AMERICA'S STUDENT LOAN PROVIDERS

NEWS RELEASE

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Washington, D.C: January 14, 2005 – America's Student Loan Providers issued the following statement on the Direct Loans Reward Act:

Representatives Miller (D-CA) and Petri (R-WI) have announced they plan to re-introduce the Direct Loan Rewards Act. Their bill seeks to increase Pell Grant awards to schools that participate in the Federal Direct Loan Program. The increase in Pell Grant awards would be "paid for" by "savings" generated by new schools participating in the Federal Direct Loan Program.

America's Student Loan Providers opposes the Direct Lending Rewards Act because it induces schools to participate in the Direct Loan Program with a promise of future savings – savings that ***have never materialized*** during the entire 10-year history of the Direct Loan program. Independent examinations of the Direct Loan Program confirm that:

- **The Direct Loan Program is hemorrhaging cash:** According to the non-partisan U.S. Government Accountability Office, the Direct Loan Program has spent $10.7 billion more on interest payments to the government than it has received in interest and fees from student loan borrowers since it was created in 1993.[1]
- **In FY 2003 and FY 2004, taxpayers paid an additional $7 billion to the Direct Loan Program because the government had significantly underestimated the true cost of the program.** By way of contrast, since FY 2001, the Federal Family Education Loan Program (FFELP) has returned more than $12 billion to taxpayers because the government had significantly *overestimated* the cost of this program.[2]
- **The Direct Loan Program cannot repay all the money it has borrowed from taxpayers:** According to the Department of Education, the Direct Loan Program owes the government $92 billion but has only $82 billion in performing loans to pay off this debt. In fact, almost $6 billion of loans made by the Direct Loan Program are in default.[3]

The Miller/Petri bill has another serious flaw. Their legislation would, for the first time, treat students eligible for the Pell Grant differently. Instead of basing Pell Grant rewards on student need, the Miller/Petri bill grants preferential rewards to students who attend schools that participate in the Direct Loan Program. This change goes against the historic record of the Pell Grant program, which is to give Pell Grant rewards equally based upon a student's needs.

America's Student Loan Provider's believes that Congress should reject any legislation that pays for any benefits based on "savings" in the Direct Loan Program. As the record demonstrates, the Direct Loan Program has not lived up to its promise of savings to taxpayers. And, this bill would disadvantage needy students simply because they attend a school that uses the FFEL Program.

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America's Student Loan Providers represents more than 80 education and financial firms and organizations that provider federally guaranteed student loans through the Federal Family Education Loan Program (FFELP), a public-private partnership of schools, students, loan providers, loan guarantors, and the federal government. By leveraging private financial markets and competing for the right to lend to students, the FFELP brings value to students, schools, and taxpayers. Students benefit through lower interest rates, and simplified loan application and approval processes. More than 500 schools have switched to the FFELP since 1998 because it allows them to choose the lender that best meets the financial needs of their students. More information is available at www.studentloanfacts.org.

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[1] GAO-04-567R FDLP Cost Estimates measured on a cash basis
[2] Appendix, Budget of the U.S. Government, Fiscal Year 2005.
[3] FY 2003 Department of Education Performance and Accountability Report