few variables that are relevant. Many of them, however, changed in ways that should increase enrollment. The point I am trying to make here is not that rising federal aid reduced the growth in participation itself, but rather that it is not correct to say that federal loan and grant programs have dramatically improved educational attainment in the U.S.—if anything, the evidence suggests the impact of the programs likely has been to lower, not raise participation.

Why might that be? Most importantly, student aid potentially has increased the demand for higher education far more than it has increased supply, raising the price of colleges to students. If the price increases are substantial—as indeed they have been—it is possible that the enrollment reducing effects of higher federal student financial aid has more than offset the enrollment enhancement effects arising from lowering net effective prices to the student arising from student aid. If sticker prices have risen more than tuition discounting, counting federal aid as a form of that discounting, it is easy to arrive at a solution where the total college participation effect of student aid is negative.[4] To be sure, this is a simple generalization, and Pell Grants have probably had significantly different effects than student loans and tuition tax credits, but in aggregate the federal programs have almost certainly pushed the cost of higher education upwards.

Moreover, the era of greater federal aid is a period of declining equality of educational opportunity. When Chairman Miller completed his higher education, 1972, before a single Pell Grant had been awarded, persons from the top quartile of the income distribution had about six times as likely a probability of earning a bachelor's degree by age 24 as persons in the bottom quartile. Today, the upper income student has nearly eight times the probability of getting a degree. See the enclosed graph prepared by Matthew Denhart, showing the trends over time in this factor;

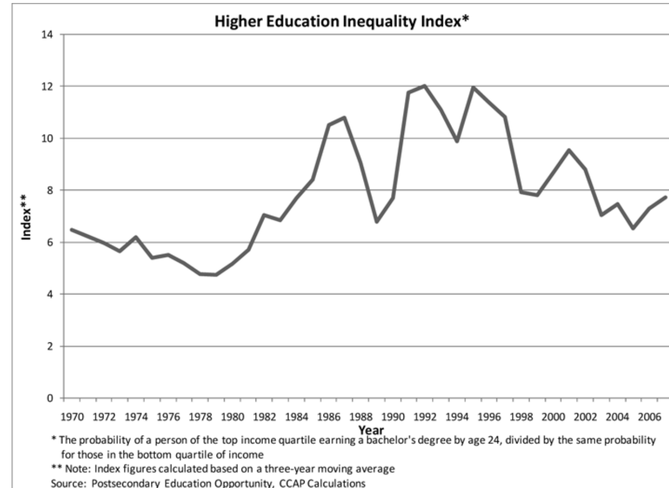
[1] Claudia Goldin and Lawrence Katz, The Race Between Education and Technology (Cambridge, MA: Harvard University Press, 2008).

[2] Goldin and Katz, p. 22.

[3] This and subsequent statistics, unless otherwise indicated, are derived from various issues of the National Center for Education Statistics, Digest of Education Statistics.

[4] This discussion barely scratches the surface of this issue. For more, see Richard Vedder, Going Broke By Degree: Why College Costs Too Much (Washington, D.C.: AEI Press, 2004), or Andrew Gillen, Financial Aid in Theory and Practice (Washington, D.C.: Center for College Affordability and Productivity, April 2009).

although there has been modest improvement in recent years, inequality is greater today than it was when the Pell Grant program began in the mid-1970s.



Part of the explanation for this trend relates to non-aid related factors, such as the fact that some schools have deliberately restricted supply, especially for marginally achieving students, many of whom are low income, as part of an academic arms race where colleges try to gain prestige in published rankings that depend in part on the quality of students admitted and the proportion of students denied admission. But part no doubt relates to the fact that student loan programs have become very much a phenomenon utilized by comparatively affluent students who come from families with incomes exceeding the national median.

Department of Education data affirm this. For example, take Stafford loans. For dependent students from families of less than $20,000 income, 47.2 percent received Stafford loans in 2007-08, about the same percent (45.1 percent) as for students from families with over $80,000 income, a figure well above the median family income. Over 35 percent of students from families with over $100,000 income received such loans.[5]

The President has spoken about his goal of dramatically expanding college participation. This is not the forum to discuss whether than goal is either practically reasonable or desirable. However, I can say that I very much doubt that the totality of the proposed legislative changes with respect to student aid will substantially further either the president's goal with respect to participation or with respect to equalizing educational opportunities among Americans.

Regarding the second point, it may be true that the direct student loan program will reduce the budgeted outlays of the federal government, but even the extent to which that is true I believe is open to debate. For example, with expanded lending occurring in a deep recession environment, can one predict with any accuracy student loan default rates? As the ratio of debts to starting postgraduate incomes rise, will not default on loans become a bigger issue? Indeed, are we perhaps setting some students up to fail, luring marginally qualified students to college, only to have them not succeed in graduating, but nonetheless incurring large debts?

But I want to emphasize a different point. Our government is one of the people, by the people, and for the people. And the people prefer choices to monopoly. We rejoice that technology has robbed the Post Office of much of its monopoly power, and reduced our reliance on unreliable delivery and long lines to buy stamps. Similarly, we find it far more pleasant to buy insurance for a new car from competitive insurance agents and companies than buying license plates for the car from the monopolistic Bureau of Motor Vehicles. Colleges have rightly mostly shunned the direct lending program because of the additional choices and services offered by private providers. To win business, the private providers have to please the customer, an incentive totally lacking if the government is the only major game in town. Are private providers earning monopoly profits from federal subsidies? Hardly, if recent

[5] National Center for Education Statistics, 2007-08 National Postsecondary Student Aid Study (NPSAS:08) (Washington, D.C.: U.S. Department of Education, April 2009), p. 9.

exits from the industry and the stock prices of loan providers are valid indicators of profitability, as I think they are. I would note that in the past year, the price of Sallie Mae stock has plunged 71 percent, the Student Loan Corporation stock has fallen 62 percent, and that of Nelnet by 38 percent.[6] The loss in wealth to stockholders, including pension funds, in these companies, in addition to the potential unemployment of workers, is another reason you should give pause before endorsing the Obama Administration proposals, the testimony of Sallie Mae notwithstanding. Have some private providers engaged in dubious ethical or outright illegal practices in consort with universities? Probably, and they should be punished severely, perhaps by being forced to attend and write summaries of 100 congressional hearings, or some other form of near torture. But we should not deny students the opportunity to choose amongst multiple options because of a few ethically challenged individuals or institutions.

Moreover, any federal financing of student loans requires additional borrowing from a government that has engaged in extraordinarily reckless long term expansions in its own debt, an expansion that foists a large burden on future generations of Americans. The Congressional Budget Office tells us we will have nine trillion dollars in deficits over the next decade, which on average is more than $100,000 debt for each family of four. To me, this is not only fiscally irresponsible, but downright immoral, since powerful persons, namely Congress and the Administration, are foisting burdens on young persons who adults should be protecting rather than harming—all in the name of short term political expediency. I am a patriotic American who loves our representative democracy, but with a heavy heart I must say, "shame on you."

Moreover, the present value of the unfunded liabilities of federal entitlement programs now well exceeds 50 trillion dollars, or the entire value of the physical capital stock of this nation. Most of this is the Medicare and Social Security entitlement programs. It is the height of irresponsibility to add to that liability; rather, you should be working to whittle it down, for example, by reforming Social Security.

Let me also reiterate that the empirical evidence is unclear in my judgment whether the Pell Grant program is an effective means of promoting equal educational opportunity. My colleague Andrew Gillen has shown beautifully how Pell Grants can have positive enrollment effects without severe effects on tuition costs, but there is some empirical evidence to the contrary, and the historical evidence does not make one confident that Pell Grants have powerfully promoted equal economic opportunity given rising higher education inequality. Proposed revisions in the Perkins loan program are harder to interpret owing to a lack of detailed explanations, but both my colleague Dr. Gillen and I suspect that the proposals will serve to raise tuition costs.

Also, a significant expansion in federal aid programs, especially student loans, almost certainly will contribute to the tuition price explosion. When someone else is paying the bills, costs always rise, and all sorts of clever regulatory moves to stop this will simply either lead to denied student access, reductions in academic quality, and/or increased university bureaucracies, already obscenely large. In the past, the Pell Grant program has had relatively little tuition fee impact in my judgment, for reasons explained in the enclosed study by Dr. Gillen. But as Pell Grants increasingly become a middle class entitlement going to students who otherwise would go to college anyway, and grow in size, the probability that Pell expansion will be relatively tuition fee neutral becomes more problematic. Pell Grants are dwarfed in magnitude by student loan programs in any case. In total, the law of unintended consequences is at work, as the tuition bubble that federal policies such as student loans and tax credits have contributed to have undone any positive impacts that otherwise would occur.

Thank you for your attention.

Chairman MILLER. Thank you. Mr. Shireman, as you have outlined in your testimony, what the administration is trying to do here is trying to get additional resources into the Pell Grant. I don't know if we have the chart but it is up, but here you can sort of see where we have been with the Pell Grant.

[6] As of May 18, 2009. Calculations are by Luke Myers of the Center for College Affordability and Productivity.

The green is where the administration is under its proposal—it is a lot—I can't read any of that from here but—see I am waiting for Medicare to get my glasses.

Not going to get covered. [Laughter.]

All right, let us get back to the subject here. It is not about me. So what they would like to do is to provide the direction it would take to get us back to where we were for low income students—a greater portion of their opportunity at college would be covered by a grants, the grant that is made available in the Pell Grant Program, is that correct?

Mr. SHIREMAN. Absolutely. We want to make sure that the Pell Grant Program grows at a little bit more than inflation, not college inflation because we need to bring that down but we need to provide not just those graduating high school seniors but students in middle school with the assurance that Pell Grant Program will be there and that it will be significant enough to really help them pay for college.

Chairman MILLER. And Ms. Griswold, your testimony is that as you switched over at your institution, I don't want to paraphrase as you described it, but it appeared in your testimony that this was relatively easy to do for you because of the common platforms between the Pell program and the requirements of the Direct Loan Program?

Ms. GRISWOLD. That is correct. It was an undertaking in that we had a pretty short timeframe to be up and running. We needed within 6 weeks of realizing we had some significant changes coming in how our students would need to get their loans, we had a very short period of time to be talking both to our incoming class and as well as our returning students about how they would receive their student loans.

We were getting ready to award financial aid that included their loans, and with that comes imparting information about how that program works and what students need to do.

But the mechanics of getting it done were relatively straightforward. With the departments help and the technical manuals that are available and there are a number of schools out there in direct lending that we turned to. To get some questions answered, the promptness of the department was exceptional in responding to us, so for us the experience went very well.

Chairman MILLER. Thank you. Chancellor Reed, two things. You have institutions that have done it both ways and you are planning, as I understand it, as a system to convert to the Direct Loan program in its entirety over the next year is it?

Mr. REED. Next year.

Chairman MILLER. Yes, next year. Okay. Your written testimony suggests that it has worked for the institution. It has made a decision. It seems to have worked fine?

Mr. REED. Yes, has and as my colleague said it has gone very smoothly. What we have found is it is not brought an additional burden or cost to our institutions, especially our institutions that are mid-sized, 16,000 to 20,000 students.

We have found that the institution of 40,000 plus students have added one employee at about $40,000 to $50,000 salary including their benefits. So that has been our experience in the conversion.

Chairman MILLER. In your testimony you spoke to it, but you obviously believe that this trade off, if we could increase Pell as the administration is suggesting, you think will in fact help those students?

Mr. REED. Absolutely. We have an outreach program that goes out into the middle schools and the high schools. We have Super Saturdays, Super Sundays, in the African American churches where we really carry the message about Pell especially and the availability of Pell.

In the CSU we have a $2 billion student aid program, about $1 billion in loans and $1 billion in grants and we try to get that information out as early as we can in the middle schools.

Chairman MILLER. Thank you, Mr. Shireman, the question of default rates has come up and the suggestion was made I think by Mr. Chapman that in any category at any time the default rates are worse in the DL program than they are in the FFEL program. Is that accurate?

Mr. SHIREMAN. No it is not, it is really the opposite. If you look at by type of school defaults rates in the Direct Loan Program by type of school are either comparable or lower than in the FFEL program.

Chairman MILLER. Do we not inherit some defaults from the FFEL program?

Mr. SHIREMAN. Some of the numbers that you can look at are looking at the whole Direct Loan Program and the Direct Loan Program does take in defaulted loans from the FFEL program. Those are more likely to default again so some of the numbers can appear as if there is a higher default rate in the Direct Loan Program for that reason.

Chairman MILLER. Chancellor Reed?

Mr. REED. Mr. Chairman, just to report in 2006 we had 13 of our institutions in FFEL, their average default rate was 2.56 percent. Our 10 direct lending institutions average default rate was 2.4 so that was you know a difference there.

Chairman MILLER. Mr. McKeon? Thank you.

Mr. MCKEON. Thank you, Mr. Chairman. Dr. Vedder, we have long valued your opinion on the college cost crisis with a lot of talk here, but no talk that I have heard is really talking about lowering the costs of education.

We are talking about putting more money in and giving more money to students and you have written about that. You understand the problem, and how it is facing the country. The Chronicle of Higher Education recently published an article arguing that the higher education sector would be the next bubble to burst.

How should the higher education community reform itself to avoid a crash like we have seen in other industries?

Mr. VEDDER. Well, thank you for that shrewd observation, which of course is mine. [Laughter.]

The cost of college has been rising at three times the rate of inflation, two times, three times the rate of inflation for 30, 40 years. That is precisely the period, by the way, since loan programs and the Pell Grant Program began back in the early 1970s late 1960s we started into this.

The demand for education has been rising faster than the supply. Now, part of the problem is that colleges, and I am not talking about Charlie's colleges so much as other colleges, the elite universities, he wanted me to say that by the way, the elite universities put limits on.

So you drop more money over at Harvard University or over to the University of Michigan, or the University of California Berkeley. You give more money to kids it allows them to raise tuition more.

Tuitions have gone up because they can. And you have been part—you, generically, collectively, have been part of the problem. Now, you are trying to solve the problem. You need to look at it from a different way.

How can we change the incentives, the behavior, of college administrators to get them to think small, to get them to cut costs and so forth? You need to look at a different paradigm.

Mr. MCKEON. Thank you. Mr. Chapman, the conduit saves the federal government money and it keeps private capital in the program, which means it went for students, schools and employees who are hoping to keep their jobs past July 1st, 2010.

As a member of the initial conduit advisory board and one of the members of the advisory board overseeing the implementation of the facility, could you comment on whether you have been approached by Secretary Duncan or other high level officials at the Department of Education, who have been interested in talking to you about the availability of the conduit as a more permanent financing structure?

Mr. CHAPMAN. To date I have not been, and to my knowledge no one on the committee has been as well.

Mr. MCKEON. If Congress implemented some version of the conduit, what changes in loan delivery, availability of service or services will institutions and students see on their end, as compared to the changes they would experience if we went to 100 percent direct lending?

Mr. CHAPMAN. Well, I am not sure I can speak exactly to what changes it would experience if they went to direct lending. What I can tell you is with respect to maintaining private sector financing and the diversity of lenders, originators, and servicers that exist today and existed over the last 40 years, schools would see the continued great service, the continued value-added services that have been provided over all these years.

From a funding standpoint, it would be seamless and blind. The lenders today in the program finance loans in many different ways in the background and that is all for school perspective, for student perspective, for a parent perspective, it is seamless, so they would see no change.

And in fact, you know, not only not a deterioration but probably an improvement by where if there was a consistent and reliable source of funding that we could see out into the future.

Mr. MCKEON. Remember the meeting that we had with Mr. Shireman and the secretary and the lady that was a financial aid administrator at the University of Maryland? Her comment, how she is helping China now, where they have a one-of-a-kind system where the government provides everything.

And they want to reach out to bring competition into their lending market at the same time as we are talking about moving it all to the government. Do you have any comments on that?

Mr. CHAPMAN. I will just note that she said those comments with a lot of irony in her voice, but I think, you know. I think those comments get to, again, choice. And I think, you know, what is critical to this discussion, what is critical to these direct lending versus FFELP debate, you know, we can talk about savings and dollars and numbers and whether they are real or not.

But what is critical, and what when I think about what the best deal for the taxpayers is, it is not all about dollars and cents. It is about what the full package is. It is best, not cheapest and sometimes the best isn't the cheapest.

I think that financial aid officers point and I think, you know, the overarching point of comments about keeping private capital in the program and keeping the diversity of lenders in the program is that taxpayers, students, and schools are better served by maintaining competition, by maintaining choice because it leads to better outcomes over the long term.

Mr. MCKEON. I think the competition has been good. I fought direct lending when they first brought it in, but over 16 years we have seen where the competition, I think, has made both programs better. One side has 4,000 institutions, one has 1,700.

I think the people have accepted and understood, and I think competition is better and I am really sorry to see the government moving in so many areas, but especially in this one to take over the whole program.

Chairman MILLER. Mr. Andrews?

Mr. ANDREWS. Thank you, Mr. Chairman. I am glad to hear that my friend from California, Mr. McKeon believes that competition between public and private is a good thing. I am sure he will reflect that view in the health care debate when the public option.

Mr. MCKEON. Oh, exactly——

Mr. ANDREWS. I am sure he will. The word irony was used a few minutes ago, there is an irony overarching our discussion this morning. I think it was brought out in Mr. Shireman's testimony.

Mr. Shireman, I think I heard you say that 60 percent of the capital in the private bank program is coming from the taxpayers at this point, is that right?

Mr. SHIREMAN. Yes, it is money we are providing through the participation——

Mr. ANDREWS. So, the way this is working now that an institution gets taxpayer money, lends it out, and then we pay them a premium on top of what the student would otherwise pay to reward them for taking a risk with our money? Is that essentially right?

Mr. SHIREMAN. Effectively, if they—especially if they keep it they have the option, they can buy it from us ultimately or give it back to us and we pay them a fee for their work. But in the meantime, we could have just made the loans directly and that is really the point.

Mr. ANDREWS. But either way the taxpayers are absorbing the risk of that capital not the person in the private sector.

Mr. SHIREMAN. Yes, any way we do this it is a government program run by private sector participation.

Mr. ANDREWS. With respect to 60 percent of what is being called private loans here this morning, with respect to 60 percent of those loans the taxpayer is, in fact, absorbing the risk and we are paying someone a premium to take a risk with our money. Is that right?

Mr. SHIREMAN. Exactly. When they say they are leveraging our liquidity strength that means they are using our borrowing ability.

Mr. ANDREWS. Yes. The ranking member also in his opening statement talked about—he made an analogy to the auto industry. And it seems to me the analogy falls apart in that although we did advance a substantial amount of money to some auto industries, we did not supplement the price of the car, did we? If somebody buys a $20,000 car we don't pay the automaker $24,000?

Mr. SHIREMAN. That is exactly right. We have a whole federal financial aid system for Pell Grants and student loans where the decisions about who can borrow, what institution they can borrow at, how much they can borrow and what the interest rate is, are all a part of the federal financial aid system. And we don't have that in auto loans, home loans, so the analogy does not really work.

Mr. ANDREWS. Ms. Griswold, we are hearing all the horror stories of these additional administrative costs that will be visited upon institutions that make the switch. What was Penn State's experience in a vast system, making the switch from the FFEL program to direct loans, in terms of your internal administrative costs.

Ms. GRISWOLD. Right. It was a matter of shifting priorities and some pretty intense work for about a 4-month period to get up and running. We did not hire additional staff——

Mr. ANDREWS. You didn't have to hire anybody else?

Ms. GRISWOLD. No, we did not. We did not need $400,000, a figure that grew to $1 million the second time I heard it on the streets, to pay any cost associated with this. Any time we implement a new program or a new system at the university, a new financial aid process or a change in regulation, there is always cost associated in terms of staff priorities.

You shift staff where they need to be. This happens all the time; it is the way student aid offices work. And so the notion that we had to go find $100,000, $200,000, $300,000 to be able to bring direct lending up couldn't be further from the truth. I am not sure where that came from.

Mr. ANDREWS. Mr. Shireman testified that essentially the only different between processing the Pell Grant and the direct loan is the student signs a note for the direct loan and not the Pell Grant, is that essentially right?

Ms. GRISWOLD. Yes, it is.

Mr. ANDREWS. So that is the only one administrative step that is really added.

Dr. Vedder, I want to ask you one thing. You testified that the CBO score for the savings on direct loans did not take into account additional administrative costs or foregone corporate tax revenues. What is the source of your testimony for that statement?

Mr. VEDDER. I received that information from members of the minority.

Mr. ANDREWS. But do you know, independently know it is true?

Mr. VEDDER. I have not first-handed, scored it, and in my full testimony I made it very clear that I understand——

Mr. ANDREWS. Have you read the CBO documents that underscored this?

Mr. VEDDER. I have looked at them; I have not read them carefully.

Mr. ANDREWS. So are you sure that what you said is right?

Mr. VEDDER. I am not sure I am sounding right, but neither are you.

Mr. ANDREWS. I am not—that is why I am asking. You made the statement that they did not take into account administrative costs or foregone tax?

Mr. VEDDER. The scoring on things like—I am an economist, Representative Andrews, and I understand that the people at CBO are honest people. I am not saying that——

Mr. ANDREWS. They sure are.

Mr. VEDDER. And they are good people. They are professional people. I used to work with them. But economists make mistakes and if you look at, for example, default rates, can you predict default rates?

Mr. ANDREWS. My time is up, but I just want to be clear that you don't know whether that is true or not, right?

Mr. VEDDER. I don't know that it is true.

Mr. ANDREWS. Thank you very much.

Chairman MILLER. Mr. Petri?

Mr. PETRI. Thank you very much, Mr. Chairman. Thank you all for your testimony. This has been fascinating for me because I can remember when I just was a new member of this committee. The head of the Wisconsin Higher Education Agency came to my office and in a response to a question, saying that in his experience the guarantee program was wildly costly to the government, and suggesting a direct-type loan program, which he thought would be much more efficient both for students and for the taxpayers.

We did try it out despite a lot of doubts on a three school basis including Marquette in my own state, and now it has been expanded and we have seen competition between the two. And now we are finding that the direct program is being scored, I can't believe it.

I think it is excessive, a $94 billion saving over 10 years, $9 billion a year couldn't possibly—I mean, obviously, with that much money you can provide a few perks and little extra tweaks and bells. But I am not sure it is worth it to the taxpayer when the terms of the loans are the same to the students and the schools.

