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# The Lexington Institute Holds Policy Forum on the Future of the Federal Student Loan Program

**List of Speakers:**

DON SOIFER, EXECUTIVE VICE PRESIDENT, THE LEXINGTON INSTITUTE

TIMOTHY CONNELL, PRESIDENT, GEORGIA STUDENT FINANCE COMMISSION

JASON DELISLE, DIRECTOR, FEDERAL EDUCATION BUDGET PROJECT, NEW AMERICA FOUNDATION

DONALD MURPHY, CEO AND MANAGING ASSOCIATE, WESLEY PEACHTREE GROUP

EILEEN O'LEARY, EXECUTIVE COUNCIL, NATIONAL DIRECT LOAN COALITION, STONEHILL COLLEGE

JOHN REMONDI, VICE CHAIRMAN AND CFO, SALLIE MAE

JEVITA ROGERS, STUDENT FINANCIAL AID DIRECTOR, GEORGE MASON UNIVERSITY

RICH WILLIAMS, HIGHER EDUCATION ASSOCIATE, U.S. PIRG

SOIFER:

Good morning and thanks to all of you for taking time out of your busy schedules to come join us this morning for a timely and informational and lively session on -- on an area that's important to all of us.

I'm Don Soifer from the Lexington Institute. A couple just brief business items before we go: if you would be so kind as to turn off your cell phones or turn them down to the least volume accessible, that would be wonderful.

What we're going to do is we're going to go through the program and give each speaker the opportunity to make their initial statements. And then, once that's concluded, then we'll get into some opportunity for -- for interaction and questions. So if you could hold your questions and responses until we get to the end, that would be great.

We are -- for those of you that may not know, we are doing this by Web cast around the country. We -- when I left my computer this morning, we had already had hundreds of folks, sort of, logged in. And we set up an e-mail account. It's lexingtoninstitute@gmail.com. And if any of you that are watching this from outside of the room have questions that you would like to ask, I've already collected a number. Please go ahead and e-mail those and we'll work those into the program as best we can.

To the speakers, I ask of you, if -- as much as possible, if we could do our best to keep the use of acronyms to a minimum, or at the very least, to speak slowly so that those of us like myself who might not be involved in the -- in the day to day discussion of all of the particulars -- keeping acronyms to a minimum would be -- would be extremely helpful.

And with that, let me just say that we're very fortunate to have a great deal of experience and expertise from all important aspects of the financial aid and student loan community with us in the room today, and -- ranging from the leaders of -- of financial aid offices to -- to top student lenders on both the corporate and nonprofit side, to a CPA who audits the nation's historically black colleges and universities to some well-published policy experts.

So it should be a good discussion here today. And I thank the panel for taking time to -- to join us. And I think the best use of perhaps -- by way of introducing the subject that I could -- could do is to introduce some of the -- some of the complex and involved topics is to, sort of, just take a couple minutes and put in perspective, some of the numbers that are inevitably going to be coming up today in the presentations and, sort of, give a little bit of definition and perspective, so -- so as they come up, we'll -- we'll know what to make of them.

So I'll mention them briefly and leave it to our panelists to discuss them in any more detail. But maybe I thought that would be a good way to begin. And I will spare you my "three college students walk into a bank" jokes until we finish afterwards.

(LAUGHTER)

We're going to stop at 11:00 sharp, and that should give folks a chance to have any -- any interaction or questions that you might have, if people will be kind enough to wait around.

Very well then. Let me run down a dozen of what I identified as some of the important numbers, and then I'll turn things over to -- to the panel after a period of short introductions.

One, the number of federal student loan programs the Obama Administration has -- has planned for the 2010-2011 school year, the Ford Direct Loan Program: 2.8 percent, the interest rate at which the Education Department currently borrows from the U.S. Treasury; 6.6 percent, the percent of GDP accounted for by higher education spending, 2004-2005; 6.8 percent, the interest rate for federal student loans dispersed after 2006, with various exceptions that will certainly come up today; 20 percent, the percent of the federal student loan market borrowed through the Direct Loan program, 2007- 2008; 26 percent, percent of the same, 2008-2009; 30 percent, percent that federal student loans comprise of all higher education spending and funding in the United States; 439 percent, percent college tuition and fees increased over the last 25 years, almost three times the increase in median family income in adjusted dollars over the same period; $185 million, the number of new federal student loans the Congressional Budget Office expects over the next decade; $40 billion, the amount in dollars H.R. 2331, the House legislation, increases funding for Pell grants; $47 billion, the amount in dollars that the congressional budget office believes it will save over the next 10 years, based on risk-adjusted discount rates; $87 billion, the dollars supporters of that proposal believe it will save over the next 10 years, based on the initial CBO estimates that do not adjust for risk.

Maybe that's a pretty good place to stop and let the panel take it from here. I will offer some -- some brief background introductions on -- on the speakers. Let me also mention that the -- I've offered to the speakers that, if they'd like to put the text of their comments online, they will be available on the Lexington Institute's Web site, lexingtoninstitute.org, and if -- we'll handle questions as they come, but inevitably there will probably be some -- be some matters that will be best addressed afterwards or perhaps addressed to federal officials who might be able to answer some of the more technical questions that we've already gotten from -- from financial aid officers around the country.

So let me just -- let me just very quickly introduce the speakers that you are going to be hearing from. And I apologize for any important omissions in the interest of brevity. Jack Remondi is Vice Chairman and Chief Financial Officer of Sallie Mae.

Jack oversees all the company's business strategy and is responsible for corporate finance, investor relations, accounting and reporting financial planning, credit policy, risk management, corporate communication, philanthropic activities and human resources. And in that capacity, he is Chairman of the Board of Reading is Fundamental.

Eileen O'Leary is Assistant Vice President of Student Financial Services at Stonehill College in Massachusetts. She is the past chair of the National Direct Loan -- the National Direct Student Loan Coalition and is a current member of its executive board and has come here this morning from Massachusetts.

Tying for the prize of having come the longest difference -- distance, Don Murphy is the founder of the Wesley Peachtree Group, the nations' only minority-owned CPA management technical support firm specializing exclusively in the higher education industry. Over the years, Mr. Murphy and his firm have represented over half of the historically black colleges and universities in the United States in a variety of capacities.

Rich Williams is the Higher Education Associate for U.S. PIRG and has served as board member -- as a board member for the Arizona Student's Association. And those of you who follow -- follow the issue are widely familiar -- familiar with his published work and -- and commentary on the issue.

And thanks very much for joining us this morning.

Jevita Rogers is the new director of Student Financial Aid at George Mason University in Fairfax, Virginia. George Mason has been both a FELP and a direct loan school, giving Ms. Rogers experience in both, and we look forward to hearing her observations as the -- as the morning progresses.

Jason Delisle is the Director of the Federal Education Budget Project at the New America Foundation. Jason has -- has worked on the Hill on this issue extensively, on both sides of the Hill, working for Senator Judd Gregg and Congressman Tom Petri and that, as a member of the Republican staff of the U.S. Budget Committee.

And Tim Connell is President of the Georgia Student Finance Commission, which has been, since July of 2005, appointed by Governor Sonny Perdue, who is a nonprofit organization whose mission is to promote and increase access to education beyond high school for Georgians. And Tim has also come a long way this morning, and we're grateful to you for being here.

So with that, let me turn things over to the panel. Jack Remondi from Sallie Mae. And I look forward to hearing your thoughts and -- and being in touch with you after the speakers. Thank you.

REMONDI:

Good morning. Thank you. I'm very happy to be here today to talk about this important topic. We're very appreciative of the Lexington Institute for holding this -- this forum today so that different views can be expressed.

Today's topic is extremely important to millions of students and families, to thousands of schools, and to taxpayers, yet it's received almost no discussion on the -- in the political landscape over the last several months. I recognize that a little program called health care has been keeping folks busy, but the student loan program and the changes that are being proposed here are important and deserve our attention.

As we start today's program, I think it's important that we frame the debate. And as we and a large group of student loan participants see it, the only real question on the table is who taxpayers should hire to deliver and service student loans to students and parents.

The choice is between an open marketplace where many entities would compete for your business or a single provider chosen by the Department of Education.

The question students, schools and taxpayers need to ask is who will deliver a better service with more features, who will work harder to meet students' and schools' needs and who will better manage the expected $1 trillion in student loans that will be made over the next 10 years -- $1 trillion. So it would make the Department of Education one of the largest financial institutions in the country.

