

# CONSOLIDATED STUDENT LOAN INTEREST RATES

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## HEARING

BEFORE THE  
OF THE

COMMITTEE ON HEALTH, EDUCATION,  
LABOR, AND PENSIONS  
UNITED STATES SENATE  
ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON  
EXAMINING FEDERAL STUDENT AID PROGRAMS

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## CONSOLIDATED STUDENT LOAN INTEREST RATES

THURSDAY, MAY 9, 2002

U.S. SENATE,  
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10:05 a.m., in room SD-430, Dirksen Senate Office Building, Hon. Edward M. Kennedy (chairman of the committee) presiding.

Present: Senators Kennedy, Wellstone, Murray, and Gregg.

### OPENING STATEMENT OF SENATOR KENNEDY

The CHAIRMAN. Good morning. Today's hearing examines the Administration's proposal to eliminate the fixed rate consolidated loan program and replace it with a program that is based on variable interest rates.

In recent years, the obstacles to a college education have grown higher, not lower, for average Americans. Low- and middle-income families trying to send their children to college today could face double-digit increases in college costs.

Yet the experts tell us that the Administration's proposal to eliminate the fixed rate college loan consolidation program would add yet another barrier to a college education. Six million students are expected to take advantage of this program over the next 10 years, and this proposal would add thousands of dollars to the cost of the average college loan today.

A college education is the gateway to success for millions of Americans and helps keep our country strong and competitive. We should be doing everything in our power to make college more affordable, not less. So I believe that hardworking low- and middle-income Americans were shocked to learn of the Administration's proposal to eliminate a program that has helped make college more affordable for so many students. If you are going to be a doctor or a lawyer, then maybe thousands of dollars of loans do not present an insurmountable obstacle. But if some students hope to be teachers or nurses or firefighters, where the financial rewards are not as great, then adding \$10,000 over the 30-year life of a college loan can force many of these idealistic young Americans into other, more lucrative careers.

The facts are daunting. Today, 64 percent of all students depend on Federal student loans to finance their higher education. The typical undergraduate leaves school with almost \$17,000 in student loan debt. In a recent study by the Public Interest Research Group,

39 percent of student borrowers graduate with unmanageable loan debt, meaning that their student loan monthly payment is more than 8 percent of their monthly income.

Current law allows students to consolidate their Stafford loans under the FFEL or Direct Lending programs. In 2001, over 680,000 borrowers decided to consolidate their student loans. Some did so to take advantage of a lower interest rate; others did it to reduce their payments from several lenders to one lender; and still others made the decision to spread their student loans out over a longer repayment period to dramatically reduce their monthly payments.

These borrowers wanted to plan their lives—get married, have children, buy a car or a house, decide about a career move. They wanted a fixed interest rate so they knew exactly what their payment was going to be for the life of their loan. They did not want to have the uncertainty every year of waiting for a new interest rate and a new monthly payment.

The Administration's proposed change could cost graduating students thousands of dollars. This July, Federal student loan interest rates are expected to fall to an all-time low rate of about 4 percent. The new rates will save the typical borrower over \$3,000 over the life of a 10-year loan, and up to \$10,000 over the life of a 30-year loan.

Hundreds of students have called my office in the last week to encourage us to fight to save the fixed interest consolidation program. Two of our witnesses today will share their personal stories about the importance of financial aid, and I thank them for their willingness to come before the committee this morning.

We are facing many tough decisions on funding this year, but our priorities are clear—we will not fund one education program at the expense of another. We need to do better.

I am anxious to hear from Deputy Secretary of Education Bill Hansen about the Administration's proposals on the consolidated loan program, and I thank him for his willingness to testify today.

Senator Gregg.

#### OPENING STATEMENT OF SENATOR GREGG

Senator GREGG. Thank you, Mr. Chairman.

This is a specious hearing about an issue which does not even exist. So let us talk a little bit about the facts and about what this Administration has done for children who wish to attend school and about this Administration's commitment to education as a beginning point.

Let us remember that the Democratic party has not offered a budget, so there is no proposal from the Democratic Members of the Congress for educational spending. They did not offer one in the House, and they have not offered one on the floor of the Senate.

In the alternative, this President has done a great deal in the area of education and has focused a significant amount of his attention and effort on education and has made exceptional progress in the area of education. The President's 2003 budget proposes the highest level of funding for student aid in the history of these programs. The President has requested funds to provide over \$55 billion in new grants, loans, and work-study funds to over 8.4 million students.

The keystone of the President's higher education agenda is the Pell Grant program, the most effective and well-targeted of the student aid programs in helping low-income and middle-income students.

Under the President's plan, funding for the Pell Grants would be increased by over half a billion dollars over last year's level and more than three times the current level of inflation.

From 1995 to 2000, funds for the program grew from \$6 billion to \$7.6 billion—that was under the prior Administration. Since President Bush took office, he has fought for an additional \$3.3 billion for Pell Grants, the largest increase proposed by any President, and dramatically more than President Clinton's administration.

Today, almost 4.4 million needy college students, half a million more—half a million more—than when President Bush took office, are receiving Pell Grants, a testament to what can be done when Republicans are in favor of education.

Last year, President Bush expressed his concern that the \$4,000 maximum award mandated for the fiscal year 2002 appropriation could not actually be funded. Currently, it is unfunded to the tune of \$1.3 billion. No proposal has been brought forward by the Democratic membership of the Senate or the House pursuant to a budget resolution to address this shortfall and none has been taken up on the floor of the Senate.

Alternatively, the House of Representatives has filled this hole just yesterday in its funding of the Pell Grants, and the President has accepted this as an approach. So the \$1.3 billion shortfall has been addressed without the assistance of the Democratic membership of the Senate.

President Bush has done everything in his power to avoid taking steps that the former Administration took in 1993 when it cut—when it cut—the maximum Pell Grants under the Clinton administration. He has increased them dramatically.