So I just would like to ask Mr. Shireman if you could tell us how you are doing to lay the groundwork for expanding the Direct Loan Program? I mean you are going to try to switch by July 1st, 2010. Could you tell me how many schools do not have their participation agreements set so that they can move to the Direct Loan Program if they choose to do that?

Mr. SHIREMAN. I don't have a precise answer to that question, but we are conducting outreach right now on contacting schools that are not yet making direct loans, or have not conducted those initial steps.

And we have also invited the Higher Education Association, as well as members of Congress, to let us know about the schools they are most worried about, the schools where there is, you know,

maybe one staff person who is handling federal aid. And it is important to get them in early, talk to them about what the steps are so that they can take those steps.

Because it is a relatively minor addition to the existing efficient Pell Grant process that is run by Accenture, that front-end origination side is not the biggest concern. The biggest concern is we have to ramp up the servicing capability to collect on those loans and the previous administration actually started that process with an RFP that we are in the process of completing.

Mr. PETRI. And now other countries have gone to a Direct Loan Program, I think Great Britain and Australia and New Zealand. They have an additional feature which gives borrowers the option of repaying their loans through the Inland Revenue Service or their equivalent of the IRS.

And if we do have a direct loan program we could save collection costs and default costs and so on by giving people the option of having, say, up to 15 percent of their income withheld from each paycheck, and the loan is automatically rescheduled through the withholding process of the IRS.

Would the administration be at all open to looking and exploring whether doing in the United States what is already being done in the United Kingdom, Australia, and New Zealand would make sense?

Mr. SHIREMAN. In those other countries, which are very interesting programs, all of the participants are paying off their loans as a percentage of their income. And we have made the policy decision here that the majority of borrowers are probably going to be fine paying a flat payment based on the amount that they borrowed, but that there are some that need income-based repayment and that type of help.

So it is more on an exception basis here, so it probably doesn't fit with the system that we have. I would be glad to go back and take a look at it, but at this point we are focusing on really using the system that we have developed over time here.

Mr. PETRI. One other area, several people—I think someone testified here from Vermont and the guarantee agency in that state. It is my understanding that guarantee agencies in many cases have close relationships with private lenders, and one of their missions is to provide oversight over lenders.

Is that an area where we should be, our self, exercising more oversight to make sure that they haven't gotten in bed with each other rather than supervising?

Mr. SHIREMAN. Well, certainly there are some situations where there are close relationships between lenders, our secondary market and guarantee agencies. There has been some increased oversight of that situation over the past couple of years, and it is an area that we will continue to look at. It is of concern.

Chairman MILLER. Mr. Hinojosa?

Mr. HINOJOSA. Thank you, Mr. Chairman. I enjoyed yesterday's hearing that you brought to us, and this one seems to be just additional information that I am enjoying very much. I want to direct my first question to Chancellor Reed.

I am very happy to hear your statement and how your university system focuses on the most needy students and underserved fami-

lies helping them access higher education, and you highlighted in your testimony that your system includes many HSIs and involves many first generation college students, residents who need the most financial, academic, and social support to successfully complete college.

What do you see as the core services that will help low income first generation minority students successfully manage their student loans and college financing?

Mr. REED. Mr. Hinojosa, one of the things that I have found is to reach out to the families and the students together, and in California we have initiated an outreach program into the middle schools, including the distribution of over 3 million posters that have financial aid information, both grant and loan information.

As you know, the Latino community does not have a history of borrowing money and one of the things that we try to reach into the middle school is to have Super Saturdays where we bring parents and students together to the campuses to share with them the different kinds of financial aid that they will be eligible for and let them know how to apply for it, when to apply for it and give them the assistance that they need.

Mr. HINOJOSA. Chancellor Reed, I come from a Mexican American family and that practice is a European practice that you don't borrow money, you save money and you pay for it in cash. So I understand it very well and I would like to direct my next question to Secretary Shireman.

In your testimony you said that it would be the department's job to build into contracts the proper incentives to get the best service for students and I couldn't agree more. I like those incentives, proper incentives, and that there will be competition amongst the universities to show that it can be done, just as Ms. Griswold shows that at Penn State they didn't need to hire more people to get this Direct Student Loan Program in.

So let me say that in the State of Texas, Secretary Shireman, our state guarantee agency and nonprofit secondary markets have provided valuable financial illiteracy education and outreach programming for students and families and technical support for colleges and universities.

So I am going to ask you a question. It was interesting to also hear CEO Rene Drouin talk about one of the parts—I think it was on page two, bullet number three. It says the key is that your organization, your foundation, continues to support schools and students with entrance and exit counseling, financial literacy education programs and local compliance expertise.

So I ask you, Secretary Shireman, will you agree with me that we in Congress make this component of financial literacy education a mandatory as we are trying to finish out our legislation?

Mr. SHIREMAN. Certainly as part of our college access and completion innovation fund we want to include that type of financial literacy education, helping students know about college, how to plan for college, how to pay for college and so that can be a very important part of that program.

Mr. HINOJOSA. Excellent. The next question I want to ask the gentleman from that foundation, the experience that you all have had, in terms of minority students going to college, do you find that

they are able to repay their loans, or do they have a high percentage that are failing and cannot pay their loans?

Mr. DROUIN. Congressman from the State of New Hampshire our Latino population is one of the fastest growing populations within our state. We have programs that we have designed specifically for our Latino group, and what we find is they need early awareness and often and we find that with all of our individuals.

Mr. HINOJOSA. Okay, thank you. I yield back, Mr. Chairman.

Chairman MILLER. Mr. Souder.

Mr. SOUDER. Thank you Mr. Chairman. This is a pretty amazing hearing, the party of Andrew Jackson who opposed the national banks not only proposing another national bank and advocating common stock in existing national banks. It is an amazing turn of events that I find this hearing ironic in so many different ways.

As we are debating about Fannie Mae and how Fannie Mae was undergirding much of our financial crisis, by not being careful, we are proposing, in fact, to duplicate Fannie Mae and the problems that occurred in Fannie Mae.

At a time when California is begging on their knees, we are being held up as California a model of how they did low income and affordability in college. I am sorry. It has been a great university system. It is not the only problem in California but I wouldn't hold it up as our economic model.

At a time when we are debating health care, my friend from New Jersey said, that there is an option on the table for public and private. If you want to know why republicans have no trust whatsoever that the purpose of the public part isn't to drive out the part that is private just look at today.

Just look at today. If there is a single republican who will take the word of the other party that says when there is a public and private offered that the intent isn't to drive out the private, look at this example, 74 percent of colleges chose the private.

That just can't be. We just can't allow that. The public side has to take it over, and I would like to ask Mr. Chapman why since this is humiliating to have a duplicate public-private and only 26 percent take the private, why would they choose you?

What is it, is there a bias in the system? Is it rigged? Why did they choose the private sector over the public?

Mr. CHAPMAN. I would say as a general response to that question is private sector was chosen because of the service that was provided and not only the service in terms of loan delivery, in terms of customer service, but in terms of value-added services that we provided to their students through outreach services, these literacy services.

How do you pay back your loan when you get out? You know, it is a competition and admittedly when I got into this business and when direct lending first came about, the private side of the student lending business was struggling as far as service went.

So, but over time then very quickly common standards, it solved most of the administrative issues that schools were having with the private sector.

I come from Ohio originally. And The Ohio State University, I believe in 1992, had students from all fifty states. They had ap-

proximately 275 lenders, I believe, who all had different applications.

Those days are long over, and they were long over, you know, probably by 1993 or 1994, and the service improved benefits to students as far as lower prices, quicker turnarounds as far as loan delivery happened and for those schools that have stayed in the private loan program that is who they have liked.

The schools that were doing direct lending have, you know, they have made their decision, and I am glad they had the ability to make that decision. I am glad Penn State had the ability to make the decision they made, but cutting off that choice we believe will be very problematic.

Mr. SOUDER. In 1997 basically the direct lending system failed and that led to a lot of trying to make sure there was diversification to be able to handle changing loan amounts and the rigidity of the federal system basically collapsed and the private sector had to bail the federal sector out.

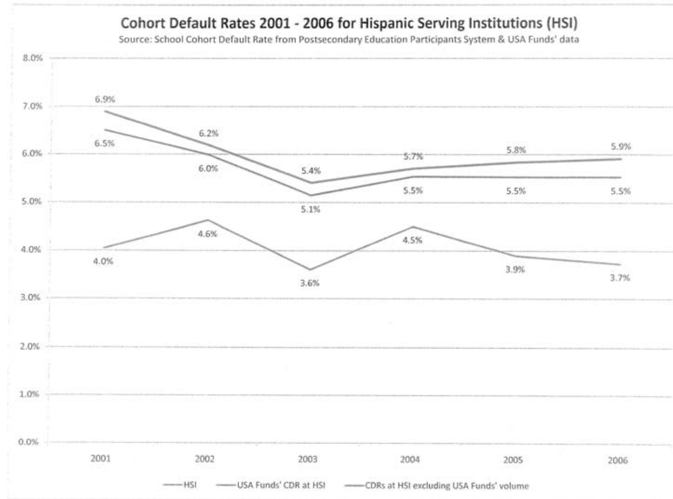
Was that partly when and why a lot of people moved to the private sector? There was an 8-month delay that unlike this where the federal government provides a back up in tough times to the private sector to keep it moving smoothly, when the federal government took over the whole thing and then had problems and got 8 months behind there was nobody.

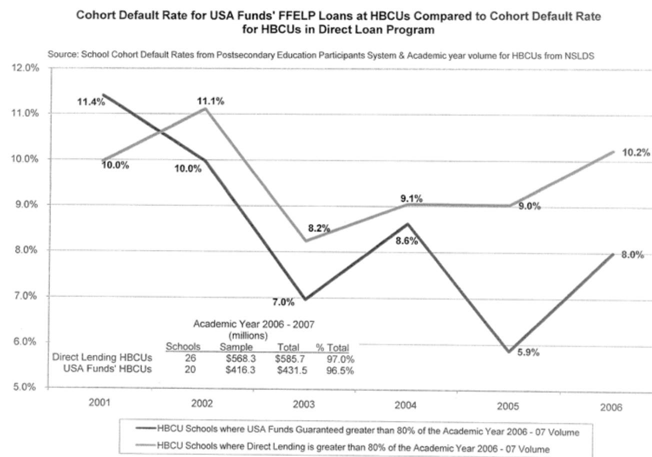
They had to go back out to the private sector, and it took 8 months to fix the problem. That is the risk of just one national system, and I was wondering, were you involved at that particular point in time or familiar with that?

Mr. CHAPMAN. Well, as far as that particular time, I am not sure I can speak to that. But again it goes to, for the same reason Penn State and some other schools have been able in times of concern about availability of loan funds or students, switched to the Direct Loan Program. But at that time where the situation was reversed, the schools had the option to switch back to a more reliable source of funds at that time.

Mr. SOUDER. Mr. Chairman, I know my time is up, I would like to announce consent to insert into the record these are from USA Funds, an Indiana Company, on their default rates which were 2 percent over 6 years lower than the direct lending including for Hispanics.

[The information follows:]





Chairman MILLER. Thank you. The gentleman's time has expired. We are going to try one more question here. Mr. Bishop, you will just have to work out the clock with yourself Mr. Bishop how long you want to keep asking questions but we are in the middle of a vote.

We have a series of votes. I plan to recess the committee here so we can make the vote. We will probably not be back before 12 o'clock so if that creates time problems for some of you, I understand that and feel free to leave.

I would hope that those who can remain would remain because I think there are clearly questions that the members of the committee have—this is an important proposal before the committee.

Mr. Bishop?

Mr. BISHOP. Thanks, Mr. Chairman, and I will try to be quick.

Chairman MILLER. It is your voting record, not mine. [Laughter.]

Mr. BISHOP. Thank you, Mr. Chairman. I appreciate that reminder. I have listened very carefully to Mr. Souder's questions and just for clarification had we not passed ECASLA, what would have happened to student loan availability in the current academic year, Mr. Shireman?

Mr. SHIREMAN. Many, many schools would have shifted to direct lending, and they would have had to do it in a very rushed way, and we would have seen delays in terms of students getting funding.

Mr. BISHOP. And $6 out of every $10 is being made available to students currently enrolled right now in the student loan program is a federal dollar, is that correct?

Mr. SHIREMAN. Yes.

Mr. BISHOP. It may be originated privately but it is supported publicly, correct?

Mr. SHIREMAN. Right. And it is important to point out that both of these programs are public programs that involve the private sector doing the work and the difference is really how we pay.

Mr. BISHOP. We have heard an awful lot of discussion this morning about choice and that certainly is a sort of a seductive argument. I did student financial aid for 7 or 8 years back in the dark ages. I was a college administrator for 29 years. Every day practically that I was on my campus I dealt with students in terms of how to pay their bills.

I never once heard a student say, "God, I wish I had a choice." They were grateful to know that there was a source of money available to them. They wanted to know how much, they wanted to know what the terms and conditions of repayment were, and they wanted to know that it was available to them.

Ms. Griswold, is that your experience as well?

Ms. GRISWOLD. That is my exact experience, that students are far more concerned about the availability, the efficiency and getting their funds, less concerned about who the provider of those funds are. We had years where students who understand that many banks participate in making the loans.

We regularly got the question, which one should I pick, and the other, you know, the other thought and the notion of competition with these loans has always been my lament, and I shared this with my colleagues in the FFELP community, as well as in the Direct Loan community, that lack of standardization is sort of a sad thing.

A student in a rural community, at a small university, hopefully, hopefully, has a school that has worked sufficiently with lenders to negotiate service and availability of loans that are at the best rates. Not all students get the same benefits that come and as the national program it would seem those benefits for students should be equal across all students.

Mr. BISHOP. Thank you. I only have time for one more.

Dr. Vedder there are many things that you have said in your testimony. I have heard you testify before. I have read much of what you have written, and I have a lot I could engage you on. I have about 30 seconds.

In 1974 when the Pell Grant began, the maximum award was $1,400. Is it your contention that had that award stayed at $1,400 or some reasonable variant thereof, that tuitions would not have increased?

Mr. VEDDER. It is my contention if we had not put in the Pell Grant or the Student Loan Program we would have as many students enrolled in American universities today as in fact——

Mr. BISHOP. So if I may interrupt, so if you were constructing a student financial aid portfolio now, federal, state, institutional, what would it look like from your vantage point? Would you have student aid?

Mr. VEDDER. If I were the czar which, thank God I am not——

Mr. BISHOP. I am sort of thanking God I am not also, but——

[Laughter.]

Mr. VEDDER. You should pray every day that I am not. You should—I would not—the federal government would get out of the student loan business completely. The federal government has corrupted higher education with the disincentive effects that it has provided to universities to engage in bloated bureaucracies, arrogance, elitism, and so forth that has caused these problems.

Mr. BISHOP. I think my time has expired, Mr. Chairman. Thank you very much. [Laughter.]

Chairman MILLER. Recess. I want to thank all of you for your testimony. If you can remain, I would hope that you would and we will return as quickly as possible.

[Recess.]

Chairman MILLER. Thank you very much for being willing to remain. My, well, there are no apologies. This is just the way it is on the Hill. Most of you are familiar with the Congress, but I wanted to make sure my colleagues, some of them said they will return. If they do they will have to do it inside my question period, otherwise we are going to let you all be free.

Just a couple of things, Chancellor Reed, as the gentleman, Mr. Vedder, was talking that he thought the federal loan, federal financial assistance should be abolished, or dismantled, you were moving around in your chair a little bit. Do want to comment?

Mr. REED. Well, America's future workforce is going to come from a majority of the underserved students of color in this nation, and I don't look at either the Pell Grants or the Student Loan Programs as expenditures.

I look at that as investments in America's future, and those are very good economic investments in the future of this country. And providing a college education is something that can be shared by the individual, by the states, and by the federal government.

One of the things that you have tried in the last couple of years is to focus on making states maintain their effort. And I think this is a shared partnership and when one of the questions was why has tuition and fees increased, and I think, my experience has been, because states have withdrawn the kind of support that they need to be as a part of their partnership in this effort.

So I don't look at this as an expenditure and breaking America's back. I look at it as making America stronger.

Chairman MILLER. Well, thank you and, you know, I don't think any of us who have sat on this committee—I mean we have lis-

tened to so many people, certainly out of the business world and economists, you know, that this investment we make in education probably returns more than any other investment that we make.

We all know what it leads to in whatever field that it is, and the idea that somehow we would then dismantle the program and that it would return to the days when I was in school.

If you drive by San Francisco State or if you drive by the University of California at Davis, it is a far different campus with far more of opportunities available to that student body and that student body is far different than when I went there.

Certainly it is a very different law school today than when I went there and the diversity of people who have the opportunity now to pursue that education. So that idea that somehow we can return there if we just dismantle the federal student assistance that somehow that is a credible position that the nation would be well served, I just didn't want to leave on the record at that point.

Mr. Remondi, in your testimony you have essentially said that this program is going to have to change given what has transpired over the last couple of years, and it is a pretty fundamental change that you are talking about.

Mr. REMONDI. Yes.

Chairman MILLER. I just wanted to be able to make sure that people on the record understand that. I mean I have looked at your proposal. We are giving it very serious consideration and discussing it among members and staff, but I think there is sometimes the characterization that you are here saying, "No, we just want to go back to where we were," and I don't think that—I want to clarify that is not your position.

You recognize that whatever happens is going to be very different than in the past.

Mr. REMONDI. That is right. And I think, you know, the federal loan programs kind of mirrored what was going on in the capital markets and as the capital markets continue to ratchet down credit spreads, we were the beneficiaries of that. And the federal loan programs kind of followed and tried to keep step with it. One sometimes often got ahead of the other.

In 2007, that environment changed completely and credit spreads have widened to levels I don't think any of us could have predicted. We used to raise money at about 10 basis points over LIBOR. Now that same bond would cost us about 200 basis points over LIBOR. Obviously, it doesn't work with the economics that are built into the Student Loan Program today.

But we also see that the funding environment is not going to return to those same old levels, and so if there is a predicted and consistently large spread between where the private sector can borrow money and where the federal government can borrow money, it does create an opportunity to utilize that to create savings that can be used to expand the Pell Grant Programs and fully support that.

Chairman MILLER. Mr. Guthrie?

Mr. GUTHRIE. Thank you, Mr. Chairman. And it is great to be here. I think the number one issue for all of us regardless of where we stand is how do we make college more affordable? I think that is the biggest concern. I know it is the biggest concern within middle class America right now.

Maybe it is because I have one heading that way and so those are the kind of parents that I talk to every day when I am home at soccer fields and so forth, but really concerned about the ability to send their children to college. And so that is where we are going. Whatever program we do, I think that has got to be our end result and that is everybody's interest.

The question that I, and I kind of caught on it Monday when I was kind of studying for this, and if Mr. Shireman, on the score for the CBO, the $90 billion plus score for the CBO, my understanding with that, and please correct me if I am wrong, is that is not necessarily money that we send to the private lenders or it is not money we send to the private lenders.

It is what would be gained by the Direct Loan Program being able to borrow at lower rates and then also charging the same rate that the private industry does to our, I guess middle class students who would be doing these student loans. And then that money is used to subsidize the Pell Grants in the proposal?

Mr. SHIREMAN. I think this is the way to think about it. Remember that these are fixed rate loans to students at 6.8 percent, in some cases lower than 6.8 percent. So you have got a 6.8 percent fixed rate loan over the next 10 to 25 years. Our borrowing, say our cost of funds is here. The amount that we have to pay in the FFEL program so that loans are made in FFEL is here.

Mr. GUTHRIE. Right.

Mr. SHIREMAN. And there is a gap there and if we make the loans in direct loans, when interest rates are low in the economy, that is an amount that comes to us. When interest rates are high, it is an amount that we actually pay to——

Mr. GUTHRIE. Right.

Mr. SHIREMAN [continuing]. The FFEL participants. So depending on interest rates over the next 25 years, sometimes we have more money come in because we do direct loans instead of FFEL and sometimes we have less money going out——

Mr. GUTHRIE. But the last couple of years——

Mr. SHIREMAN [continuing]. With direct loans than FFEL.

Mr. GUTHRIE [continuing]. There has been money coming in. Would it be, and I understand the increase in the Pell and I think honest people can disagree on whether there should be an entitlement or the Congress every year decide how much money is going into the Pell program.

I think that is a reasonable area to discuss and debate. But my understanding is though, if 6.8 percent is the fix and we can borrow as the government at a lower rate, why shouldn't—why is 6.8 the number?

I mean why shouldn't it be 5.5 or when the times are—when money is coming in and these middle class, typically middle class people who are struggling and then the moderate and lower income or the Pell Grants, why not give a lower interest rate to the people going to college?

I can't understand why we wouldn't have that policy and then when it goes up and then 6.8 percent is what we decide as a Congress and as an executive branch is the right level.

Mr. SHIREMAN. It is a decision that Congress can make. A few years ago we had a variable rate approach. I mean the tradeoff is

usually that a variable rate approach can go to a higher rate, so we had a variable rate with a cap of 8½ percent. When we went to a fixed rate, Congress decided to go to that 6.8 percent.

So if there was a shift, and obviously, in the private student loan market, non-FFEL, non-guaranteed, they are almost all variable rate loans, with no cap at all.

Mr. GUTHRIE. Right.

Mr. SHIREMAN. So if we have interest rates at 12, 14, 18, 25 percent, we don't want to have that kind of a variable rate program——

Mr. GUTHRIE. And I agree with you on that.

Mr. SHIREMAN [continuing]. And so there are tradeoffs there and the tradeoff can involve some federal costs, so that is the kind of decision that Congress needs to make.

I will say that you cannot get a personal loan at 6.8 percent fixed rate right now, so from the standpoint of whether this is a good deal for students, these are good loans, personal finance experts will say this is the loan to take.

Mr. GUTHRIE. I am not saying they are not good, but it could be better. It could be better if Congress——

Mr. SHIREMAN. All the costs to make it better and that is the kind of decisions, you know, those are the kinds of decisions that Congress——

Mr. GUTHRIE. But in the score, isn't that 6.8 percent versus what Congress can borrow for or what the federal government can borrow for? Isn't that the score of the $90 billion?

Mr. SHIREMAN. Well, you have to remember that 6.8 is a long-term rate, so we are going to see interest rates, whether it is next winter or next year or 5 years from now, we are going to see interest rates change a lot over time.

Mr. GUTHRIE. Right, so you could be upside down or the federal government could be upside down.

