

Direct loan plan could cause debt
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Because Penn State joined the Federal Direct Loan Program, a PHEAA spokesman suspects the infusion of students will result in a \$300 billion increase in debt to the U.S. Treasury in the next 10 years.

In the wake of the Pennsylvania Higher Education Assistance Agency's (PHEAA) decision to suspend in-state loans last month, Penn State joined the program last week "to provide its students with a stable and predictable source of funding for their federal student loans," according to a statement on Penn State Live.

Penn State will serve as a lender of Stafford Loans, which PHEAA suspended.

The funds will be taken from the U.S. Treasury, PHEAA spokesman Keith New said.

"Every loan is made from the U.S. Treasury, so every loan adds to the national debt," New said.

New estimated the addition of Penn State students to the program would result in a \$300 billion debt increase over the next 10 years.

The vast majority of the 40,800 Penn State students who receive the Stafford Loan funding used PHEAA as their lender, said Melissa Kunes, the university's director of federal, state and university aid programs.

"Students should not be concerned about this," Kunes said. "We wanted to fix students up with what we determined to be the most stable source of Stafford Loan funding at this point."

Membership in the Federal Direct Loan Program makes Penn State a direct lender of Stafford Loan funds.

Penn State will be e-mailing students with the information needed to make the switch; students will not need to make changes until their next academic semester, Kunes said.

New also said the direct loan program will make loans more expensive for Penn State students because there will be at least a .5 percent up-front charge. At most, students could see up to a 2 percent increase, New said.

PHEAA's KeystoneBEST Loan Program was announced Friday and will allow lenders such as PNC Bank and Chase to offer a "zero-fee loan," New said.

"Apples to apples, it's a more expensive program for students," he said about Penn State's program. "Competition does breed benefits and lower costs."

Kunes said Penn State plans to stay with this new source of funding even if PHEAA were to restart in-state lending directly and not through KeystoneBEST.

A representative from the Federal Direct Loan Program did not respond to multiple phone messages by press time yesterday.

Stephen Burd, senior research fellow at the New America Foundation, said the direct loan program is a good option for schools reacting to the turmoil facing capital markets, which affects the ability to borrow funds.

"They are acting responsibly to protect federal loan funding," Burd said. "They were obviously a school that had a close relationship with PHEAA, so PHEAA's decision caused them a lot of concern."

Kunes said the direct loan program is the best option for Penn State at this time. She estimated that 60 percent of Big Ten schools are members of the loan program.

"Each school has to evaluate their own needs and their own circumstances," she said. "I wouldn't say this is the general trend ..."

Burd also said reports of a student loan crisis are overblown.

Kunes said federal funding would always be available for loans.

"There will always be funding for the Stafford Loan program because by law, there has to be," Kunes said. "Some [agencies] ... have decided to stop acting as Stafford Loan lenders because they feel it is no longer profitable, but the government is obligated to make available to students Stafford Loan funding."