Earlier this year, the Administration joined with the Congress in supporting a compromise measure that would maintain the stability of the student loan marketplace and ensure that access to low-cost education financing for students and their families was not interrupted.

That measure, which President Bush signed into law in February, extended the current low variable rates until 2006 and established a 6.8 percent fixed rate thereafter. If he had not acted, the rates for student loans would have jumped dramatically, and students would have been thrown into disarray. But he did act.

The result of this action was significantly lower interest rates for students. By historical standards today, the 5.99 percent rate is a bargain. In July, they are projected to drop to their lowest rate ever—4 percent—obviously, a very significant bargain for students.

If you factor in the benefits of the in-school interest benefits and the increased tax deductibility, the effective rate for a typical borrower will be just under—just under—2 percent.

Over 10.2 million students and parents will be eligible for these low interest rate loans under President Bush's budget. Over a million more students will now be eligible for these low interest rate

loans than were eligible in the last year of the Clinton administration.

So let us stop trying to scare students and American families. Student loans are widely available to more people today than they were under the prior Administration. Pell Grants are more available to more people today at a higher level than they were under the prior Administration.

The President has also initiated significant tax breaks to assist families as they try to help their children get educated. Over \$10 billion each year in tax breaks are currently being provided to working families who are struggling to meet the skyrocketing costs of college and to students who are repaying their student loans.

A few highlights of the tax relief which was passed without any Democratic support—I guess there were Democrats—I'm sorry, there were 12 members of the Democratic party; I apologize for that—there was Democratic support, but there were not any Democratic supporters on this committee for the tax relief package which the President gave students, and which included eliminating the 60-month limitation on the student loan interest deduction, and an increase in the income levels for being able to take advantage of the deduction. This change makes this tax benefit simpler to administer and increases the affordability of student loan repayment by approximately \$3.4 billion a year. That is the savings for students and their parents. In addition it increased annual contributions for educational savings accounts from \$500 to \$2,000—from \$500 to \$2,000—that is a huge boost and a significant plus for parents wanting to save for their children's education—that represents approximately \$1.2 billion over 5 years.

There is a new above-the-line deduction for qualified higher education expenses; approximately \$11 billion of tax benefit for people who want to help their children going to school.

The President's tax relief package provided for tax-free distributions from Qualified Tuition Plans, Section 529 plans, and permitted private institutions to offer more of those qualified tuition plans, which represents \$2.3 billion worth of assistance to parents and students.

It makes the employer-provided educational assistance income exclusion permanent and extends the benefit of the exclusion to graduate-level courses, which represents a \$2.8 billion benefit to people who are trying to better themselves as they are working in everyday jobs.

Those are the types of dollar commitments that this President has made to education. Those are real numbers. Those are real programs. That, of course, joins with the President's commitment to education at the elementary and secondary level, which has been extremely significant. He has increased the funding for title I in his first 2 years by more than all the funding increases for title I during the entire term of the Presidency of Bill Clinton.

He has increased the funding for special education in his first 2 years by more than what President Clinton's administration proposed in its entire 8 years of service—although Congress reversed the Clinton position and increased it significantly on its own, over the objection of the Administration.



This hearing today is part of a political attack which has been orchestrated, and which arose out of a report in a newspaper article. The New York Times reported that there may be a proposal coming from OMB to change the current fixed interest rate on consolidation loans to a variable rate in order to account for paying the difference in the Pell Grant shortfall. This was an idea. I presume it was floated. I presume that that was a trial balloon of some sort coming from OMB, which is not, by the way, the educational policy shop of this Government.

What has been the reaction of the Democratic membership of this committee? For weeks, rightly so, they have held press conferences, and they have gone to the floor of the Senate and they have berated the Administration for this trial balloon. That is their right as politicians, and they are certainly being politicians.

Thought police—we read about what is happening in the Muslim countries today and how they have these people, mulaats, who walk around the street, beating people with sticks if they say the wrong thing or appear to be wearing the wrong clothes. We now appear to have our own thought police on this committee.

But the step of holding a hearing and representing that the Administration policy, as was the statement put forward by the chairman in his statement, that the Administration policy is to advocate a change to a variable rate on consolidation loans, and to hold a hearing on a proposal that does not exist, to hold a hearing on an idea that was floated and to claim that that idea is the policy of the Administration, is to step beyond the proper function of the committee process.

The proper function of the committee process is to review real policy that actually exists. If the Administration takes a stand, if it formally takes a position, if it proclaims a purpose, then this committee has every right to pursue it. But when somebody floats a trial balloon in a New York Times article which has been refuted, specifically refuted, by the agencies that are responsible for education, to have this committee hold a hearing on that trial balloon as if it were policy when it is not policy is thought police, and it is inappropriate, and it violates the comity of this committee.

The Republican membership of this committee since I have been ranking member has attempted in every way to be cooperative. We have agreed to mark-ups on bills we did not agree with, and we have not tried to undermine those mark-ups; we have not hit them with the various amendments that might have caused us to be here for days. We have expedited hearings. We have even allowed mark-ups to occur when there may or may not have been an operating quorum on this committee.

We have bent over backward, quite honestly, beyond what I would have expected in many instances to try to be accommodating so that this committee could do constructive work. What is the response we get? An incredibly petty partisan hearing such as this.

The Administration is put in the impossible position of either not showing up and therefore being subjected to an unending vitriolic attack for being unwilling to defend a policy that does not exist, or to show up and be berated as they were in the opening statement. It is a Hobson's choice, a Hobson's choice.

Well, the Republican members of this committee have caucused, and we have concluded that this type of action is totally inappropriate. We have come to the conclusion that this committee is not functioning in a fair and proper way. So we put the majority on notice that the minority has rights—and yes, you can hold this hearing, this trumped-up piece of partisan pettiness—but do not believe it is not going to cost you.

Remember there is a 2-hour rule; remember there is something called a filibuster; remember there are quorums—all of which we have as our resources, all of which we intend to use.

I yield the floor.

