

BOOST COLLEGE SCHOLARSHIPS at NO COST to the Taxpayer

THE STUDENT AID REWARD (STAR) ACT OF 2007

The bipartisan Student Aid Reward (STAR) Act – introduced by Senator Edward M. Kennedy (D-MA), Senator Gordon Smith (R-OR), Congressman George Miller (D-CA), and Congressmen Tom Petri (R-WI) – 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.

*The Congressional Budget Office reports that **the STAR Act would generate \$13 billion¹ in savings – at least \$10 billion would go to increased scholarship aid – all at no additional cost to taxpayers.***

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.

According to President Bush's 2008 education budget, student loans made through the more expensive program in 2007 cost \$3 more for every \$100 lent than the same loans made with U.S. Treasury funds.²

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 all would be the beneficiaries.

¹ Congressional Budget Office, 2006, 10-year estimate; Estimate will be updated following release of CBO's March 2007 baseline.

² Estimates from the President's 2008 budget include administrative costs for both loan programs.