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February 16, 2007 (202) 224-2633

KENNEDY HOLDS HEARING ON COLLEGE AFFORDABILITY

Kennedy: No students should have to turn down a college education

Washington, DC—Today, Senator Edward M. Kennedy, Chairman of the United States Senate Health, Education, Labor and Pensions Committee, convened a hearing on college affordability. As part of the reauthorization of the Higher Education Act, Senator Kennedy is working to increase need-based grants for low-income students, provide more help for borrowers struggling to repay their student loans, and reform the federal student loan programs so they work for students, not the banks.

Witnesses at today's hearing include Suze Orman, host of The Suze Orman Show, Tamara Draut, author of Strapped: Why America's 20-and30-Somethings Can't Get Ahead, Dr. Jon Oberg, former Department of Education researcher, and Dr. Sandy Baum, Senior Policy Analyst for The College Board and Professor of Economics at Skidmore College.

Senator Kennedy said, "America can't be America without an educated citizenry. It's essential to the nation's strength. Congress rose to a similar challenge after World War II. For every dollar we invested in the G.I. bill of rights, The Greatest Generation produced $7 in economic growth, and we must do the same today, because the need is so great and the stakes for the future are so profound."

The cost of college has more than tripled in the last 20 years, with the average cost of attending a 4-year public college almost $13,000. As a result, 400,000 qualified students don't attend a 4-year college each year because they can't afford it.

Loan debt is forcing borrowers to delay major life choices, such as buying a home, getting married, or starting a family. It prevents some borrowers from accepting their dream job, because it doesn't pay enough.

Senator Kennedy's proposals to both increase aid for students, as well as reforming the student loan system have broad support and remain at the top of Chairman Kennedy's education agenda.

Summaries of those proposals are available below. The hearing was webcast and is available online at www.help.senate.gov <http://www.help.senate.gov> .

STATEMENT OF SENATOR EDWARD M. KENNEDY
College Affordability Hearing
(As prepared for delivery)

I welcome our colleagues and witnesses for our hearing this morning on the increasingly serious problem of college access and affordability. It's affecting countless young people's basic life choices, from choosing a career to getting married, to buying a house and starting a family.

I have a few charts that illustrate the challenges – it's not too much to call it a crisis.

It's keeping 400,000 qualified students a year from attending a 4-year college.

It's forcing many to rule out careers in public service – such as teaching, social work or law enforcement. They may be lower paying jobs, but many find them deeply rewarding in other ways, and they bring large rewards to our society.

It's contributing to the increasing economic inequality in today's America, in which low-income and first-generation students are far less likely than others to earn a college degree, even though higher education is more important than ever to keep the doors of opportunity open in our modern society.

In a word, it's a crisis that's tarnishing the American dream for millions, and we in Congress can't ignore it any longer. Today, 60 percent of new jobs require some post-secondary education compared to only 15% of new jobs half a century ago.

A major cause of the problem is cost. The cost of college has more than tripled in the past 20 years, and federal aid hasn't kept up.

Twenty years ago, the maximum Pell grant covered 55% of the cost of tuition, fees, room and board at a public 4-year college. Today it covers only 32% of those costs.

As a result of rising costs and declining aid, more and more students are borrowing money to pay for college.

In 1993, less than half of all graduates of four-year colleges used student loans to finance their education. This year, it's two-thirds.

The average college student graduates today with $17,500 in federal student loans on graduation day. At public universities, student loan debt has more than doubled since 1993.

Last month, the House of Representatives passed the College Student Relief Act, which cuts interest rates on new subsidized student loans in half. Because the last Congress allowed interest rates to rise, typical student borrowers – already straining under $17,500 in debt – have to pay an additional $5,800 for their college loans.

The House bill would prevent this. That's good news for millions of borrowers across the country, and I commend Chairman George Miller and Speaker Pelosi for their leadership in making this legislation such a high priority at the beginning of this new Congress, and I hope the Senate will do the same.

We also need to do more to increase grant aid. Pell grants have been a lifeline to college for many low-income and middle-income students for more than 30 years. But last year, the average Pell Grant fell for the first time in six years. In the recent funding resolution, Congress took a significant step forward with a modest increase in the maximum Pell Grant by $260, from $4,050 to $4,310. My hope is that we can raise it to $5,100 in this Congress.
To prevent unreasonable debt burdens on students, we should cap student loan repayments at 15% of discretionary income, and offer loan forgiveness after 10 years to students who go into public service. It's also long past time to reform the federal student loan programs, so they work for students and families – not the banks. It's a scandal that has allowed these student loan programs to become corporate welfare for big lenders. We pay enormous subsidies to lenders to take part in the federal student loan programs, and we ignored the enormous growth of the student loan industry.

Forty years ago, subsidies were needed to persuade lenders to take part. But today's, federal subsidies make student loans the second most profitable business for banks – after credit cards. Something's obviously not right.

Of the two basic programs, the federal Direct Loan program costs taxpayers much less than the private loan guarantee program funded by the banks and heavily subsidized by the Treasury. We need real competition between the two programs, and we could use the obvious savings from such competition to increase need-based aid.

