

Bill to Boost Student Aid, Cut Lender Subsidies

By **John Godfrey**

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WASHINGTON -- Congressional Democrats announced a deal last night that would cut student-lender subsidies by more than 70% to offset the cost of \$20 billion in new student aid.

That aid comes in the form of lower borrower interest rates and an increase in the annual limit on federal Pell Grants.

"This bill will do more to help students and families in this country pay for college than any effort since the GI Bill," said House Education and Labor Committee Chairman George Miller (D., Calif.). Mr. Miller announced the deal with Senate Education Committee Chairman Edward Kennedy (D., Mass.).

The measure is likely to be approved by Congress quickly, and most expect President Bush will sign it into law.

The depth of the cuts are expected to force many smaller lenders out of the federally subsidized student-loan market and sharply curtail profits in the sector for larger institutions.

The bill "will come to be viewed as irresponsible legislation that undermined rather than expanded college opportunity," said Joe Belew, president of the Consumer Bankers Association.

The bill would cut the minimum guaranteed interest rate on federally guaranteed student loans by 0.55 percentage point for for-profit lenders. Not-for-profit lenders would see the rate cut 0.4 point. The bill would require the Department of Education to start auctioning off the right to purchase student loans taken out by parents. Auctions would be conducted on a state-by-state basis and the right to purchase the loans would go to the two highest bidders.

The bill would eliminate a provision in current law allowing some lenders to be designated as "exceptional" performers. Such lenders can have 99% of student loan value guaranteed, instead of the typical percentage of 97%. The bill in 2013 would then reduce the percentage guaranteed for all lenders to 95%.

Lender loan origination fees would increase to 1% from 0.5% and loan-guaranty-agency collection fees would be reduced to 16% of funds collected from defaulted loans from the current rate of 23%.

Wall Street was tracking the deal to see whether it would be the tipping point for the \$25 billion leveraged buyout of Sallie Mae, formally known as SLM Corp., by private-equity firm J.C. Flowers & Co. Sallie Mae said in July that J.C. Flowers had informed it that legislative proposals discussed in the House and Senate "could result in a failure of the conditions to the closing of the merger to be satisfied."

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