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Student Lender Associations Protest Subsidy Cuts

By Shaileja Mammen

In a letter to Congress, members of the Consumer Bankers Association, Education Finance Council, and National Council of Higher Education Loan Programs, representing loan providers for the Federal Family Education Loan Program (FFELP), expressed their concerns regarding the College Cost Reduction Act of 2007 and the Higher Education Access Act of 2007.

The proposed bills make substantial cuts to the FFELP by increasing lender-paid origination fees, reducing special allowance payments, and reducing loan insurance. The student lender associations believe that this will result in borrowers losing some or all of the benefits currently offered to them by lenders as well as the right to choose a lender. This, in turn, will make paying for college more expensive for some students-especially middle-income students who are not eligible for Pell Grant assistance.

The student lender groups have added that the auction proposals in both bills will create ambiguity for schools and lenders. A study conducted by the Government Accountability Office and the Secretary of Education under the instructions of Congress lends support to the lender associations' viewpoint. The final report released on the study says there is no substantial reason to hold an FFELP auction.

The student lender groups have also suggested that Congress has an interest in the pilot auction program, which would force students and parents to use lenders selected by the government. They recommended that the pilot study be limited to no more than 100 schools participating voluntarily, stating that if the study is not conducted in this manner, it will jeopardize the financial support of millions of students and their parents and expose them to an untested experiment. The FFELP lender associations have also stressed that Congress should authorize any expansion of auctions beyond the pilot stage. According to them, all such studies should involve representatives of lenders, parents, students, schools, services, and guarantors.