The difference between the two federal loan programs is obvious when you look at these charts prepared by the Government Accountability Office. Here is the program funded by the big lenders. It's an incomprehensible maze of rules and responsibilities, involving organizations the Direct Loan program doesn't need, and with money changing hands every which way.

The Direct Loan program, by contrast, is much simpler. Instead of having lenders and guaranty agencies as middlemen, the government simply lends funds directly to the students – which is one reason why the this program is less expensive for taxpayers than the one funded by the banks. Clearly, the Direct Loan program is the better alternative.

In addition, the private student loan market has grown thirteen fold – thirteen fold! – in the last decade. Students deserve protection from such gouging. We also need to be the insight over the sweetheart deals that lenders and schools are increasingly making to offer these loans to students. No students should have to mortgage their future in order to pay for higher education today.

All these issues will be addressed in this year's reauthorization of the Higher Education Act.

America can't be America without an educated citizenry. It's essential to the nation's strength. Congress rose to a similar challenge after World War II. For every dollar we invested in the G.I. bill of rights, The Greatest Generation produced $7 in economic growth, and we must do the same today, because the need is so great and the stakes for the future are so profound.

So I look forward to the testimony of our witnesses today, and to working with my colleagues in the months ahead to get the job done.

The Student Debt Relief Act
Senator Edward M. Kennedy
Fact Sheet

- The cost of attendance at a public four-year college increased from $10,375 to $12,796 from 2001-02 to 2006-07. The total cost at a private, 4-year institution increased from $27,404 in 2001-02 to over $30,000 in 2006-07. [College Board, Trends in College Pricing, 2006].
- Even after financial aid is taken into account, 31 percent of an average family's income is needed to cover annual expenses at a public four-year college and 72 percent of an average family's income is needed at a private four-year college. [The National Center for Public Policy and Higher Education]
- The purchasing power of the Pell Grant is declining. Today, the maximum Pell Grant only covers 32% of the total cost of attendance at a public 4-year institution while it covered 55% of the those costs 20 years ago.[College Board, Trends in Student Aid, 2006]
- Less than half of college students graduated with debt in 1993, but two-thirds of college students graduated with debt in 2004 [Project on Student Debt]. Between 1993 and 2004, the average amount of federal student loan debt upon graduation from a 4-year college more than doubled from $7,650 to $17,400 [NCES, NPSAS 1993 and 2004].
- Unmanageable debt is affecting students' decisions to enter public service careers. Twenty-three percent of public college graduates and 38 percent of private college graduates would have an unmanageable debt level if they were to live on a starting teacher's salary. The outlook is even

bleaker for social work: student debt would be unmanageable for 37% of public college graduates and 55% of private college graduates living on the starting salary of a social worker. [State PIRG's Higher Education Project, 2006]

Senator Kennedy's Student Debt Relief Act:

- **Cuts student loan interest rates in half – from 6.8% to 3.4%.** This would save the current typical student borrower $2,280 over the lifetime of his or her loan and save the beginning college student $4,420 when fully phased in. [State PIRG's Higher Education Project]
- **Immediately increases the Pell Grant from $4,050 to $5,100.** With an increase in the Pell Grant, over 285,000 more college students would be eligible for the Pell Grant next school year. The estimated average grant for next year would increase by $647, from $2,442 to $3,089. [American Council on Education]
- **Caps federal student loan payments at 15% of a borrower's discretionary income.** Forgives student loans after 25 years, and provides an option for 10-year loan forgiveness for individuals in public service careers, like teaching, law enforcement, and social work.
- **Generates $13 billion in savings, at least $10 billion for increased aid – at no cost to taxpayers – by reforming the student loan programs to encourage the use of the government's less expensive Direct Loan Program.** [Congressional Budget Office]

Student Loan Sunshine Act
Senators Edward M. Kennedy and Richard J. Durbin

The Student Loan Sunshine Act protects students and parents from exploitation by private lenders and lenders who offer gifts to colleges as a way to secure loan business. It requires full disclosure of special arrangements that lenders and colleges have to offer loan products at the college; bans lenders from offering gifts over $10 to college employees; and encourages borrowers to maximize their borrowing through the government's loan programs before taking out private loans with higher interest rates.

The Student Loan Sunshine Act Protects Students and Families by:

Ending Inappropriate Lender Practices.

- The Act prohibits lenders from offering any gift worth more than $10 to a college employee, including free or discounted trips, meals, invitations to entertainment events or other form of hospitality.
- It also prohibits lenders from offering services to financial aid offices that create a conflict of interest, such as lending staff during peak loan processing times.
- It prohibits lenders from entering arrangements with colleges that require the college to "brand" the lender's loan product with the college's emblem or logo.

Giving Students and Families More Information About Special Arrangements Between Lenders and Colleges, and the Terms and Conditions of Loans, and Preferred Lender Lists.

- The Act requires lenders to report any special arrangements they have with colleges to make loans to the Secretary of Education, including the terms of the arrangement related to marketing, recommending, endorsing student loans, and any benefit, direct or indirect, provided to or paid to any party in connection with the loan arrangement.