To date, those in favor of 100 percent direct lending will tell you that this debate is primarily about ending lender subsidies to make college more affordable, that schools will experience no problems transitioning to the direct loan program, that the only way to achieve savings for Pell Grants is through direct loans and that the $87 billion of savings -- projected savings -- is in the bank, that job losses in an economy with 10.2 percent unemployment will be minimal, that service levels won't decline for students and schools and that default rates won't increase.

And more recently, we've heard that ECASLA will not be extended, leaving schools without alternatives after July 1st. The facts, in our view, however, are quite different.

Over 30 industry participants, including Sallie Mae, have joined the president -- joined the president in calling for major reform in the student loan program and have crafted an alternative, which is called a community proposal, that achieves the president's objectives and more.

The more is a program that addresses the real needs of schools and students. And some examples of this are the community proposal will generate $87 billion of mandatory savings that would help make college more affordable by expanding Pell Grants or perhaps lowering student loan interest rates. The savings could also be used to reduce the federal budget deficit.

It will maintain an environment where service providers compete to win your business, ensuring high customer service. It is ready for implementation before July 1st, and this is critically important, as it is the only program that creates additional savings for Pell Grants for the 2010-2011 academic year.

In an economic environment such as today, this is more important than ever. The administration's proposal cannot be implemented by July 1st, and therefore it puts at risk or jeopardizes up to $10 billion of the savings, which as we heard in one of the statistics earlier, 25 percent of the increase in Pell Grants.

The community proposal will allow schools to choose the loan delivery system that works best for them. It does not force any school to switch. And it will continue to produce lower default rates, saving taxpayers billions of dollars and save millions of students -- something that gets, I think, completely missed -- millions of students the painful consequences of a ruined credit.

At Sallie Mae, we know that one size does not work for all students or all schools. For some schools, direct lending is a great program and they should have the option to choose that program. Other schools, however, find that the FELP program, or the -- sorry for the acronym...

(LAUGHTER)

... better meets the needs and the needs of their students. One thing should be perfectly clear, and I think this also -- this point also gets missed in the discussion -- is that, after 16 years of FELPs and direct lending competing side by side, schools clearly understand which program works best for them, and we're going to hear from two later this morning.

With this experience and knowledge, why do they want to force over 4,000 schools to switch?

The community proposal was designed with the different needs of students and schools in mind. Only the community proposal gives schools the ability to choose. Importantly, it's a choice that they can change at any time. If they're unhappy or their needs change, they can switch.

In other words, if lenders like Sallie Mae do a lousy job, we expect the school to fire us and find somebody else who will meet their needs. With 100 percent direct lending, there is no choice. Happy or unhappy, the school and the students are stuck. It's a one- size-fits-all, whether the school is a small, private four-year college, a large traditional four-year public university, or an inner- city community college.

If both programs generate the same $87 billion in savings, why is eliminating choice and competition a good idea?

There's also significant confusion over the range of services provided to students and schools today. Many seem to think that originating a loan is as simple as crediting a student's account with the proceeds of the loan. We know it's much, much more.

The chart that was on your seat today clearly illustrates the wide range of activities that lenders and servicers and guarantors perform to help students navigate the student loan process from application through successful repayment.

Our experience shows that, when we work with students, informing them of their choices before they borrow, helping them understand how they can pursue their dreams, making sure that they borrow wisely, not too much for the educational program, and then continue to work with them through the repayment cycle, we get dramatically different results. And that is, in our case, 30 percent lower default rates than exist in the -- in the servicing-lite version of the student loan program or direct lending.

And as you can see, the services provided in FELP today are much, much more than just sending the loan proceeds to the school. With the need for these services and the value they deliver so clear, why are we proposing to eliminate them?

The delay in the legislative process has created some confusion amongst schools as to what to do next. The Department of Ed's response has been to pressure schools to switch to direct lending now or risk not having access to student loans in the fall.

This is -- this advice is unfortunate and premature. Recognizing this delay, Senator Lamar Alexander, someone who knows firsthand what it's like to run a college and the Department of Education, has called on Secretary Duncan to join him in calling for an extension of the ECASLA program, and doing so now to ensure that students will have undisrupted access to loans next -- for the next academic year.

In the meantime, we certainly want to assure you that we at Sallie Mae are committed to doing everything possible to ensure that we continue to make loans to every student at every school through June 30th and beyond.

The student loan program is the largest source of federal aid for college students. It is critical that this program work right. We think the best student loan programs should include the following features: financial aid awareness programs so that students and families of all economic backgrounds understand that higher education is attainable; educational programs that help students understand the full cost of their education, their obligations and the ability to manage the resulting loan payment before they borrow; loan delivery solutions that match the unique needs of different schools; loan repayment programs that help students manage their payment obligations when situations change and actually get them implemented on time; and default aversion programs that focus on results versus compliance.

These critical items are absent in the 100 percent direct lending proposal. The community proposal, however, delivers on each of these points, and it does so while generating $87 billion in savings. It is ready for implementation July 1st. It does not force over 4,000 schools to switch programs. And it will prevent in the loss -- it will prevent the loss of thousands of private-sector jobs.

We ask Congress to fully consider the community proposal, which produces a better program -- a better student loan program for students, schools and taxpayers. I look forward to your questions later in the -- in the forum. Thank you.

O'LEARY:

First I'd like to thank Jack for introducing many of my points before I came up. Thanks.

(LAUGHTER)

And I'd like to thank Dan -- Don Soifer of the Lexington Institute for his invitation to participate in today's forum.

We can always debate whether the government should have any role in student lending and make the case that all lending should be through the private markets without government subsidy. However, today's focus is on the two federal student loan delivery systems that we have. And the question is whether the two should continue to exist.

When Congress created the federal loan program, now known as the Federal Family Education Loan Program, or FELP, back in '65, it had no other option to accomplish the goal of providing a source of loan capital to students who needed help paying for their college educations.

Because of federal budgeting and accounting rules in place at that time, and understandably, the unwillingness of banks to lend to students who had no jobs, no credit and wouldn't have jobs for about four years, that Congress convinced banks to participate by providing incentives in the form of special allowance payments, subsidies and guarantees against default.

However, once Congress passed the Credit Reform Act in the early 1990s, it was possible for the federal government to provide loans directly to students, avoiding the expensive added cost to FELP, and thus the direct loan program came into existence in '92, based on the cost-saving idea first born in the first Bush administration.

For a time, competition among FELP lenders for market share resulted in lower interest rates and fees for some student borrowers at some schools.

However, reductions in payments to FELP entities and the numerous loan scandals that came to light in recent years prompted reforms that have ended any notable differences in interest or fee benefits between and among FELP entities and the D.L. program itself.

Thus, today, FELP and direct lending are simply two delivery methods for providing students virtually the same federal loans.

President Obama's proposal to end the FELP program, shifting payments given to lenders, guarantors and servicers to students in the form of increased Pell grants is, to this seasoned aid administrator of 25 years, a simple no-brainer.

The administration has not proposed this change because Mr. Obama personally prefers direct loans over FELP; he's making a tough choice because he understands that expanding to 100 percent direct loans is the logical way to make a substantial change to help students pay for college without increasing the deficit or raising taxes.

Without any additional cost to taxpayers, we can shift between $47 billion and $94 billion over 10 years, depending on which estimate you are using, to fund students and support education. The public policy questions that remain are well expressed by the Lexington Institute.

And as I provide my comments, I assure you that mine is also the experience of D.L. schools that I know through my work at the National Direct Student Loan Coalition, with the Mass. Association of Student Financial Aid Administrators and the National Association of Student Financial Aid Administrators.

First, what best serves students?

Stonehill College has used direct lending since 1993. We've experienced that direct loans provide one-stop shopping for students from application to awarding, from loan completion to fund dispersement. What was and still can be weeks and sometimes an even longer process in FELP can be accomplished with D.L. in a matter of days or hours.

Students and families appreciate the simplicity of dealing with a single point of contact for all of their financial aid, without the need to negotiate what can be a confusing and multi-layered FELP system. Students receive their funds more quickly; the service provided by the contractors hired by the Department of Ed has proven superb. As a result, our institutional default rate has dropped significantly. Two years ago it was zero.

