

Statement of Campus Progress Action

Hearing on Increasing Student Aid through Loan Reform

**Before the Committee on Education and Labor,
U.S. House of Representatives
Honorable George Miller, Chair
May 21, 2009**

Campus Progress Action, the youth division of the Center for American Progress Action Fund, a 501(c)(4) organization, respectfully submits this statement to the Committee on Education and Labor. We are grateful for the opportunity to share our views.

Campus Progress Action works with and for young people to bring about progressive change on the issues of most importance to them, from economic opportunity, to environmental sustainability, to human rights. Campus Progress Action also works to train the next generation of young people, so our country will have leaders with the preparation, vision, and determination to address our nation's most critical challenges.

President Obama's student lending proposal, contained in the budget he submitted to Congress, and included in the budget resolution passed by Congress on April 29, is a common sense idea that would help thousands of low- and middle-income Americans go to college. Because student loan repayment is guaranteed by the federal government, private lenders assume very little risk under the Federal Family Education Loan Program (FFELP), and yet they are rewarded handsomely – a subsidy that makes little economic sense. The President's plan would end these wasteful, expensive subsidies and use government funds to lend directly to students under the Direct Lending Program. The savings would help support the President's proposal to increase Pell grants to \$5,550 for the 2010-11 school year and to make the Pell grant a mandatory government program guaranteed an increase (inflation plus 1 percent) each year.

Campus Progress Action and our partner 501(c)(3) entities Campus Progress and the Center for American Progress have long advocated for a move to direct lending. See the articles collected at:
<http://fundingourfuture.campusprogress.org/2009/04/29/> See also Pedro de la Torre III and Carmen Berkley, Aid for Students, Not Banks, *Inside Higher Ed*, April 21, 2009, <http://www.insidehighered.com/views/2009/04/21/delatorre>

The President's proposal supports his pledge that "by 2020, America will once again have the highest proportion of college graduates in the world." With the Lumina Foundation for Education estimating that by 2025 we will face a shortage of 16 million college-educated workers, this is an urgent call to action. The current economic crisis reminds us of the critical need to draw on talent across all communities in our country and give them the education and training needed to lead all sectors of our economy and society. In addition, Campus Progress Action is committed to economic opportunity and mobility for young people, and we want to work toward a world in which economic and social disadvantage do not prevent qualified young people from obtaining access to higher education.

As President Obama noted, in reaction to his proposal student loan companies "have mobilized an army of lobbyists" to protect their subsidies. These companies have powerful allies in Congress, whose support for the student loan industry cannot be separated from the extensive campaign contributions the industry provides to federal lawmakers. As New York Attorney General Andrew Cuomo found in an extensive investigation, the loan companies also have used gifts to colleges and college administrators to gain allegiances on some campuses. Despite the support the loan companies have garnered through such questionable practices, many of the leading higher education associations have signed a letter supporting the President's proposal.

That the current FFELP system is rife with such corruption is one more argument for its elimination. In addition to the practices documented by Attorney General Cuomo, some lenders and guarantee agencies, such as NelNet, aggressively and, many argue, illegally, grew the volume of loans that would earn them extra subsidies from the Department of Education; these overpayments, now called the "9.5% scandal," totaled more than \$1.2 billion over six years.

Beyond its susceptibility to improper practices by loan companies, FFELP is also less reliable for students. In fact, Congress was forced to put the industry on life support – by purchasing FFELP loans in order to provide struggling companies with fresh capital – late last year.

Campus Progress Action is moving swiftly and aggressively to promote public understanding of and support for the President's proposal and to ensure that the voices of millions of young Americans – those paying for college and those who cannot afford to do so – are heard in the debate. Through research, events, grassroots organizing, social networking, and multimedia, Campus Progress will use real stories from young people to demonstrate how every dollar saved from the switch to direct lending can have a meaningful impact on the lives of students.

Young people from all economic backgrounds deserve access to a higher education, and that access should in no way be limited or hindered by wasteful subsidies to private companies.

We are urging people to take action on this issue by visiting:
<http://www.campusprogress.org/StudentsOverBanks>

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