

**American Association of University Professors  
Capitol Hill Day  
June 11, 2009**

**Issue Brief: Student Loans**

In the President's proposed FY 2010 budget, it is recommended that the government-subsidized Federal Family Education Loan (FFEL) Program be eliminated, with the Direct Loan program expanded. This proposal has gotten a great deal of press within the higher education community and beyond. After examining the arguments from both sides, the AAUP endorses the proposal. Some who oppose the elimination of the subsidies to private lenders claim to do so based on opposition to "big government" and object to expansion of federal programs in lieu of privatization. However, the FFEL Program already receives large amounts of government funding in subsidies, as well as a 98-cents-on-the-dollar backing against defaults. In other words, the federal government is already deeply involved in student loans, both through regulation and through financial commitments. Regulating the subsidies has at times proved problematic, as when it was revealed in 2006 that Nelnet had received \$278 million in subsidies to which it was not legally entitled. Then-Secretary of Education Margaret Spellings declined to demand that the amount be repaid to the government.

Under the new Administration's proposal, its internal budget analysis estimated \$48 billion in savings over the period from 2010-2019. The Congressional Budget Office (CBO) goes even further, estimating a savings of \$94 billion over the next 10 years.

**Talking points:**

- 1.) In troubled economic times, we cannot afford to waste money. The subsidy model of student lending has not been demonstrated to be more effective than direct lending despite being far more costly. More students than ever will need financial aid to get through college during the recession; it makes the most sense for all available funds to go to those who need it rather than corporations who cannot prove their value added via the status quo.
- 2.) The idea that a switch to Direct Loans would represent a new involvement of the federal government is completely false. The federal government already participates in Direct Loans on a smaller scale as well as paying the FFEL subsidies and guaranteeing their loans against default; thus the big change would be the focus on funding students directly rather than middlemen. The federal government is already invested in the system; so this is not an expansion of government.

**Suggested background reading:**

["Proposals Would Transform College Aid", \*Washington Post\*, 5/4/09](#)

["Big Savings from Loan Proposal", \*Inside Higher Ed.\*, 3/23/09](#)

["Helping Students, Not Lenders", \*New York Times\*, 3/3/09](#)

["Disputed Accord in Student Loan Case", \*Inside Higher Ed.\*, 1/22/07](#)