We received nothing but compliments from our students and their parents on the way D.L. works, especially for those parents who have children attending FELP schools and so have a real life comparison. Once in repayment, the servicer works in the borrower's best interest, since the contractor is hired by the department by a competitively let bidding process, are compensated on performance measuring, including on-time repayments by borrowers.

It is true students will no longer have a choice of lender. However, it's important to note that no other federal financial aid program provides a choice of fund delivery methods to students or to schools.

And since loan benefits are statutorily set, with virtually no FELP lenders providing differentiated benefits, the concept of choice is really a red herring.

In my experience, students are not interested in who the eventual servicer of their loans will be. Indeed, in FELP, there is not even a guarantee that the entity that gave them their loans will still own or service those loans when they go into repayment.

The Associate Director of Scholarships and Financial Aid at Oklahoma State recently posted to a listserv that she is working with a student who borrowed FELP loans in each of her four years of education there and that, currently, there are 11 different agencies who lent, own, service and/or guarantee those four loans. So the students' up-front choice in today's FELP environment can be irrelevant.

Second question: what best serves institutions. By serving my students well, direct lending serves my institution well. In addition to students and parents who find D.L. simple, streamlined and transparent, the control over process afforded by direct lending allows the college to improve cash flow from loan funds and to do so with fewer employees.

Complaints about student loans have disappeared. The simplicity has allowed us to hire fewer employees to manage federal student loans and shift their time instead to providing counseling and other services to the students and their families. And although Stonehill has been in D.L. for many years, I've spoken with schools who have transitioned in the last one to three years and they have had virtually the same experience.

The third question: what best serves taxpayers. First it's important to understand that moving to full D.L. is not tantamount to federalization of student loans. How indeed can you federalize a federal program?

The only question should be, would the movement of taxpayer dollars from lender support to student support be harmful to students or taxpayers? And my answer -- and Jeff already knows this -- is no.

Regardless of the conflicting calculations you've seen, all president budgets since D.L.'s inception, continued reports from nonpartisan Congressional Budget Office, the Office of Management and Budget, and the General Accountability Office, as well as others not -- who did not have a vested interested in the results, confirm time and again that the direct loan program costs significantly less for taxpayers to accomplish the same goal.

Taxpayers need not fear that a move to direct lending will increase the national debt. Direct lending is an investment that pays for itself. While the proceeds of Treasury auctions used for D.L. may be temporarily part of the national debt, the debt is more than paid for by the repayment of the loans.

Because FELP loans are considered a contingent liability of the government because of the guarantees against default, FELP is also a part of the real debt of the government.

Taxpayers will also benefit because historic data confirms that direct lending has a lower default rate than FELP. The Department of Education has published the comparative default rates for D.L. and FELP for each year in which the programs have operated concurrently up to cohort default your recent release, 2007.

The most recent cohort default rate for D.L. is 4.8 percent; for FELP, 7.2 percent. There are more proprietary schools in FELP, and these schools typically do have higher default rates. And this leads many to discount the comparative default rates.

However, Tim Ranzetta of Student Lending Analytics deconstructed the numbers and found that, when default rates are adjusted for school type, the D.L, default rate is still lower than FELPs by merely a full percentage point.

In the D.L. model, there is no profit motive driving services to increase borrowing indebtedness. In fact, they are rewarded for keeping defaults down. The borrower has no reason to default since income-based repayment and income-contingent repayment options can provide relief to all who are having financial difficulties.

It has been reported that the move to 100 percent direct lending means employee layoffs of over 30,000, certainly a legitimate concern in this economy.

However, such concern should be tempered with non-industry estimates and the acknowledgement that the federal student loan programs are not in existence to insure full employment for lenders and guarantors but are to provide funds to help students pay for their education. It is expected that current FELP entities will continue to participate in a competitive bidding process and become new D.L. contractors as volume shifts.

Currently, four new servicers have been added on by the Department of Ed, first to handle the ECASLA loans, and then will take on D.L. loans as volume increases, Sallie Mae, Nelnet, Great Lakes and PHEAA.

Therefore, many FELP employees will not see job loss, just job change. Many employees engaged in FELP are employed in the servicing area. And because these companies have billions in outstanding FELP loans that will remain FELP loans that must continue to be collected, these employees will continue to work for years in FELP servicing and collections.

In addition, job opportunities will increase because private- sector companies selected as D.L. contractors cannot legally hire foreign nationals to perform the duties inherent in the contract, as they could in FELP.

Sallie Mae has announced that it's already shifted thousands of offshore jobs back to the U.S. Student Lending Analytics has delved into the numbers of job loss and found that a move to 100 percent direct lending would, in all likelihood, result in a net increase of 300 jobs to a loss of about 4,750 jobs in the FELP industry. The 30,000 or 35,000, depending on the report figure for all -- if FELP totally stopped existing and no one had any jobs to perform at all in that area for years to come.

What about the loss of servicers that lenders and guarantee agencies sometimes provide to students and schools?

Will this result in a degradation of student loan program value to students and taxpayers?

The nonstatutory outreach programs currently provided by many guarantors and some lenders can be worthwhile. However, much of their programming is also provided by the Department of Education, colleges and universities and nonprofits nationwide. These include financial aid officer training, early intervention for at-risk student populations and financial literacy programs.

If we believe that the continuation of this outreach by previous FELP entities is also necessary, the efforts need not be contingent upon FELPs continued existence and could certainly be paid for by Congress outside the FELP's funding structure. And there is language in the current proposal that would provide that opportunities.

In summary, there remains no need to support with taxpayer dollars two federal programs for delivering the same loans to students. Since the FELP delivery system is more expensive, inefficient, complicated, and abuse-prone, Congress should act now to move money spent for duplicative process to providing greater assistance directly to students. Thanks.

MURPHY:

Good morning. My name is Don Murphy. I represent the Wesley Peachtree Group, a CPA firm located out of Atlanta, Georgia. We work primarily with small colleges. Most of those are historically black colleges and universities around the country.

And I'm coming -- I'm coming to you with pretty much a different perspective, mostly from the interest of smaller colleges, particularly HBCUs, from my experience and my practices in serving those institutions.

But before I do that, I would like to say thanks to the Lexington Institute for allowing me to have this opportunity, and certainly my dear friend and colleague, Dr. Marshall Grigsby, who invited me here. And hopefully, I can put a spin on this perspective as it relates to small institutions.

Certainly, the move that the department is -- or the Congress is moving toward, in terms of requiring institutions to go into the direct lending program in such a fast pace, by July 1 of this upcoming year, I believe, would be at -- will put small institutions at a disadvantage. And certainly, they would have to not only find the resources to make the transition but also the human capital.

Small institutions usually are very thinly staffed, particularly in the financial aid offices, where most of this work would be done, when you move into the direct loan program.

Most of the institutions that serve on the FELP program and the responsibilities are a bit different on the direct lending program. You know, there's a lot more accountability. There's more reconciliation routines, et cetera, that you have to do. And you've got to have the staff in place to do that.

The schools that I've worked with that aren't -- that have been on the direct loan program, early on, moved into the FELP program, primarily because of the issues around the accountability of the program.

So if there's going to be movement forward in that direction, there ought to be some consideration for helping these institutions do a better job of managing these funds if that requirement eventually pans out.

There ought to be, first, a transition period. Instead of July being a mandated period, perhaps that may be true for larger institutions, but it should be phased in based on the size of your institution. Maybe over a two or three-year type of period is what I would certainly hope that the Congress or the Senate will consider in its bill version.

In terms of assistance, support, there ought to be some financial consideration in this bill that would help these small colleges be able to afford this transition.

For example, much like the campus-based program, there ought to be a percentage based on the loan volume to help compensate these institutions for the additional administrative support.

Again, particularly for the smaller schools that would have to hire at least another staff person or two to manage this program, in addition to the technical support that may be required for this transition.

In fact, most of the institutions I'm serving haven't really taken any steps. Even though the Department of Education has encouraged schools to start moving in this direction, most of the institutions I serve really have stayed put until there's some final direction on this matter.

The other part -- if it's not a percentage for some kind of grant-type of process where you can apply for assistance, technical assistance or what have you, financial assistance to help administer this program certainly ought to be considered.

The other thing I wanted to, sort of, touch on as well, moving away from the direct loan program, is the new -- the purposed new Perkins program.

One of the things I see, at least the way that I understand it is now, is that you're required to liquidate or get out of the old program if you're a current participant, before you can get into the new program as proposed.

