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Senate Approves Overhaul of Student Loan Program

By Amit R. Paley
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The Senate overwhelmingly approved a wide-ranging overhaul of student loan programs early today that would pay for more than $17 billion in grants and other student aid by slashing subsidies to lending companies.

Democrats and student advocates said the legislation, which passed in a 78 to 18 vote, would help millions of Americans pay for college in a time of steady and often steep tuition increases. But lenders and some Republicans said the measure would hurt students by making it unprofitable for many companies to issue such loans.

The bill now heads to a conference to reconcile differences with a version the House passed last week.

The action on Capitol Hill comes as the $85 billion-a-year student loan industry has become a target for the Democrat-led Congress and the subject of a nationwide investigation into questionable business practices.

"The question is: Are you going to support the students or are you going to support the banks?" Sen. Edward M. Kennedy (D-Mass.), chairman of the education committee, said during debate.

Lending companies said the legislation was a backdoor effort to drive some companies out of business and force borrowers to use a federal program, strongly supported by Democrats, in which the government lends directly to students.

The measure would cut subsidies to lenders by about $18 billion over five years and boost student aid by $17.4 billion during that period, with the rest of the savings used to reduce the federal budget deficit. The biggest aid increase would raise the maximum annual Pell grant, the nation's main aid program for low-income students, from $4,300 to $5,400 a year by 2012.

The House-passed bill would cut the interest rate on some federal loans in half, which House Democrats promised to do in their campaigns last fall, but the version that the Senate approved omits any such provision. Under the Senate version, subsidies would be cut about $1 billion less than under the House-passed bill.

The White House has threatened to veto the House measure, in part because it wanted more money to go toward Pell grants instead of interest-rate reduction. In previous weeks, administration officials have had encouraging words for the Senate version, which resembles proposals in President Bush's budget. This week, the administration warned that some provisions in the Senate version went too far, but officials stopped short of a veto threat.

The Senate and House versions contain provisions that would make it easier for students to repay loans. Under both bills, students would not have to spend more than 15 percent of their discretionary income on payments for federally backed student loans. Also under both bills, such loans would be forgiven after about two decades. The measures also include more generous loan-forgiveness options for public servants such as teachers and police officers.

Some Republicans said such proposals would unnecessarily increase the federal debt and encourage irresponsible borrowing. "This incentivizes people, I suggest perversely, to borrow money to go to college rather than working," said Sen. Jeff Sessions (R-Ala.).

Mark Kantrowitz, publisher of the Web site FinAid.org and an expert on student loans, wrote in an analysis circulating on Capitol Hill yesterday that the proposed subsidy cuts were too large and might reduce competition in the industry.

"While this will leave larger lenders like Sallie Mae profitable," Kantrowitz wrote, referring to the Reston-based lending giant, "these cuts are severe enough to significantly reduce their profits and may leave smaller lenders unprofitable."

Henry Howard, president of the U.S. Education Finance Group, a Miami-based lender, said the cuts would make it difficult to provide benefits to borrowers. As a result, he said, some borrowers might be forced to pay as much as $38,000 more on a $60,000 loan. Howard warned that "many students and parents will only be able to borrow under the one-size-fits-all direct loan program," a reference to the federal government's direct lending.

But Democrats and consumer advocates said lenders would continue to thrive even with reduced subsidies.

"We shouldn't shed any tears for the private loan companies and their executives," said Sen. Tom Harkin (D-Iowa). "They are doing quite well."

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Today's News

Friday, July 20, 2007

Senate Passes Budget-Reconciliation Bill After Rejecting Plan to Scale Back Cuts in Lender Subsidies

By KELLY FIELD

Washington

Dealing a blow to lenders and a victory to student groups, the U.S. Senate voted on Thursday to reject an amendment that would have reduced the size of a subsidy cut to for-profit student-loan companies.

The amendment, which would have scaled back the subsidy cut from 0.5 of a percentage point to 0.35 of a percentage point, was defeated by a vote of 61 to 36. The Senate then passed the underlying bill, a budget-reconciliation measure that would slash government subsidies to student-loan companies and use the savings to pay down a portion of the federal deficit and dramatically increase student aid. The vote on passage was 78 to 18.

The failure of the amendment came as a disappointment to the student-loan industry, which has warned that proposed cuts could drive smaller companies out of the federal student-loan program and force the remaining providers to do away with such borrower benefits as lender-paid origination fees and rate reductions for on-time repayments.