The CHAIRMAN. Well, we have obviously touched a raw nerve with our good Republican ranking member when we come to funding education; we have obviously touched a very raw nerve. If the Senator wants to huff and puff about quorums and delay tactics, be my guest, be my guest. You are just going to be shortchanging the children of America, shortchanging the children of America.

Senator GREGG. Don't use children as your defense, Mr. Chairman.

The CHAIRMAN. If I could—I did not interrupt you, I did not interrupt you, Senator—I have a document right here from OMB, April 25 which says, “Offset Options for the Supplemental, \$1.3 billion for the Pell Grant shortfall, student loan consolidation, OMB proposal.”

Mr. Ari Fleischer in a White House press briefing, when asked by a reporter, “Is the fixed rate versus the variable rate no longer an option?”

Mr. Fleischer's quote, “Well, we are just going to continue to work with the Congress.”

That is a trial balloon? That is taking it off the table?

I had indicated to my friend—and he is my friend, Senator Gregg—that if we had had a letter from OMB that stated there was going to be no consideration of eliminating the fixed rate consolidation program and that this was no longer going to be an option considered by the Administration, we would cancel the hearing. We have had no such indication. I have offered that, but nothing has been forthcoming; nothing has been forthcoming. So I do not understand his logic and reasoning when he says that this is off the table. It has been reported in the press and it was an actual proposal in an OMB document, and it was sustained by the White House as an active proposal.

If the Secretary wants to say right now this Administration will not consider this proposal for the remainder of the Administration, we will now adjourn the hearing if he wants to do that. If he is prepared to do that, we are prepared to do it; resolving this issue is the reason we called this hearing.

But if the Senator from New Hampshire thinks that we are going to be somehow threatened here in the majority when we know what the consequences of this kind of proposal would mean in terms of increasing out-of-pocket payments for working families and low- and middle-income families in this country, he is mistaken. If he wants to threaten quorum calls and threaten filibusters, so be it. But I want to make very clear to him that Democrats

are going to do everything that we possibly can to fight this proposal.

If the Administration wants to take it off the table, fine—do it, do it—say that it is off the table. But if you are not prepared to do that, if you are not prepared to do that, we have no other recourse but to say that it is still an active proposal that the Administration is considering, and we are going to resist it and fight it.

This program change requires a legislative change. That is what we are—legislators—this requires a legislative change. If you have a legislative change, you go to the committee of jurisdiction and you find out whether you can get this legislative change. That is the purpose of this hearing.

So I am bothered that my friend is so worked up about all of this—thought police, threatening the demise of the work of the committee—all of the threats that he has proposed.

We are talking about the cost of education, and it has obviously hit a raw nerve, and I can understand why—because if you look at what is happening in the funding of the Administration's proposals—and I am not going to go all the way through the years past—but if you look particularly when he was talking about No Child Left Behind, under the Administration's proposal, they proposed a 3.5 percent increase last year. Congress increased funding 20 percent.

I am not going to list the amendments that were offered, but it was increased because of the Democrats. Now the Administration has taken great pride in the fact that education funding increased, but then—guess what—this year they have gone right back down to 2.8 percent increase. You would think if they were so incredibly proud of last year's increase—we just listened to how proud they are; we have done all of these things; we have increased more than it has ever been before—you would think, well, he wants commendation for that—but then, the Administration comes right back and requests only a 2.8 percent increase.

Let me just draw your attention to one other item, and that is the strong commitment that we made in this committee to make sure we were going to have a well-qualified teacher in every classroom. Look at what was in the budget last year, with the Administration's support, with Republican and Democrat support alike—\$742 million to recruit, train, retain, and upgrade professional skills for teachers.

Look at what is in the budget this year—that is what is troubling the Democrats, quite frankly, and it is troubling parents, it is troubling children, and it is troubling educators across this country. We do not want to have made a false promise. Many of us who supported that proposal—and I yield to no one in terms of the support—do not want to mislead the American people.

Talk is cheap around here. Rhetoric is cheap around here. School districts know when they are going to get funded and when they are not, and students will know when they are going to pay higher interest rates because they are denied the chance to take an opportunity for a fixed low rate, being denied an opportunity which is out there for every small businessman, shopkeeper, everyone in America except students.

So, Senator, I have listened to you, and I get all worked up once in a while myself, and I understand that you are all worked up about this, but I want to give you very clear assurance that we are not going to let this issue go. I know you are disturbed this morning, and you are worked up about it, but I can tell you that the Democrats on our side are going to keep right after this issue. We are going to keep after this issue, and we are going to bring it home to the American people, and I think the American people are going to be on our side on it, but we will have to wait and see.

Senator GREGG. Mr. Chairman, I hope I could have time to respond to that.

The CHAIRMAN. I would like to also give the other members a chance to talk, and then I will be glad to recognize you again.

Senator Wellstone, Senator Murray.

Senator WELLSTONE. If you want to respond—

Senator GREGG. No; I will respond after you folks make your points.

#### OPENING STATEMENT OF SENATOR WELLSTONE

Senator WELLSTONE. For one of the few times in my life, I am speechless.

Actually, I think what I would say is—I have a statement that I want to include in the record, Mr. Chairman, and that is all about the statistics and the impacts this has on students in Minnesota.

I think, Mr. Hansen, if you are prepared today to say that this plan is not on the table, then, I think we can all conclude the hearing, and we can all conclude the hearing I think as friends and feeling good because a really unwise and profoundly mistaken proposal has been taken off the table. That is what I want to hear.

The second point, which is a different one than my colleague from New Hampshire has made, is that I would thank the chair. I would say to the chair of this committee that it is really important for us as Senators to be vigilant and to have this committee hearing to know what the Administration plans to do on this issue, because it has such a critical impact on so many of the students in higher education in Minnesota and around the country.

By the way, many of these students are not necessarily 19 years old, living in the dorm; many of them are older, and the consolidated loan program is extremely important to them financially as to whether or not they can afford to go on with their education. This proposal would make a huge difference.