And even though there may be some financial benefits for doing so, but if -- if an institution chooses to do that, that liquidation process entails us signing the loans back to the government and -- and at the end of the day, because these are very old records, if you cannot assign those loans -- that is, you've got some deficient paperwork or what have you -- you have to purchase the loan back.

So that really puts a lot of institutions, particularly the smaller institutions that may not have been so much on top of the game, if you will, for keeping up with the records -- again this program goes back 50 years or so, and -- and so puts them at a disadvantage of coming up with the resources to get out of the old program if they choose to get into the new program.

So I would hope there would be some consideration that would grant some leniency in that effort. OK?

All right. That's all I have to say.

(LAUGHTER)

Thank you.

WILLIAMS:

Hello, my name is Rich Williams. I'm the Higher Education Associate with the United States Public Interest Research Group, U.S. PIRG. I work with the higher education project which represents hundreds of thousands of college students across the country working with over 100 full-time organizers on over 200 campuses across the country, working hands-on with students.

I want to thank the Lexington Institute for pulling this event together today. And echoing some of the comments we've already heard, this conversation, I would hope, gets elevated more, instead of just being a footnote to the health care debate.

One of the things I wanted to start off with doing today is many of the other speakers, and -- and when we go to the panel section later, will be talking about the nuts and bolts of the policy, but I wanted to spend a little bit of time talking about what this legislation means and what's in it for students.

When it comes down to it, having a college degree is practically a necessity in the 21st Century. And again, it's getting more and more expensive to get that college degree. Due to declining and shrinking in state budgets, declining support for institutions at the state level and stagnant student aid, students are forced to borrow more for their college education.

That has led to, since -- in the last 12 years, in 1996, about one-third of students needed to borrow loans to get their college education, with an average debt load of about $13,000.

Fast-forward to 2008, over two-thirds of students now need to rely on borrowing loans to get their college education. And that debt load has increased to over $23,000. To boot, the amount of students who are borrowing more than $25,000 in debt has increased from 4 percent to 24 percent in the same time period.

This amount of loan debt carries serious and lasting consequences for students. On the front end, students put off and delay going to college all together. And the Department of Education has reported that each year over 400,000 students that are well-qualified high school graduates choose not to go to college due to financial barriers and the amount of loan debt that they'll need to take out.

Once in school, the rising costs and the amount that students are borrowing forces students to take on more hours working outside of their curricular activities. And while 10, 15 hours of work has shown to focus and actually enhance a student's performance in school, we're seeing more and more students becoming full-time workers while full- time students, and that just is not the point of college.

And then on the tail end especially, we're having students taking out so much in debt that it's becoming unmanageable and acting as a serious financial barrier to their future life decisions.

We have more students putting off important life decisions, buying cars, buying homes, even getting married and having children. These are serious consequences.

And that's why we were so excited, in the past few months, when President Obama released his plan for the education budget, which makes the most historic and profound investment into student aid we have ever seen. We were excited to see the House immediately take the charge, and under the leadership of Chairman George Miller and the House Education Labor Committee, created a bill, the Student Aid and Fiscal Responsibility Act, which again makes the most historic investment into college we have ever seen.

Just to bullet-point some of the benefits in this bill to college students, first, it makes huge increases to the Pell grant. The Pell Grant, when it was originally created in the 70s, could fund about 72 percent of a college education. But now, due to declining purchasing power and raising costs, it can afford 32 percent of a college degree.

By increasing the Pell grant from -- in 2010 from $5,500 -- is the maximum Pell grant award -- to $6,900 by 2019, it will allow more college students access to community college and more college students access to the Pell Grant, opening the door on promise of a college education.

Also, community colleges, community colleges are the local institutions that have been underappreciated and underfunded for so many years. By making investments into community colleges now, we can make sure that we're developing the degrees that we need to fill the jobs as our economy is recovering.

The Perkins Loan Program: By creating a more robust Perkins Loan Program, schools can steer students away from private student loans that have much more unfavorable terms and conditions. Private student loans are similar to credit cards, where they have interest rates varying from 12 to 18 percent and far less repayment options than federal loans.

Also, access and completion funds: Getting students into the door, into college and starting is one thing, but we have states with graduation rates as low as 30 percent. We need to make sure students are going through college and graduating. This fund will do a lot to making that happen and identifying the programs that are working at institutions and roll them out across the country.

Also, simplifying the FASFA; If anyone who has filled out the FASFA form which allows you access to thorough financial aid, you know it's a web of complexity. By simplifying it, we can make sure more students are getting access to the funds that they need.

In short, the benefits of this student aid proposal is quite clear. And the benefit is it renews the promise of the financial aid programs for the millions of students who rely on grants, loans, and access to community college for their degrees.

Thank you again to the Lexington Institute, and I look forward to answering any questions you have later.

ROGERS:

Good morning. My name is Jevita Rogers and I'm the director of Financial Aid at George Mason University. I thank you all for having me here. I believe that my institution is a little unique and, kind of, handy with this topic today, in that George Mason, back in 1993, had been a direct lending school.

We left the direct lending program in 2004. We started looking at changing the loan programs in 2000. The reasons had to do with the contractors that were with direct lending. Because of the way the government contracts worked, they're being rebid every three or five years, and the contractors were not giving us the service to our office, as well as our students and parents, that we needed.

So we started looking elsewhere to see what else we could do, and the final decision, after many years and many meetings, was to go back to the FELP program.

One of the things that had happened when we had first chosen to go direct lending was the fact that it was a streamlined process. It was easier. We could give one Web site to students, and just let them do everything.

By the time we changed back to the FELP program, the similar programs had happened within FELP. The FELP lenders had been able to, kind of, regroup when it came back to offering great servicing benefits to our students and parents. Even with the changes over the last few years with the FELP program, we still have a large number of students and parents who borrow from lenders that have no origination fees, which is still a huge benefit. And that was also one of the things that came into play when we decided to leave the direct loan program.

One of the things that's very difficult to me as an aid administrator is that I have two hats. Aside from trying to get as many students to successfully complete university, I'm also trying to get them to do it with as little debt possible.

Our default rate is very low. We have a 1.1 default rate. We have -- our average students graduate $14,000 in debt after their degree programs. And we also have a large volume of student loans in comparison to our overall aid portfolio.

We have about 100 and some -- last year we had $178 million in federal, state and institutional funds; $79 million of that was student loans.

One of the things that I am always having a difficult time with when it comes to the legislation that is going on right now, is, kind of, a two-fold piece. And that goes with my other hat and that is as a -- just a U.S. citizen taxpayer, and successful student loan repayer.

(LAUGHTER)

You know, 10 years ago, it was a very different situation than where we are now economically. We had gone through a period of listening to different reports coming out where they were trying to get rid of the direct loan program. And there was a senator in Pennsylvania who was extremely well-spoken about how much money the FELP program was costing versus the direct loan program, and so, to hear the same arguments right now, I am not anyone who is going to start arguing statistics, but I also know that, with the right statistic, I can tell you that the sky is purple.

One of the things that comes down to it really has to do with the students and the parents and the options that are available to them. It is wonderful that the administration is trying to increase the Pell Grant program. That is a great thing. However, only 20 percent of my student aid population qualifies for a federal Pell grant.

When it comes to the simplification of the FASFA, the Free Application for Federal Student Aid, again, another wonderful thing that's coming out from the administration; however, really, the things that need to be looked at is the needs analysis behind the federal programs and how the calculations are done.

The majority of families right now are not making $20,000 a year. They're your middle-income families that make $60,000 a year. They have three people in the family, one in college, and believe me, they're not going to qualify for a Pell Grant. What needs to be looked at is reforms within things like tuition increases, helping the various states, especially those in economic turmoil, in helping students be able to afford a university degree with as little debt as possible.

Again, I have both sides of the coin. I had good experiences and bad experiences with both FELP and direct loans. Our choice to stay with the FELP program, right now, is an interesting one because of the way the time frame is going.

A letter went out to my university president within a month ago telling him about the fact that, you know, you should tell your aid administrators to transfer out because they won't have the money next year on July 1. And that is something, yes, I've taken very seriously.

However, my other side is that I don't necessarily want to jump ship and go and make my students have loans from different lenders unless we need to. The changes in -- in where students are repaying and who they're repaying, it's correct. What Ms. O'Leary said about a student can have different servicers and -- and different lenders, that is correct, absolutely.

