

Key Lawmakers Plan for Student Loan Credit Crunch Inside Higher Ed Washington, DC 04/04/2008

As yet another major lender said Thursday that it would stop making federal loans, Sen. Edward M. Kennedy (D-Mass.) and leading Democrats in the House of Representatives unveiled multifaceted (and potentially expensive) legislative proposals aimed at ensuring that students continue to have access to the federal financial aid they need to go to college.

The legislation from Kennedy, which one of his top aides anticipated several weeks ago, aims to attack a problem — that “families are finding that the loans they rely on to afford the high cost of college may also be at risk,” as the Massachusetts Democrat described it in a news release — that not all college officials and financial aid experts believe even exists, at least yet. Higher education associations, lenders, advocates for consumers, and federal officials are divided on just how much the tightening of the financial credit markets are affecting the availability of student loans to college borrowers, and how aggressively to act in the meantime.

Although most of the evidence suggests that few if any students are being denied access to loans now, college leaders are growing increasingly nervous about how the credit crunch might affect them and their students come summertime, but they are wary of panicking families and also aware that bad solutions put in place now could do more damage than doing nothing.

But the calculus for politicians, both those in Congress and leaders at the U.S. Education Department, is a little different. If the credit markets should worsen further, and increasing numbers of lenders bail out of the federal loan programs (as CIT, which controls Student Loan Xpress, the 15th largest provider of federal student loans, did on Thursday) such that student loans are hard to come by, it is not hard to envision scenarios where Democrats in Congress and the Bush administration throw stones at each other (they do so at the drop of a hat generally, and have done so already, most recently at a hearing last month, on the student loan credit issue) for having failed to act decisively and leaving students and families in the lurch.

In an election year, neither party wants to be accused of that.

Hence the Kennedy legislation, which would:

- Raise the maximum Pell Grant for the lowest-income grant recipients by up to \$750 above the maximum award, which is at \$4,731 for the 2008-9 academic year.
- Raise the annual limits on the amount of federal loans a student may borrow by \$1,000 for dependent undergraduate students and by \$2,000 for independent undergraduates and those whose parents cannot obtain federal loans for parents (known as PLUS loans) because of their own poor credit histories.
- Allow borrowers to defer repayment of federal parent PLUS loans while the student is enrolled in college.
- Require the secretary of education to designate guarantee agencies as “lenders of last resort” for an entire college rather than on a student-by-student basis, and clarify that the secretary can provide these lenders with capital to make the loans.
- Permit the Department of Education to serve as a “secondary market of last resort” that would buy loans from lenders in the Federal Family Education Loan, or guaranteed loan, program that have been otherwise unable to raise new funds.

Late Thursday, the Democratic leaders of the House education and higher education committees, Reps. George Miller of California and Rubén Hinojosa of Texas, offered roughly similar legislation that excluded the proposed increase in the Pell Grant but would increase loan limits by \$2,000 for all borrowers.

Several of the ideas in these proposals, most notably the proposed increase in Pell Grants and the deferral of parent loans while students are in college, will be enormously popular pretty much across the board in higher education, seen as sensible initiatives that largely help the neediest students.

But others are certain to stoke conflicts among officials at various types of colleges. The proposal to raise the federal loan limits has been favored by supporters of the most expensive colleges, both for-profit and independent nonprofit, where the aggregate and annual caps on federal loans mean that federal aid often does not cover the cost of attendance. That is why students at those colleges have been likeliest to take out costlier private loans, and why the institutions — especially commercial institutions so far, but increasingly private nonprofit colleges, too — have been most concerned about the credit crunch so far.

“Kudos to Senator Kennedy for his farsighted leadership at a critical time for students,” Harris N. Miller, president of the Career College Association, said in a news release Thursday. “Given the problems that have emerged for student lenders, it’s time for bold action. Federally guaranteed aggregate lending limits have not been adjusted since 1992 and for that, and other related reasons, too many students have become dependent on private lending sources that are simply no longer available.”

But many advocates for students have opposed raising loan limits, fearing that it will inevitably raise the debt burden for students and, possibly, invite tuition increases by colleges. In a letter last month to Kennedy, Constantine W. Curris, president of the American Association of State Colleges and Universities, encouraged a possible increase in the Pell Grant but warned that increasing loan limits could be a mistake. “While we understand, and share, in the concerns that have prompted this provision, we believe an increase to the aggregate loan limit at this time is a misguided policy that will have long-term negative, unintended consequences. While undoubtedly born from good intent, this proposal would in fact facilitate major tuition increases, and result in even greater student debt.”

Some of the immediate questions among higher education officials revolved around how expensive the proposal might be (Kennedy aides said they had not yet received a “score,” or projection of costs, from the Congressional Budget Office). But the Pell Grant idea would clearly be costly, which could render it a non-starter given Congressional budget rules that require any new spending to be offset by cuts in other programs.

There is no such requirement, though, in the supplemental appropriations legislation that Congress passes at the start of every budget season and that lawmakers are negotiating now. And while Senate aides declined to say exactly what they projected for Kennedy’s new plan, a spokeswoman acknowledged that they are “looking to attach this to moving legislation” — most likely the supplemental spending bill.

That could make the Pell Grant proposal a possibility in an otherwise difficult budget year.