Mr. SHIREMAN. Absolutely. There will be times when we are putting money out——

Mr. GUTHRIE. But the scoring of CBO assumes that there will be more money coming in than going out, and that money is used——

Mr. SHIREMAN. CBO currently uses——

Mr. GUTHRIE [continuing]. To create——

Mr. SHIREMAN [continuing]. Relatively low interest rates into the future. What really doesn't change that much is the fact that there is a gap. So the gap exists whether we are above the fixed rate and paying money out or below the fixed rate and having money coming in.

Mr. GUTHRIE. And my time is up, but we could loan money to students at the cost of the federal government borrowing, plus servicing or whatever kind of—and it would be cheaper than 6.8 in today's numbers, right?

Mr. SHIREMAN. It would involve work with CBO to figure out what that would cost and compare that to investing in Pell Grants.

Mr. GUTHRIE. In current times, the students' money would subsidize——

Mr. SHIREMAN. Well, students are getting——

Mr. GUTHRIE [continuing]. Pell Grants, given the way you are moving on that.

Mr. SHIREMAN. Well, students are getting a loan at a rate that they cannot get in the private sector right now, at the rate that is being offered right now, so whether it should be even lower than that, at a cost to the federal government, which would mean we couldn't do as much for Pell Grants, that is not the choice that the administration has made.

We think we have a rate that works for students and we keep that rate and put more funding into Pell Grants.

Chairman MILLER. Ms. Shea-Porter.

Ms. SHEA-PORTER. Thank you very much. I guess you know who I am going to be talking to first, right?

Could you please explain to me—I have some questions about the program there. And in your testimony, you talk about "needs life-of-loan servicing." Could you please explain, in greater detail, what you meant by this and the benefits that you see?

Mr. DROUIN. Yes, thank you, Congresswoman. From our standpoint, in the state of New Hampshire, we have never sold a loan outside the state of New Hampshire since the secondary market came into an existence. We have got about $1.5 billion outstanding right now in the student loan program, on that side.

We attribute that to the fact that, as far as not selling a loan, curtails the default rate and delinquency rate on these loans. It also, from the standpoint of—we are the only constant that that student has throughout the life of this loan. We were there at the early awareness programs and we are there when they make their final payment on their student loan.

It creates, as far as I am considered, a better, if you will, a better mousetrap, if you will, from the standpoint of looking at the student and making sure that they understand who they can deal with, throughout the life of their loan.

Ms. SHEA-PORTER. Okay. So you are minimizing all the additional layers there.

Mr. DROUIN. We do. We do, and as I have said before, we have always kind of looked at ourselves as the mini direct loan program in the state of New Hampshire for quite a few years. We were established in 1962, 3 years prior to the federal government even thinking about student loans.

And so I think we have a lot of history there. And when I say a mini direct loan program, basically, it is from soup to nuts. We do the origination, the upfront work, right through payout.

Ms. SHEA-PORTER. Do you think this would work just for New Hampshire or do you think this could help other states as well?

Mr. DROUIN. Oh, I think we are not the ones who solely that invented this. There are quite a few agencies just like us. They call us bundled agencies. And I think it works out well from the standpoint of cost savings and I think it can work across the country.

Ms. SHEA-PORTER. Okay, thank you. And, Mr. Shireman, President Obama's budget and your testimony make reference to the department contracting out servicing to private sector student loan services.

We have heard Mr. Drouin's testimony that because of some of the thresholds set in recent opportunities to bid for servicing of the loans that the small, nonprofits, like NHHEAF, were shut out of the process and will be shut out of the process going forward.

Given NHHEAF's exceptionally low default rates and its well-respected and appreciated status in New Hampshire, and I can attest to that, doesn't NHHEAF represent exactly the type of services that you would like to retain and what steps are being taken by the department to ensure that services like NHHEAF will have this opportunity going forward?

Mr. SHIREMAN. Well, we are in the middle of a procurement. It is currently being negotiated, so the amount that we can talk about some of the servicing issues, we will be able to talk more about that in coming months.

But I would say that we have seen a lot of state agencies and state affiliated nonprofit organizations that are doing all things for students, in terms of financial literacy, outreach, and information, and that is the reason that we created a fund that goes to states that can be used for those kinds of purposes because we see the value in those.

So we may need to have different kinds of funding mechanisms to continue these important works, but they are valuable and something we would like to continue.

Ms. SHEA-PORTER. But in the end are you saying there is life for NHHEAF?

Mr. SHIREMAN. Whether it will be exactly the same type of entity, I think there will be change and there already is change because of what we have seen in the market, but having state agencies that are involved in helping students, not just with their student loans, but with understanding college financial aid generally is something we need more of.

Ms. SHEA-PORTER. Okay, and will organizations like NHHEAF be at the table, as you work out these details and decide what direction you want to go?

Mr. SHIREMAN. Absolutely. We have been meeting with all of the different associations and many of the entities for the past—during the transition, as well as since we have been in the administration.

Ms. SHEA-PORTER. Okay. Thank you, and I yield back.

Chairman MILLER. If the gentlewoman would just yield, just on this point, my understanding is whether it is Sallie Mae or Citicorp or New Hampshire, that they would all continue to service their existing portfolio; is that correct?

Mr. SHIREMAN. The current FFEL portfolio would continue——

Chairman MILLER. Whatever they have?

Mr. SHIREMAN [continuing]. So there would not be some immediate end to the current portfolio of FFEL loans, so there will be a ramp down over time, a lot more loans in the Direct Loan Program, and those would be serviced by private sector entities that we contract with.

Chairman MILLER. And that—okay. I won't complicate it. Okay, thank you.

Ms. SHEA-PORTER. Could I——

Chairman MILLER. It is complicated, but yes.

Ms. SHEA-PORTER. Could I ask for one more minute, please, Mr. Chairman?

Chairman MILLER. Yes, you still have some time.

Ms. SHEA-PORTER. Okay, thank you. I just wanted to make clear that, under the Ensuring Continued Access to Student Loans Act will they be servicing those loans?

Mr. SHIREMAN. The loans that are being purchased by the department over the coming months, at least at the start, will need to be serviced by entities that we have contracts with, by the end of this summer and those would be the ones that are in the current procurement that was begun by the prior administration.

The question of whether beyond that there might be more and more opportunity is something that we will entertain, when the current procurement is done, in the next month or so.

Ms. SHEA-PORTER. Thank you. I yield back, thank you.

Chairman MILLER. Thank you.

Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman. I am glad this is all so crystal clear. Earlier we talked and we heard some of our colleagues talk earlier about all the wonders of competition on that. It seems to me that, you know, there really isn't any pure competition in this at all.

We have one pool of money, Mr. Shireman, I guess we have one pool of money, and if it were private companies or non-governmental companies I should say, on the other side, then they wouldn't be getting subsidies and they wouldn't be getting guarantees.

So, if we really want a competition and allow them into the game and not give them subsidies and not give them guarantees, how would that change the competition do you think? Would those people stay in the business or would they get out?

Mr. SHIREMAN. Well, I checked last night to find out what the interest rate would be on a personal, unsecured loan with somebody with good credit, like me, and it was 14½ percent, fixed rate. That was a fixed rate.

It looked maybe there were some where maybe I could get it down to eight or nine, in some special kind of circumstances, but people would be paying much, much higher interest rates, if they could get a loan. And usually, students at 18, 19 years old, don't have much of a credit rating.

Mr. TIERNEY. Right. I mean so it looks like we are just finding a way here to funnel money to the FFEL program people as an alternative to a direct loan, where we could just keep it on the direct loan here. The only difference might be some of the services, which you are also providing for in the new proposal, am I right?

Mr. SHIREMAN. Absolutely. We are talking about two different ways of running a government program that uses the private sector and it is not a true government vs. private——

Mr. TIERNEY. And picks up costs along the way of marketing, of higher salaries, of profits——

Mr. SHIREMAN. Yes.

Mr. TIERNEY [continuing]. Of all those things that means that the student gets a worse deal on his loan and the taxpayer gets a worse deal.

Mr. SHIREMAN. Yes, there are a lot of added transactions there.

Mr. TIERNEY. Right. So just one final thing on that point that my colleague raised a second, we right now are looking at a 6.8 percent

rate. Congress could change that rate, which would mean that the borrower student would actually get a benefit and pay less.

When you talk about that being a cost, what you really mean is it would be less revenue into the government, not that you would have to put money out-of-pocket, but less revenue.

Mr. SHIREMAN. It would be less revenue. In a low interest rate environment——

Mr. TIERNEY. Right, it would be less revenue.

Mr. SHIREMAN. Right.

Mr. TIERNEY. So it is not a cost, it is just less revenue.

Mr. SHIREMAN. In the current environment, yes.

Mr. TIERNEY. Right. And then that less revenue would mean less to go into a Pell Grant proposal that you have?

Mr. SHIREMAN. Right.

Mr. TIERNEY. So Congress could decide to split the baby on that and change the interest rate, put some more into Pell, but also give that student borrower more of an advantage than they currently have.

Mr. SHIREMAN. Congress could make that decision, yes, sir.

Mr. TIERNEY. Thank you very much.

Mr. SHIREMAN. The President would have to sign the bill.

Mr. TIERNEY. I have heard about that process. Thank you. I yield back.

Chairman MILLER. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman. I apologize for not being here before. We had another hearing. First of all I see in the audience, Tom Butts who worked with Bill Ford to—you were kind of the obstetrician of the direct loan bill and he was the father of it. Good to see you here, Tom. I know the University of Michigan has used that very much and glad to see you here today.

When I went to college back in 1947, you mentioned that you go by San Francisco State University and how huge it is now and, you know, that is true all over the country.

Even small, community colleges, we didn't have many community colleges in those days, but in my city, Mott Community College has grown and that is the entry point for so many students now and there has been a proliferation of that.

So, higher education has really grown throughout the country, with a combination of financial means to get that student into a college. My dad had couldn't borrow from the bank.

I didn't have any value to the bank or anything that they could get the money back on, so he just put his money together somehow and sent only one of his five children to college. That is all he could afford.

So the loan program has been tremendous and I, myself, have felt that the Direct Loan Program has been a very, very important program in this, in helping students. I know the University of Michigan has used it very, very well in attracting students not only to its campus in Ann Arbor, where I went to school, but also its campus in Flint.

But I do think that we have an enormous responsibility to make sure that the bottom line for this is what loan program or programs will best serve the students and best serve the taxpayers of

this country, and I will be reading the testimony to try to learn more about that. I thank you for the hearing this morning.

Chairman MILLER. Thank you. Earlier on, I referred to a chart that we had that sort of demonstrates where we have been and what we have tried to do in the last couple of years, and that was really a transfer of money from the FFEL Program to the Pell Program that we did in the last 2 years, and then you see where the President wants to take us.

I don't think anybody involved in education, and again understanding the opportunity that we are trying to extend in this country to all qualified students to go and pursue a college education, cannot appreciate how serious of a decision this is.

That is a significant amount of resources to be made available to those who struggle most financially, and again, we have a fair amount of evidence, good evidence, that a significant number of those students are deciding not to pursue a college education because they don't believe that they can afford it.

I think I can persuade most of them, certainly in the state of California, that they can knit together the resources to do that and receive a first class education. But as we have talked with various universities and colleges and community colleges around the country, I don't think there is anyone that has suggested that this would not be a major boost to attracting those individuals to college.

So to the question of, you know, we have had a fundamental change in this program because of the credit markets. We didn't create it, you didn't create it. It is part of the tragedy of the financial scandals. They spilled over onto every facet of financial life in this country and we are reeling from those activities that were undertaken.

But the fact of the matter is we now have to decide, since we are essentially the only real player in the game here, with certainty, what we do. And, you know, we are still discussing with CBO what these various programs and changes would mean or not mean.

But the idea that we could just leave money on the table here when we know the struggle that these students and families are engaged in to try to pay for an education is not a minor decision.

And the administration has given us a proposal where they want to go. Whether it is an entitlement or not an entitlement, certainly over the next 10 years you can see your way clear to a very significant addition of resources.

You know, what we don't want to have happen is where we are back to the left of the chart there, where we were sort of on a flat line, but the cost of college never broke a sweat, you know, in going above that and we saw the ability to afford that continue to be diminished for these individuals or, well, diminished and they ended up taking on much more debt.

And I think there is sort of a consensus in the country that more and more debt is not the answer. Chancellor Reed and a lot of other people at this table agree, something more has to—Buck McKeon has been a leader on this—something more has to be done to get support.

We need some partners with these institutions, especially the public institutions where the states, for a whole host of reasons,

walked away from maintaining that effort that they had 10 years ago and 15 years ago. We somehow have to recreate that partnership.

But I know that, you know, there has been some suggestion that this is all a done deal, that this has all been very cavalier. This is a very big important question. We are moving from a system that, in many ways, worked very well.

I always thought it was too expensive, and I was always stunned every year when George Bush's budget said, well, you know, here is the money on the table if you guys want to do something about it, and finally it happened.

I mean I think there is agreement that there is a serious cost to the way that this program has been run. What we do with that is an important question for the members of the committee, and I think you saw that in the attendance of the first part of this hearing. Unfortunately, we were interrupted by a vote.

But what we would like to do is to stay in touch with you, obviously, as we wind our way through this and consider what options we want to put before the committee and the Congress, but I think it is very important that this committee do address this matter.

And I haven't gotten in the habit of telling President Obama "no" yet, so we will proceed here, because it is a very, very important decision in terms of the resources that we can put behind those most financially challenged to educate their children.

It is just not much more complicated than that and we are talking about young people who are fully qualified to take advantage of a college education, and that is what this committee exists for is to try to expand that opportunity.

So, thank you for your time, your expertise and my apologies for the interruption. I know some of my colleagues, because I was talking to them on the floor, they had scheduling conflicts, but I think they may have some questions for you.

I would hope if we submit them to you, you would be able to get them back to us. We will have them single spaced and typed or double spaced and typed. But I think they do have some questions.

And so no objections, the committee will stand adjourned. Thank you very much.

[The prepared statement of Mr. Petri follows:]

Prepared Statement of Hon. Thomas E.Petri, a Representative in Congress From the State of Wisconsin

I want to thank Chairman Miller and Ranking Member McKeon for holding today's hearing on student loan reform.

I fully support the President's proposal to end the Family Federal Education Loan (FFEL) Program and originate all new federal student loans through the Direct Loan Program.

For over two decades, I have argued that our student loan system has unnecessarily lined the pockets of lenders and middlemen at the expense of students and taxpayers. Recently, the Congressional Budget Office reported that this change would save $94 billion over ten years. That's a fantastic amount, and it illustrates how rich the subsidies are to the financial institutions which participate in the student loan program, and why they have fought tooth and nail to keep the guarantee program going.

Besides being costly to taxpayers, the FFEL program has also been plagued by abuse and scandal. For instance, last Congress it was found that from 2001-2006 nonprofit lenders illegally claimed, according to one estimate, over $1 billion in improper subsidies by knowingly manipulating a loophole in the law. And then there was the "pay for play" scandal when it was revealed that college aid administrators

and Department of Education officials in charge of overseeing FFEL received special favors, benefits and kickbacks from lenders in exchange for steering students to their loans.

Last year, the credit crunch further highlighted the drawbacks of FFEL. Many lenders cut back their lending to certain institutions, particularly community colleges. Finding FFEL unreliable, hundreds of schools switched to the Direct Loan Program where the availability of money has never been in question. Congress was forced to pass emergency legislation to allow access to Treasury funds so they could continue to make their loans. Therefore, according to the President's Budget for the 2008-2009 school year, 75% of all federal student loans will be financed by Treasury funds.

Today's hearing will highlight the benefits of originating all new loans through the Direct Loan Program. Besides the tremendous cost savings to taxpayers, I expect several of the witnesses to detail their school's positive experience switching to the Direct Loan Program and the benefits the program provides to both students and college aid administrators.

Advocates of FFEL will also present various complex counter proposals to keep their role in the federal student loan program. One only has to look at the author of the various proposals to understand the winners and losers. The fact is that for far too long the FFEL program has been structured in the interests of lenders and other middlemen. The Direct Loan Program is tested and has proven to be the most cost effective, reliable, and efficient federal student loan program.

[Additional materials submitted by Mr. Miller follow:]

April 20, 2009.

Hon. GEORGE MILLER,
U.S. Congress, 7th District, Rayburn House Office Building, Washington, DC.

DEAR REPRESENTATIVE MILLER: As Chair of the California Student Aid Commission, I write to inform you that the California Student Aid Commission has voted to support President Obama's concept in the 2010 Budget proposal to originate all new federal student loans through the Direct Loan Program and to use the savings to create a stronger and more reliable Pell Grant program.

The Commission supports the President's proposal even though, perhaps ironically, we are designated by the United States Department of Education as the student loan guarantee agency for California under the Federal Family Education Loan Program (FFEL Program), and are the second largest guarantee agency in the country. If you make California's position known, it may well induce other states to follow. We shall certainly communicate it to all members of our congressional delegation.

In addition to its FFEL Program responsibilities, the Commission is the primary agency in California responsible for the administration of student financial aid programs supported by the state and federal governments, including the state-funded Cal Grant Program.

Since the State of California has determined that the student loan guarantee business is not a core mission of state government—to the extent that the State is currently attempting to sell its student loan guarantee program assets and forego the State's involvement in FFEL Program administration—I believe the Commission's perspective on this issue emanates solely from a desire to act in the best interests of students.

We agree that the President's goal of reducing unnecessary lending costs in order to strengthen the Pell Grant program is in the best interests of students.

The Commission also adopted a motion stating that the Direct Loan Program should provide quality services essential for students, including, among other things, default aversion, outreach, early withdrawal counseling, and training for financial aid officers, and that those services should specifically address the diverse needs of the students and institutions.

The Commission, however, does not have in mind any particular proposal by which these services would be provided.

I and the Commission's Executive Director, Diana Fuentes-Michel, would be pleased to discuss these matters with you. The Executive Director and I serve as the Commission's contacts on all matters relating to the President's Budget Proposal and Direct Loan Program. We applaud your continuing good work in this vital area, and we want to help in any way that we can.

Sincerely,

BARRY KEENE, *Chair,*
California Student Aid Commission.

NATIONAL DIRECT STUDENT LOAN COALITION,
May 21, 2009.

Hon. GEORGE MILLER, *Chairman,*
Committee on Education and Labor, U.S. House of Representatives, Washington, DC.

DEAR CHAIRMAN MILLER: President Obama's proposal to transfer $94 billion in lender subsidies to students merits your support.* The President's education budget proposal includes changes to the status quo of higher education funding that will result in stabilizing and increasing Federal Pell Grant aid for needy, qualified students. Under the President's plan, Pell Grants for financially at-risk students would not only increase significantly in the short term, but also increase systematically going forward by moving Pell from discretionary to entitlement spending and indexing increases to the Consumer Price Index (CPI) plus 1%. It is not fiscally responsible for the government to support two student loan delivery systems. However, for the past 15 years, Congress has supported both the Federal Family Education Loan Program (FFELP) and the Federal Direct Student Loan Program (DL).

- FFELP ideally (though not currently) uses private capital to loan to students, encouraged to do so by statutorily set federal subsidies, special allowance payments, and guarantees against defaults. Recently, however, it has been funded by the Treasury just like DL. There are thousands of entities who participate in FFELP loan delivery, including thousands of banks and other lenders, more than 30 guaranty agencies and numerous servicers.
- The DL is a simplified system in which students receive their loans from the Department of Education, through their school, using the same process for delivering Pell, ACG, and SMART.

Today, Congress leaves the choice of loan delivery selection to the discretion of schools. However, this allows colleges and universities to decide how $94 billion in taxpayer subsidies will be spent. We are not aware of any other government program where this is allowed.

You have undoubtedly heard from FFELP industry lobbyists arguing against the President's proposal, as well as from organizations proposing hybrid loan delivery ideas that are incomplete, unproven, and inherently more expensive for taxpayers than DL. As a grass-roots organization representing financial aid administrators at over 1600 Direct Loan schools, we want to reassure you that the DL program is strong, proven and simple and has been working very well for students and schools for over 15 years. We have prepared the enclosed fact sheet to provide you additional information on the DL program that we hope will assist you as you deliberate this historic proposal to shift precious federal resources from lenders to students. Please accept our best wishes and heartfelt thanks for all you do for our students, assisting them in affording the higher education they so desperately want and our country needs. You may call upon any member of the NDSLC's executive board for further information, data, or clarification.

Sincerely,

ROBERTA JOHNSON, *Chair,*
National Direct Student Loan Coalition Executive Council, 2008-09.

Direct Loan Facts

Is choice of lender or delivery system an essential element of a successful federal student loan system?

- In no other federal financial aid program are schools or recipients provided a choice of fund delivery methods
- Loan benefits are statutorily set and virtually no FFELP lenders are providing differentiated benefits; the concept of "choice" is not relevant.

Won't a move to DL increase the national debt?

- Direct Loans are an investment that pay for themselves and even make a profit for the government. While the proceeds of Treasury auctions used for DL may be temporarily part of the national debt, the debt is paid for by the repayment of the loans. FFELP loans are considered a "contingent liability" of the federal government and, as such, are also a part of the total real debt of the government.
- Issues with private liquidity led to passage of the Ensuring Continued Access to Student Loan Act of 2008. Through ECASLA, many of the FFELP loans made for FY08 are already owned directly by the federal government.

Can the Department of Education provide superior, consistent service in DL?

*Congressional Budget Office (CBO) March 2009 estimate of the effect of President Obama's budget proposal to cancel the Federal Family Education Loan Program (FFELP) and move all student loans into the Federal Direct Student Loan Program (DL).

• Proven through repeated internal measurements and feedback from DL schools and borrowers, the U.S. Department of Education provides consistent and superlative service from origination of loans and borrower contact, through servicing and eventual collections. Schools continue to report their high satisfaction with contractors selected and hired by the Department to handle the DL operations. These contractors are selected based on competitive bidding process with compensation tied to performance measures.

• Servicing in DL is handled by private sector companies, under competitive contract to the government Current FFELP servicers are now bidding on these contracts as DL expands. It is disingenuous to argue that the service would be worse, given the servicers would be the same as in FFELP.

• FFELP schools are reporting that they are having trouble finding lenders for their students, with many community colleges virtually black-listed by FFELP lenders.

Will default rates go up if all schools use the DL delivery system?

