

Statement of Howard P. “Buck” McKeon
To The Budget Committee of the House of Representatives

March 11, 2009

Chairman Spratt, Ranking Member Ryan, and Members of the Budget Committee:

Thank you for this opportunity to submit testimony regarding the Budget Resolution for Fiscal Year 2010. I want to raise an issue that has surfaced in the President’s budget which I find deeply troubling. Specifically, I am very concerned by the proposal included in the President’s FY 2010 budget to eliminate the Federal Family Loan (FFEL) program. The FFEL program, in existence for more than four decades, has a strong record of making students’ dreams of a college education possible. The program provides approximately \$60 billion in federal student loans to students attending over 4,400 institutions each year. Eliminating this public-private partnership now will cost the country more than 30,000 current jobs, and will have a ripple effect on thousands more. I do not believe this is a prudent path to pursue, especially during these tough economic times.

Currently, institutions of higher education are able to choose between the Direct Loan (DL) program, through which their students borrow directly from the federal government, and the FFEL program, which gives their students a choice of lenders. The DL program reached its peak in 1998 when it encompassed 34 percent of the market. Since that time, schools have migrated away from the program to the extent that only 20 percent of total loan volume was in the DL program last year. I recognize that each program will see its share of total loans fluctuate over

time, and with changing circumstances. For instance, there has been a modest increase in DL volume recently, attributed to the current economic situation. In prior years, volume has shifted from DL to FFEL because of concerns about borrower benefits, customer service, or infrastructure. These shifts, representing a choice by institutions of higher education, are made possible by the existence of two programs that compete with and improve one another.

Colleges and universities and their students also benefit from individualized services and programs made possible by the diversity of FFEL program participants. A one-size-fits-all, Washington-based solution would jeopardize the ability of institutions of higher education to tailor programs that best fit their students' needs.

In talking to institutions that have been in and out of the DL program, we have learned that it could take up to nine months for a single institution, with plenty of staff, to be ready to issue its first loan. We have also learned that the cost to institutions of switching programs could be as much as \$400,000 for staffing costs, system changes, updates, and other infrastructure modifications. With colleges and universities already struggling to meet their expenses and maintain high quality educational programs, I question a proposal that would force schools to spend significant time and money to switch into a program that they have rejected in the past.

Some proponents of the DL program have argued that the FFEL program should be eliminated because the federal government recently intervened to ensure the program's stability amid the global credit crisis. And it is true that, for the first time in the history of the FFEL program, the federal government did intercede in 2008, as it did with all of the financial sectors. However,

this intervention is only temporary. Additionally, it is worth noting that the action taken to stabilize the FFEL program and ensure students would have uninterrupted access to student loans, was the *only* effort that has not cost the federal government a dime, has worked successfully in ensuring that all students were able to obtain a federally insured student loan, and may have actually earned money for the government. Once the markets have returned to their normal activity, the successful public-private partnership that has been in existence for over 40 years will resume.

The proposed elimination of the FFEL program also ignores the fact that private sector involvement in student lending has served as a vital backstop, particularly when the DL program has been unable to fully serve students. For example, in 1997, Congress was forced to intervene and pass legislation to assist the DL program in handling a significant increase in consolidation loan volume by allowing FFEL lenders to offer those services to students. At that time, the DL program had less than 34 percent of student loan volume, but had a backlog of consolidation applications that exceeded 80,000. Yet even with the DL program's failure to fulfill its obligation to students at that time, the Clinton Administration and Congress did not propose to eliminate that program. In 1998, when the Congress reauthorized the Higher Education Act, we preserved both programs and allowed colleges to choose the program which best served the needs of their students. Just this past year when the Higher Education Act was reauthorized, no one proposed killing off the FFEL program or the DL program.

Rather than hastily eliminating the FFEL program, I would hope that we would have a thoughtful and deliberate conversation with all interested parties about an alternative model to continue with

a successful public-private partnership that better fits with the advancements we have made since the program's inception. For the past two reauthorizations of the Higher Education Act, Committee Republicans and Democrats have agreed to set aside partisan differences in order to examine the student loan programs in terms of what is best for students. It is particularly disheartening to hear the President characterize his proposal as, "putting students ahead of lenders," in light of the bipartisan cooperation that has underscored the belief that healthy competition is beneficial to both programs, and has ensured that students are able to obtain student loans even when there are service or funding disruptions. Rather than pointing fingers and making accusations, I believe Democrats and Republicans must come together, as we have in the past, to engage in a constructive dialogue that could lead our efforts in developing a new model for the student loan program and, possibly, a new, simpler model for the student financial aid programs overall. I urge the House Budget Committee to retain funding for the FFEL program while the Education and Labor Committee continues to study options for improving both loan programs for the benefit of all students.