- The Act requires the Secretary of Education, together with members of the higher education community and students, to develop a clear, easy-to-use model format for reporting the terms and conditions of student loans, similar to the APR disclosure required for other types of loans.
- The Act requires colleges' preferred lender lists to: include at least three non-affiliated lenders; clearly and fully disclose why the college has identified a lender as a preferred lender; and state that students do not have to borrow from the preferred lender list.

Encouraging Borrowing Through the Government's Loan Programs, and Discouraging Overborrowing through Direct-to-Consumer Education Loans.

- The Act requires all lenders of direct-to-consumer private educational loans to clearly and prominently state that borrowers may qualify for low-interest loans through the Federal government's loan programs. It also requires these lenders to clearly disclose how the interest rate is determined; sample loan costs disaggregated by type; information on any and all fees; information on collection in the case of default; and information on Better Business and state consumer agency or state attorney general complaints against the lender and their resolution.
- Before a DTC lender can offer an education loan of more than $1000, the Act requires the lender to notify the borrower's college of the amount of the proposed loan, so the school can advise the borrower if the loan exceeds what's necessary to cover the student's cost of attendance after other aid sources are factored in.
- The Act bars lenders from offering a private loan through a college (also known as an "alternative loan") until the college has informed students and parents of all their options for borrowing under the government's Title IV loan programs -- including information on any terms and conditions of Title IV loans that are more favorable than the private loan.

Facts about Private Loans, Lender Gifts, and Preferred Lender Lists:

Private Loans

- Private student loans now total $17.3 billion, and have grown at an average rate of 27 percent per year since 2001. In 2001-02, private loans accounted for 12 percent of total education borrowing; in 2005-06, they accounted for 20 percent. Unlike loans offered through the federal government's loan programs, private loans frequently carry much higher interest rates, especially for students without credit histories and families without strong credit ratings.
- Some lenders are increasingly using questionable methods to market private loans to students and their families and court the favor of colleges and universities. For example:
    - The private loan company Loan to Learn invited college officials and their spouses to attend an all-expenses paid "education conference" in the West Indies.
    - The private loan company Student Loan Xpress has offered 100% loan approval at colleges if the college agrees to "brand" the private loan with the college's name and emblem – making the loan appear to be offered by the college, not the private lender.
    - Other private loan companies encourage borrowers not to fill out the Free Application for Federal Student Aid (FAFSA) -- which allows borrowers to obtain loans at lower interest rates – while not prominently disclosing the fact that private loan interest rates are typically much higher.

Lender Gifts

- Lenders who participate in the government's Federal Family Education Loan (FFEL) program also engage in questionable tactics, like offering "educational conferences" at luxury hotels, and offering college officials free entertainment and tickets to sporting events. Many lenders offer their staff to work in financial aid offices during peak loan processing times, print materials for financial aid offices – and even e-mail students on behalf of the financial aid office.

Preferred Lender Lists

- Most colleges maintain "preferred lender" lists and encourage students to borrow from the list. While some colleges use a rigorous process to ensure that these preferred lenders offer the best loan terms and conditions to students, others don't – and many preferred lender lists don't clearly state why the lenders has earned "preferred" status. Some preferred lender lists don't offer a real choice of lenders at all – because all the names on the list are subsidiaries of the same big lender.

Student Aid Reward (STAR) Act
Short Summary

Boost College Scholarships at **NO COST** to the Taxpayer

The bipartisan Student Aid Reward (STAR) Act (S. 754) -- introduced by Senator Edward M. Kennedy (D-MA), Senator Gordon Smith (R-OR), Congressmen Tom Petri (R-WI), and Congressman George Miller (D-CA) – provides **billions in additional college scholarships to undergraduate and graduate students at no additional cost to taxpayers**.

The plan is simple: the STAR Act encourages colleges to utilize the less expensive of the federal government's student loan programs.

Currently, there are two main student loan programs that provide essentially the same loans and interest rates to students, but one costs billions more annually than the other. In the first program, loans are issued from U.S. Treasury funds, and private companies are contracted to service and collect student loan payments.

In the second program, the federal government underwrites and subsidizes loans issued by private lenders and banks. These loans bear virtually no risk for private banks, yet have an assured rate of return and are guaranteed against default by the government.

The first program is much less expensive, because it secures loan capital at a lower rate, eliminates the middleman (lenders), and cuts out billions in unnecessary subsidies to banks. <#_ftn1>

The Congressional Budget Office reports that the STAR Act would generate more than $13 billion[1] in additional college scholarship aid – at no additional cost to taxpayers

According to President Bush's 2007 education budget, student loans made through the more expensive program cost $6 more for every $100 lent than the same loans made with U.S. Treasury funds.[2] <#_ftn2>

The STAR Act calls upon the Secretary of Education to determine which program is more efficient.

Schools would then be rewarded with additional scholarship funds for utilizing the more efficient of the two student loan programs. The competition will encourage the federal loan programs to improve the efficiency of their operations. Schools, students, and taxpayers would all be the beneficiaries.