• The Department of Education has published the comparative default rates for DL and FFELP for each year in which the programs have operated concurrently. In each year except two, the DL default rate has been about 20% lower than in FFELP.

• In the FFELP profit model, there exists a perverse incentive in which profits are increased when borrowers default, as late fees, penalties, and collection costs are capitalized before lenders are reimbursed for the defaulted loans. Balances are so high as a result, that many borrowers can never recover.

• In the DL model, there is no profit motive driving servicers to increase borrower indebtedness. In fact, they are rewarded for keeping defaults down. Borrowers have no reason to default since Income Based Repayment and Income Contingent Repayment options can provide relief to all, regardless of their financial circumstances.

What about the loss of services that lenders and guaranty agencies provide?

• The non-statutory outreach programs currently provided by many guarantors can be worthwhile. However, the continued existence of these programs is not contingent upon FFELP's existence, and could certainly be paid for by Congress outside of the guaranty agency funding structure.

• Some FFELP lenders, guarantors, and servicers provide training to FFELP schools, as well as assistance in default management and financial literacy programming; however, their training programs are duplicative and therefore unnecessary:

• The Department of Education provides extensive training to all schools in all areas of federal financial aid management, including DL.

• The Department provides annual conferences, webinars, Dear Colleague Letters, etc., to educate financial aid administrators and others in legislative, regulatory, and operational issues.

• The Department has a default management program called "Late Stage Delinquency" which has successfully assisted borrowers to prevent default. Schools are able to participate in the process or may leave the efforts to the Department.

• Schools are not and should not be dependent upon lenders and guaranty agencies for financial literacy information for their students. Many schools have mandatory financial literacy courses, and others provide superior web programs, including an exceptional course from the National Endowment for Financial Education available to all institutions at no cost.

Will the loss of FFELP mean employee layoffs?

• It is expected that current FFELP entities will participate in the competitive bidding process and become new DL contractors for the U.S. Department of Education as volume shifts from FFELP to DL. (Sallie, NelNet, and other FFELP lenders have already announced their intention to do so.) Therefore, many FFELP employees will not see job loss, just job change.

• Many of the employees engaged in FFELP activities are involved in FFELP servicing operations. Their companies have billions in outstanding student loans that will continue to need servicing and these FFELP servicers are in a position to compete for servicing contracts with the government. It is incorrect to state that all of these employees will be laid off if the President's proposal is adopted.

Has competition among FFELP lenders and between DL and FFELP really resulted in improvements to both programs?

• Undoubtedly, the competition among FFELP lenders has resulted in improvements to FFELP.

• Historically, the U.S. Department of Education has not sought to increase DL market share since its inception and as such has not competed with FFELP for market share. As a result, the Department's improvements have been instigated by their mandate to manage all federal financial aid programs to the highest standards.

• The most significant improvement to DL delivery in recent years is the implementation of the Common Origination and Delivery (COD) system, which was created as a simplified and single method for all student financial aid to be disbursed to students, including PELL, ACG, SMART, and DL.

Will it cost schools a significant amount of money or time to convert to Direct Lending?

• Nearly 700 schools transitioned into the DL program for the 2008-09 academic year. Not one has indicated inordinate resources were required to convert to DL.

• Many schools utilize enterprise software systems which already include DL modules as an option. Also, the U.S. Department of Education offers a software program (ED Express) which many schools use to process all federal aid. ED Express includes a DL module.

• Schools that participate in PELL, ACG, or SMART already interface with the COD system. Transitioning to DL requires transmission of a few additional data fields. Schools can actually save money by not operating one computer platform for PELL, ACG, and SMART and a separate platform for loans. Staff and resources now spent operating two systems can be spent assisting students.

U.S. CONGRESS,
Washington, DC, May 22, 2009.

Hon. GEORGE MILLER, *Chairman;*
Hon. HOWARD P. "BUCK" MCKEON, *Senior Republican Member,*
Committee on Education and Labor, Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN MILLER AND RANKING MEMBER MCKEON: I respectfully request to submit the following letter to the record from the Bank of North Dakota for the hearing the Education and Labor committee held on May 21, 2009, entitled, "Increasing Student Aid through Loan Reform". I believe the Bank of North Dakota's insights will significantly contribute to this hearing. I appreciate your attention to this request.

Sincerely,

EARL POMEROY,
Member of Congress.

May 21, 2009.

Hon. EARL POMEROY,
U.S. House of Representatives, Washington, DC.

DEAR MR. POMEROY: Bank of North Dakota (BND) is the only state-owned Bank in the country. Our mission, established in 1919, is to promote agriculture, commerce, and industry. An educated workforce is crucial to further development of our state and that is why we strongly tie education to our mission.

BND has been involved in the federal student loan program since 1967 when the program was called the Federally Insured Student Loan Program. In fact, BND made the first federally insured student loan in the nation. North Dakota has ensured that students attending school in the state will have access to a student loan program—either through a federal student loan program or by a state administered program in state statute. Our residents are assured that reaching a higher education is possible and that the state supports BND as the administrator of such program(s).

Also by state statute, BND administers the North Dakota guaranty agency. This agency guarantees loans for lenders, provides financial literacy education and training to students and colleges, and provides additional assistance to lenders in order to prevent defaults from occurring. The default rate for the guaranty agency is 3.1 percent. This rate is a compilation of all lenders with loans guaranteed in North Dakota for FY2006. BND's rate as a loan originator is 1.8 percent.

BND serves a state that is 100 percent Federal Family Education Loan Program (FFELP). We have worked hard to gain the support of all the higher education institutions in North Dakota—both public and private. Today BND guarantees, originates, and services in excess of 70 percent of all student loans in the state. We pride ourselves on providing the best customer service possible and it is done locally, not through a national servicer.

Profitability is not our primary motivator; BND is one of a few lenders who fulfill federal requirements while continuing to provide borrower benefits to keep student

costs down. BND profits have traditionally been sent back to the state general fund used to grow capital or to provide new economic development tools.

Building on supporting an educated workforce; BND provides a companion alternative loan program—the Dakota Education Alternative Loan (DEAL) that fills the gap when the federal program limits have been reached. Unlike most alternative loans, DEAL loans are guaranteed by the North Dakota guaranty agency. As education costs continue to climb, we have used this program increasingly to meet student needs. Currently, BND processes our DEAL loans at a 5.99 percent fixed interest or a 2.69 percent variable interest rate. We understand the increasingly large debt burden students carry and believe that by pricing their loans fairly, we can maximize their ability to succeed in repaying their student loan debt.

This philosophy may differ from other lenders. We believe we have North Dakota's students' best interests at heart.

In addition to its administration role in student loans, BND also administers the state's 529 college savings plan along with acting as the state administrator for all of North Dakota Dollars for Scholars chapters. Both programs assist North Dakota students reach their higher education goals without debt burden.

In summary, BND, for the past 42 years, has been synonymous with student lending and that is what the citizens of North Dakota would like to preserve.

Sincerely,

ERIC HARDMEYER, *President.*

Prepared Statement of Campus Progress Action

Campus Progress Action, the youth division of the Center for American Progress Action Fund, a 501(c)(4) organization, respectfully submits this statement to the Committee on Education and Labor. We are grateful for the opportunity to share our views.

Campus Progress Action works with and for young people to bring about progressive change on the issues of most importance to them, from economic opportunity, to environmental sustainability, to human rights. Campus Progress Action also works to train the next generation of young people, so our country will have leaders with the preparation, vision, and determination to address our nation's most critical challenges.

President Obama's student lending proposal, contained in the budget he submitted to Congress, and included in the budget resolution passed by Congress on April 29, is a common sense idea that would help thousands of low- and middle-income Americans go to college. Because student loan repayment is guaranteed by the federal government, private lenders assume very little risk under the Federal Family Education Loan Program (FFELP), and yet they are rewarded handsomely—a subsidy that makes little economic sense. The President's plan would end these wasteful, expensive subsidies and use government funds to lend directly to students under the Direct Lending Program. The savings would help support the President's proposal to increase Pell grants to $5,550 for the 2010-11 school year and to make the Pell grant a mandatory government program guaranteed an increase (inflation plus 1 percent) each year.

Campus Progress Action and our partner 501(c)(3) entities Campus Progress and the Center for American Progress have long advocated for a move to direct lending. See the articles collected at: *http://fundingourfuture.campusprogress.org/2009/04/291/* See also Pedro de la Torre III and Carmen Berkley, Aid for Students, Not Banks, Inside Higher Ed, April 21, 2009, *http://www.insidehighered.com/views/2009/04/21/delatorre*

The President's proposal supports his pledge that "by 2020, America will once again have the highest proportion of college graduates in the world." With the Lumina Foundation for Education estimating that by 2025 we will face a shortage of 16 million college-educated workers, this is an urgent call to action. The current economic crisis reminds us of the critical need to draw on talent across all communities in our country and give them the education and training needed to lead all sectors of our economy and society. In addition, Campus Progress Action is committed to economic opportunity and mobility for young people, and we want to work toward a world in which economic and social disadvantage do not prevent qualified young people from obtaining access to higher education.

As President Obama noted, in reaction to his proposal student loan companies "have mobilized an army of lobbyists" to protect their subsidies. These companies have powerful allies in Congress, whose support for the student loan industry cannot be separated from the extensive campaign contributions the industry provides to federal lawmakers. As New York Attorney General Andrew Cuomo found in an

extensive investigation, the loan companies also have used gifts to colleges and college administrators to gain allegiances on some campuses. Despite the support the loan companies have garnered through such questionable practices, many of the leading higher education associations have signed a letter supporting the President's proposal.

That the current FFELP system is rife with such corruption is one more argument for its elimination. In addition to the practices documented by Attorney General Cuomo, some lenders and guarantee agencies, such as NelNet, aggressively and, many argue, illegally, grew the volume of loans that would earn them extra subsidies from the Department of Education; these overpayments, now called the "9.5% scandal," totaled more than $1.2 billion over six years.

Beyond its susceptibility to improper practices by loan companies, FFELP is also less reliable for students. In fact, Congress was forced to put the industry on life support—by purchasing FFELP loans in order to provide struggling companies with fresh capital—late last year.

Campus Progress Action is moving swiftly and aggressively to promote public understanding of and support for the President's proposal and to ensure that the voices of millions of young Americans—those paying for college and those who cannot afford to do so—are heard in the debate. Through research, events, grassroots organizing, social networking, and multimedia, Campus Progress will use real stories from young people to demonstrate how every dollar saved from the switch to direct lending can have a meaningful impact on the lives of students.

Young people from all economic backgrounds deserve access to a higher education, and that access should in no way be limited or hindered by wasteful subsidies to private companies.

We are urging people to take action on this issue by visiting: *http://www.campusprogress.org/StudentsOverBanks*

UNIVERSITY OF CALIFORNIA,
FRANKLIN STREET,
Oakland, CA, April 29, 2009.

Hon. GEORGE MILLER,
2205 Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN MILLER: The University of California, with more than 220,000 students on ten campuses, supports the proposal President Obama outlined in his FY 2010 budget to fund Pell Grants with mandatory dollars and make this program a true student entitlement. Congress has an opportunity this year to add significant new funds to student financial aid and to provide regular, predictable annual adjustments to the maximum Pell Grant award.

To help achieve the increase in funding for the Pell Grant program, UC supports the President's proposal to save $94 billion by eliminating the Federal Family Education Loan Program. UC will work with Congress to ensure a smooth transition for institutions that would need to convert to the Direct Loan Program.

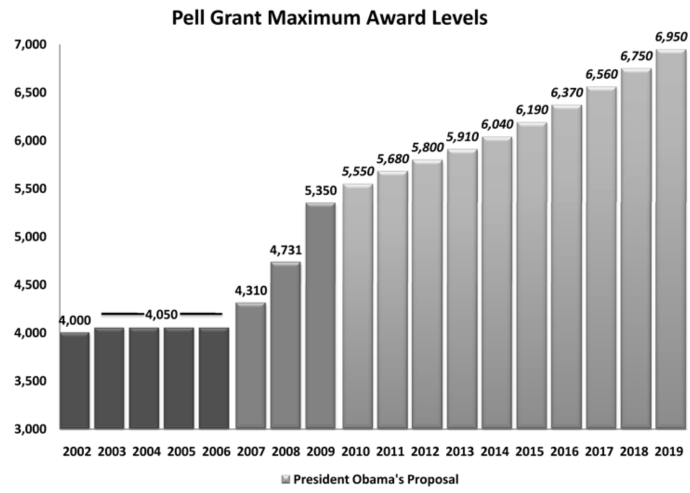
Nearly one-third of UC undergraduates received Pell Grants—55,000 students—totaling more than $170 million in academic year 2007-2008, and there are even more today. These students and families, as well as students across the nation, will benefit from the

Administration's efforts to revitalize Pell and stabilize the funding to avoid the problems created by chronic shortfalls.

The University urges your support for this proposal, which makes sound economic sense, represents good public policy, and is needed to improve meaningful access to college.

Sincerely yours,

MARK G. YUDOF, *President,*
University of California.



[Additional materials submitted by Mr. McKeon follow:]

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c/o Becky Hammett
Financial Aid Office
PO Box 3074
Monticello, AR 71656-3074
(870) 460-1050

March 16, 2009

Dear Congressman / Senator ___________:

On behalf of the Arkansas Association of Student Financial Aid Administrators (AASFAA), I am requesting your careful consideration in determining the future of the Federal Family Education Loan Program (FFELP). Our association supports a thorough analysis of both FFELP and the Federal Direct Loan Program in order to determine how we can best serve the financing needs of our students. We hope Congress will address the future of federal student loans cautiously before eliminating a program that has served our state efficiently and effectively for four decades.

We applaud many of President Obama's education initiatives; however, the proposal to shift entirely to the Federal Direct Loan Program by July 2010 appears to be moving with unnecessary haste. FFELP is the program of choice for almost every Arkansas college and university with 98% of federal loans being made through the FFELP program in the 2008-2009 academic year. Approximately $500 million in FFELP loans and approximately $7 million in Federal Direct Loans were made in Arkansas during the current academic year.

We have the following concerns:

1. The Department of Education's ability to manage a 400% increase in national loan volume during the next 15 months.
2. Students whose loans will be divided between two programs and the potential for increased defaults by our students.
3. The Department of Education has not reported default rates for loans originated in the Federal Direct Loan Program.
4. The significant system changes required to implement a new loan program on most every campus in Arkansas by 2010.

Choice and competition among student loan providers have greatly benefited colleges and universities as well as our students. Students and schools have benefited from the efficiencies developed in FFELP because loan providers have a constant incentive to be innovative and offer better services and lower rates. While FFEL and the Federal Direct Loan programs have served students effectively, please note that under FFELP, student loan providers do more than just offer student loans. In fact, most state-based student loan providers and many private lenders offer a variety of valuable college planning services.

Please consider our concerns as you work with your fellow members of Congress to address the education funding needs of Arkansas and our nation. The members of AASFAA exist solely to serve the education funding needs of Arkansas students. Please let me know if we can serve an informational resource for your office or provide assistance in any way.

Respectfully,

John Jefferson
AASFAA President
Director of Financial Aid, Southern Arkansas University Tech

April 1, 2009

The Honorable Kent Conrad
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Chairman Conrad and Ranking Member Gregg:

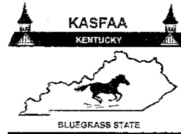
I am writing to ask your consideration of the contributions by guaranty agencies to college access efforts as you decide on the future of the guaranty agencies and the FFELP program.

College Goal Sunday (CGS) is a volunteer-run program that assists, free of charge, students and families from underserved populations in the completion of the Free Application for Federal Student Aid (FAFSA) the form required to determine eligibility for federal and state financial aid to cover higher education expenses. In its 20th year of operation, 39 states with over 10,000 volunteers plan and implement this important program that provides financial aid access to thousands of students each year.

College Goal Sunday is currently funded by Lumina Foundation for Education that provides seed grants for states to operate the program with the expectation that states will procure local funding to sustain the program following the end of the grant period. Each state's guaranty agency has stepped up to the plate to provide both funding and in kind support in order for the College Goal Sunday program to continue to provide higher education outreach services to those students and families who have no college-going history, are from low-income homes or from racial/ethnic backgrounds that have low college attainment rates.

Each year more underserved populations are identified such as homeless and foster youth, returning veterans, dislocated workers and others who need assistance with completion of the FAFSA and information on additional financial aid resources. As the need grows and the resources decrease, the guaranty agencies have always filled the gaps in order that the program effectively reaches and serves deserving families and students.

Guaranty agencies provide volunteers, financial aid training, identification of underserved populations in their states, promotional materials, and many serve as the fiscal agents for the grants in order for a state to offer a program. They also provide sponsorship resources for the annual College Goal Sunday training forum that brings together all volunteers for training and sharing of best practices. Without support from guaranty agencies, this forum would not take place.



A PROFESSIONAL ASSOCIATION TO BETTER SERVE STUDENTS

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March 20, 2009

The Honorable Jim Bunning
316 Hart Senate Office Building
United States Senate
Washington, DC 20510

Dear Senator Bunning:

On behalf of the Kentucky Association of Student Financial Aid Administrators (KASFAA) Board of Directors, we are requesting that you consider opposing the Obama administration's budget proposal to end the successful Federal Family Education Loan (FFEL) program and have all new loans after June 30, 2010 made instead under the Federal Direct Loan Program. FFEL was established by the Higher Education Act of 1965 (then called "Guaranteed Student Loan"). This successful program has been in existence for over 40 years and now is in danger of being eliminated.

KASFAA is a professional association made up of approximately 300 student financial aid administrators across the Commonwealth of Kentucky. Our concerns are as follows:

- Students and parents would no longer have the option to choose the lender that works best for their family and situation. Loss of competition between the two programs could also adversely affect families, as incentives to be innovative and provide excellent customer service would no longer be in place.
- Colleges and universities would lose the ability to choose the loan program that best meets the needs of their campus. Institutions and the needs of their students and financial aid offices vary greatly, and a "one size fits all" solution would likely not be the best for all.
- Elimination of FFEL would mean the loss of outreach services and college access activities provided by FFEL lenders and guarantors. The Commonwealth's goals to increase the college going rate and thus improve the education levels and quality of life in Kentucky would be negatively impacted by this.
- Loss of FFEL lender and guarantor partners would adversely affect the professional development activities of KASFAA. Complex federal and state regulations make these activities crucial to staying current in our profession and maintaining regulatory compliance.

Missouri Association of Student Financial Aid Personnel
Established 1967

March 17, 2009

The Honorable Claire McCaskill
Hart Senate Office Building, SH-717
Washington, D.C. 20510

Dear Senator McCaskill:

On behalf of the Missouri Association of Student Financial Aid Personnel, I am requesting that you oppose the Obama administration's budget proposal to eliminate the Federal Family Education Loan Program (FFELP). FFELP was established over 40 years ago by the Higher Education Act of 1965. FFELP has served as a successful public/private partnership; and the proposal of the elimination of the FFEL Program ignores the private sector involvement in student lending. The majority (86%) of Missouri institutions of higher education currently participate in the FFEL Program: and if this budget is approved it will have a dramatic impact on Missouri students, parents, and Financial Aid Offices. Here are some key points:

The National Debt will be increased by $1 Trillion dollars over the next 10 years if Direct Lending is implemented.

- The entire cost of a Federal Direct Loan Program (DL) is not apparent. The exclusion of administrative costs from calculations gives a noticeable advantage to DL compared FFELP costs. Subsidy cuts to lenders are also not fully considered.
- Taxpayers lose more money when a student defaults on a DL than a FFEL loan. Taxpayers fund 100% of a DL default while only 90-95% for FFEL loans.
- According to Inside Higher Education, every $100 of FFEL loans issued during FY08 cost the government $1.72, while every $100 of DL loans cost $4.26.
- The current FFELP loan volume is approximately $65 Billion. Without FFELP, the US Treasury will lend approximately $65 billion more, potentially adding $100 billion to the federal deficit through increased DL.

FFELP lenders, servicers and guarantors provide programs and assistance to students and institutions on default prevention, debt management, college access and outreach services.

- At a time when default rates will increase due to a change in the calculation authorized by HEOA, is it wise to remove FFELP players from the scene?
- FFELP lenders, servicers and guarantors tailor programs on default prevention and debt management to institutions who have high default rates.
- FFELP partners provide workshops, presentations, loan counseling, financial literacy, career exploration, outreach programs, need-based scholarships, funding for college access, and research to improve the retention of low income students.
- FFEL lenders, servicers and guarantors offer free and individualized default avoidance services to help keep borrowers on track during repayment. During FY2007 more than $52 billion in delinquent FFEL loans were resolved as a result of these types of services.
- FFELP partners offer borrower benefits such as interest rate reductions and loan forgiveness.
- Unemployment rates are soaring to record highs, making the need for default aversion activities and the education on repayment options more apparent.

Eliminating the FFEL partnership will mean the loss of at least 35,000 jobs nationwide, with a ripple effect on thousands more.

- With the nation's unemployment rate rising to its highest level in over 25 years, this is not the time to eliminate thousands of jobs.

2008 RECIPIENT OF THE NASFAA STATE AWARD FOR SERVICE TO ADVANCE ACCESS AND DIVERSITY

THE NORTH CAROLINA ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

March 13, 2009

The Honorable Richard Burr
217 Russell SOB
Washington, DC 20510

Dear Senator Burr:

On behalf of the North Carolina Association of Student Financial Aid Administrators, I am requesting that you oppose the Obama administration's budget proposal to end the successful Federal Family Education Loan (FFEL) program and have all new loans after June 30, 2010 made instead under the Federal Direct Loan Program (DL). FFEL was established by the Higher Education Act of 1965 (then called "Guaranteed Student Loan"). The primary purpose of this program, which leveraged public-private partnerships and involved the states, was to allow access to college for disadvantaged students. This successful program has been in existence for over 40 years and now is in danger of being eliminated.

Our concerns are as follows:

According to the Administration, eliminating FFEL will save taxpayers an estimated $4 billion.