But the same thing is going to happen when the students are being pushed into the direct lend program in addition to them also being in the FELP program. We experienced that in 2004 when we changed back to the direct -- when we left the direct loan program.

I have students, right now, where I'm still dealing with them trying to get their loans programs situated. I still have concern about the way the servicing is going to happen if we go 100 percent direct loans next year.

The idea of the phase-in program -- if that ultimately becomes the decision of the administration and the legislation, ease-in programs is definitely a more helpful way to do things so students aren't borrowing from two different places and ultimately repaying from different places.

Servicing truly is the end-all, be-all, whether or not a student spends 30 minutes on the phone with a company when they're trying to pay back their student loans or find a way to postpone their student loans.

Two years ago when federal consolidation changed and only the direct loan program does federal consolidation, there was a huge backup, and that was even a smaller portion than changing all of the loan servicing.

So there are many things that go into this debate and things that people need to consider. My biggest concern, right now, is the lack of information that is going out. There are all these legislations and -- and bills being passed and very little information is getting out there.

People really aren't getting the information because, right now, we have bigger fish to fry at this point with the health care reform, for example, that the student loan programs and federal aid programs, in my mind, is taking a back seat.

So I appreciate the time for you all to be here, and if you have any questions later...

DELISLE:

Hi, I'm Jason Delisle with the New America Foundation. I'm going to try very hard to not use a single number in my discussion.

(LAUGHTER)

So let's see if I can do it. And I will try even harder not to use any acronyms. So in listening to -- I have the benefit of, sort of, going toward the end and I -- I got to hear from the other speakers and things that they had to say about these programs and the debate that's going on about the student loan programs.

And I want to start this out by posing a question. It may sound, kind of, strange and that's, sort of, the point.

Why don't private lenders or banks run the Pell Grant program?

All of the arguments that everyone makes about FELP and why a private lender should run FELP and be involved in student loans would apply to Pell Grants.

Think of it this way. You're a student and you can pick, you're going to get a Pell Grant. You're guaranteed the Pell Grant; you're entitled under law to a certain level of Pell Grant, just as you are in the student loan programs. You're going to get the loan no matter what. Under law, the way the formulas work you qualify for the loan.

So, right now, in the Pell Grant program, the student has no choice. They get their Pell Grant straight from the federal government. Where's the outrage? There's no outrage; there's no backups; there's no lines, there's no catastrophe of the system failing. Everyone gets their Pell Grant.

You could think of it in a way, you know -- perhaps after I make this statement there will be some student loan companies going to Capitol Hill, arguing, you know, there's this great idea, maybe we should run the Pell Grant program, too.

(LAUGHTER)

And so the argument would be that, you know, the student -- what would happen is the bank would cut you the check; they'd be the middle man. So you'd qualify for a Pell Grant and the bank would come in and say, yes, you qualify; we're going to deliver it to you, but you get to choose which bank cuts you the check. And the student says, well why would I care? Well, it doesn't matter you're going to get the same amount of grant, but perhaps the financial aid office cares.

And that's what's really interesting about this discussion. And if you listen to, in particular, what Jack from Sallie Mae said, is he's very much still focused on financial aid administrators. And that's, sort of, the constituency here, is financial aid administrators. And -- because -- and the reason they're a very important constituency is that the students -- it doesn't really matter to them.

Now when you talk about choice, well, who's choosing? The students aren't choosing. They go to a school and that school uses direct loans or they use guaranteed loans. And it's the financial aid office that's making the decision, and that's why, in Jack's speech, he's appealing to financial aid officers.

And that's why we have financial aid officers on the panel. But is that really the whole -- that -- that should be the whole issue here, is the consistency is financial aid officers? Should we be deciding financial aid policy, around $86 billion or $40 billion, based on what financial aid offices find most convenient for processing their paperwork?

I mean, to me, that -- that seems like we're talking about, if we were going to do Social Security Reform, but the biggest thing holding it up was the employees at the Social Security Administration and what they thought would be easiest for them to process the paperwork.

And what we're talking about here is the students are going to get the same loan. That really isn't the issue. They're all going to get loans next year and they're all going to have the same terms. The terms are spelled out in law, just like a Pell Grant. A Pell Grant, you qualify for a certain amount which Congress sets up in law. For student loans, you qualify for a certain amount of loan with a certain interest rate, with a certain repayment term, all set in law, all set by Congress, but provided through one of two student loan providers, either direct loans or guaranteed loans.

And so that's why the issue becomes so much about appealing to the financial aid office because they're the only ones that really have a stake in this. But I think that's a really poor way to make policy around student aid. It shouldn't be about what's easiest for a financial aid office; it should be about what's best for students.

And we know, when you hear a lot of the discussions about how financial aid offices work, they are trying to make decisions, yes, that work best for students, but there are many cases when you hear them speak, where they're talking about well what's easiest for us? What's the easiest thing for us to administer? And that's how they're making decisions.

And that's why I bring up this point about Pell Grants. You don't hear them arguing, we should have private companies administering the Pell Grant program because it's such a disaster. It's not a disaster. It works fine, and the whole point is to have a very simplified, streamlined benefit that students are entitled to, and it's just about getting it to them.

So I think that -- I'll keep my comments pretty short here because we've got a lot of people. So I think that's just something that people should keep in mind when they're listening to this debate, is that, who is the constituency here? Is it students? Is it taxpayers? Or is it the people who are running the federal program?

I think the two correct constituents should be taxpayers and it should be students. And I don't think the people administering the federal program should be running the entire debate and the main constituency that policymakers are concerned about.

Thanks.

CONNELL:

Good morning. The advantage and disadvantage of going last of seven is that you're sitting there and you get the last word, but you, kind of, wonder is there anything left to be said that you were intending to say that hasn't already been said? So I'll try to touch at least a couple of things, perhaps, from the perspective that I bring to this panel, and perhaps is somewhat different than some of the things you heard earlier.

Again, my name is Tim Connell. I'm the president of the Georgia Student Finance Commission. We are a state agency located in Atlanta, Georgia. And it's a pleasure to be here. And I thank you, Don, for the opportunity to be on the panel this morning and to talk about this important issue.

I thought it may be -- perhaps be helpful, from a perspective standpoint, to tell you, at least very briefly, about what it is that we do.

We are referred to in the industry as a bundled agency, which means that we are a student loan lender; we're a loan guarantor; and we're a loan servicer. But in addition to that, we also administer all of the state of Georgia's scholarship and grant programs for post- secondary education -- students pursuing post-secondary education, including Georgia's HOPE program, which I know many of you have heard of. We also provide grants to high school students who are interested in being dually enrolled and taking courses at the collegiate level.

We also administer a Web-based portal for student access called GA College 411. And we do all of those variety of things. And the mission of the organization really is quite simple. The mission for our organization is to promote and increase access to post-secondary education for Georgians. That's it. That's what we do. We've been doing that for 45 years.

Now, in thinking a little bit about this morning's discussion, I think it's clear, from the folks that have spoken previously, and we can probably include me in that, that we won't reach, really, a consensus on what is the right course of action to take. But I think there would be consensus if we all sat down to it, and I think that -- reflecting back on some of Eileen's comments about what is the fundamental purpose for student loans.

And that is really -- it's also an access program. It's to enable students with financial aid to pursue the educational dreams at the college of their choice. And that's certainly a good thing and something we would all support and want to continue to preserve.

So I thought, within that context, this is not really a policy debate, per se, but it's more discussion of the means to deliver the benefit of that public policy than it is whether or not to have a public policy that tries to address that issue.

So in talking about the means of delivering that public benefit, I want to stress two points. The first is a little bit of additional information about myself. I've been doing this for about four and a half years and was previously the state budget director. Prior to that, I spent a number of years in the state housing finance agency.

I've had the opportunity, over a long period of time, to administer or evaluate programs, government programs. And I have, based upon that experience, found that oftentimes the most efficient and effective government-related programs are ones that partner with the private sector. And certainly, FFEL is a good example of that.

And as a lender myself, why is it that I feel that competing or having private-sector financing is a good idea? And again, the response of that, from my perspective, is quite simple. It makes us better.

The competition and choice that's inherent within FFEL -- every day at our office, we have to compete against Jack. And Jack's -- you know, his organization is the largest one in the country and we're a small state-based organization in Georgia.

We have to figure out, every day, how can we effectively compete against large national organizations, just as they consider how can they effectively compete against us. And that forces us, every day, to reflect upon how we do our business. How can we be more efficient and how can we provide better information; how can we be more accessible to students and schools than we were the day before?

