

Eliminating the Federal Family Education Loan Program: Hurting Students & Increasing the Size of the Government

September 10, 2009

By having the government take over all federal student loan originations, it would involve one of the largest expansions of a government program in recent memory. It would dismantle a system that has successfully served generations of Americans. Within a decade the Federal Direct Loan Program would be a trillion dollar operation, making it one of the biggest banks in the world. It would ultimately have responsibility for tens of millions of borrowers ...

[American's Student Loan Providers](#)

STATUS

The House will likely consider [H.R. 3221](#), the Student Aid and Fiscal Responsibility Act next week under a rule. The bill, sponsored by Rep. George Miller (D-CA), passed out of the House Committee on Education and Labor by a vote of 30-17 on July 21, 2009. The bill eliminates the Federal Family Education Loan program and shifts all student loans to a government-run and taxpayer financed system under the Direct Loan program, as well as creates nine new programs and increases the federal government takeover of early education, higher education, school construction, and more.

BACKGROUND

Currently, the federal government provides both subsidized and unsubsidized loans for higher education (both undergraduate and graduate) using two main programs—the Federal Family Education Loan (FFEL) program, and the Direct Loan (DL) program. The FFEL loan program offers subsidized loans to students from **private lenders**. The FFEL program makes it possible for borrowers to get student loans at low interest rates. In contrast, the DL program uses the federal government as the lender to provide capital for all loans (as well as interest on subsidized loans). Under the DL program, the Department of Education serves as the lender and funds come directly from the U.S. Treasury.

The Higher Education Act (current law) sets the terms and conditions on DL and FFEL loans, including the interest rate, repayment periods, default and forbearance capabilities. The FFEL program was created in 1966, and has provided subsidized loans to students for more than 40 years. With over 2,000 lenders participating in the FFEL program, serving approximately 4,400 institutions, \$70 billion in FFEL loans have been made available to students this year.

The DL program began under President Clinton in 1993, and has only captured about 34 percent of the total loan market at its height, and has proven to be less efficient and responsive than the FFEL program. With approximately 1,700 institutions currently participating in the DL program, DL has made available \$22 billion in student loans this year, and many of these schools were forced into the program as the capital markets worsened last year.

In the 110th Congress, the House passed [H.R. 2669](#), the College Cost Reduction and Access Act. The bill provided new public service loan forgiveness to borrowers in the DL program but did not include the same benefit for borrowers in the FFEL program. H.R. 2669 temporarily cut interest rates for students who had DL and FFEL loans. The legislation also cut payments to FFEL lenders just as the capital markets began to seize up during the subprime mortgage crisis, finding some FFEL lenders unable to finance securitizations.

MEMBER CONCERNS

As proposed in President Obama's FY 2010 budget, H.R. 3221 eliminates the FFEL student loan program that has been the overwhelming choice of students and families for more than 40 years, replacing it with a government-run program. While Democrats continue to use government takeovers as a panacea to all economic problems, converting all student loans to government subsidized loans is just another way that Democrats are killing jobs, increasing government intrusion, and eroding the rights of the consumer.

Effectively eradicating the private sector competition in the student loan industry and shifting all student loans to the DL program kills jobs and greatly expands the federal government's control of the educational loan market. By eliminating the FFEL program, Democrats will limit choices for parents and students seeking educational loans and decrease the quality of service historically provided by private lenders. In 2007-08, the FFEL program served more than 6.4 million students and parents at 5,000 postsecondary institutions, lending a total of \$55.3 billion (or 78 percent of all new federal student loans).

For more information or questions, please contact Sarah Makin at 6-2302.