- The entire cost of DL is not apparent. The exclusion of administrative costs from credit reform calculations gives an unfair advantage to DL compared with loan guarantees.
- During 2007-2008, Direct Loan issued 2.9 million loans totaling $13.1 billion.
- According to Inside Higher Education, every $100 of FFEL loans issued during FY08 cost the government $1.72, while every $100 of DL loans cost $4.26.
- The current FFEL volume stands at $65 Billion. Without FFEL, the US Treasury will lend approximately $65 billion more, potentially adding $100 billion to the federal deficit through increased DL. A move to 100% DL could potentially add $1 trillion to the federal debt over the next 10 years.
- Taxpayers lose more when a student defaults on DL than on a FFEL loan. 100% taxpayer dollars for a DL loan and only 90-95% for FFEL loans.
- There are approximately $6 billion DL loans in default.
- DL cannot repay all of the money owed to the federal government/taxpayers. According to the Department of Education, DL owes the government $96 billion but only has approximately $86 billion in performing loans to pay off that debt.

FFEL lenders and guarantors provide college access and outreach services.

- FFEL partners provide workshops, presentations, loan counseling, financial literacy, career exploration, outreach programs, need-based scholarships, funding for college access, and research to improve the retention of low income students.
- In addition to these types of activities, lenders have taken the lead in efforts to improve access and retention of first generation and minority students. They also support programs focused on HBCU and Hispanic-serving institutions. Some FFEL lenders and guarantors also tailor specific programs on default prevention and debt management to HBCU institutions who historically have high default rates.

AMY L. BERRIER
2008-2009 NCASFAA PRESIDENT
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North Dakota Association of Financial Aid Administrators

March 20, 2009

The Honorable Earl Pomeroy
United States House of Representatives
1501 Longworth Hart Office Building
Washington, D.C. 20515

Dear Representative Pomeroy:

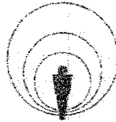
On behalf of the North Dakota Association of Student Financial Aid Administrators (NDASFAA), I am requesting that you oppose the Obama administration's budget proposal to end the successful Federal Family Education Loan Program (FFELP) and have all new federal student loans after June 30, 2010 made instead under the Federal Direct Loan Program (DL). FFELP was established by the Higher Education Act of 1965 (then called the "Guaranteed Student Loan"). The primary purpose of this program, which leveraged public-private partnerships and involved the states, was to allow access to college for disadvantaged students. This successful program has been in existence for over 40 years and now is in danger of being eliminated.

The FFELP provides benefits to students, schools, taxpayers, and the economy. Because the private sector student loan program offers schools and students a choice of lenders, the private sector competes for this business. The competition, in turn, has lowered the costs of student loans, improved service to both students and schools, and led to the investment of millions of dollars in technology to improve service and loan processing. According to America's Student Loan Providers Web site, competition in the private sector student loan program has driven down the cost of this program to the point that in both 2003 and 2004 the lenders participating in the FFELP managed the entire program at no net cost to taxpayers – making it the only federal entitlement program to break even.

Federal student loans play an increasingly important role in the ability of students and families to make the dream of college a reality. When more Americans achieve higher education, the economy benefits. Access to and availability of low-cost federal student loans is more important now than ever. During the 2007-08 award year, students and parents utilized 13.7 million loans totaling 64 billion dollars from FFELP lenders to cover higher education costs. If the flow of these student aid funds were halted, or even slightly disrupted, the effects would be devastating to students and colleges.

There are other critical reasons to reconsider the elimination of the FFELP, including these:

- Offering borrowers a choice allows them to use a lender with a local presence. This often makes it easier for borrowers to contact the lender with questions which can affect accessibility on the front end and repayment on the back end.
- Allowing students and their parents to use the same lender for Stafford, PLUS and private loans makes service, follow-up and repayment easier for the borrower.
    - Under the proposed plan, students could end up with multiple holders of their various loan types.
- Currently all North Dakota higher education institutions are FFELP participants.
    - Forcing 100% DL participation in 2010-2011 will turn every North Dakota student borrower with prior loans into a "split borrower". Upon repayment, students will have at least two different lenders and servicers to repay. Many borrowers will unknowingly repay just one loan not realizing that they were forced to borrow through two separate loan programs requiring two separate loan payments, resulting in a major increase in student loan defaults. Consolidation is an option for some; however, for many it would cause undue hardship, with higher interest rates, loss of repayment benefits, and loss of grace periods.
    - North Dakota colleges and universities will be forced to change their processing and delivery systems, as well as policies and procedures in a short period. Many colleges may not be able to afford the monetary and time



New York State Financial Aid Administrators Association, Inc.

March 18, 2009

Rep. George Miller
U.S. House of Representatives
2205 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Miller:

As President of the New York State Financial Aid Administrators Association (NYSFAAA) I represent over one thousand financial aid professionals as well as the millions of students and parents we serve. On behalf of both of these constituents I am writing to address two concerns. First, I want to thank you for seriously considering converting Federal Pell Grants into an entitlement program. Second, I need to share our concerns about the elimination of the Federal Family Education Loan (FFEL) program.

We applaud you and President Obama for working towards putting Federal Pell Grants on the entitlement side of the budget process. During the 2007-08 Award Year 5.4 million Students received 14.38 billion dollars from the Pell grant program. Without these funds, access to higher education in our state would be eliminated for thousands, while others would be forced into more loan debt than they already carry – assuming they have not already maxed out their loan eligibility, in which case they would fall in the category of lost access.

Pell Grant, formerly BEOG, has been a quasi entitlement from its inception. This guaranteed students their individual eligibility based on their income/family situation but it has always assumed appropriations. There have been consecutive years in which the award did not increase as well as some years when the award actually decreased. Most recently, in 2007-2008, the maximum Pell grant decreased. As a result of guaranteed funds from the *Higher Education Reconciliation Act* (HERA) the amount increased. However, it did not increase as much as congress wanted because of the lack of support in appropriations. President Obama wants to put Pell on "solid footing" by making it an entitlement program. We applaud the President's initiative because our country's most needy students deserve the right to know that they can rely on Pell Grant funding throughout their college enrollment, helping them to graduation and entry into the tax paying job market. His proposal of a Pell Entitlement with the proper starting point, and a guaranteed increase using the inflation index plus 1%, is something that the New York State Financial Aid Administrators Association thinks should have been legislated years ago.

stabilized the program and re-assured the public that access to a higher education would not be disrupted. ECASLA was then extended for a second year due to the fear that lenders would no longer be able to run and service the program.

The current proposal will once again destabilize the industry putting higher education access in jeopardy. At this time our government should be doing everything possible to create jobs and help save the financial industry. The result of eliminating FFEL would be tens of thousands of more people losing their employment and the end of an otherwise functioning financial industry (an industry that has functioned extremely well for decades while helping hundreds of millions of students get through college).

- Implementing 100% DL would forever burden the Federal Reserve with the requirement of making dollar for dollar delivery of funds to millions of students each year. When our economy was strong the lending partners were responsible for funding, distribution, and securitization, and they did it well. Commencing full DL will continue to add to the federal budget and the federal deficit.

- A mass influx of schools into DL will put a strain on services. We are confident that the delivery system can probably handle the enormity of additional volume that would be involved. The ability of servicing to keep up, however, is very questionable and would likely result in very poor portfolio management and increased default rates. If nothing else, the FFEL lenders, guarantors and servicers have done extremely well in their due diligence and have successfully reduced defaults over the years.

- We are concerned that the loss of FFEL would also reduce or eliminate the lenders who currently participate in the alternative loan programs – now known as Title X. If President Obama's budget and the congress were to include large increases in Stafford Loan eligibility, the availability of alternative loans will not be an issue. Consequently, we fully support increases to the Stafford program. Barring that, the elimination of FFEL would likely further impinge on alternative loan eligibility, impairing the country's middle class students' access to higher education. The affordability gap would have those students enroll in the lower cost city and state public institutions, reducing low income access to these institutions, and create a severe stress on these education systems.

Financial aid is about affordability and access. During these troubled times if anything can help us out of the recession and back to being internationally competitive it is the education of our youth and the re-education of our unemployed. Pell Grant entitlements are one of several promising steps towards the goal of a quality education for all who want it. Eliminating FFEL is contrary to that very same goal.

www.pasfaa.org

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March 19, 2009

The Honorable Arlen Specter
United States Senate
711 Hart Senate Office Building
Washington, DC 20515

The Honorable Robert Casey Jr.
United States Senate
383 Russell Senate Office Building
Washington, DC 20515

Dear Sirs:

On behalf of the Pennsylvania Association of Student Financial Aid Administrators (PASFAA), I am writing regarding President Obama's recently released 2009-2010 Federal Budget. We commend the President's commitment to making higher education a priority and we are pleased with his intentions and to boost funding for the Pell Grant and other student aid programs.

Of particular concern, however, is a proposal that mandates all federal student loans be made through the Federal Direct Loan Program (FDLP), fundamentally eliminating the Federal Family Education Loan Program (FFELP), from which our students have benefited for more than 40 years.

FFELP has been a successful public/private partnership with a long history of providing reliable access to higher education funding and providing our students with information on default prevention and financial literacy. PASFAA is an association of colleges, universities, business, trade and technical schools that enjoys participating in both the FFELP and the Federal Direct Loan Program (FDLP). PASFAA has a professional and long-standing working relationship with our state guarantor of record, the Pennsylvania Higher Education Assistance Agency (PHEAA). This relationship has served our students and staff very well.

Any additional changes in this current economic environment may have a significant impact on a student's ability to borrow and lead to the unintended consequence of students interpreting these changes as a reason that a higher education may not be an achievable goal. Our families look to our institutions for direction on all matters, including financial aid, and it is crucial that we are able to offer them viable solutions.

President Obama recently released his proposed budget for FY2010, which contains a provision to eliminate the FFEL Program. As the Rhode Island Association of Student Financial Aid Administrators (RIASFAA) is made up of both FFELP and Direct Loan Schools, we remain committed to both programs.

RIASFAA does have some concerns, however, about the elimination of the FFEL Program and the ramifications of it. As NASFAA President Dr. Philip Day stated "The FFELP public/private partnership has provided millions of students with loans to attend thousands of higher education institutions across the country. Students and parents should not be negatively impacted by losing FFELP participant-provided services like college access programs, financial literacy education and loan delinquency and default prevention"

In Rhode Island, we have approximately five Direct Lending schools and seven FFELP schools. The two system approach has worked because it gives the schools a choice of which program best fits their institution. The timeline of this change will cause significant hardship for FFELP institutions, as the schools will not have enough time to make the necessary conversion, which will require hiring and training the staff needed to run this program.

We would like to say, however, that we are grateful to President Obama for taking measures to shore up the entire financial aid system and making it a priority in his new administration. For too long, financial aid in this country was greatly underfunded, and it is a relief to have a President that takes an active interest in not only preserving it, but also trying to make it more accessible to families.

Sincerely,

Diane Usher
President Elect
Rhode Island Association of
Student Financial Aid Administrators

Southern Association of
Student Financial Aid Administrators, Inc.
Since 1963

www.sasfaa.org

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March 27, 2009

Dear Congresswoman Brown-Waite:

The Southern Association of Student Financial Aid Administrators represents over 1,200 financial aid professionals in nine states (including Florida) from various types of postsecondary institutions. As leaders in the financial aid field, our membership seeks to provide students with an awareness of financial aid and encouragement to apply for all funds for which they are eligible to receive. Our members are committed to serving students and providing the best information available on financial aid, scholarships, and financial literacy.

With this in mind, we want to commend the Congress on recent actions that seek to provide improved funding for the Federal Pell Grant Program and increases in the Federal Work-Study Program. Students will find college more affordable and attainable because of these efforts. We encourage you to continue to support additional funding for these programs which invest in the lives of students and create a well educated population, who become some of our most productive citizens.

While we are excited about the new support for the grant and work programs, we are concerned about the message students are receiving about student loans. For more than a decade we have seen the effectiveness of both the Direct Loan Program (DL) and the Federal Family Education Loan Program (FFEL) as they have worked in tandem. The competition has created a need for both programs to be creative with a focus on excellence. Recent indications that the FFEL Program will be dismantled have left schools in a state of limbo not knowing if they should immediately move to the DL Program, or stay with the program they know well, and that works best for their students.

The Southern Association of Student Financial Aid Administrators Executive Board supports the continuation of both loan programs and encourages Congress to publically support the dual program we now have. Legislatively we encourage Congress to ensure stability is restored in the FFEL Program, and that both programs have mirrored laws and regulations. By providing for the continued parallel track, we will stop the negative message students are receiving about student lending. Every time a student hears that a loan program may cease to exist, they assume, albeit incorrectly, that financial aid is going away. All of us must work diligently to ensure every student who needs the support of the financial aid programs is encouraged to apply. By clarifying the continued support for and existence of the FFEL Program students will have a confidence that education can be a reality.

Speaking for a wide range of direct stakeholders in the FFEL Programs, which include students, parents, postsecondary institutions, and financial aid administrators, we would like to share some perspectives that reinforce continuance of this vital program. Below are several key factors which should be considered in the Committee's review of the program.

"Building Successful Futures"
www.vasfaa.org

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Hampden-Sydney College

Treasurer-Elect
Heather Hollandsworth
Ferrum College

March 19, 2009

The Honorable Jim Web
144 Russell Senate Office Building
Washington, DC 20510

The Honorable Jim Webb:

The members of the Virginia Association of Student Financial Aid Administrators share a common goal – how can we best serve students and families as they try to find a way to pay for college.

President Obama's budget proposal contains increased funding for several existing federal financial aid programs. On face value, this is a good thing. However, our support for this increased funding is tempered by the piecemeal approach the budget proposal represents.

In the recent past, there have been major changes to federal student financial aid programs from several pieces of legislation:

- Higher Education Reconciliation Act
- College Cost Reduction and Access Act
- Ensuring Continued Access to Student Loans Act
- Higher Education Opportunity Act.

In each case, these laws imposed changes on a federal financial aid system that had already been patched and repaired numerous times in the past. Additionally, many of the changes were made with little input or consultation with those who have to directly implement the changes – student financial aid administrators.

What we are left with is a system that is confusing and cumbersome not only for aid administrators, but also for the students and families it is supposed to serve. Several studies have shown that hundreds of thousands of students annually do not seek higher education because of the complexity of the student financial aid system.

Let there be no mistake – we support President Obama's call for increased funding of federal student aid, and especially increased funding of need-based aid. However, we believe that to do so within the context of the current student financial aid system is not the best way to achieve the President's goal of making America the most educated country in the world.

There have been several discussions in the financial aid community in recent months regarding the best way to reform the student financial aid system. Two efforts are particularly noteworthy:

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Melissa J. Barnes
Norfolk State University

Representative-At-Large
Kasha Pope
J. Sargeant Reynolds Community College

Representative-At-Large
Paula Rafferty
Bon Secours Health System, Inc.

Representative-At-Large
University of Virginia College at Wise

SCHEV Liaison
Lee Andes
SCHEV

WASFAA

Western Association of Student Financial Aid Administrators

March 20, 2009

The Honorable George Miller
Chairman, Committee on Education and Labor
U.S. House of Representatives
Washington, DC 20515

The Honorable Howard McKeon
Ranking Republican Member
House Committee on Education and Labor
Washington, D.C. 20515

Dear Congressmen Miller and McKeon:

The Western Association of Student Financial Aid Administrators (WASFAA) is an organization that represents post-secondary educational financial aid professionals from Alaska, Arizona, California, Idaho, Nevada, Oregon, Washington, Hawaii, Guam, the Northern Marianas Islands and the Freely Associated Nations of the Pacific. On behalf of the more than 1100 members of WASFAA, we support a thoughtful and reasoned consideration of appropriate restructuring or creation of an efficient national student loan program that is cost effective. On that basis, we are writing to urge you oppose a rush to eliminate the viable, Federal Family Education Loan (FFEL) program prior to the full consideration of alternatives such as the proposed National Association of Student Financial Aid Administrators (NASFAA) model. We understand that the FFEL program has been subjected to uncertainty this academic year because of the turmoil in the financial markets. However, many states and regions have written letters urging that the FFEL program that presently serves over two-thirds of our students and has done so for over 40 years, be retained. In the WASFAA region this would affect 2,211,336 students who utilize the FFEL Stafford and 569,110 students who utilize the DL Stafford.

We feel in that light of the preliminary release of the new student loan model proposed by NASFAA, that there are also other options being put forth that would support choice for students, families and schools and continue a private and public collaboration for the benefit of all. We call on you to allow for a chance for a thoughtful, deliberative process that can perhaps present a new loan program that will take in the best of the present multiple loan programs and not have to decide on supporting the Direct Loan program over FFEL or maintaining both programs. The budget process should not drive student loan policy. The decision being proposed to change the major student loan program affecting millions of students should be subject to open debate to prevent unintentional negative consequences

We were encouraged by the support for higher education that was evident in the Fiscal Year 2010 budget framework and support many of the other items including the increase to the Pell Grant. However, to deliver real support for education, the benefit to one program should be supported with new funding and not the elimination or reduced benefit of other financial aid programs. Thank you for your consideration of our request for time to develop the best possible student loan program for our students.

Sincerely,

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cc: The Honorable John Spratt
The Honorable Paul Ryan

The Honorable Herb Kohl
United States Senate
330 Hart Senate Office Building
Washington, DC 20510-4904

March 26, 2009

Dear Senator Kohl:

I am writing on behalf of the Wisconsin Association of Student Financial Aid Administrators (WASFAA). Our association has members from over 70 public and private colleges and educational institutions in Wisconsin.

I am requesting that you oppose President Obama's budget proposal to eliminate the successful Federal Family Education Loan Program (FFELP). The budget proposal suggests that all federal loans created after June 30, 2010 would be issued through the Federal Direct Lending (DL) program.

Access and availability of low-cost federal student loans is more important now than ever. Federal student loans play an increasingly important role in the ability of students and families in Wisconsin to make the dream of college a reality. During 2007-2008, students and parents utilized 13.7 million loans totaling 64 billion dollars from FFELP lenders to cover higher education costs. If the flow of these student aid funds were halted, or even slightly disrupted, the effects would be devastating to students and colleges.

FFELP has been in existence for over 40 years providing a choice for students and families. It has provided a means for students from Wisconsin to achieve their higher education dreams. Eliminating FFELP would extinguish healthy choice and place unnecessary hardship on students, families and higher education institutions.

In addition, FFELP providers have partnered with schools to address default issues and offer default aversion services to borrowers.~ Default rates are at historic lows as schools, lenders, guaranty agencies, and servicers have implemented sound proactive default management practices and support to reach students before loans become delinquent. During FY2007 more than $52 billion in delinquent FFEL loans were resolved as a result of these types of services.

FFELP partners provide workshops, presentations, loan counseling, financial literacy, career exploration, outreach programs, funding for college access, and research to improve access and retention of low income and first generation college students.

Therefore, WASFAA urges you to vote against the Administration's Budget proposal to eliminate the Federal Family Education Loan Program. We would encourage a bipartisan emphasis to preserve a strong private sector-based federal student loan program that provides student and parent borrowers a meaningful choice in paying for an education.

Statement

Of

Dr. Philip R. Day, Jr.

NASFAA President & CEO

Presented on

May 21, 2009

U.S. House of Representatives

Committee on Education and Labor

Increasing Student Aid

Through Loan Reform

"Opening Doors of Educational Opportunity"

1101 Connecticut Ave, NW, Suite 1100

Washington DC 20036

202.785.0453

Mr. Chairman and members of the Committee on Education and Labor, I thank you for the opportunity to submit this statement today on increasing student aid through student loan reform. I am Dr. Phil Day, President and CEO of the National Association of Student Financial Aid Administrators (NASFAA). Formed over 40 years ago, NASFAA represents nearly 20,000 student financial aid administrators at 3,000 postsecondary institutions across the nation. Collectively, my members proudly serve more than 16 million students each year.

I am grateful that the Committee has convened a hearing to fully examine proposals to increase college aid while at the same time making the federal student loan programs more reliable, effective, and efficient for students, families, and taxpayers. In March, our association was one of the first that called on the Committee to convene such a hearing so that alternatives to the Federal Family Education Loan Program (FFELP) and the Direct Loan Program could be fully discussed.

In convening this hearing, the Committee has taken an important first step in fulfilling its promise to approach this issue carefully and thoughtfully.

NASFAA supports efforts to increase the Federal Pell Grant and to fund the program through mandatory spending. NASFAA also supports restructuring the federal loan programs to provide reliability, equity, and simplicity for students while creating savings for taxpayers. The outcome of that restructuring will be of the utmost importance to schools and we have proposed a framework that we believe can help guide this restructuring.

Increasing College Graduation Rates with Federal Pell Grants

Regaining our leadership in college graduation rates by 2020 is not an impossible dream. We cannot hope to achieve it, however, under the current student aid system. We must reassess the structure and funding levels of the federal student aid programs, especially the Federal Pell Grant, to provide an adequate and predictable source of assistance for low-income students.

Making the Federal Pell Grant funding mandatory will be one of the greatest victories for low-income students since enactment of the Higher Education Act of 1965. Since its inception, appropriated Pell Grant funding amounts have only equaled the full authorized amounts four times in the program's history. In all other years, it has fallen short. In recent years, the growth in grant aid has diminished in proportion to student loans. Grant aid declined from 63 percent to 45 percent of external funds used by undergraduates from 1991 to 2005, according to the College Board. From 2000 to 2008, total grant aid for undergraduates grew at an average annual rate of 6.4 percent while total loans increased

an average of 8.2 percent. In short, more students are relying on loans to meet their educational costs.

Research shows that loans do not have the same positive impact as grants on college access, persistence, and degree attainment, particularly for students from lower income families. Grants, specifically the Federal Pell Grant, have had much more success in increasing the college-going rates of student populations that have been traditionally underserved by higher education. It is critical for the U.S. to close the college-achievement gap between these traditionally underserved student populations (low-income, first-generation, urban, rural, Black, and Hispanic) and other student populations in order to remain competitive in the global economy.

Increasing the Pell Grant so it is relevant to today's college costs and moving it into mandatory spending would improve equality in access to higher education and return us to our place as a world leader in education. NASFAA urges the Committee to take the appropriate steps to make the Pell Grant Program a true entitlement.

Streamlining the Federal Student Loan Programs

We understand the need for fiscal responsibility and accept that Congress is looking for offsets to these increases through changes to the federal loan programs. NASFAA appreciates the Committee's efforts to make the student loan program more efficient and simpler, but our members have some concerns about eliminating FFELP.

The public and private partnership demonstrated through the FFEL program has provided millions of students with the loans they need to attend and complete their educations, and to successfully repay their loans. Unfortunately, the FFEL program has not functioned properly since 2008. Congressional efforts have shored up the FFELP market in the short term, but a longer-term solution is needed.