My last point—and this is in response to Senator Gregg, and I do not want him to have to respond to all three of us; he can say whatever he wants to say—but I will just repeat what I have said a thousand times. I think the thing that is just so unconscionable—and I will say it to the two of you from the Administration, but not in personal terms; I mean it more systemically, not at you; I am glad you are here—is that when I heard the President in his inaugural speech talk about leaving no child behind—I remember that is when I first heard it—I was thinking this is the mission statement of the Children's Defense Fund—I thought to myself, you know what, whether I wanted him to win or not, if that is his mission, and it is real and authentic, I am going to be there with him.

But do you know what—I have said it a million times—the President has put forward a tin cup budget. This is symbolic politics with kids' lives. The figures on this chart demonstrate that during the Elementary and Secondary Education Act Conference Committee, the Administration blocked full funding for special education. We did pass that in the Senate, and it was blocked by House Republican leadership and the White House.

Our school districts and our schools and our kids are really hurting, and I would just say to the President that as the Senator from Minnesota, I am not going to let you all get away with symbolic politics with kids' lives. You have to back up the rhetoric with the resources. We are all for the little children—the littler, the better—we all want to have the photo ops—but the question is whether or not it is real and there is a commitment of resources. This is a tin cup budget. That is what is so unacceptable. This hearing on fixed interest rates is critically important, and I thank the chair.

[The prepared statement of Senator Wellstone follows:]

#### PREPARED STATEMENT OF SENATOR WELLSTONE

I am deeply disappointed that the President has proposed to eliminate the fixed interest rate for consolidated student loans. It is outrageous that at the same time he has proposed to make permanent billions of dollars in tax cuts for the wealthiest corporations and individuals, he is turning around and saying to low and middle income borrowers that they will have to pay thousands more in interest payments over the life of their loans. In fact, if the Bush proposal passes, the average Minnesotan would have to pay as much as \$10,000 more over the life of their loan.

Now I do not know who the President has been talking to, but I will tell you what I am hearing. Students and parents are gravely concerned about the growing amount of debt young students are taking on. I have not had a single meeting with student groups where this concern was not raised among the top priorities of students.

The data bears this concern out. In my state, 60 percent of students graduate with debt. The average ranges from \$14,000 to \$22,400—depending on the institution students attend.

It is estimated that 39 percent of students graduate with “unmanageable debt.” This is at the same time that the economic slow down has reduced the number of jobs available to many college graduates.

This trend is disturbing—especially since tuitions are skyrocketing. The University of Minnesota, for example, saw a 14 percent tuition increase last year and expects to see a 16 percent increase for the coming year.

College is becoming more and more inaccessible to low and middle income students due to cost. I fail to understand how we can, at this time, propose a change to the consolidated loan program that would saddle already indebted students with thousands more in loan payments.

I fail to understand how the Administration can argue that we need to take from indebted college students in order to pay our own debt to the Pell grant program.

I thank the Chairman for holding this hearing and I look forward to hearing the Administration's response to this most important question. I also look forward to hearing first hand, from our witnesses, how this proposal would effect them and their ability to not just afford college, but to pursue their future goals for their careers—whatever they may be.

The CHAIRMAN. Thank you.  
Senator Murray.

#### OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you very much, Mr. Chairman.

I want to express my appreciation to you for holding this hearing.

I have heard the charge that this is a political issue. Well, Mr. Chairman, I just have to tell you that for students who are going

to college and are desperately trying to pay for their education, knowing what they face when they graduate, it is not a political issue. It is a very, very real issue.

I may be one of the few Senators who was only able to go to college because of student loans and Pell Grants, and I know what it is like the day you graduate and you do not have a job, you do not have a car, you do not have a place to live, you have no appropriate clothes—and you have got to pay back a loan as well. It is overwhelming.

I also know the incredible economic downturn that has hit our States this year and have hit many families hard. In my State, we have the second-highest unemployment in the Nation today. Many families are struggling to figure out how to send their kids to college, and when proposals like this come out that affect their bottom line and their ability to put food on the table and their ability to send their children to college and their ability to pay back their loans, it is very, very real.

This is not about politics. It is about a proposal that is out there, and if we as Members of the Senate do not understand the impacts of it, we will not be able to make the right decisions.

I know we have a number of students on the next panel as well—Brant Olson is a graduate of Whitman College in my home State, and I know that his testimony, which I have had a chance to look at, is really relevant.

I think it is important for this committee and the Members of this committee to take the time to understand what the impacts of proposals are. This is actually the second effort by the Bush administration to fund the Pell Grant by taking money from other education programs. I know that the President asked Congress to cancel \$1.3 billion worth of so-called low-priority earmarks, and Congress reacted back and said we will not do that, and that proposal went away, and now we are seeing this proposal on student loans. I would just say, Mr. Chairman, that there is always a deficit in the Pell account in difficult times, and it has always been made up. This program does not need offsets for all students to get the Pell Grant they qualify for, so I am curious as to why we are all of a sudden looking for those offsets.

But I would just go back to the point that if we do not understand the policies that are out there and question them and ask about them and have discussions about them, we cannot make the right decision. This is not about thought police. This is about a fundamental principle in this country, which is debate and discussion. It is about disagreements, and it is about proposals. This is about us as Americans and how we run this Government. This is not about thought police. This is about how we as legislators make good decisions about policy proposals that are out there.

So I think this hearing is very important, and I would agree with my colleagues that if Mr. Hansen is here today to tell us that this is not and will not be a proposal, I am happy to go and do what else I have to do today.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Gregg.

Senator GREGG. Well, first to address the funding issue again, let me point out that that chart that is sitting there is dated in that

the ESEA bill which we just reauthorized took classroom size and teacher quality and the Eisenhower Program, merged them together and created one program which became the Teacher Empowerment Act, which is funded at \$2.8 billion.

The funding for Title I—as long as we have the charts up here—is reflected in this chart. During the Administration of President Clinton from 1995 to 2001, there was a \$2 billion increase; in 2 years of the President's funding, it is \$2.5 billion worth of increase.