And that's a good impetus to run any kind of business operation. And if you're a strictly government program, does that same incentive exist?

And I would suggest to you that it may be dependent upon the manager, but for the most part, too often, we hear about government programs that are not efficiently run, that are not responsive, that are not creative. And you've got to be if you're going to be in a competitive environment.

But let me get to the real heart of why I feel passionate about this, and that's not so much necessarily about the philosophic basis of how to deliver the benefit; it's more about the practical effects of having a lending program.

As I have said, we have done that for 45 years at Georgia Student Finance. We make a little money doing that, hopefully, if we do our jobs well. We make a little money. And what do we do with the money as a nonprofit state agency? We reinvest that money. What do we reinvest that money in? Well, we invest it in student services. That's what we do.

As I said earlier in my comments, we promote student access. We want to increase student access to post-secondary education in the state of Georgia. So let me just cite a couple of examples of the types of students services that we do that are dependent upon what we're able to generate through our loan program.

Last year we answered, in our call center, some 164,000 telephone calls. Now, of course, many of those calls come from people who are inquiring about the loans or scholarships or grants that we offer through the organization. But many, many of the calls, calls that we get every day, calls that I get from people who call the organization, don't neatly fall into any of those categories.

They're the single mom who doesn't have much money who wants to go back to school. They're a school teacher in some part of Georgia that has heard about a teacher forgiveness program with her federal loan and wants to get more information. Someone will call our offices and they want to become a computer programmer and they don't know where to go.

We have someone else who may have called in who had defaulted on the student loans when they were in college 10 years ago and want to go back to school and want to know how they can begin.

We get a transitioning adult whose job has just been lost as a result of the plant closing and they need some help. We help whoever calls in, regardless of whether we ever touched a loan that they may be associated with or not. That is irrelevant. The whole idea is to try to provide service to the citizens of the state of Georgia to pursue education, their post-secondary education.

Now, let me cite another example. Last year we visited over 600 high schools across the state of Georgia, many of those two, three or four times. We -- we conducted over 1,200 financial aid nights. We made presentations to some 125,000 students and parents.

Now, when you are in a school gymnasium in Grady County on a Tuesday night, (inaudible) talking to parents and students about going to college, with all respect to our colleagues at the Federal Department of Education, none of them are going to be there. We're there, and we're looking parents in the eye and talking to them about how their son or daughter can afford to go to college. And we're talking to those students, many of whom, in Georgia, are first- generation students.

We have a very fast growing Latino population who need to actually be inspired about the idea that college is something that's attainable to them. And there is no substitute for being in a face- to-face situation at the local level. And we do that every day.

As I said, we did over 1,200 of those last year alone, 125,000 parents and students. And that doesn't count any of the financial aid professionals that we provided training for or any of the other things we did. That 125,000 people really gets to be our bottom line.

So that's why I'm here this morning. I think it's essential that we continue to provide those kinds of services to students and would- be students. We all need an educated workforce, and it's important that we have the resources to do it.

And with that, I thank you very much and look forward to any questions.

SOIFER:

Thanks, Tim, and thanks to our panel. And Thanks to all of you for being so patient. I'd love to get to the questions.

I think what I should do is I should start with an online question, and then I'll come to the room, and then, kind of, alternate back and forth, if that's all right.

So I guess what I'll do is -- is direct the question to -- to a panel -- to a member and then give them the opportunity to respond. But let's try to keep this moving as best we can.

First question, from the Pennsylvania Academy of Fine Arts. The Director of Financial Aid, Denise Coulter, wants to know, "The funds that will be saved with the direct lending program will be obtained from the fees students are paying that are taking out the loans. Why is it being discussed -- why isn't it being discussed to lower the interest rates for students, for all students, instead of funding something?"

Perhaps Eileen, I could -- it might be easier if I just hand you this.

O'LEARY:

I probably could talk loud enough for the room without (OFF-MIKE) but OK.

That's a good question. There is going to be, obviously, money saved by switching from FELP to direct loans. And the question is, why are those fees being used to help students with increased Pell Grants and support for other sectors of education like community colleges, instead of reducing loan fees and interest rates, perhaps, for students?

And so that's a very good policy question, to be able to spend the money one way or the other.

I understand, in the legislation, the interest rates are improved for students. For subsidized loans, they would change from 6.8 percent fixed to a variable rate, which, in this day and age, would be much lower than 6.8 percent, with a cap of 6.8 percent, so that, if variable interest rates exceed that amount, it would still be capped at 6.8 percent.

So that's a really big benefit for the student borrowers through this legislation. But there has been a policy decision made that the funds should be used to help Pell Grant students and support other areas of education.

SOIFER:

Response from the panel, or should we move on?

REMONDI:

I -- we -- in my comments, we agree. We think that the -- that the money that is generated here from using federal dollars to make these loans can in fact be used for Pell Grants or lowering interest rates, and it should be some combination of that.

I do think it's important to note, though, that this $87 billion that everyone keeps saying is cheaper than FELP -- it's not. That -- they're comparing direct lending to old FELP. That's not the -- the community proposal, all right? The community proposal also generates $87 billion worth of savings.

And I think, if there's one thing that this whole panel would agree on, it's that $87 billion is a big number that can be used to help lower the cost of education for all students. And how it gets spent is -- is an excellent policy decision, and is one of the things that we would argue need more debate on the Hill, that people can say, how should these dollars be spent? Should we be allocating them to making college more affordable for all students or some students? And that is probably the answer, is. like in everything, a mixture of both.

(UNKNOWN)

OK, could I add?

SOIFER:

One more...

(UNKNOWN)

I just wanted to add one thing to what Jack said about the savings in the student loan community proposal that Sallie Mae and other lenders are supporting. It is not the exact same amount of savings as going to 100 percent direct lending.

According to the Congressional Budget Office in a letter that they sent to George Miller, the fees -- so we still have fees and subsidies paid to private lenders under the student loan community proposal, and those would be about $1.4 billion a year. So that's an extra $1.4 billion a year that could go to lowering student loan interest rates or Pell Grants.

So that is the difference. It's very clear on a table in the CBO report. You can see the extra costs of these extra fees that lenders have written into the law for themselves, just like they do under the FFEL program currently.

SOIFER:

Take a question from the floor, or should we go back to the -- to the Internet? OK, we'll go back to the next e-mail question. I'm going to, sort of, pick through them. Suffice it to say that, Rich, you have some admirers out there.

(LAUGHTER)

Rich, let me ask you this question first. The House-passed bill, SAFRA, which has already been defined, so I'll take an asterisk on the acronym...

(LAUGHTER)

... includes the provision that contemplates awarding certain -- certain nonprofit entities a carve-out for servicing loans. Is that provision good for students and taxpayers?

WILLIAMS:

Well, I think, looking at some of the carve-outs that came out of the house, there's certain political realities that the House is dealing with.

And what we are focused on is making sure, in the provisions that pass the House, in the Senate, they are strengthened to make sure that the same quality measures are held to for any sort of servicer.

Part of the national servicers, or Sallie Mae, will have set quality standards to meet and thresholds. Some of these carve-outs for nonprofit institutions don't have that same standard, and we want to make sure that everyone is held to the same standard.

SOIFER:

OK. We've touched, a little bit, on the question of this looming July 1st deadline for transition to 100 percent direct lending.

Do you believe it's possible that the Department of Education can ensure a smooth transition?

And if so, we've heard from a number of student financial aid offices. How should they -- how should they best proceed in the near term? Someone on the panel want to...

CONNELL (?):

I'm certainly not a financial aid director, but looking at some information that was gathered from people who are in the business of providing financial aid, specifically to the regional associations of student financial aid directors, in a recent survey, 84 percent of them indicated in the survey of all of those who responded to the survey, which was over I think 800, were concerned about the transition period, and 42 percent of them fell into the category of extremely concerned.

So I -- I think that is fairly indicative that there's a great degree of uncertainty and unease out there about not only the ability of the Department of Education to be prepared but the effective ability of the schools to be ready on July 1st.

MURPHY:

Yes, I think -- I think, certainly, going from 20 -- 20 percent of the volume to 100 percent of the volume by July 1 is, kind of, crazy, if you ask me. I think, you know, it -- you're better off doing it on a phased-in basis, as I mentioned earlier. I mean, it's -- you're bound to have some problems going from 20 to 100 percent in these six months or so. So I think a phased-in approach is most -- most appropriate.