We believe there is a way to retain many of the benefits to students provided by public/private partnerships while still yielding significant savings for taxpayers.

Long before Congress began deliberating on the future of FFELP, my members initiated an extensive process designed to explore how the federal student loan programs could work better for students. In 2006, more than 80 renowned financial aid administrators from both the FFEL and Direct Loan programs met under a NASFAA-funded symposium to begin rethinking the student loan programs. Two years later, through NASFAA's National Conversation Initiative (NCI), thousands of student aid administrators reinforced those ideas and helped us formulate a new framework for a federal student loan program.

Currently, the Federal Perkins Loan Program, the FFEL program, and the Federal Direct Loan Program have different terms, conditions, benefits, and application procedures. This creates unnecessary confusion and complexity for students at the application stage and during repayment, and makes it difficult for students with multiple loans to know exactly what they owe at any given time. Further, although these programs are subsidized by the federal government, students may receive different benefits based solely on the school they attend or the loan programs in which their school participates.

In March 2009, NASFAA released a new framework for a single federal loan program that would combine the most positive features of each of the three existing federal student loan programs while reducing complexity and increasing consistency among borrowers. NASFAA's framework calls for a low, fixed interest rate with consistent and equal benefits, terms, and conditions for both undergraduate and graduate students. Setting interest rates for all student borrowers at a low fixed rate such as 3.4 percent – the rate currently set by Congress for subsidized Stafford Loans – would have an immediate, positive effect on student loan debt. To further help borrowers, our model also call for predictable funding sources and a single originating, servicing, and collections experience for borrowers.

Raising Capital through Special Purpose Bonds. Recognizing the fiscal need to reduce the costs of the FFEL program, NASFAA's framework would rely on the government to raise capital through a public/private partnership that uses investment from several different private and public sector sources. These funding sources would include individuals, investment and brokerage houses, banks, insurance companies, mutual funds, pension funds, and even international investors.

NASFAA's framework would leverage investors' ability to raise capital by allowing them to invest in a special purpose government bond that would be used by the U.S. Department of Education to make loans directly to borrowers through schools. Individuals could also purchase these "Educate American Bonds," a new series of small denomination bonds similar to U.S. savings bonds specifically designated for student loan debt. The bonds would operate much like war, civilian, or patriot bonds introduced by the government to raise funds for specific causes.

Funding for federal student loans would not be limited to any single source such as banks, schools, or the U.S. government. Various entities could invest in Educate America Bonds and help raise enough capital to make the student loan pool viable and possibly self-sustaining, thereby easing federal outlays.

During WWII the government introduced war bonds as a way to reduce inflation and help the government finance the war effort. At that time an emotional appeal went out to

citizens to buy those bonds because they represented a moral and financial stake in the war effort. Bond rallies were held throughout the country and through government advertising and partnerships between the public sector, the private sector, the entertainment industry and several other industries more than half the population—85 million Americans — purchased bonds before the end of the war. That is the kind of public awareness we need for higher education. Not only does this create a sort of revolving pool of money, it raises our societal commitment to providing higher education access.

Federally Contracted Servicers Provide Origination, Student Services, and Repayment Support. Under NASFAA's framework, all student loan origination would be handled by a servicer contracted by the U.S. Department of Education through Common Origination and Disbursement. This servicer would be invisible to borrowers, who would recognize the federal government as the source of their assistance.

Of paramount concern to my members is that certain services currently being offered to students by FFELP participants continue to be made available. These student support services include college access programs, financial literacy initiatives, and student loan delinquency and default prevention programs, none of which is currently offered in the Direct Loan program as currently structured.

We call for the U.S. Department of Education to contract with multiple servicers to process borrower payments and handle deferments, forbearances, and loan forgiveness. Allowing multiple servicing contracts is an important way to leverage competition that will benefit borrowers. Servicers would be selected through a competitive bidding process that focuses not only on price, but also on past performance, stability and longevity in the marketplace, an adequate technological infrastructure, and a set of other predetermined operational standards defined with input from students and schools.

All servicers would rely on a common servicing platform built around a centralized database of all borrowers. In addition, the Department would contract with these servicers or with other default prevention servicers to ensure that borrowers remain in good standing and to help with campus-wide default prevention efforts, including entrance and exit counseling. Compensation to entities that provide these services would be tied to default success rates calculated over multiple years.

States and Private Industry Support Higher Education. While students are certainly the main beneficiaries, communities, states, and businesses also reap the benefits that postsecondary education provides. These entities also have a part to play in reducing student loan indebtedness.

State agencies, which have traditionally offered generous borrower benefits under stated public policy positions (e.g., increasing the number of nurses, teachers, or engineers), could participate in the new student loan model in two ways: They could pay off a portion of a student's loan, or they could purchase a student's loan outright and assume liability for the loan, which would allow the state agency to offer borrowers increased benefits above and beyond the terms and conditions already associated with the federal loan.

In addition, a "Human Capital Tax Credit" would spur private companies to begin offering generous loan repayment benefits to employees. Allowing companies to receive federal tax benefits in return for paying off student loan debt encourages private businesses to help borrowers meet their student debt obligations. Much like other human resources incentive and recruitment programs, the Human Capital Tax Credit could become a standard part of a company's benefits package. Unions and other non-profit organizations should also receive a government credit or incentive to offer repayment benefits to borrowers.

Friends, family, and other relatives who help pay off a borrower's accumulated loan debt should likewise receive tax benefits and under no circumstances should borrowers be penalized by taxes for receiving any loan repayment or forgiveness benefits.

While this framework does not contain all of the answers that need to be addressed, it contains what we feel is a comprehensive outline of what needs to be included in a federal student loan program that works best for students.

Adequate Time for Students and Schools to Transition

Before concluding, I want to share one other area of concern that will be of great interest to my members. Many are deeply concerned about the timetable of eliminating the FFEL program and the administrative burden it might place on them to move to the Direct Loan Program by July 1, 2010.

To its credit, the Department of Education has so far done an outstanding job of helping schools transition into the Direct Loan Program. Several weeks ago, NASFAA surveyed a select number of schools from different sectors of higher education who have moved from the FFEL program into Direct Lending to understand what challenges they faced during the conversion. I am happy to report that despite a few isolated hiccups, the overwhelming number of schools we talked to said they had very few problems with the transition.

However, while most schools experienced very little difficulty, all schools said that the transition took quite a bit of effort and work. Transition times varied based on school size and the amount of internal infrastructure and support at each school.

Given the wide range of institutions, their students, and their internal capacities, we ask that the Committee take into account the administrative burden that will be placed on schools, especially schools that serve overwhelmingly high numbers of low-income students and often have the fewest institutional resources, in transitioning into any new or existing federal loan programs.

Recommendations from the Front Lines

No one is as intimately familiar with the student aid programs as NASFAA members who directly serve thousands of students every day. I hope you will consider their expertise and insights in restructuring the student aid programs by ensuring that the Federal Pell Grant is made an entitlement program, considering NASFAA's recommendations for a new student loan program, and setting reasonable timeframes for students and schools to transition in response to changes in these programs.

Congress, under the direction of this Committee, has made significant strides in recent years to provide more financial support for students pursuing higher education. In this last year alone, the Ensuring Continued Access to Student Loans Act (ECASLA), the Higher Education Opportunity Act (HEOA), and the American Recovery and Reinvestment Act (ARRA) have all had enormously positive impacts for students and families.

President Obama's budget proposal, as well as the recently adopted Congressional budget resolution, has laid the groundwork for even more victories for students. We join the President in calling for Americans to commit to at least one year or more of higher education or career training, with the goal of having the highest proportion of college graduates in the world by the year 2020.

I thank you for convening this hearing today and for your commitment to postsecondary access. In these economically turbulent times, our students are relying on all of us to give them the stability and resources they need to put this country back on firm ground. Together, I'm confident we can achieve both of these critical goals.

I am available to discuss these matters further at your convenience and invite you to continue this important dialogue.

"Increasing Student Aid through Loan Reform"

House Committee on Education & Labor

Testimony for the record

The Consumer Bankers Association

May 21, 2009

With Congress' action last month in approving the FY 2010 budget resolution, it is clear that major changes to the federal student loan programs will be made later this year. The Consumer Bankers Association (CBA) thanks Chairman Miller and the Education and Labor Committee for holding a hearing on student loans prior to considering legislation corresponding to the budget reconciliation instruction.

The legislation we expect you to consider holds the promise of justifying a new investment in Pell Grants but also includes the risk of disruption in the availability of loans for students and parents, higher costs and increased compliance risks for schools, and higher default rates for borrowers. CBA asks that the legislation you craft minimizes or avoids these risks.

Before discussing these risks, we feel obligated to express our concerns and questions with the estimates for budget savings associated with the President's proposal. We believe both the OMB and CBO estimates do not reflect the likely economic reality. Among the incorrect assumptions used in the budget estimates are an unrealistically low estimate of federal borrowing costs and an underestimate of the default rate on the expanded volume of Direct Loans, which will result from the proposed elimination of FFEL guarantors and the default avoidance services they currently perform on FFEL loans.

Although the future role of bank-based lenders in student loans will depend on your committee's actions, CBA asks this committee periodically to revisit or reassess whether the projected budget savings for the legislation you write actually occur.
Sound public policy and integrity would be well served if this review takes place.

CBA is deeply appreciative of the many statements made by members of both parties recognizing the value of FFEL loan providers as well as the inclusion of explicit language in the budget resolution itself referencing the role FFEL loan providers play in support of students, parents, and college opportunity and success.

Let us review some of the contributions of CBA members:

First, funding for loans. Having capital raised in the private sector—even with the support of programs like the successful ECASLA programs—both creates opportunities (especially in more favorable economic circumstances) for price and service competition, but also eliminates competition in the Treasury finance market for other Treasury borrowing. Lenders are proud of the role they have played in providing capital in the past and are hopeful that if financing markets recover, they might again be able to serve this role.

Second, program reliability built on a multiplicity of loan providers. Because reliability is enhanced by the participation of multiple entities, FFEL offers a degree of reliability that can never be equaled by a federally funded program even if supported by a group of

qualified loan services. The vulnerability of the Direct Lending program to unanticipated demand has already been demonstrated once, in 1997 in the consolidation loan program. That incident necessitated emergency legislation. Until the recent overall economic crisis, no similar collapse had ever occurred in FFEL.

Third, technical innovation. Private financial institutions have made major contributions to the development and application of technology supporting financial services that have greatly improved the student loan experience for millions of borrowers. Among the innovations are the use of electronic signatures, data exchanges effectuated through ELM Resources and through standardized data sets, and 24/7 account access and transactional capability. In many cases, because the Department of Education's need to compete, the innovations that were implemented in FFEL were subsequently adopted in Direct Loans. CBA also notes that the competition between FFEL and Direct Loans has provided consumers and schools with the best products, services, and choices. We believe that competition will also help assure the quality of any student loan program going forward.

Fourth, customer service. FFEL loan providers offer personal customer service in support of both schools and borrowers that have helped the loan programs work effectively for the last 45 years. This customer service includes the assignment of specific customer service representatives to schools with service quality motivated by retail market competition. Can this type of customer service be duplicated in a program supported by outsourced contract servicers? We don't think so.

Let's turn now to how the risks we have outlined can be minimized in the legislation you will soon be considering. Here are our suggestions on how best to preserve some of the benefits of the FFEL program despite limiting the use of private capital in the program. We are hopeful that the principles and specific suggestions we offer here might be incorporated in the legislation this committee will draft in coming weeks.

Our suggestions are as follows:

1. Minimize the risks of a program breakdown. Because the administration's proposal envisions 4,000 schools currently in FFEL transitioning to Direct Loans by July 2010, a substantial risk of failure exists that could disrupt the educational plans of millions of students. As members of this committee know, if this committee's student loan legislation is signed into law in September, schools will have only five months to start the FFEL to Direct Loans conversion. This will create a bottleneck during the crucial months of May and June, 2010. During these two months, approximately 100 schools a day would need to complete the conversion.

   To minimize this risk, CBA suggests that modified versions of the highly successful ECASLA programs be enacted. Changes would include allowing qualifying lenders to continue to service loans they originate and sell to the Department. This would eliminate the need for complicated servicing transfers and encourage lenders to compete for business on the basis of the quality of their

loan servicing. Extending ECASLA with this modification would also encourage continued competition and innovation in loan origination technology and services to the benefit of families, students and schools.

Importantly, any extension of ECASLA must be crafted to provide lenders with an economic return on student loans. Without assuring an economic return, an extension of ECASLA will not succeed in keeping private sector capital available for student loans.

2. Maintain default aversion services currently provided in FFEL. Continue to support the provision of default avoidance activities by guarantors, lenders, and other student loan participants on both Direct Loans and on FFEL loans before and after such loans are sold to the Department of Education. These services should be offered on a competitive basis similar to the current FFEL program to encourage fair competition based on the quality of service. CBA believes that awarding franchises that would require the use of specified state agencies or non-profit organizations, regardless of how such entities were designated, would be a mistake that would disadvantage borrowers.

Mr. Chairman, our recommendations are intended to capitalize on the strengths of the infrastructure of the FFEL program that has served borrowers well for more than 40 years. By preserving substantial parts of this infrastructure, a future restoration of the use of private sector capital in student loans will be easier than if all lenders, all guaranty agencies, and virtually all servicers are eliminated from the program.

6

Prepared Statement of the Coalition of Higher Education Assistance Organizations

To Members of the U.S. House of Representatives, Committee on Education and Labor: Thank you for the opportunity to present testimony to the Education and Labor Committee's hearing on Increasing Student Aid Through Loan Reform. This testimony is presented on behalf of the Board of Directors of the Coalition of Higher Education Assistance Organizations. COHEAO is a coalition of more than 300 colleges, universities and commercial organizations with a shared interest in fostering improved access to postsecondary education. Our focus is on legislative and regulatory advocacy for Perkins and other campus-based student loan programs.

The Perkins Loan Program is a campus-based program that represents a partnership between the Federal Government and the participating institutions of higher education. The institutions contribute one-third or more of Perkins funds as a match to the federal capital contribution. This amounts to institutional risk sharing in the

Perkins Program, and it also serves to multiply the federal taxpayer contribution to the Perkins Fund.

As a result of the Federal-institutional partnership, the Perkins Loan is the best student loan available. No interest accrues during the in-school, nine-month grace, and deferment periods, an important benefit to students. There are no origination or guarantee fees, and the interest rate is fixed at 5%. There is a 10-year repayment period.

The Perkins Loan program plays a critical role in our nation's financial aid system, especially for the lowest-income and lower middle-income students. The Perkins Loan Program provides flexibility to the financial aid office so it can direct these low-cost loans to the students who most need them. For many who have no other options, Perkins makes the difference between attending college or not being able to go.

COHEAO has advocated for many years for funding of the Perkins Loan Program and for improvements in it so that it can best serve students. In the Higher Education Amendments of 2008, several important improvements were made, including increasing the loan limits, expanding loan forgiveness options to firefighters, the military and some librarians, and increasing the authorized level for appropriations to $300 million. In addition, Congress expressed strong support for the program, noting in the final Conference Report: "It is the sense of Congress that the Federal Perkins Loan Program, which provides low-interest loans to help needy students finance the costs of postsecondary education, is an important part of Federal student aid, and should remain a campus-based aid program at colleges and universities."

In addition, the revolving funds system results in the funds being repaid and reused over and over again, so that future students will continue to benefit from capital contributions made as long ago as 1958. This is a unique feature in the student aid area, one that COHEAO believes is important to the functioning of the program and that will be increasingly important in years ahead.

President Obama and Secretary Duncan have taken the welcome step of proposing a major expansion of the Perkins student loan program, calling for these lowest-interest, public service-oriented loans to be made to more students at more institutions. COHEAO has advocated funding for this critical loan program for many years, and has fought attempts to close it as misguided and lacking an understanding of the program's value to students.

However, COHEAO believes that students and the American people will be best served by maintaining the well-established infrastructure for operating a broadly expanded Perkins Loan program. We believe this can be accomplished while still accomplishing the worthy goal of expanding the program to include many more students and schools. The main hurdles that have to be overcome are federal accounting issues that actually do not affect federal expenditures. It is important to deal with these issues on their own terms rather than being forced to eliminate the campus-based backbone of the Perkins Loan program in order to deal with them.

COHEAO urges Congress to retain the current subsidized Perkins Loan Program. Perkins Loan borrowers are students with high need and often have other loans. However, the proposed expanded program would not provide for that interest subsidy. Since students can seldom make interest payments while in school, interest would accumulate and significantly increase debt levels upon graduation.

Families with Dependent Undergraduate Students comprise the largest percentage of Perkins borrowers. During Award Year 2006-2007, 27% percent of these families had an income under $25,000. Twenty-one percent of Perkins Loan borrowers are independent students. Thirty-six percent of these students have incomes below $12,000 with an additional 11% falling in the $12,000-$19,999 income range. Thus, 47% of independent students have incomes less than $20,000.

An undergraduate who borrows the maximum Perkins Loan each year would owe an additional $5,000 upon graduation. Some students would be forced to seek excessive part-time work that may be inconsistent with their studies, especially since many low-income students are challenged in preparation for college due to inadequate elementary and secondary education systems. We understand the desire to generate savings from the Perkins Loan Program, but we don't believe that this should be done at the expense of Perkins Loan borrowers.

Here are more of our proposals:

Expand funding for the Perkins Loan Program so that it can serve more students and retain the in-school interest benefit. Expanding the program and providing for its ongoing funding could make higher education affordable to thousands more students every year.

Make Perkins Loans available to more students at more schools without penalizing current students. The formula for allocating Perkins Loan federal capital contributions to schools for lending was designed to make sure that needy students at

older schools were not hurt when new schools joined the program. Making additional funds available will ensure that students at schools who don't presently participate in the Perkins Program aren't simply taking aid from students at schools who do participate. The controversial allocation formula for Perkins Loan capital contributions, which also is used for other campus-based aid programs, can be scrapped without hurting students at participating schools if Perkins is adequately funded, as the President proposes. COHEAO supports modifying the formula for Perkins Loan funding so that funds are targeted to institutions with high populations of students with substantial financial need. We believe this can be done without penalizing students at schools who now participate in the program, given the President's expanded funding proposal.

Make use of schools' expertise in managing the Perkins Loan Program to best serve their students' needs. Since the Perkins Loan Program was created in 1958 as the National Defense Loan Program, colleges have had the flexibility to make loans available to students according to their need. Today, Perkins Loans remain a key tool for financial aid administrators to tailor aid to their students. Schools also collect loan repayments, either directly or by hiring a service provider who is accountable to them. Those that wish to remain responsible for loan collection should be allowed to do so. They have been successfully collecting Perkins Loans for many years. The latest Perkins default rate of 5.5% is comparable to the Direct Loan and FFELP default rates, an important achievement considering that Perkins Loans are specifically targeted to low-income students. In addition, schools have instituted financial literacy and customized default prevention programs to help their students on an individual basis.

Retain the institutional match but phase it in for new schools There is no other entity within the federal loan processes that has a greater vested interest in the borrower's successful repayment than that of the institution participating in the Perkins Loan Program. This is especially true since the institution has a substantial amount of its own funds involved, a risk sharing concept that should be retained in order to keep loan costs down. COHEAO does believe, however, that provisions should be made to reduce the institutional match in special circumstances. For example, new institutions that are joining the program could have their match requirement phased in over five years, with no match during the first year, when there would be additional administrative burdens on the institution. In addition, institutions with unusual funding constraints, such as those facing state budget cuts, could apply for a waiver of the institutional match requirement for a particular year.

Allow schools to continue loan collection in order to achieve the best results for the program and its students. The experienced professionals at schools are best equipped to work with their former students. COHEAO members have found that a borrower who is behind on his or her payments will set things right once they realize that they are denying opportunity to other students at their alma mater. Rather than having the federal government responsible for all collections, COHEAO supports giving schools additional flexibility and tools that can be used before involving the government in the collection process. This is in the best interest of borrowers who may have circumstances that deserve careful, individualized consideration.

Retain the public service cancellation benefits that are available now in the Perkins Program. These are more generous than in the Stafford Program and have drawn hundreds of thousands of students into public service over the years. Since the inception of the Federal Perkins Loan Program in 1958, over $1.16 billion in Perkins Loans have been forgiven for students who took advantage of program benefits. Today, Perkins Loan cancellation is available to public servants who work in 16 different professions, including teaching, nursing, the military, law enforcement, the Peace Corps, firefighting, librarians and social work.

For example, one COHEAO member university has received a total since 1958 of $166 million in federal capital contributions to its Perkins Loan revolving fund. It has contributed a total of $53 million in institutional funds to its Perkins Loan fund. Yet is has lent $912 million, benefiting 392,141 students. In addition, the University's students now receive over $1 million in annual public service cancellations.

Another COHEAO member university has contributed a total of $140 million in federal and institutional funds to the Perkins Loan revolving fund, but has made $690 million in loans to date. This has helped 429,500 students pay for college. A total of $30.2 million has been cancelled for students who worked in public service professions, 21.5 percent of the total loaned.

The Perkins Loan cancellation benefits are especially advantageous to students because with a Perkins Loan, the borrower gets credit for each year he or she works in the qualifying public service profession, with full cancellation after five years.

This recognizes that borrowers should get credit for what they accomplish, without being punished by losing all cancellation benefits if their circumstances change. We believe this sort of incentive serves as a truly powerful way to attract young people to public service and, at the same time, reduces their loan indebtedness.

In summary, COHEAO's members are excited by the prospect of an Administration that joins with Congress to recognize that the Perkins Loan Program is an essential part of the financial aid system that makes higher education possible for millions of Americans. Expanding the funding available will make millions of additional students eligible for the program. We look forward to working with the Committee, the Congress and the Administration on ways to meet our mutual goals of expanding the program to more students and schools while also continuing to take advantage of the hands-on experience that schools have in administering the program for their students.

We appreciate the opportunity to submit testimony to the Committee. Please contact us or any member of the Board of Directors if you have any questions. Please see our website is www.coheao.org for information about our association or contact the executive director, Harrison Wadsworth at hwadsworth@wpllc.net or 202-289-3900.

[Questions submitted to the witnesses and their responses follow:]

[VIA ELECTRONIC MAIL],
May 28, 2009.

RENÉ DROUIN, *President and Chief Executive Officer,*
Granite State Management & Resources, Concord, NH.

