

We need change in student loans

By Tony Hollin

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If I were a recent college graduate, I would be outraged to be paying 6.8 percent in interest on my Stafford loan when market interest rates are closer to 2.5 percent! Where's all that extra money going? Are exorbitant interest fees being paid to lenders in the form of subsidies or to the federal government to spend at the discretion of Congress? In other words, who's subsidizing whom?

The Department of Education announced Oct. 2 that the federally mandated yield to lenders for Stafford loans in repayment dropped from 2.20 percent to 2.08 percent, but this is not the rate that students are charged. This yield, which represents the earnings cap for providers of student loans, is established by the government, not by student loan lenders. Because Edamerica, the nation's seventh-largest provider of student loans, operates under this business model, we do not currently receive subsidies on newly disbursed loans. In fact, we have not received loan subsidies on loans made since the enactment of the College Cost Reduction and Access Act of 2007.

Instead, we rebate a substantial portion of the interest paid by students back to the federal government in addition to a 1 percent fee for the privilege of making the loans. In this low-interest-rate environment, the idea that banks are receiving subsidies from the federal government on new loans could not be further from the truth. The Obama administration is correct to say we need change in student loans. We need radical change. We must bring the "student" back into the term "student loan" by lowering the rates students are charged.

The positive difference between the rate students pay and the rate lenders earn, the so-called "excess subsidy," is remitted to the federal government. In the last 12 months, Edamerica sent more than \$40 million in payments to the federal government. This amount represents the revenue Uncle Sam currently earns on Stafford and PLUS loans originated by Edamerica.

It's important to make this distinction at a time when the private sector is being portrayed as somehow benefiting at the expense of the students we serve. Under the proposed student loan reform legislation, the federal government will turn a profit and spend that money and more on entitlement funding. In the end, 100 percent of student borrowers will pay artificially inflated interest rates, but fewer than 30 percent will receive Pell Grants. Students will be overcharged for their education loans to subsidize entitlement programs. That's not fair. We must do the right thing for student and parent borrowers.

Contrary to public perception, student loan providers do not set student loan interest rates. The government establishes the rates at which students borrow under the Federal Family Education Loan Program and Direct Lending. The current interest rate of 6.8 percent for unsubsidized Stafford loans is well above market interest rates and creates an unnecessary repayment burden for students already reeling from debt in an unstable economy. The rates are higher for parents and graduate students, now borrowing at 8.5 percent. Consider that graduate students are ineligible for Pell Grants, and this interest rate seems especially unjust.

In his Senate floor statement on the subject, Sen. Lamar Alexander, R-Tenn., said: "I don't think the government ought to be making a profit by overcharging students for their student loans. ... At the very least, if we are going to take all of these loans into the government, we ought to reduce the interest rates so we don't overcharge the students." Alexander may introduce a truth-in-lending amendment to inform borrowers about usurious student loan interest rates.

Why not lower interest rates on student loans? If a student paid a market rate of 2.5 percent versus the mandatory government rate of 6.8 percent on a \$30,000 Stafford loan, the savings would be \$12,600 over 10 years.

Students and families have a right to know about the unfair rates they're paying for student loans. I support Sen. Alexander's notion of truth-in-lending. We at Edamerica want to put the "student" back in "student loans." The truth is the government lends and makes money at the expense of students. That needs to change.

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