But this is not about elementary and secondary education; this is about postsecondary education. This was a trial balloon—I do not deny that—put out not by the education arm of the Government but by the numbers people. It was a stupid idea, and it was quickly identified as such. And it has been rejected.

The fact that this hearing is being held on a proposal that was a trial balloon that has been rejected is what makes this hearing so obscene.

We are getting the quote—I believe there is such a quote, since we are quoting press secretaries at the White House—where Ari Fleischer supposedly said that this was not going to be a program that they were going to go forward with.

I know that there must have been a quote, because I heard one of the better members of our press corps as far as credibility, Judy Woodruff, in an interview with students over a week and a half ago state that this proposal had been floated but that it was not going to be pursued with the Administration, and she had been advised that it was not going to be pursued by the Administration. I presume she got that from the White House press level, so I presume there is an Ari Fleischer statement.

It is my understanding that the OMB legislative staff called the majority staff on this committee over a week ago and told them that this was not going to be pursued.

The only reason this hearing is being pursued at this time is to beat an idea which is no longer being considered, and therefore, it is a straw dog exercise, and it is totally inappropriate to the committee process.

If this were a genuine proposal that had been carried forward, then, of course, there should be a hearing on it, and I would probably be in agreement, because I think it would be a foolish thing to do. But it is not an idea that is being carried forward; it is, rather, a political exercise that is being pursued purely to score political points on an issue that does not exist. For that reason, we feel that it has abridged the comity of this committee, and we feel very strongly about this, and I do not know what Mr. Hansen is going to say because as a practical matter I think it is a shame that he even showed up. Had it been my druthers, he would not have—but he did have a Hobson's choice, as I stated earlier. So I look forward to hearing his testimony, and I hope that before he comments on this issue—whatever his comment is going to be, and I suspect it will be that it is not being pursued—I hope that he will outline some of the things this Administration is doing in the area of higher education, especially in relationship to the prior Administration, because I think this Administration has a track record which is exceptional and in which it can take a great deal of pride.

The CHAIRMAN. Since we are looking for the clarification, if the good Senator wants to get into a bidding war in terms of increased funding for education and funding for title I and ESEA, we welcome that.

This chart over here shows the Clinton increases in 2001, 22 percent; the Bush proposal, 2002, ended up at 20.3 percent, and that is because it was increased at the insistence of the Democrats.

But we will let yesterday's battles go on. As I mentioned before, the OMB document has \$1.3 billion for Pell Grants and talks about other proposals—HUD housing recaptures \$300 million; export enhancement, \$450 million; EOL training, \$100 million; student loan consolidation proposal, \$1.3 billion. And I think—

Senator GREGG. Well, did the majority receive a call from OMB saying they were not pursuing it?

The CHAIRMAN. With all respect, 46 Senators wrote to the President about this. I indicated to you last night that if we received a written statement saying this proposal is off the tables—or, Mr. Hansen right now can say “we are not even proposing to eliminate the fixed rate consolidation program.”

I indicated that to you last night, Senator Gregg, that we would not have this hearing today if we could get a written statement from the Administration. That is all we are asking—or, if the Deputy Secretary of Education says it on the record here before all the committee—but we can't accept that someone talking to someone on the staff level means the Administration has changed their policy. That is not the way we do it. This is too important. Students are entitled to know, and they are entitled to the answer.

I reject the suggestion that this was not a proposal that was put forward. You can search all you want. I will include all of Ari Fleischer's comments. He recognized the proposal, and he did not say it is off the table.

We had no indication from the Department of Education when they were invited to this hearing that this was off the table.

That is all we need. With that, we will ask the question of Mr. Hansen.

The CHAIRMAN. I want to welcome you here, Mr. Hansen. Mr. Hansen is a professional. I have had opportunities to deal with him on education issues. We welcome him as well as the second panel.

I have respect for him, and I hope he is not going to try to make a gallant effort to defend an indefensible position, but I am not going to assume that just yet.

I am going to ask you the question—I am going to let you make whatever comments you wish, but I will ask you as my first question whether this proposal is on or off the agenda—on or off consideration by the Administration for this year—but you may proceed in whatever way that you like.

**STATEMENT OF WILLIAM HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC; ACCOMPANIED BY SALLY STRUMP**

Mr. HANSEN. Thank you, Mr. Chairman.  
It is a pleasure to be here this morning.



I would just like to make a couple of comments and observations about some of the dialog that has been going on over the last couple of weeks and to clear up a couple of things.

First of all, President Bush's priorities in higher education are incredible, and they are a record that speaks for itself. The budget for Pell Grants this year is a \$10.9 billion request; coupled with the supplemental in last year's budget, this is a \$3.3 billion increase for Pell Grants, which is more money than was funded in Pell Grants for all of the prior 8 years of the previous Administration. It is not just more money. It is also half a million more students who are being funded as opposed to 2 years ago, and also the maximum award is up.

So in terms of the Pell Grant program, it is a win-win-win—it is more money, more students, and higher levels of aid available.

The Administration took very seriously the need to fill the underfunding hole that was created, and we have put together in our budget proposals, and we have been seeking to find solutions to fill the Pell Grant shortfall over the last couple of months.

I would also like to point out on the student loan area as well that we worked in a very bipartisan effort last fall and earlier this year to get the student loan bill signed into law that brings \$8 billion of new money into the loan programs over the next 10 years. This will make sure that the programs are shored up; it will make sure that the students get the loans they need to go to college.

Also, one million more students are getting student loans as opposed to 2 years ago, so again, the money is up, the number of students is up.

I would also like to point out that the interest rates for student loans are at an all-time low. They are at 5.99 percent today. As indicated earlier, they will be going down to a little over 4 percent.

When we take into account that these loans also have the interest paid for them while they are in school and that the interest is also tax-deductible when they are out of school, the net effective rate on loans today is under 4 percent, and the net effective rate on student loans after July 1 will be under 2 percent.

These loans are an incredible opportunity for students. They are a very affordable opportunity for students.