After the amendment was defeated, Nelnet, a major national student-loan company based in Nebraska -- the home state of Sen. E. Benjamin Nelson, a Democrat and one of the amendment's sponsors -- issued a statement saying that Congress had "severely limited the options of families and students who are trying to effectively plan and pay for college."

"The bottom line is, the Senate's vote was bad for millions of students and their families who are already struggling to pay rapidly rising tuitions," the lender wrote.

But student advocacy groups saw the situation differently. They said students had been spared a $4-billion cut that would have cost the neediest students $290 in Pell Grant aid a year, or nearly $1,200 over the course of their four-year college careers.

"It is encouraging that when the light of day shone on the details of this amendment, Congress voted with students and not with Sallie Mae," said Luke Swarthout, a higher-education advocate for the U.S. Public Interest Research Group.

The amendment's sponsors deny that it would have cut aid to students. They say that the measure would have simply changed the assumptions on which the Pell Grant increases in the bill are based. But critics said that amounted to a budgetary gimmick designed to mask the amendment's true impact.

The Senate amendment was the loan industry's last chance to roll back the proposed subsidy cuts, and lenders had lobbied vigorously in the days leading up to the vote, hoping to convince wavering Democrats that the proposed cuts would reduce students' borrowing options and force lenders to abandon historically black colleges and universities. The U.S. House of Representatives has already passed a bill that would cut lender subsidies even more deeply than the Senate's, by 0.55 of a percentage point.

More Bills to Battle Over

But the battles over student lending are far from over. Three senators have introduced bills that would take aim at perceived problems in the growing, and largely unregulated, private student-loan industry. Some of them may be offered as amendments to the Higher Education Act when Congress takes up that bill on Monday.

Among the most controversial of the bills is a proposal by Sen. Sherrod Brown, Democrat of Ohio, to establish a federal supplemental loan program to compete with private loans. Mr. Brown has predicted that the government could provide students with nonguaranteed college loans at rates "significantly less than the 12 to 19 percent students face for the same type of loans today in the private sector."

Lenders fear the program could supplant the lucrative private-lending industry, which has grown exponentially as college costs have risen. One lender described the two-page proposal as at once "breathtakingly simple" and "dangerous."

"We are taking it very seriously," John Dean, special counsel to the Consumer Bankers Association, told participants at a lending conference this month.

In an interview, Mr. Dean said he was not convinced that the proposed program would provide better interest rates for borrowers, since the bill requires that the program "result in no net cost to the federal government over the life of the loan."

"I haven't seen a compelling case for it in terms of benefits to borrowers, and I don't believe private lending is so screwed up that we need to kill it and start over," he said.

Lenders are also intently watching legislation by the Senate banking committee's chairman, Sen. Christopher J. Dodd, Democrat of Connecticut, that would bar lenders from determining students' eligibility for private loans or setting their interest rates based solely on the institution they attend.

The bill is a response to allegations made by New York's attorney general, Andrew M. Cuomo, at a banking committee hearing last month that lenders are discriminating against students attending career colleges and historically black colleges, where default rates tend to be higher than the national average. At that hearing, a Sallie Mae senior vice president testified that his company took a borrower's institution into account when determining eligibility and interest rate (*The Chronicle,* June 8).

In an interview on Tuesday, Barry Feierstein, Sallie Mae's senior vice president for private credit loans, said his company considered institutional default rates only for students attending proprietary institutions. He said the company did so because "the performance of loans in that segment of the market is dramatically different than the performance of loans in the not-for-profit segment." He stressed that the "single biggest factor" his company weighed was a borrower's credit score.

According to the Education Department's latest figures, the default rate for students at proprietary institutions in 2004 was 8.6 percent, more than double the rate for graduates of private not-for-profit institutions and almost 4 percentage points higher than the rate at public colleges.

While lenders have some concerns about the Dodd bill, it does not go as far as they had feared it might. Originally, the bill would have prohibited lenders from considering any factors that could result in different loan terms for borrowers based on the institution they attend.

The third measure, by Sen. Richard J. Durbin, Democrat of Illinois, would reverse changes in a federal bankruptcy law approved in 2005 that made it difficult for students to discharge private loans by filing for bankruptcy.

Amendments to Reconciliation Bill

Before the vote on the budget-reconciliation bill came up, the Senate approved a pair of amendments by Sen. Edward M. Kennedy, Democrat of Massachusetts, and Sen. Lisa Murkowski, Republican of Alaska, that would shift some of the bill's savings from deficit reduction to student aid. The Kennedy amendment would provide an additional $5-billion for Pell Grants from 2012 to 2017, while the Murkowski amendment would provide an additional $176-million for a new program that would provide grants to states to prepare low-income students for college.

