

## **The Student Aid and Fiscal Responsibility Act** *A Landmark Investment in America's Economic Future*

### **RELIABLE, AFFORDABLE COLLEGE LOANS FOR FAMILIES**

The financial crisis exposed serious vulnerabilities in the lender-based federally guaranteed student loan programs – putting the low-cost federal loans that millions of families count on in jeopardy.

Now more than ever, students and families need access to reliable, stable forms of federal student aid to pay for college. The **Student Aid and Fiscal Responsibility Act** will make our federal student loan program more cost-effective and efficient for those they were intended to serve: students and families working hard to pay for college. **Specifically, the legislation will:**

#### **Create a more reliable, affordable, student-focused federal loan program by switching to all Direct Loans by 2010**

- ✓ **Converts all new federal student lending to the stable, effective and cost-efficient Direct Loan program.** Beginning July 1, 2010, all new federal student loans will be originated through the Direct Loan program, instead of through lenders subsidized by taxpayers in the federally-guaranteed student loan program. Unlike the lender-based program, the Direct Loan program is entirely insulated from market swings and can therefore guarantee students access to low-cost federal college loans, in any economy.
- ✓ **Provides students with low-cost federal college loans with the same interest rates, terms and conditions as loans made by lenders – and the peace of mind of knowing those loans will never disappear.** Loans made through both the Direct Loan and the federally-guaranteed student loan programs carry an interest rate of 6.8 percent – a much more affordable interest rate than private loans carry. Under this legislation, federal student loan borrower will be able to borrow the same loans, at the same good rates as before – but these loans will be more cost-effective for taxpayers.

#### **Ensure that all student borrowers can benefit from high-quality, state-of-the-art customer service when repaying their loans**

- ✓ **Upgrades the services all federal student loan borrowers receive.** Rather than force private industry out of the system, the bill will forge a new public-private partnership that both maintains jobs and provides all borrowers with the highest-quality customer service when repaying their loans. It will establish a competitive bidding process that allows the U.S. Department of Education to select lenders based on how well they serve borrowers, provide financial literacy counseling, and prevent loan defaults. The legislation will also provide a role for non-profits to continue servicing student loans.
- ✓ **Preserves servicing jobs in communities across the country.** Between this new public-private partnership and the more than \$500 billion in outstanding federally-guaranteed student loans that will still need to be serviced, there will be tremendous demand for workers to continue providing great service to Americans repaying their loans.

#### **Streamline financial aid operations for colleges and universities**

- ✓ **College financial aid offices already have the infrastructure in place to administer Direct Loans.** Schools will be able to operate these loans using the same on-site system currently used to administer Pell Grant scholarships; almost all schools participate in the program. Colleges and universities that have switched to Direct Loans, including those that converted in the midst of last year's credit crisis, report that it was a fairly easy and inexpensive process. Currently about 1,700 schools participate in the Direct Loan program, including 500 colleges that switched in the past year alone. Under this bill about 4,500 colleges will need to switch to Direct Loans.