We can even take a look back to 1987, when the average student graduating from college had an \$8,000 debt. The loans at that time were at 9 percent. Students, when they would totally have those loans paid off, would have paid over \$4,000 in interest on their loans. Today when a student graduates with an \$18,000 debt because of the higher cost of college, those loans are only going to accrue less than \$4,000 in interest, about \$300 or \$400 less than what they would have been 15 years ago. So it is a higher price tag, but they are actually more affordable than they were 15 years ago.

I would also like to just draw attention to the President's tax package last year. It has been referenced earlier, but this is very important to note—that out of all the provisions in here—these are important provisions in terms of family preparation to save for college and the education savings accounts, the Coverdell accounts, the 529 plans, also to bring employers into this process with the employer-provided tuition assistance. All told in the tax bill that

was signed into law last year, this brings in \$23 billion of additional assistance over the next 5 years, and this is building on top of the \$10 billion in the tax code that is already there for higher education.

This is frankly, I think, an incredible record, and it has been very much muzzled and dwarfed over the last couple of weeks. Just again, bottom line, grants are up; the number of grants is up by half a million, and the overall amounts are up. A million more loans are being made. They are cheaper than ever; the net effective rate will be under 2 percent. And the tax availability for families is also greater than ever before.

I would just like to talk for 1 second about some of the other overall funding issues.

Secretary Paige talks an awful lot that money is very important, and we were very much engaged in the bipartisan agreement that brought the increase of \$7 billion to the education budget last year, as did the Republicans in Congress the year before that in bringing a \$6.5 billion increase.

But all of this is not just about money. This is about results. I am going to point out three interesting trends that have occurred from 1992 to 2000.

No. 1, the percentage of school-age children living in poverty actually decreased from 20 percent to 16 percent. Spending for K through 12 per student increased in constant dollars from almost \$5,000 to \$6,000; yet the NAEP reading scores remained flat. We have fewer students in poverty, we are spending more after inflation, yet our results are flat. That is what the Administration has also focused on—it is not just more money, but spending it more efficiently to get the results that we are looking for.

In conclusion, Mr. Chairman, I would like to point out, too, that over on the House side this morning, the House Appropriations Committee is marking up their supplemental appropriation bill, and it is very much apparent that there is going to be a significant amount of money put into the Pell Grant program on an emergency basis, and this money for Pell Grants is going to be paid for. This is frankly all that the Administration has been about since our budget went up in February is to help fix this problem and to help make the Pell Grant program whole, to make sure that students do not have their grants cut as they did 10 years ago when there was a shortfall.

These shortfalls are serious. They can only be taken care of in a couple of ways—it is through more money, it is through cuts in the maximum award—and we are very much committed and devoted to not having a cut to Pell Grants, and that is why we have been so aggressive in going after making sure that the program is whole. We are very, very pleased with the progress on the House side today and hope that the Senate will take up what the House is doing in their supplemental appropriation mark-up this morning.

Last, Mr. Chairman, I would like to just put it on the record that the Administration is not pursuing a change in the strict formula for the loan consolidation program, period.

Thank you.

[The prepared statement of Mr. Hansen follows:]

## PREPARED STATEMENT OF WILLIAM D. HANSEN

Mr. Chairman and Members of the Committee:

It is my pleasure to appear before you today to discuss the Bush administration's commitment to the Federal student aid programs. I appreciate this opportunity to underscore President Bush's commitment to these important programs, which are instrumental in ensuring that all Americans have an opportunity to obtain the knowledge and skills they need to succeed in today's competitive workforce.

The President's fiscal year 2003 budget proposes the highest levels of funding for student aid in the history of these programs. The President has requested funds to provide \$55 billion in new grants, loans, and work-study funds to over 8.4 million students. The keystone of the President's higher education agenda is the Pell Grant program—the most effective and well-targeted of the student aid programs in helping low- and middle-income students attend college. Under the President's plan, funding for Pell Grants would be increased by over half a billion dollars over last year's level and more than three times the current level of inflation.

## PELL GRANTS: A PRESIDENTIAL PRIORITY

President Bush has made strengthening the Pell Grant program and budgeting responsibly for its full costs his highest priority in higher education this year. Funding for the Pell Grant program has grown dramatically, a testament of what can be done when Republicans and Democrats work together for the good of America. From 1995 to 2000, funds for the program grew from \$6 billion to \$7.6 billion. Since President Bush took office, he has fought for an additional \$3.3 billion for Pell Grants—the largest increases proposed by any President. The \$10.9 billion that President Bush has proposed would fund almost 4.5 million needy college students—half a million more than before President Bush took office.

Last year, the President expressed his concerns that the \$4,000 maximum award mandated in the fiscal year 2002 appropriation act was not fully funded. Currently, the Pell Grant program is underfunded by nearly \$1.3 billion. In order to ensure that students are not harmed by this lack of funding, the Administration has proposed a supplemental appropriation in fiscal year 2002 and has been trying to assist Congress to identify offsetting spending reductions in the appropriations process. President Bush has done everything possible to work with Congress to avoid a situation similar to 1993 when the previous administration cut the maximum Pell Grant to students by \$100. Let me be clear, if Congress fails to act now, millions of low- and middle-income students could see their badly needed Pell Grants reduced or even eliminated. Failing to address this problem now and continuing to spend now and pay later could result in a cut of \$400 for the 2003–04 academic year, the largest cut ever. Therefore, to protect our neediest students we believe that Congress must do three things to solve this problem—Do it, do it right, and do it right now.

Moreover, to ensure that this situation does not continue to occur in the future, the Administration is proposing that Congress authorize the Secretary of Education to set the Pell Grant maximum award for the upcoming academic year based on the available funds in the appropriation and the best available budget projections in January preceding the beginning of the academic year in July. This will ensure that students will receive the maximum benefit from the funds that are available for them during the upcoming academic year.

