News • U.S. House of Representatives

EDUCATION & LABOR COMMITTEE
Congressman George Miller, Chairman

Thursday, May 20, 2009
Press Office, 202-226-0853

Chairman Miller Statement at Committee Hearing On *"Increasing Student Aid through Loan Reform"*

WASHINGTON, D.C. – *Below are the prepared remarks of U.S. Rep. George Miller (D-CA), chairman of the House Education and Labor Committee, for a committee hearing on "Increasing Student Aid through Loan Reform."*

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The meltdown in our economy has made a growing college affordability crisis worse for American families.

Escalating tuition prices and college loan payments have become even more burdensome in the face of lost jobs, incomes and benefits.

Students are graduating with too much debt. We, as a Congress, need to re-focus our efforts back on grant aid, rather than loans.

Twenty years ago, the maximum Pell Grant award covered about half of the average in-state tuition. Today it covers about 30 percent.

Over the last three years we have worked hard to reverse this trend by increasing the maximum Pell Grant award by $1,500. But work still needs to be done.

Today, our committee will examine how we can continue to make college more affordable by significantly increasing grant aid for students.

We can do this at no cost to the taxpayer by transforming the way our student loan programs operate.

First, it's important to take stock of how the intertwined credit and economic crises have altered the student loan landscape.

For years, the Department of Education has operated two programs that provide borrowers with the same federal college loans, at the same interest rates, terms and conditions.

One is the federally guaranteed student loan program – or FFEL – under which private companies make loans to students and receive federal subsidies. These loans are virtually risk-free for lenders because they get reimbursed by taxpayers when borrowers default on their loans.

The other is the Direct Loan program, under which the federal government offers loans directly to students using Treasury capital. It's subsidy free and cheaper for taxpayers.

Last year, as the credit markets froze, many FFEL lenders had trouble financing their lending activity. Some chose to discontinue making loans, while others became highly selective about whom they would lend to.

With many students and families deeply worried about their student loan availability, Congress stepped in to perform emergency triage.

Our goal was to make sure that families saw no interruption in their access to loans.

We enacted a temporary program that to date has been successful. It allows the Secretary of Education to finance and purchase loans from lenders using Treasury funds. But this was never intended to be – and isn't – a permanent solution.

Meanwhile, seeing that the Direct Loan Program remained insulated from turmoil in the economy, hundreds of colleges and universities switched to Direct Loans for the first time.

Two undeniable lessons have emerged in the past year.

First, the economic crisis has exposed serious vulnerabilities in the current FFEL structure. Students shouldn't have to worry whether the roller coaster fluctuations of the financial markets will hurt their college opportunities.

Second, FFEL is on life support. In fact, the federal government, through both the Direct Loan program and this emergency program, is now funding six of every ten dollars in federal student loans made this year.

In short, the status quo has become impossible to defend. Students and families are not being served as well as they could be. And taxpayers are spending billions of dollars annually to finance a broken system.

Momentum is building for reforms that will deliver aid to families in a more sustainable way, shielded from any ups and downs in the markets.

There are already several proposals on the table that we will take a close look at today.

In his 2010 budget, President Obama has proposed increasing the Pell Grant scholarship by ending lender subsidies and instead using federal funds to originate all new federal student loans beginning in 2010.

The Congressional Budget Office estimates this would save $94 billion over ten years – all of which would be redirected back to students.

I think this proposal sets the bar high. It yields astonishing savings that will help students, makes the most sense for taxpayers, and harnesses private sector innovation for the public good.

We'll also hear about other proposals to reform our nation's student lending.

While the means of reform may be different, any workable plan must meet two basic benchmarks.

It must increase the efficiency of the loan program so that we have more to invest in our students.

And it must increase reliability so that students and families are never again left wondering where to turn in a difficult economy.

We will hear about the experiences of one school that entered the Direct Loan Program last year and what other schools might expect under the President's proposal.

We'll learn more about students' financial needs and how we can best reform these programs to work on their campuses.

Now there are some out there who like things the way they are.

They've already begun to fight change.

But I think it's the students who have framed the choice candidly. We can either continue sending billions of dollars to banks and lenders or we can start sending it to students.

As many people in this room know, student loan programs have historically been the subject of intense political debate.

But this should not be about winning ideological battles.

Instead, I hope that today begins an honest and constructive discussion that guides us toward a more reliable, effective and efficient program for students, families and taxpayers.

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