The Senate also approved an amendment by Sen. Lindsey Graham, Republican of South Carolina, that would strike a section of the bill that would have eliminated a question on the Free Application for Federal Student Aid, or Fafsa, that asks students if they have ever been convicted of drug dealing or possession while in college.

The bill now heads to a conference committee, where members of the Senate and House will meet to reconcile their versions of the bill. Though the two bills have much in common, they contain a few crucial differences that could complicate negotiations. For example, the House bill would halve interest rates on student loans, while the Senate bill would spend some of its savings on a new program aimed at preparing low-income students for college.

President Bush has threatened to veto the House version of the bill and has said he opposes several provisions of the Senate bill, including a plan to test the idea of using auctions to set lender subsidies.

July 20, 2007

Senate Approves Major Overhaul of the Federal Student Aid Program

By DIANA JEAN SCHEMO

WASHINGTON, Friday, July 20 — The Senate approved a major overhaul of federal student aid early today, cutting taxpayer subsidies to student lenders by more than $18 billion and funneling most of the money into increasing federal grants for low- and middle-income students and easing repayment terms on federal loans.

The bill passed by a bipartisan majority of 78 to 18 after the vote was temporarily delayed by a flurry of largely unrelated amendments, a reflection of the lingering rancor over the debate on Iraq this week. The House passed its version of the legislation last week, and the differences must now be reconciled.

The White House, which had threatened to veto the House bill, had a more measured response to the Senate's version, objecting mainly to provisions that ease repayment of only some loans and grant loan forgiveness for public service employees. But the administration said it expected to "resolve these issues through the legislative process."

Senator Edward M. Kennedy, Democrat of Massachusetts, the chairman of the education committee, said, "In the face of the global economy, college education is more important than ever, but it's never been more difficult to afford." The cost of attending college has tripled over the last 20 years, Mr. Kennedy added, even as the buying power of the main federal grant for low- and middle-income students shrank.

But critics complained that the bill would cut too deep into lender subsidies and create new entitlement programs that would, over time, swell the federal deficit.

Senator Lamar Alexander, Republican of Tennessee, argued that the measures were really aimed at dismantling the federally guaranteed loan program, which involves private lenders, and replacing it with a direct loan program, which costs taxpayers less, according to Congressional research.

The bill, Mr. Alexander said, "is doing something through the back door that I really don't think we should be doing through the front door."

Like the House measure, the Senate bill eases the repayment burden for student borrowers. It limits monthly payments on federal student loans to 15 percent of a graduate's discretionary income and offers complete loan forgiveness after 10 years to public service employees.

It raises the maximum Pell grant more than the House bill did, to $5,100 by next year and $5,400 by 2011. And it creates a category of stipends, Promise Grants, which could make up the difference between Pell grants and any family or college contributions to cover the full cost of attendance for the neediest students.

Arguing that the bill would jeopardize small and medium-size companies, lenders tried to stave off some cuts through a last-minute amendment sponsored by Senators Ben Nelson, Democrat of Nebraska, and Richard M. Burr, Republican of North Carolina, that would have cut the loss of government subsidies to lenders by about $3 billion.

Supporters maintained that the amendment would have eased the pain for lenders without sacrificing aid to needy students. But critics, backed by a report by the Congressional Budget Office, disputed that claim. The measure was defeated, 61 to 36.

Both the tone of the debate and the results of the vote reflected the decline in fortune of the student loan industry after inquiries by Congress and the office of Andrew M. Cuomo, the New York attorney general revealed improprieties in the industry.

Mr. Cuomo's office said on Thursday that it had reached an agreement with one of the 10 largest student lenders, the College Loan Corporation of San Diego.

In the agreement, the attorney general's office said it had found that the company had provided a range of benefits to colleges and universities, including conducting counseling sessions on behalf of the institutions that federal law requires for students with federally guaranteed loans. The sessions are intended to offer objective information, but were instead used by the lender "as marketing opportunities," Mr. Cuomo found.

The College Loan Corporation also provided staff at no charge to assist financial aid offices at busy times and gave gifts of meals and entertainment to college employees who served on its advisory board, the agreement said.

The company signed a "code of conduct" developed by Mr. Cuomo's office that bars lenders from giving anything of value to a college or university in exchange for help marketing loans to students.

"We're pleased this matter is resolved with the New York State attorney general," Tracy Neumann, senior vice president of the company, said in a statement.

Jonathan D. Glater contributed reporting from New York.