I have heard a lot of things said in the past few weeks about the President's support for Federal student aid, and most of it is simply untrue. For example, this report released last week jointly prepared by the Democratic staff of this committee states that the Bush budget "cuts Pell Grants from \$4,000 to \$3,900 and gives financial aid to 375,000 fewer students." That statement is out and out false. So let me set the record straight once and for all. Pell Grants are the President's No. 1 priority in higher education. He has proposed higher increases in funding for Pell Grants in his first 2 years, than were enacted during the 8 years of the previous administration. Four and a half million students—nearly one-third of all the students enrolled in higher education—would receive a Pell Grant under the President's budget for 2003. That's a half million more students than before he took office. And most importantly, the President is doing this in a fiscally responsible way.

## STUDENT LOANS: MORE AVAILABLE AND MORE AFFORDABLE THAN EVER

It is also unfortunate that recently some have tried to scare students and their families with statements that the Administration is trying to raise student loan interest rates. The fact of the matter is student loans are more available and more affordable than ever before.

Earlier this year, the Administration joined Republicans and Democrats in Congress to support a compromise measure that would maintain stability in the student loan marketplace and ensure that access to low-cost education financing for students and their families was not interrupted.

That measure, which President Bush signed into law in February, extended the current low variable rates until 2006 and established a 6.8 percent fixed rate thereafter. Had we not acted together in a bipartisan fashion to extend the current rates, the student loan programs would have been thrown in disarray and families would be scrambling right now to find the money to pay for next year's tuition bills. This law builds \$8.2 billion of new money into the loan programs over the next 10 years.

The result of this compromise and the one that was reached in the 1998 Higher Education Amendments is lower interest rates on student loans than ever before. By historical standards, today's 5.99 percent rates are a bargain. In July, they are projected to drop to their lowest point ever—just over 4 percent. If you factor in the advantages of in-school interest benefits and increased tax deductibility, the effective rate for many borrowers will be under 2 percent.

Additionally, contrary to the gloom and doom stories coming out from various congressional offices in the past weeks, student loans are more available than ever. Over 10.2 million students and parents will be eligible for these low-interest rate loans in 2003 under the President's budget—over a million more recipients than when the President took office. So let's stop scaring America's families. Student loans are widely available to more people than ever before. They are more affordable than ever before. And thanks to our recent work together, the programs are more financially stable than ever before.

Another important benefit in the student loan programs is loan forgiveness, and the President has sought to more than triple the loan forgiveness for mathematics, science, and special education teachers in low-income schools. Under the President's proposal, these teachers would qualify for up to \$17,500 in loan forgiveness, up from the current \$5,000 limit, for teaching in high-need schools for 5 years. Unfortunately, this committee failed to take action on this proposal last year, and I urge you to help the President help local communities attract and retain highly-qualified teachers in schools where they are needed most. Let's not let another year go by without acting on the President's plan to relieve the debt burden on the hard-working teachers who are helping to leave no child behind.

#### TAX RELIEF TO HELP WORKING FAMILIES AND STUDENTS AFFORD COLLEGE

Another Administration accomplishment in higher education has been on the tax front. The tax relief bill that the President worked with Congress to enact last year not only lets working families keep more of the money they earn right now, but targets additional tax relief to encourage savings for postsecondary education, make student loan repayment more affordable, and encourage the private sector to offer higher education assistance to employees. Let me list a few of the highlights for higher education in the President's tax relief package, which total over \$22.7 billion in savings for working American families over the next 5 years:

- Eliminates the 60-month limitation on student loan interest deductions and increases the income levels of individuals able to claim the deduction. This change makes this tax benefit simpler to administer and increases the affordability of student loan repayment. (\$3.4 billion over 5 years)
- Increased the annual limit on contributions to education savings accounts from \$500 to \$2,000. (\$1.23 billion over 5 years)
- Adds a new above-the-line deduction for qualified higher education expenses. (\$11.97 billion over 5 years)
- Allows tax-free distributions from Qualified Tuition Plans (Section 529 plans) used to pay educational expenses and permits private institutions to offer such plans. (\$2.32 billion over 5 years)
- Makes the income exclusion for employer-provided educational assistance permanent and extends the benefit of the exclusion to graduate level courses. (\$2.8 billion over 5 years)

Taken together with the tax benefits already on the books for higher education, over \$10 billion each year in tax breaks are currently being provided to working families who are struggling to meet the skyrocketing cost of college and to students who are repaying their student loans.

#### CONSOLIDATION LOANS: A VIABLE OPTION FOR SOME BORROWERS

Consolidation Loans were created in the mid-1980's to allow borrowers with loans from multiple lenders to combine their loans into a single loan. It also allows borrowers with high-debt levels to stretch out their payment terms beyond the stand-

ard 10-year term that has not changed since 1965. In 1998, Congress standardized Consolidation Loan interest rates across the two student loan programs at a fixed rate equal to the weighted interest rate of the underlying loans, rounded up to the nearest eighth of a percent.

As the median student loan amount tripled over the last decade from \$4,000 to nearly \$12,000, the dollar volume in the Consolidation Loan program grew dramatically throughout the 1990's increasing from less than \$2 billion in 1994 to nearly \$13 billion in 1999. Most of these borrowers have been out of school for some time; many have embarked on high-paying careers in medicine, law, business and other professions.

Consolidation loan volume in 2002 is expected to exceed \$15 billion with approximately 483,000 borrowers taking advantage of this option. Most of these borrowers are consolidating variable-rate loans, which are at 5.99 percent and will drop to just over 4 percent in July. These loans are capped at 8.25 percent. The Congressional Budget Office has estimated that providing consolidation subsidies to these borrowers costs the government \$1.3 billion. In addition, the Chairman of the House Education and Workforce committee has asked the U.S. General Accounting Office to examine who benefits from the current Consolidation Loan program. As we move into reauthorization, asking questions like these will help to better determine whether Federal subsidies should be more directed to help needy Pell Grant recipients gain access to college or should continue to subsidize relatively well-off professionals. Although the Administration never adopted a policy to change this program, we look forward to working with you to find better ways to ensure that deserving students are not left behind.