SOIFER:

Eileen and then Jack?

O'LEARY:

Thank you. The Department of Education, over the course of the last year since when the proposal first was put on the table, has certainly been working with schools to help them transition over to direct loans now, or at least to prepare so that, if they need to on July 1st, they're ready to do so, which I think is a pretty smart move on the part of a financial aid office to at least make sure it's D.L.-ready, even though it may not choose to go D.L. July 1st if the law does not pass in its current form.

The -- we're now, in direct loans, at 30 percent volume. The department's brought on 1,000 new schools this year without a glitch. Every student has received their money quickly. There have not been any problems with the system.

The department has geared up its capacity to handle 100 percent. The -- the work that is done on origination is done through the same computer system that -- that processes Pell Grants. And so it's not so much a matter of recreating the wheel for all of these new schools to come on, but rather to simply expand capacity somewhat in order to accommodate the fact that there are not only some new borrowers who already have Pell Grants and so are in that system, but also are taking out direct loans.

We've been very pleased with the department's response and its ability to manage. Their new conference coming up in December, their annual conference, is focusing very strongly on D.L., and they're teaching schools what they need to know to transition, not only by type of school, which is very helpful, so it's not a generic type of classes that they're giving, but rather teaching like schools. So if you're a small private, you've got a group of small privates in the same session learning.

But they're also doing it by software platforms, which, from a financial aid administrator's position, is actually more relevant, so that, if you do your financial aid processing through Banner or PowerPhase or PeopleSoft, you learn how to do it within that system, which is quite relevant.

And therefore, even though 15 years ago when D.L. started, there were some difficulties, especially as the program was created with reconciliation, and I -- and I think our speaker from George Mason alluded to that. The systems have improved significantly over the years and it is a very modern, streamlined system, at least for the last 10 years. And those problems that you may have experienced then we find are practically nonexistent, if existent at all.

Jack?

REMONDI:

You know, in the financial aid community, we have schools that are passionate, clearly on both sides of this issue, both FELP advocates and direct lending advocates. We have two on the panel today.

We have, you know, letters from schools -- or letters representing thousands of schools, saying, please don't make me force -- force me to change. I think the debate here is -- is, if we look at the programs that are being offered here, if we can both get to the same amount of savings -- and I will address the savings comment in a minute -- that why -- why does the system have to be a single solution?

It is a private-sector version system, by the way, not a Department of Education system, but it's a system that has never been competitively bid. It has been outsourced to one company for the full 16 years of direct lending, never, ever bid out to the public, despite many people asking for it to do so.

The servicing contracts are exactly the same way. We, Sallie Mae, had to sue the Department of Education to get them, to force them to follow the law and bid out the direct loan servicing contract several years ago. We didn't win that contract when we bid it out, but we saved taxpayers a billion dollars by -- by forcing that to happen.

Competition creates those checks and balances. It brings about better products and services to students and schools. And that's what gets lost if this happens. We're not suggesting, as others would, that everyone be forced to use the community proposal, all right? We're not suggesting that everyone has to use our system; it's better than anyone else's. We're saying choose a system that works best for you.

You, the school -- you know what works best for your students. You know what works best for your systems, and allow you the choice and flexibility to work that way.

Now, on the $87 billion worth of savings here, people -- I mean, people throw numbers out as if they're -- they're factual and have no -- and they're apples-to-apples comparisons.

The Department of Education, or the CBO score openly admits they did not take into consideration risk, and that includes default performance. The community proposal has lender servicers required to absorb the first 3 percent of losses. That savings is not zero, all right? It has to produce savings for taxpayers, yet it gets ignored by CBO in the process.

So while there are differences in costs, there are also differences in the score that get ignored in that process. And we think, if we had a fair accounting assessment of the two, we would clearly show that the community proposal saves in excess of what the direct loan program would save over the 10-year period.

(CROSSTALK)

SOIFER:

One response, and then move on?

(UNKNOWN)

Sure. The reason why CBO doesn't take into account what -- what he -- what Jack has mentioned is that it doesn't find any difference in default rates between the two programs.

REMONDI:

But that's actually not true. That -- that is not why they ignore the issue. They -- if you speak to them, they will say, it's not because we've assumed defaults are the same; it's because we do not score credit risk in the performance of...

(CROSSTALK)

(UNKNOWN)

And when they do score credit risk, which they have done, and they have put out an estimate on incorporating credit risk, they find that the proposal, going to 100 percent direct loans, still saves $47 billion over 10 years.

REMONDI:

But that's...

(UNKNOWN)

So they've effectively done the estimate that the student loan community has asked for and it still shows $47 billion in savings.

REMONDI:

That's -- that's -- the $47 billion that you're referring to is the number that they came out with comparing it to old FELP, all right? It is not comparing it...

(UNKNOWN)

Current law.

REMONDI:

No, no, no. Current law is actually ECASLA. Current law -- the reason why -- if you look at the math, here, the reason why this Congress has proposed this bill to be effective July 1, 2010 is because that's when ECASLA expires. And so CBO, by definition, has to compare the direct lending proposal to old FELP. No one, no one is proposing to go back to old FELP.

So to say that this is a comparison of $87 billion to zero is just flat-out -- it's not fair. It's not correct. We're not advocating a return to old FELP. If they scored this bill on June 1st versus July 1st, that $87 billion would disappear.

(UNKNOWN)

Entirely disappear?

SOIFER:

Go ahead.

QUESTION:

Thank you. I -- I have, sort of, two questions. I'm just going to ask them both at the same time, and then hopefully, different panelists will be able to address them.

So my first question would be, I'd like to hear, a little bit, more about how the different proposals will benefit students. And I appreciate different panelists that have mentioned that the constituency that we should be focusing on and advocating for is students, because that's what the loan programs are -- that's who the loan programs are designed to -- to benefit. So that's my first question.

And my second question, is we've heard a little bit about ECASLA, and I'd like to hear, particularly from Jason, and then the -- the man from Sallie Mae, about exactly what ECASLA is and the need for ECASLA. A little bit of information about that would be helpful. Thank you.

WILLIAMS:

Sure, so I'll just -- I'll take the first part of your question about how this benefits students, which again, I think that is the important point, where most of this debate now is focused on the companies that run this program and the jobs that may be lost if there are reforms and the administrative convenience or inconvenience of financial aid offices.

But I think it really -- we do really need to talk about the students. And remember, the interest rate that students are going to pay under a Sallie Mae loan, under the FFEL program, new FFEL or old FFEL, whatever FFEL you want to call it, is 6.8 percent. It is exactly the same under the direct loan program. It is exactly the same from all lenders in the FFEL program.

So the students aren't going -- you know, this -- I always talk about, it's like, where were the angry town meetings with students, you know, complaining that they're going to lose the FFEL program?

There were none, because they have really nothing to lose under this. They have -- the student loan company will try and convince them that they have something to lose, but they really don't. They're going to get the same terms and benefits on their loans this year, just as they will next year, under 100 percent direct lending.

And so the ECASLA comment -- ECASLA stands for the Ensuring Continued Access to Student Loan Act. In 2008, when the credit crisis and turmoil in financial markets started to bubble up, lenders went to Congress and they said, we are concerned that we will not be able to make loans because we cannot secure any financing to make the loans, or we can't secure financial at -- at a reasonable interest rate.

And so, basically, Congress said, in a very short piece of legislation, saying the Department of Education may buy loans issued by private lenders under the guaranteed student loan program, and they'll have to come up with their own price.

Really what it's become is ECASLA is the shadow banking system of the FFEL program. There are put options; there are participation trusts; there are yield spreads; there are commercial paper -- I mean, the Department of Education has really moved heaven and earth to keep lenders still in the program. And we've layered on a whole other set of complex subsidies, payment streams, really a whole new area that Capitol Hill needs to learn about from student loan lobbyists.

SOIFER:

We're really tight on time. Jack, do you want to respond, too?

REMONDI:

Sure.

We agree. I mean, the benefits here should be about the students, right? And that is delivery of loans to the students. But the piece that often gets missed on this concept is -- is the financial aid awareness at the beginning and the default provision issues at the back end of the equation. This is where students can save tremendous amounts of money.

It's educating them so that they know that they can afford to go to school, so that a student doesn't say, I can't pay the tuition, I can't go. It's making them aware that those programs exist.