DEAR MR. DROUIN: Thank you for testifying at the May 21, 2009 hearing of the Committee on Education and Labor on "Increasing Student Aid through Loan Reform."

Representative Carol Shea-Porter (D-NH), member of the Healthy Families and Communities Subcommittee and member of the Workforce Protections Subcommittee, has asked that you respond in writing to the following question:

1. In your testimony you mention that you were unable to compete under the previous RFP. What specifically prevented NHHEAF's participation in bidding for a servicing contract?

Please send an electronic version of your written response to the questions to the Committee staff by close of business on Wednesday, June 3, 2009—the date on which the hearing record will close. If you have any questions, please do not hesitate to contact the Committee.

Sincerely,

GEORGE MILLER,
Chairman.

[VIA ELECTRONIC MAIL],
June 1, 2009.

Chairman GEORGE MILLER,
Committee on Education and Labor, Rayburn House Office Building, U.S. House of Representatives, Washington, DC.

DEAR CHAIRMAN MILLER: Thank you for the opportunity to testify before your committee and the opportunity to clarify my remarks regarding the NHHEAF Networks inability to bid for its own loans for servicing under the ECASLA program. I have responded to your question regarding NHHEAF's participation in bidding for a service contract below:

1. In your testimony you mention that you were unable to compete under the previous RFP. What specifically prevented NHHEAF's participation in bidding for a servicing contract?

Constraints to NHHEAF Participating in Title IV Student Loan Management/Servicing

Background

NHHELCO, the lending arm of The NHHEAF Network Organizations, participated 2008/2009 school year loans under ECASLA. Participated loans must be redeemed or PUT by September 30, 2009. In the event of a PUT ED becomes the owner of the participated loans and servicing is transferred to ED's servicer. Granite

State Management and Resources (GSM&R), the servicing arm of The NHHEAF Network Organizations, prepared to submit an RFP response for the

Phase I Solicitation Number: FSA-Title IV-09, Title IV Student Loan Management/Servicing in order to continue servicing NH originated loans as well as other loan volumes deemed appropriate by ED. Based on ED's minimum loan volume servicing requirement in the initial WEB posting and Phase I RFP document, NHHEAF did not meet the Go/No-Go Factor eligibility requirement criteria for participation in Phase II of the solicitation process listed below:

2.1 Go/No-Go Factor

(1) Demonstrate experience in processing a minimum of 500,000 student loan sales conversions annually and servicing at least 2,000,000 student loans. Federal Student Aid reserves the right to utilize resources available to the Government to validate an offeror's proposed experience, as appropriate.

GSM&R currently services 422,000 loans. Additionally, annual new loan volume serviced by GSM&R is listed below:

FY '08	70,000
FY '07	166,000
FY '06	99,000

If you should need additional information or clarification please feel free to contact me.

Sincerely,

RENÉ A. DROUIN, *President & CEO,*
The NHHEAF Network Organizations.

[VIA FACSIMILE],
May 28, 2009.

Hon. ROBERT SHIREMAN, *Deputy Under Secretary,*
U.S. Department of Education, 400 Maryland Avenue, SW, Washington, DC

DEAR DEPUTY SECRETARY SHIREMAN: Thank you for testifying at the May 21, 2009 hearing of the Committee on Education and Labor on "Increasing Student Aid through Loan Reform."

Representative Carolyn McCarthy (D-NY), Chairwoman of the Healthy Families and Communities Subcommittee, and member of the Health, Employment, Labor, and Pensions Subcommittee has asked that you respond in writing to the following questions:

1. Financial literacy is a big concern of mine. Especially in the current economic climate, consumers need to be more aware and informed of how their finances work and how to avoid some common financial pitfalls. Does the Administration plan to continue to support important borrower services like financial literacy and default prevention that have traditionally been an integral part of FFEL? As these services are not now generally part of the Direct Loan program are you willing to maintain the current (FFEL) investment and extend it to all federal loan borrowers?

2. Currently parents and Graduate students who have PLUS loans have an interest rate of over 8 percent. Given the current interest rate environment of almost the lowest rates ever, why shouldn't we return to the pre July 1 2006 rate formula which if applied would provide for less than 2 percent interest rates?

Representative Robert C. "Bobby" Scott (D-VA), member of the Early Childhood, Elementary and Secondary Education Subcommittee and member of the Healthy Families and Communities Subcommittee, has asked that you respond in writing to the following questions:

1. When considering the elimination of the FFEL program, what conclusions did you draw as to the impact that this decision would have on Historically Black Colleges and Universities?

2. Describe the trends of student loans (including the number of loans and the loan volume of the FFEL and the Direct Loan Program) that have been distributed since 1978.

Representative Jason Altmire (D-PA), member of the Healthy Families and Communities Subcommittee and member of the Workforce Protections Subcommittee, has asked that you respond in writing to the following questions:

1. Considering the uniqueness and complexity with the various Financial Aid Management Systems and School Information Systems, combined with the human, financial, technology and capacity resources necessary to modify systems and train staff, how does the Department of Education plan to support and transition 4,000+ schools of various types, sizes and locations into Direct Loans by July 1, 2010?

2. If the administration's proposal is enacted, what is the Department's contingency plan to cover the risk that may surface if they are not able to support and transition all 4000+ FFELP schools into Direct Loans by July 1, 2010?

3. Can you please provide insight to what the Department has done to reach out to schools to better understand their concerns about transitioning to DL?

4. FFEL loan providers have suggested that more than 30,000 jobs will be lost if the FFEL program is ended as proposed by the administration. These jobs include front end functions such as sales and marketing, as well as operations including origination, servicing, default prevention and collections. Are these claims claim valid?

5. Current employees of FFEL loan providers have substantial expertise in working with borrowers to help them with their loan obligations. Will this expertise be lost as the employers of these loan providers cease operations?

6. Concerns have been raised that the elimination of guaranty agencies and other loan providers will result in a lower quality of service to students. Is this a legitimate claim? What evidence against this claim can those that suggest the fear is unfounded offer?

7. The administration's proposal assumes that the elimination of FFEL guaranty agencies will not result in an increase in student loan delinquencies or defaults. On what basis has the administration reached its conclusion?

8. How does the Department plan to contract for additional Direct Loan servicing capacity? Will it rely on the RFP process currently underway for servicing on loans put to the Department or will it hold a new competition? How will the Department determine the service provider for each school?

9. The schools, students, and families of Pennsylvania depend on our current guaranty agency, PHEAA to provide essential services. These services include early college awareness and financial literacy programs as well as technical assistance and training for schools. They also provide crucial and successful default reduction and delinquency prevention services. Does the Department have a realistic proposal for maintaining and funding these services that will ensure that PHEAA and its sister agencies around the country have the resources they need to continue to carry out their public mission?

Representative Carol Shea-Porter (D-NH), member of the Healthy Families and Communities Subcommittee and member of the Workforce Protections Subcommittee, has asked that you respond in writing to the following questions:

1. The Department made the determination that it was necessary to provide an opportunity for servicers to compete for participation in the servicing of the ECASLA loans based on fact that the servicing of the ECASLA loans constituted a change to the existing servicing contract. Base on this past determination, it would seem that a similar determination should be made given that the additional private servicing as part of the President's budget proposal constitutes a significant change, requiring an additional opportunity for competition, just as the servicing of the ECASLA loans required an opportunity for competition. Will there be another RFP for the servicing of loans under the restructuring plans?

2. You have mentioned the bid process and the utilization of private servicers. What specific steps are being taken by the Department of Education to ensure that the small non-profits have an opportunity to compete for these servicing contracts?

Representative Thomas Petri (R-WI), member of the Early, Elementary and Secondary Education Subcommittee has asked that you respond in writing to the following questions:

1. Can you explain the financial incentives to guaranty agencies in preventing default on student loans relative to the subsidies they receive for collecting on defaulted student loans?

2. Mr. Shireman, advocates for FFEL highlight the borrower services, such as default prevention that lenders and guarantors provide students. Besides cohort default rates which we know to be a fairly weak accountability measure, is there any oversight or accountability measures in FFEL regarding these services? Do we know if they are actually working? Or which ones work best?

3. Although the Administration's budget provides $2.5 billion over five years in grants to states to promote college access and student retention, many guaranty agencies see this funding stream as being insufficient or wanting their own specific funding stream. Can you comment on this critique?

Representative Todd Platts (R-PA), Ranking Member of the Healthy Families and Communities Subcommittee, and member of the Health, Employment, Labor, and Pensions Subcommittee has asked that you respond in writing to the following questions:

1. The two school systems represented here today, Penn State, and the entire California State School system are very large entities. My District contains a num-

ber of small and mid-sized institutions. If we move forward with the Administration's proposal to convert all schools to the Direct Lending program, how can the Department of Education ensure that smaller schools will get the same loan servicing assistance that their larger counterparts will receive?

2. I have heard from schools that have historically participated in the Direct Loan program that they felt they received better service through the Direct Loan program before the recent influx of participating schools. What specific steps has the Department of Education taken to ensure that it will have the capacity to service ALL schools in the Direct Loan program by the end of 2010, as the Administration proposes?

Representative Joe Wilson (R-SC), member of the Health, Employment, Labor, and Pensions Subcommittee and member of the Workforce Protections Subcommittee has asked that you respond in writing to the following questions:

1. You propose to stop new FFEL loan originations as of July 1, 2010. How many schools will need to transition from FFEL to Direct Loans between today and July 1st?

2. While some schools with tremendous resources have said making the transition to Direct Lending is relatively easy, many schools are projecting that they will incur additional administrative costs and face additional compliance risk as a result of being required to convert to the Direct Loan program. Has the Department produced an estimate of the costs of transitioning to the Direct Loan program for a small to medium size independent college? What are those costs?

3. Will the administration provide direct financial assistance to schools to support their transition into the Direct Loan program? If so, what assistance will be provided and when?

Please send an electronic version of your written response to the questions to the Committee by close of business on Wednesday, June 3, 2009—the date on which the hearing record will close. If you have any questions, please do not hesitate to contact the Committee.

Sincerely,

GEORGE MILLER,
Chairman.

Responses From Mr. Shireman to Questions Submitted

DEAR MR. CHAIRMAN: Thank you for your committee's follow up questions from the May 21, 2009, hearing, "Increasing Student Aid Through Loan Reform." Please see the enclosed document for responses to the questions that members of the committee submitted.

If you have any issues or questions about the Department's responses, please contact Gabriella Gomez, Assistant Secretary for the Office of Legislation and Congressional Affairs at the Department, at 202-401-0020.

Sincerely,

BOB SHIREMAN.

Representative Carolyn McCarthy

Question: Financial literacy is a big concern of mine. Especially in the current economic climate, consumers need to be more aware and informed of how their finances work and how to avoid some common financial pitfalls. Does the Administration plan to continue to support important borrower services like financial literacy and default prevention that have traditionally been an integral part of FFEL? As these services are not now generally part of the Direct Loan program are you willing to maintain the current (FFEL) investment and extend it to all federal loan borrowers?

Mr. Shireman: The need for better financial literacy, particularly among our young adults, has been placed under a spotlight by recent economic issues faced by our nation. Traditionally, lenders and guaranty agencies participating in the Federal Family Education Loan (FFEL) program have developed entrance and exit counseling tools that have been used by schools to assist borrowers in understanding their financial obligations. At the same time, the Department has provided, and will continue to provide, these tools to schools participating in the William D. Ford Direct Loan program. Similarly, the Department provides default prevention assistance to borrowers with loans under the Direct Loan program just as the lenders and guaranty agencies do in the FFEL program. The availability of financial literacy services should not turn on whether a lender or guaranty agency has extra resources. The administration's proposed College Access and Completion Fund program would include funds that would allow states to continue college out-

reach and information activities, including financial literacy training that goes beyond student loans.

Question: Currently parents and graduate students who have PLUS loans have an interest rate of over 8 percent. Given the current interest rate environment of almost the lowest rates ever, why shouldn't we return to the pre-July 1, 2006, rate formula, which, if applied, would provide for less than 2 percent interest rates?

Mr. Shireman: Long-term fixed-rate loans are available at a higher interest rate than loans with rates that adjust every few months, such as those that are currently at historic lows. Reducing rates on federal student loans would place greater risk and cost on taxpayers. Although Congress could decide to change the statute, the administration believes these funds are better used for Pell Grants and other student financial assistance programs serving low-income populations.

Representative Robert C. "Bobby" Scott

Question: When considering the elimination of the FFEL program, what conclusions did you draw as to the impact that this decision would have on Historically Black Colleges and Universities?

Mr. Shireman: The delivery mechanism for the William D. Ford Direct Loan program is built on the Common Origination and Disbursement (COD) System used by the Department to deliver Pell Grants, Academic Competitiveness Grants, National SMART Grants, and TEACH Grants. HBCUs and other institutions of higher education—both large and small—have been able to adapt readily. For the relatively small number of institutions that do not offer Pell Grants, such as graduate-only Clark Atlanta University, a one-time adjustment to their business processes will be necessary. This change will result in each institution working with a single entity originating loans instead of the multiple lenders that they deal with today. We have been reaching out to institutions to make sure they have enough time and assistance for a successful transition to direct lending.

Question: Describe the trends of student loans (including the number of loans and the loan volume of the FFEL and the Direct Loan Program) that have been distributed since 1978.

Mr. Shireman: The requested information is provided in the attached table.

DIRECT LOAN PROGRAM

Fiscal Year	Consolidation Loans		PLUS Loans		Stafford Subsidized Loans		Unsubsidized Loans		Direct Loan Total	
	Volume ($)	No. of Loans	Volume ($)	No. of Loans	Volume ($)	No. of Loans	Volume ($)	No. of Loans	Volume ($)	No. of Loans
1994			71,135,741	12,335	533,586,511	131,268	213,818,203	55,001	818,540,456	198,604
1995	319,827,446	11,769	392,136,544	68,421	2,888,040,722	775,101	1,335,494,334	365,862	4,935,499,047	1,221,153
1996	1,035,648,522	80,507	774,413,535	139,063	5,070,081,229	1,555,998	2,569,976,666	803,719	9,450,119,952	2,579,287
1997	1,369,159,000	89,930	878,163,068	152,287	5,658,864,589	1,724,892	3,221,673,576	977,995	11,127,860,233	2,945,104
1998	2,427,511,901	106,653	1,020,223,689	169,945	5,640,707,200	1,736,332	3,426,742,721	1,034,583	12,515,185,512	3,047,513
1999	7,973,130,807	410,033	1,020,812,774	167,655	5,290,759,591	1,618,272	3,494,201,083	1,011,096	17,778,904,254	3,207,056
2000	5,418,255,434	270,845	1,224,546,074	189,273	5,457,099,337	1,588,249	3,895,894,617	1,046,641	15,995,795,462	3,095,008
2001	7,772,817,303	369,512	1,270,394,823	184,754	5,174,292,505	1,503,851	3,879,679,931	1,028,478	18,097,184,562	3,086,595
2002	8,902,127,749	365,388	1,426,990,460	193,648	5,450,652,409	1,571,719	4,240,365,153	1,099,884	20,020,135,772	3,230,639
2003	6,679,506,841	298,258	1,690,575,674	220,317	5,644,253,828	1,606,076	4,407,467,375	1,119,575	18,421,803,718	3,244,226
2004	7,713,186,196	330,512	2,054,456,228	245,523	5,781,985,500	1,624,741	4,612,168,789	1,137,098	20,161,796,713	3,337,874
2005	15,765,230,978	645,426	2,188,106,154	247,978	5,650,724,391	1,584,375	4,731,126,241	1,138,602	28,335,187,764	3,616,381
2006	19,385,219,165	755,486	2,205,957,766	235,775	5,383,233,351	1,497,139	4,587,051,900	1,081,044	31,561,462,183	3,569,444
2007	3,507,514,220	150,970	2,255,198,201	233,094	5,542,522,663	1,455,270	4,707,087,502	1,037,339	16,012,322,586	2,876,673
2008	5,839,603,081	207,169	3,204,964,020	297,374	7,380,388,668	1,783,261	7,627,694,455	1,649,244	24,052,650,224	3,937,048
2009	16,431,482,111	470,757	3,775,715,237	455,063	8,463,896,102	2,495,393	9,596,054,954	2,683,306	38,267,148,404	6,104,518
Grand Total	110,540,220,753	4,563,215	25,453,789,990	3,212,505	85,011,088,598	24,251,937	66,546,497,500	17,269,467	287,551,596,841	45,232,925

Note: Totals for 2009 reflect estimated activity for the entire year

FFEL PROGRAM

[Not Including ECASLA Programs]

Fiscal Year	Consolidation Loans		PLUS Loans		SLS Loans		Stafford Subsidized Loans		Unsubsidized Loans		FFEL/Non-ECASLA Total	
	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans
1978							701,840,203	372,974			701,840,203	372,974
1979							2,174,270,000	1,134,360			2,174,270,000	1,134,360
1980							3,858,150,000	1,911,760			3,858,150,000	1,911,760
1981			24,640,000	9,790			6,555,740,000	3,071,880			6,580,380,000	3,081,670
1982			58,960,000	24,030	27,280,000	11,700	5,251,890,000	2,434,320			5,338,130,000	2,470,050
1983			129,360,000	51,620	96,800,000	37,800	5,817,930,000	2,654,200			6,044,090,000	2,743,620
1984			170,720,000	65,860	154,000,000	60,300	6,680,340,000	2,986,320			7,005,060,000	3,112,480

Fiscal Year	Consolidation Loans Volume ($)	Consolidation Loans # of Loans	PLUS Loans Volume ($)	PLUS Loans # of Loans	SLS Loans Volume ($)	SLS Loans # of Loans	Stafford Subsidized Loans Volume ($)	Stafford Subsidized Loans # of Loans	Unsubsidized Loans Volume ($)	Unsubsidized Loans # of Loans	FFEL/Non-ECASLA Total Volume ($)	FFEL/Non-ECASLA Total # of Loans
1985	....	....	222,640,000	84,550	228,800,000	87,300	7,476,890,000	3,349,720	....	....	7,928,330,000	3,521,570
1986	....	....	212,080,000	81,880	245,520,000	95,400	7,164,500,000	3,139,960	....	....	7,622,100,000	3,317,240
1987	262,615,879	17,762	284,240,000	97,010	726,880,000	257,400	7,642,430,000	3,203,440	....	....	8,916,165,879	3,575,612
1988	641,051,919	45,398	476,080,000	158,420	1,775,840,000	644,400	8,238,730,000	3,329,480	....	....	11,131,701,919	4,177,698
1989	683,396,589	49,354	658,240,000	212,710	1,870,000,000	713,700	8,537,770,000	3,387,440	....	....	11,749,406,589	4,363,204
1990	816,797,019	55,907	771,760,000	242,970	1,497,094,403	551,093	8,658,866,077	3,304,996	....	....	11,744,517,500	4,154,966
1991	1,115,705,613	71,906	943,360,000	292,810	1,647,267,518	584,622	9,385,562,726	3,512,852	....	....	13,091,895,857	4,462,190
1992	1,358,610,961	83,136	1,138,005,492	349,984	1,952,933,657	676,236	10,046,650,502	3,674,417	....	....	14,496,200,612	4,783,772
1993	1,484,159,987	83,619	1,155,574,259	304,387	2,726,513,080	739,746	11,202,850,857	3,766,255	901,542,727	380,097	17,470,640,910	5,274,103
1994	1,992,532,245	110,165	1,483,565,386	309,291	1,654,123,210	503,663	13,276,449,718	4,203,650	4,219,498,456	1,211,892	22,626,169,015	6,338,661
1995	3,227,303,674	206,884	1,455,648,219	270,551	....	....	11,492,996,046	3,528,214	5,789,106,418	1,701,142	21,965,054,357	5,706,791
1996	4,074,655,077	261,335	1,473,583,387	255,160	....	....	10,433,243,733	3,096,960	5,871,037,779	1,644,279	21,852,519,976	5,257,734
1997	3,998,401,328	203,534	1,737,686,709	282,058	....	....	10,727,129,433	3,178,247	6,760,361,632	1,814,795	23,223,579,101	5,478,634
1998	3,353,209,551	162,942	1,908,313,559	301,581	....	....	10,764,806,761	3,183,913	7,283,686,207	1,905,777	23,310,016,077	5,554,213
1999	4,917,972,742	205,684	2,074,486,590	311,983	....	....	10,566,374,757	3,104,338	7,919,742,290	1,988,008	25,478,576,379	5,610,013
2000	6,588,622,659	243,125	2,405,432,780	340,716	....	....	11,160,709,135	3,270,690	9,108,932,546	2,240,906	29,263,697,120	6,095,437
2001	9,411,520,436	319,355	2,726,888,248	366,704	....	....	11,909,461,955	3,508,999	10,179,708,670	2,493,719	34,227,579,308	6,688,777
2002	22,907,047,646	731,960	3,200,803,176	403,393	....	....	13,430,701,706	3,965,045	11,967,510,188	2,908,346	51,506,062,716	8,008,744
2003	35,223,215,400	1,256,173	4,064,536,508	476,225	....	....	15,587,370,202	4,558,823	14,178,557,986	3,388,178	69,053,680,096	9,679,399
2004	36,082,038,079	1,241,235	4,111,628,579	452,583	....	....	13,033,511,202	3,784,853	12,337,987,509	2,906,898	65,565,165,368	8,385,568
2005	54,589,284,588	1,989,579	5,077,757,232	529,840	....	....	15,553,731,527	4,492,551	15,344,090,363	3,551,802	90,564,863,710	10,563,772
2006	72,541,481,669	2,633,118	6,669,423,005	622,284	....	....	17,395,566,988	5,012,020	17,444,512,100	4,001,108	114,050,983,762	12,268,531
2007	47,268,022,607	1,675,491	6,667,933,350	603,288	....	....	16,496,978,117	4,594,767	17,300,310,703	3,817,123	87,733,244,777	10,690,669
2008	9,270,170,988	287,691	3,101,126,165	270,858	....	....	9,765,470,949	2,603,723	11,219,697,386	2,514,211	33,356,465,488	5,676,483
2009	1,006,964,596	10,542	1,551,825,080	155,520	....	....	4,225,903,846	1,198,780	5,394,207,087	1,327,115	12,178,900,608	2,691,956
Total ...	322,814,781,253	11,945,895	55,956,297,722	7,928,054	14,603,051,868	4,963,360	305,214,816,438	102,519,946	163,220,490,045	39,795,396	861,809,437,326	167,152,652

