

October 31, 2007

Let's SLAM the Door Closed on Waste in Guaranteed Lending

The Student Loan Auction Market (SLAM) Act

Dear Colleague:

Happy Halloween! How about this for a "trick"? Prior to the enactment of the College Cost Reduction and Access Act last month, U.S. taxpayers were over-subsidizing student loan companies participating in the Federal Family Education Loan (FFEL), or guaranteed loan, program by \$3-5 billion per year. The lenders were all too happy to "treat" themselves to generous taxpayer subsidies by exploiting loopholes in the program's archaic structure.

However, the recent scandals in the student loan industry and widespread public awareness about the extent of this egregious abuse led to some critical structural reforms of guaranteed loan program. One of the important recognitions was that the archaic guaranteed loan program had not been significantly reformed since its creation in the 1960s. The key problem was that it failed to capture the actual cost of lending and instead relied on arbitrary, politically-set formulas that led to tremendous over-subsidization.

The market provides a perfect solution to this failed, central-planning approach: an auction. Every day the U.S. government and business community use market-based mechanisms, such as auctions, to determine market price. Earlier this year, I offered a market-mechanisms amendment that was unanimously adopted by the Education and Labor Committee, and the bill was ultimately passed by an overwhelming majority in the House.

Unfortunately, in conference the pragmatic House language was entirely removed in favor of a much more prescriptive Senate approach. While the intention to include an auction reform was laudable, getting the details right on such a program is incredibly important to students, taxpayers, and lenders. The National Journal recently published an article highlighting concerns with the Senate approach and the need to revisit this proposal (see attached article).

I am pleased to reintroduce the House-passed reform language as the Student Loan Auction Market (SLAM) Act. My proposal would require the Secretaries of

Education and the Treasury to lead a study group of technical experts to design a model that ensured maximum savings to taxpayers and a commitment to quality service to borrowers. It would also launch a two-year pilot using up to twenty percent of the guaranteed loan portfolio to test the model. Finally, GAO would study the progress and report back to Congress on its efficacy.

The SLAM Act would allow us to test both the Senate and House market-based models independently, and then study which pilot is more effective. I hope that you will join me in cosponsoring this pragmatic and responsible study and pilot of market-based reforms to the guaranteed loan program.

For more information or to cosponsor, please contact Thomas Culligan in my office at 5-2476.

Sincerely,

/s/

THOMAS E. PETRI

Member of Congress