At the same time, we need to make sure that they look at what the costs will be for the full term that they're going to study. If it's a four year school, that four years -- how much is it going to cost; what is my financial aid package going to look like, how am I going to close that gap?

Because the worst thing that happens -- and I think another thing we can all agree on -- is a kid enrolling and dropping out, not completing. That's a student loan default waiting to happen. And so helping that student understand what the full debt burden is going to be and the ability to figure out how they can manage that.

We've developed a system called the Education Investment Planner that allows students to walk -- students and families to walk through that and build up a model and figure out how much it's going to cost and what they can afford.

On the default prevention side of the equation, this is just as important. It's, when we are collecting, you can imagine students don't want to answer the phone, right, or borrowers don't want to answer the phone. They know we're telling them you've got to pay your student loan bill.

But the other thing that we do is we tell them about the variety of loan programs that are available to them. A new program that was launched this July is called the income-based repayment program. And here's an example of the competitive -- what competition brings.

We brought that system up in time, on its effective date, so that students can make a monthly payment based on their income. That program is still not up and running in direct lending today, for example.

And it's those types of programs that can help students avoid default. And if you think about the consequences of default, it's not just a bad credit bureau, all right? It may prevent you from getting a job, renting an apartment, buying -- you know, getting a cell phone or utilities. Those are the things that are different.

In the default statistics, when you look at it by school type -- so someone attending a similar type of school in both programs are, in fact, in the FELP program 30 percent lower than direct lending. These are Department of Education statistics.

So we are about students. We are about making sure that they are aware of what products are there, and move through the collection side. On ECASLA, ECASLA was a stop-gap measure. Like many programs that were implemented by the government in the last two years with this economic crisis, there was little options here. Congress had just cut spreads on student loans to the point where you couldn't borrow money in the public markets at a profit. And so the loan availability was going to be a problem, and they stepped in with a solution to that.

The community proposal is actually built off a lot of what ECASLA has, which is that, let the government own the loan; it can borrow cheaper. We heard 2.8 percent as the interest rate that the government borrows at; charge the students 6.8 percent, it makes four -- there's my lingo -- 400 basis points, a 4 percent profit. And that profit is redirected to -- to students, in the form of reduced -- increased Pell Grants and financial aid.

When that program was announced by President Obama in February, our press release the next day said we support it. We're for this and we want to move forward with this and help you achieve those objectives, and that's what we've been doing since.

WILLIAMS:

May I...

(CROSSTALK)

SOIFER:

... respond...

WILLIAMS:

Great, yes, I wanted to jump in, specifically on the first part of that question, what is the benefit to students?

And in my introduction, I talked more about the benefits of students as it pertains to the bill that this is -- that the switch from FFEL to D.L. is in. But there's also benefits for students in switching to direct lending.

Right now, in the FFEL program, students aren't at the center. It's schools, as Jason pointed out. So when families and students sit down to fund their education, they first, hopefully, take out all their grant aid and scholarships and then start looking at loan options.

When they ask their financial aid office what products are out there, they hand them a preferred lender list. It is every lender's goal to get on this preferred lender list and then to be the only one on that lender list. So to do that, lenders will wine and dine financial aid offices. We've seen -- in the Andrew Cuomo investigations, we've seen -- not all...

(UNKNOWN)

No.

(LAUGHTER)

WILLIAMS:

But they will make contributions to the local library on campus. They will offer grant aid, and even, in some cases, again not all, offer kickbacks to financial aid offices to get on this list and secure the most amount of volume. By switching to a direct lending system, it makes these lenders compete on the servicing, quality measured servicing and puts students at the center and not schools and lenders.

SOIFER:

I'd like to move on to a different question if I...

(CROSSTALK)

SOIFER:

I have someone who would like to be wined and dined, I think?

(UNKNOWN)

Yes, I would like to.

(LAUGHTER)

SOIFER:

Go ahead.

ROGERS:

And I know we're short on time, but there are a couple of things that need to be clarified. One, a financial aid -- as a financial aid director for the last eight years and administrator for the last 20, my life would be easier if I was a direct lending school because I'd have one option for my students.

The reason we left direct lending was because my students and parents wanted choices. When I have a large amount of people who borrow from, maybe, the Federal Credit Union for example, they have no fees.

I, as someone who is sitting on the other side of the desk, can't look someone in the eye and say, no, I'm sorry, you have to be charged 1.5 percent interest, or loan origination fee, even though you get zero.

Second of all, the concept of financial aid administrators being bought -- I'm well aware of everything that came out a few years ago, but, truly, that was a minimal amount of things. And financial aid administrators, first and foremost, are there for students and parents.

I'm an aid recipient. I have been. Again, I've repaid my student loans. Ninety-five percent of financial aid administrators were financial aid recipients. That's why students are coming first.

And the whole idea that financial aid administrators get bad press -- not a fair thing because, believe me, if I could get, you know, a kickback -- not seats for the Redskins but somebody else...

(LAUGHTER)

... typically the Redskins but not this year, that would be a great thing, but that's not here. I don't work six days a week for myself because I'm getting a kickback and, you know, I'm not trying to help my students.

I've known this for a long time, as have many financial aid administrators. They're trying to look for the best programs and look for changes that will benefit students and parents. Because, unfortunately, loans are a huge part of what families have to do to afford college.

That's where, earlier, I said things that need to be looked at -- changing the Perkins loan program to an interest-bearing loan, not a good option; changing, you know, to one loan program where students and parents now have to pay fees where they don't have to pay fees right now, not necessarily the best choice.

There are different options available. Plus, I believe that nothing should be all or nothing. You should always have a choice in what you do. And truly, there is a trust that needs to go into a financial aid administrator because, again, the majority of us were financial aid recipients. That's why we make, hopefully, very good choices for our students and parents.

SOIFER:

Maybe this could be the -- the last question. Don Murphy, and then if any of the other want to respond, this is a question coming in from Pennsylvania.

"If direct lending is passed, why is there such a rush to have everyone convert by July 1st, 2010? If the federal government really wants this to work, shouldn't there be a phase-in to work out the problems and issues that arise within systems? Our students can't wait to receive their funds until the bugs are worked out."

Don, is that a question you'd like to address?

MURPHY:

Sure. Yes, certainly phasing this in makes the -- the most amount of sense. You know, it's -- you know, it gives the institution, particularly the smaller schools who sometimes, you know, have to give up staff and things of that sort, an opportunity to transition into the program in a more -- you know, in a smoother way.

You know, the rush to get in by July 1 is probably for the savings, budgetary savings purposes. But for the most part, I think the practical consideration here is allowing institutions, you know, to transition in, tier it by the size of the institution so that, you know, maybe the first -- you know, July 1, the large institutions, and then eventually the smaller institutions who have least capital, to make sure that the transition is smooth.

SOIFER:

Eileen?

O'LEARY:

You're correct. The transition scheduled for July 1, '10 is based on the projected savings that would result from switching schools from FELP into direct lending over a 10-year period. If it is delayed, the savings are illusory and will not be achieved in the budget and cannot be then given to students.

And in the interim, as schools slowly move over to D.L. over a period of time, if not part of this budget, then those savings are lost to higher education funding. Those savings will simply reduce the deficit -- not a bad thing, but if one is interested in supporting, financially, higher education, we will lose 10 percent every year on a 10-year budget if it's not done sooner rather than later.

I know that it will be difficult for some schools. And the Department of Education, within the legislation, is given funding to support transition for those schools. And I think that's a very important thing for them to do. With the funding to do it, they should be ensuring that schools who may be very short staffed -- to be able to make that transition more reasonably.

REMONDI:

Eileen, that's another thing we agree on. So...

(LAUGHTER)

... more agreement than -- I mean, this is the big issue, is the transition risk is very real. And if they do not implement by July 1st, you do lose the budget savings. And that is one of the benefits of the community proposal is that it is implementable by July 1st, and those savings can be real, and the $40 billion of additional Pell Grants can show up for the academic year of 2010-11, in a time frame when, of course, it's more needed than ever.

SOIFER:

I'd like to thank all of our panelists. I'd like to thank all of you for coming and joining us and all of you out -- who joined the Web cast. And I look forward to staying in touch with you.

And if you have any additional questions for us -- we did receive a lot of rather technical questions from schools. We will be happy to pose those to federal officials. If others have any other, please pass them along. And thanks very much for taking time out this morning to join us.

(APPLAUSE)