FFEL VOLUME FUNDED THROUGH ECASLA PROGRAMS

Fiscal Year	Consolidation Loans		PLUS Loans		SLS Loans		Stafford Subsidized Loans		Unsubsidized Loans		FFEL/Non-ECASLA Total		Total Loans	
	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans
1978	....	....	....	....	....	....	....	....	....	....	....	....	701,840,203	372,974
1979	....	....	....	....	....	....	....	....	....	....	....	....	2,174,270,000	1,134,360
1980	....	....	....	....	....	....	....	....	....	....	....	....	3,858,150,000	1,911,760
1981	....	....	....	....	....	....	....	....	....	....	....	....	6,580,380,000	3,081,670
1982	....	....	....	....	....	....	....	....	....	....	....	....	5,338,130,000	2,470,050
1983	....	....	....	....	....	....	....	....	....	....	....	....	6,044,090,000	2,743,620

FFEL VOLUME FUNDED THROUGH ECASLA PROGRAMS—Continued

Fiscal Year	Consolidation Loans		PLUS Loans		SLS Loans		Stafford Subsidized Loans		Unsubsidized Loans		FFEL/Non-ECASLA Total		Total Loans	
	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans	Volume ($)	# of Loans
1984	....	....	....	....	....	....	....	....	....	....	....	....	7,005,060,000	3,112,480
1985	....	....	....	....	....	....	....	....	....	....	....	....	7,928,330,000	3,521,570
1986	....	....	....	....	....	....	....	....	....	....	....	....	7,622,100,000	3,317,240
1987	....	....	....	....	....	....	....	....	....	....	....	....	8,916,165,879	3,575,612
1988	....	....	....	....	....	....	....	....	....	....	....	....	11,131,701,919	4,177,698
1989	....	....	....	....	....	....	....	....	....	....	....	....	11,749,406,589	4,363,204
1990	....	....	....	....	....	....	....	....	....	....	....	....	11,744,517,500	4,154,966
1991	....	....	....	....	....	....	....	....	....	....	....	....	13,091,895,857	4,462,190
1992	....	....	....	....	....	....	....	....	....	....	....	....	14,496,200,612	4,783,772
1993	....	....	....	....	....	....	....	....	....	....	....	....	17,470,640,910	5,274,103
1994	....	....	....	....	....	....	....	....	....	....	....	....	23,444,709,471	6,537,265
1995	....	....	....	....	....	....	....	....	....	....	....	....	26,900,553,404	6,927,944
1996	....	....	....	....	....	....	....	....	....	....	....	....	31,302,639,928	7,837,021
1997	....	....	....	....	....	....	....	....	....	....	....	....	34,351,439,335	8,423,738
1998	....	....	....	....	....	....	....	....	....	....	....	....	35,825,201,589	8,601,726
1999	....	....	....	....	....	....	....	....	....	....	....	....	43,257,480,633	8,817,069
2000	....	....	....	....	....	....	....	....	....	....	....	....	45,259,492,582	9,190,445
2001	....	....	....	....	....	....	....	....	....	....	....	....	52,324,763,870	9,775,372
2002	....	....	....	....	....	....	....	....	....	....	....	....	71,526,198,488	11,239,383
2003	....	....	....	....	....	....	....	....	....	....	....	....	87,475,483,814	12,923,625
2004	....	....	1,039,478,094	114,419	....	....	4,517,691,893	1,311,910	4,170,098,812	982,498	9,727,268,800	2,408,828	95,454,230,881	14,132,270
2005	....	....	955,526,953	99,705	....	....	3,211,985,271	927,752	3,119,962,479	722,199	7,287,474,703	1,749,656	126,187,526,177	15,929,809
2006	....	....	725,947,454	67,734	....	....	2,201,807,099	634,386	2,245,837,610	515,110	5,173,592,163	1,217,229	150,786,038,108	17,055,204
2007	....	....	1,798,801,575	162,748	....	....	5,335,460,031	1,486,042	4,198,810,890	926,421	11,333,072,496	2,575,211	115,078,639,859	16,142,553
2008	....	....	5,105,998,916	445,967	....	....	13,289,069,579	3,543,204	14,814,607,390	3,319,791	33,209,675,886	7,308,962	90,618,791,598	16,922,493
2009	....	....	7,150,602,922	716,615	....	....	19,659,492,970	5,576,889	25,997,629,761	6,396,092	52,807,725,654	12,689,596	103,253,774,667	21,486,071
Total	....	....	16,776,355,915	1,607,188	....	....	48,215,506,844	13,480,184	54,546,946,943	12,862,111	119,538,809,702	27,949,483	1,268,899,843,869	244,399,258

Representative Jason Altmire

Question: Considering the uniqueness and complexity with the various Financial Aid Management Systems and School Information Systems, combined with the human, financial, technology and capacity resources necessary to modify systems and train staff, how does the Department of Education plan to support and transition 4,000+ schools of various types, sizes and locations into Direct Loans by July 1, 2010?

Mr. Shireman: The Federal Student Aid (FSA) system that originates Direct Loans is called the Common Origination and Disbursement (COD) system. COD is the same system that institutions of higher education use to originate Title IV grants (Pell, ACG, National SMART, and TEACH). Therefore, most institutions (and their computer systems) already interact with COD. The Department has ramped up, and is continuing to ramp up, its COD capacity to support 100 percent Direct Lending.

The institutions that have recently transitioned to Direct Lending have done so with little or no problem. However, to ensure that all institutions are prepared, we have shifted human and capital resources to enable FSA to properly manage and support 100 percent school participation in the Direct Lending program. In addition, we have created a specially trained team whose task is to assist institutions that may have unique situations or need additional support. FSA is hosting monthly webinars for schools, attending and presenting at conferences, and offering targeted training. FSA also is in the process of reviewing and updating all of its Direct Lending publications.

Question: If the administration's proposal is enacted, what is the Department's contingency plan to cover the risk that may surface if they are not able to support and transition all 4000+ FFELP schools into Direct Loans by July 1, 2010?

Mr. Shireman: Because Direct Loans is part of the COD system run by Accenture, the switch is relatively simple when it comes to delivering funds to institutions. The key to a smooth transition is to ensure that schools do not wait until the last minute to adjust their systems. Accenture has increased its call center capacity, and we are reaching out to FFEL institutions to encourage them to get ready early so there is not a last-minute rush that could result in longer wait times for technical assistance.

Question: Can you please provide insight to what the Department has done to reach out to schools to better understand their concerns about transitioning to DL?

Mr. Shireman: Our Direct Loan Transition Team has identified types of institutions that might need additional support and information to smoothly transition to Direct Lending. Team members are reaching out to those institutions to answer questions and to offer assistance. We've also reached out to HBCUs, Hispanic-Serving Institutions, and Tribally Controlled Colleges and Universities. We have conducted, in association with their national organizations, a Direct Loan webinar for community colleges and one for independent private colleges. We have also met with the Council of Independent Colleges and the National Association of Independent Colleges and Universities to discuss issues and activities targeted to smaller independent colleges. Finally, we are developing plans for transitioning foreign schools into the Direct Loan program.

Question: FFEL loan providers have suggested that more than 30,000 jobs will be lost if the FFEL program is ended as proposed by the administration. These jobs include front-end functions such as sales and marketing, as well as operations including origination, servicing, default prevention and collections. Are these claims valid?

Mr. Shireman: The volume of FFEL loans will decline slowly over many years. At the same time, Direct Loan volume will increase, resulting in more domestic jobs servicing federal loans. Some of the current FFEL servicers have won contracts with the Department to service Direct Loans, and others may end up as subcontractors. One area that will be affected by a shift to Direct Loans will be the intermediaries who simply market Federal loans to schools without providing benefits to students and who have, in the past, been accused of improper behavior.

Question: Current employees of FFEL loan providers have substantial expertise in working with borrowers to help them with their loan obligations. Will this expertise be lost as the employers of these loan providers cease operations?

Mr. Shireman: The volume of FFEL loans will decline slowly over many years. At the same time, Direct Loan volume will increase, resulting in more domestic jobs servicing federal loans. Some of the current servicers have won contracts with the Department to service Direct Loans, and others may end up as subcontractors or work with the Department in other ways that are still being developed.

Question: Concerns have been raised that the elimination of guaranty agencies and other loan providers will result in a lower quality of service to students. Is this

a legitimate claim? What evidence against this claim can those that suggest the fear is unfounded offer?

Mr. Shireman: For nearly 15 years, the current Direct Loan program has operated with the same level of student support, performance, and satisfaction as the FFEL program, and the default and repayment rates are similar in both programs. The Department has experience in running a successful loan program without guaranty agencies. That said, as Direct Loan expands to 100 percent of volume, we hope to find ways to take advantage of the skills and resources developed in state and non-profit agencies.

Question: The administration's proposal assumes that the elimination of FFEL guaranty agencies will not result in an increase in student loan delinquencies or defaults. On what basis has the administration reached its conclusion?

Mr. Shireman: Cohort default rates, by sector, are the same or lower in the Direct Loan program for similar loans. In addition, the Higher Education Act provides a set of statutory payments to guaranty agencies that will continue as the outstanding FFEL portfolio is repaid. Some agencies have experience in providing valuable student support services, especially in promoting college access. The Department looks forward to working with agencies to refocus their activities on broadening student access to higher education.

Question: How does the Department plan to contract for additional Direct Loan servicing capacity? Will it rely on the RFP process currently underway for servicing on loans put to the Department, or will it hold a new competition? How will the Department determine the service provider for each school?

Mr. Shireman: We have not made a decision regarding another servicing procurement. However, the procurement that was just completed does include the requirement that the selected vendors be able to service all Title IV federally held loans, including Direct Loans. Allocations of types and volume to any one vendor will be determined based upon servicer capabilities and performance.

Question: The schools, students, and families of Pennsylvania depend on our current guaranty agency, PHEAA, to provide essential services. These services include early college awareness and financial literacy programs as well as technical assistance and training for schools. They also provide crucial and successful default reduction and delinquency prevention services. Does the Department have a realistic proposal for maintaining and funding these services that will ensure that PHEAA and its sister agencies around the country have the resources they need to continue to carry out their public mission?

Mr. Shireman: The administration's fiscal year 2010 budget request includes funds for states to use to continue the college outreach and information activities now provided by some guaranty agencies through FFEL subsidies.

Representative Carol Shea-Porter

Question: The Department made the determination that it was necessary to provide an opportunity for servicers to compete for participation in the servicing of the ECASLA loans based on fact that the servicing of the ECASLA loans constituted a change to the existing servicing contract. Based on this past determination, it would seem that a similar determination should be made given that the additional private servicing as part of the President's budget proposal constitutes a significant change, requiring an additional opportunity for competition, just as the servicing of the ECASLA loans required an opportunity for competition. Will there be another RFP for the servicing of loans under the restructuring plans?

Mr. Shireman: We have not made a decision regarding another servicing procurement. However, the procurement that was just completed does include the requirement that the selected vendors be able to service all Title IV Federally held loans, including Direct Loans. Allocations of types and volume to any one vendor will be determined based upon servicer capabilities and performance. The current contractors have committed to sufficient capacity for the expansion of direct lending.

Question: You have mentioned the bid process and the utilization of private servicers. What specific steps are being taken by the Department of Education to ensure that the small nonprofits have an opportunity to compete for these servicing contracts?

Mr. Shireman: The contractors that were just selected have committed sufficient capacity for the expansion of Direct Lending. The work we have ahead of us over the next 18 months is substantial: first allocating ECASLA loan volume this fall to the new servicers and making sure that those systems are working properly, and then launching a multiple-servicer approach in the Direct Loan program. Once that implementation is complete next year, we will consider initiating another procurement that could focus on nonprofit servicers.

Representative Thomas Petri

Question: Can you explain the financial incentives to guaranty agencies in preventing defaults on student loans relative to the subsidies they receive for collecting on defaulted student loans?

Mr. Shireman: In the existing FFEL program, guaranty agencies receive annual Account Maintenance Fee (AMF) payments on non-defaulted loans averaging approximately $200 million. They also receive approximately $160 million annually from default aversion fees (DAFs) on delinquent loans that are brought current. Agencies retain a portion of collections on defaulted loans but must also pay their servicing and collection costs. In the past, collection revenues far exceeded collection costs, reducing the incentive for effective default aversion. Statutory decreases in retention rates have reduced the margin available to guaranty agencies through collections to address this problem.

Question: Mr. Shireman, advocates for FFEL highlight the borrower services, such as default prevention, that lenders and guarantors provide students. Besides cohort default rates which we know to be a fairly weak accountability measure, is there any oversight or accountability measures in FFEL regarding these services? Do we know if they are actually working? Or which ones work best?

Mr. Shireman: As you know, cohort default rates are comparable in Direct Loans and FFEL. Incentives in the non-ECASLA FFEL program, however, do not necessarily aim in the direction of default prevention. In our latest procurement for servicers, we have included strong financial incentives to promote default prevention: the venders receive higher payments for loans in good standing, and the companies with the best records will receive more new loan volume.

Question: Although the Administration's budget provides $2.5 billion over five years in grants to states to promote college access and student retention, many guaranty agencies see this funding stream as being insufficient or wanting their own specific funding stream. Can you comment on this critique?

Mr. Shireman: The agencies have not provided us with sufficient information about the outreach and information services they provide for me to be able to comment.

Representative Todd Platts

Question: The two school systems represented here today, Penn State and the entire California State School system, are very large entities. My District contains a number of small and mid-sized institutions. If we move forward with the Administration's proposal to convert all schools to the Direct Lending program, how can the Department of Education ensure that smaller schools will get the same loan servicing assistance that their larger counterparts will receive?

Mr. Shireman: The schools that have recently transitioned to Direct Lending have done so with little or no problem. However, to ensure that all schools are prepared, we have shifted human and capital resources to enable it to properly manage and support 100 percent school participation in the Direct Loan program. In addition, we have created a specially trained team whose task is to assist schools that may have unique situations or need additional support. FSA is hosting monthly webinars for schools, attending and presenting at conferences, and offering targeted training. FSA also is in the process of reviewing and updating all of its Direct Lending publications. Further, all vendors selected to service Direct Loans will receive their allocations of new loans based on performance. In addition to their performance related to borrower services and satisfaction, one very important part of measuring performance will be the service they provide to schools. Each servicer's performance will be measured by school type, control, and size.

Question: I have heard from schools that have historically participated in the Direct Loan program that they felt they received better service through the Direct Loan program before the recent influx of participating schools. What specific steps has the Department of Education taken to ensure that it will have the capacity to service ALL schools in the Direct Loan program by the end of 2010, as the Administration proposes?

Mr. Shireman: Starting last year when a number of FFEL schools began to transition to Direct Lending, we were aware that some of our current Direct Loan schools had concerns that the influx of new schools might degrade service levels and suggested that we take efforts to avoid that result. We are pleased to say that, even with the 50 percent increase in new schools last year, no degradation was experienced and we have not heard from either the older participants or the new schools that they have experienced any problems. That said, in preparation for a larger number of schools coming into Direct Lending, we are in the process of implementing a comprehensive plan to ensure that there is adequate staff both at the

Department and at our contractors to ensure that we maintain the current high level of customer service for all schools and for all students and borrowers.

Representative Joe Wilson

Question: You propose to stop new FFEL loan originations as of July 1, 2010. How many schools will need to transition from FFEL to Direct Loans between today and July 1st?

Mr. Shireman: As of June 1, 2009, there are just over 3,500 schools that would need to transition to Direct Lending. For most of these schools, the initial administrative steps to begin transition have already occurred.

Question: While some schools with tremendous resources have said making the transition to Direct Lending is relatively easy, many schools are projecting that they will incur additional administrative costs and face additional compliance risk as a result of being required to convert to the Direct Loan program. Has the Department produced an estimate of the costs of transitioning to the Direct Loan program for a small- to medium-size independent college? What are those costs?

Mr. Shireman: The Department has worked closely with the National Direct Loan Coalition to identify potential costs and other resources that might be needed for schools joining the Direct Loan program. The Coalition, after surveying 35 small schools that recently transitioned to Direct Lending, found that those schools did not have any significant costs in transitioning to Direct Lending. In terms of originating loans, the schools reported that the process is similar to transmitting FFEL loan certifications to FFEL lenders and that the use of the Department's Common Origination and Disbursement (COD) System, that is also used for Title IV grants, also made the transition relatively easy and cost efficient. Most, if not all, software vendors and third party servicers have software and operations that support both the FFEL and Direct Loan programs.

Schools with technology challenges can use the Department's "EDExpress" software to transmit loan data in batches from their systems to our system at no cost. Small schools with low volume can also use the Direct Loan Web site to enter loan origination and disbursement data instead of using software products.

Question: Will the administration provide direct financial assistance to schools to support their transition into the Direct Loan program? If so, what assistance will be provided and when?

Mr. Shireman: While the Department has provided, and will continue to provide, support to schools (training, customer service, school visits, etc.), there is no statutory authority to provide direct financial support to schools. Furthermore, based on the feedback we have heard from schools that have made the transition in the past year, there are no net added costs to be covered.

[VIA FACSIMILE],
May 28, 2009.

JOHN F. REMONDI, *Vice Chairman and Chief Financial Officer,*
Sallie Mae, 12061 Bluemont Way, Reston, VA.

MR. REMONDI: Thank you for testifying at the May 21, 2009 hearing of the Committee on Education and Labor on "Increasing Student Aid through Loan Reform."

Representative Dina Titus (D-NV), member of the Higher Education, Lifelong Learning, and Competitiveness Subcommittee and member of the Early Childhood, Elementary and Secondary Education Subcommittee, has asked that you respond in writing to the following questions:

In your testimony you suggest modifying the Administration's proposal by "authorizing lenders to originate loans for the government, with government capital, on a fee-for-service basis, thus ending lender subsidies altogether."

1. What do you anticipate the fee-for-service amount will be? Second, who ultimately pays the fee-for-service? Will costs be passed on to the student? If so, that seems counterproductive to the needs of the average family in finding a way to pay for higher education. Will costs be passed on to the institute of higher education? Again, this seems counterproductive. Surely it would incentivize schools to go to direct lending. Further, how would this help schools keep the rising costs of tuition and fees down? Will the federal government pay the fee-for-service? If so, that seems counterproductive to the goal of reducing subsidies, a goal you state in your testimony that you agree with. An added cost of a fee-for-service also seems to inhibit the savings of the Administration's plan that can be used to increase Pell grants, something you also say you agree with.

2. I would imagine that for most hard-working Americans trying to pay for college, a subsidy to a lender and a fee-for-service appear to be quite similar in their

effect. Would you please elaborate more on your fee-for-service proposal, including the costs to all stakeholders, and how exactly a "fee-for-service" would work?

Please send an electronic version of your written response to the questions to the Committee by close of business on Wednesday, June 3, 2009—the date on which the hearing record will close. If you have any questions, please do not hesitate to contact the Committee.

Sincerely,

GEORGE MILLER,
Chairman.

Responses From Mr. Remondi to Questions Submitted

DEAR REPRESENTATIVE TITUS: Thank you for the opportunity to clarify my recent testimony on suggested reforms of the federal student loan programs. Please find my answers to your questions below.

1. What do you anticipate the fee-for-service amount will be? Second, who ultimately pays the fee-for-service? Will costs be passed on to the student? If so, that seems counterproductive to the needs of the average family in finding a way to pay for higher education. Will costs be passed on to the institute of higher education? Again, this seems counterproductive. Surely it would incentivize schools to go to direct lending. Further, how would this help schools keep the rising costs of tuition and fees down? Will the federal government pay the fee-for-service? If so, that seems counterproductive to the goal of reducing subsidies, a goal you state in your testimony that you agree with. An added cost of a fee-for-service also seems to inhibit the savings of the Administration's plan that can be used to increase Pell grants, something you also say you agree with.

We propose a market-based fee, to be paid by the federal government, for the services attendant to origination of federal student loans. To ensure an orderly transition to a new program, we propose an initial fee of $75 per loan. This fee is what is already being paid by the government to loan originators for loans sold to the Department of Education under the authority granted by the Ensuring Continued Access to Student Loan Act (ECASLA). Under ECASLA, the $75 fee was designed under strict "no net cost to the taxpayer" requirements.

The fee will not be passed on to students or schools. To the contrary, by using the existing loan origination infrastructure and not requiring schools to convert to Direct Lending, no school will be faced with conversion and administration costs that might otherwise have been passed on to students.

Lender subsidies were historically employed to compensate lenders a fair market value for holding assets which, by design, generate artificially low returns due to caps on student-paid interest rates. Sallie Mae supports an end of lender subsidies and moving to a model of federal student loan ownership.

We believe that a model built on the Administration's proposal that includes the benefits of lender-provided origination services, paid for on a fee-for-service basis, will drive tens of millions of dollars for increased Pell Grant funding, while guaranteeing seamless implementation and retaining high-quality services.

2. I would imagine that for most hard-working Americans trying to pay for college, a subsidy to a lender and a fee-for-service appear to be quite similar in their effect. Would you please elaborate more on your fee-for-service proposal, including the costs to all stakeholders, and how exactly a "fee-for-service" would work?

There are costs associated with the origination of federal student loans. Moving toward a Direct Lending only model means that those costs will be borne by some combination of the government, the institutions of higher learning themselves or students if those costs are passed on in the form of higher tuition or fees.

We support modifications to the Administration's proposal that would retain the loan origination services that 75 percent of colleges and universities prefer, and that would ensure that the costs of loan originations would be borne by the government, the ultimate owner of the loan assets.

We propose a market-based fee, to be paid by the federal government, for the services attendant to origination of federal student loans. To ensure an orderly transition to a new program, we propose an initial fee of $75 per loan. This fee is what is already being paid by the government to loan originators for loans sold to the Department of Education under the authority granted by the Ensuring Continued Access to Student Loan Act (ECASLA). Under ECASLA, the $75 fee was designed under strict "no net cost to the taxpayer" requirements. The fee will be for the services attendant to the process of originating federal student loans for the federal government. The fee would compensate loan originators for services that include the paperwork associated with loan origination, as well as related services that include

technical and operational support for schools, financial literacy programs and default aversion programs that benefit students.

We also recommend a requirement that, after the initial transition period, the Department establish a process to set origination fees via market mechanisms designed to preserve broad participation of loan originators, including smaller, regional, state and non-profit entities.

Thank you again for the opportunity to clarify my testimony.

[Whereupon, at 1:13 p.m., the committee was adjourned.]