#### RIISING COLLEGE COSTS: A REAL PROBLEM FOR AMERICAN FAMILIES

As a member of the National Commission on the Cost of Higher Education I witnessed first hand the anxiety that parents face when they look at the cost of sending their children to college. These escalating costs have simply priced many families out of the market and denied them educational opportunities. Over 40 percent of our high school graduates do not enroll in postsecondary education, and low-income and minority families have suffered the most. More than half of the high school graduates from low-income and Hispanic families do not attend college, and the enrollment rates for black students lag behind white students by nearly 10 percentage points. With over 80 percent of the growth jobs that provide self-supporting salaries requiring some postsecondary education and training, and the gap in earning potential between those with a postsecondary education and those without continuing to grow, it is clear that colleges need to get serious about controlling their costs.

To address this growing problem, the National Commission on the Cost of Higher Education made several recommendations on all stakeholders in the higher education arena:

- Strengthen institutional cost control;
- Improve market information and public accountability;
- Deregulate higher education;
- Rethink accreditation; and
- Enhance and simplify Federal student aid.

I am pleased to report that the Department has been doing its part to address these recommendations. Earlier this year, working with the House postsecondary education subcommittee, we reviewed the thousands of suggestions they received that were submitted from college administrators seeking regulatory relief. We then sat down with representatives from colleges across the country to find ways to implement these changes in our regulations to ease the administrative burden on schools and students. These negotiations just concluded, and in a few weeks, we will publish proposed regulations to implement the changes that the colleges requested. In our office of Federal Student Aid (FSA), we have been working hard to improve customer service, and simplify the financial aid process. In March, after consultation with the Advisory Committee on Student Financial Assistance, I directed FSA to, implement the simplified needs test to streamline the financial aid application process for our neediest applicants. We have also included accountability measures and more simplifications in our Department strategic plan.

We are committed to continuing to do our part to solve this problem. Colleges must also step up to the plate and do their part to curb their spending, become more efficient, and lower the cost of college for American families.

#### PROGRAM INTEGRITY IN THE STUDENT AID PROGRAMS

Secretary Paige and I have moved aggressively to address long-standing management problems in the student aid programs. We are committed to removing the stu-

dent aid programs from the General Accounting Office's high-risk list. Senior staff at the Department are working with GAO to identify and implement a series of concrete steps to make this long-standing goal a reality. Within the context of the Secretary's overall management initiative, we are implementing new financial systems for the student aid programs, as well as the Department as a whole, and are proposing a new, streamlined funding structure for student aid administration that encourages innovation and efficiency while linking funding to workload and performance.

#### CONCLUSION

A quality higher education has never been more important to our nation. Now is not the time for partisan bickering and political grandstanding. Nor is it the time to scare American families away from college. The bipartisan process that culminated in the No Child Left Behind Act and the tax relief act last year stand as great examples of how Congress and the Administration can work together to improve the lives of all Americans. We look forward to building on that success as we move forward together to reauthorize the Higher Education Act.

I will be happy to respond to any questions you may have.

Senator GREGG. Can we terminate the hearing?

The CHAIRMAN. Yes, I will be glad to terminate it. I would like to be able to include all the statements in the record, and I will invite members after we terminate the hearing if they would be good enough to remain here so we can at least thank the witnesses them for their willingness to come and testify.

Senator GREGG. You mean the students.

The CHAIRMAN. Yes, the students and Mr. Brenner—there are two students and Mr. Brenner.

Senator GREGG. I would like to at least have—

The CHAIRMAN. Yes, we will include all of the remaining testimony in the record, and we will recess in just one moment.

[Statements of Mr. White, Mr. Olson, and Mr. Brenner follow.]

#### PREPARED STATEMENT OF COLBY WHITE

Good morning Senator Kennedy, Senator Gregg, and other Senators of the Committee. Thank you for allowing me to speak to you today on this very important issue.

My name is Colby White, and I am a Junior nursing student at Northeastern University in Boston, Massachusetts. As long as I can remember I have wanted to be a nurse. I could think of nothing better than helping people in their time of need. Although my dream gave me direction, the cost of a nursing degree is staggering. I remember the discussions I had with my mother—a single parent—about how we were going to afford my education, as well as my younger brother's.

The cost of any education is great, but in my mind the cost of not following my dream was simply too much to bear. And so, with the help of the Federal Stafford loan program, and a lot of extra hours of work, I began my education. In doing so I will take on almost \$20,000 in Stafford loan debt by the time I graduate.

But the education I am getting is great, and everyday I get a step closer to fulfilling my dream. I am not only a student. Currently, I am doing my co-op at Shriners' Burn Hospital for Children in the acute care unit. Before my co-op at Shriners', I was splitting my day between classes and work at the Beth Israel/Deaconess Hospital as a nursing assistant in the neurology department. For me it is a labor of love, and I would not change it for the world. But, I would not have had a chance to do so had it not been for the opportunity the Stafford loan program gave me.

Last week at a press conference on our campus I heard that there was a chance the consolidation program would change. I worry what the changes will do to me. I wonder whether I would have had the opportunities I have experienced if these changes were in effect back then. I am so close to achieving my dream of getting my nursing degree, yet I worry about whether I will be able to pay back my loans and be a successful nurse. I also want to continue my education in the nursing field, and I worry about whether that is financially feasible. The prospect of paying back my loans at a higher interest rate is frightening. What seemed like a reasonable risk of taking loans could now be a bad choice. And who wants to admit that their dream was a bad choice?

I hope that you will do everything you can to help me, my fellow nursing students, and all students, by keeping the interest rates down on student loans. The difference for me is simply my ability to reach my goal: to be a nurse and to help people. I hope you will do everything you can to help me in achieving that dream.

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PREPARED STATEMENT OF BRANT OLSON

Mr. Chairman, and Members of the Committee:

I am pleased to be here today to discuss Federal student aid, particularly loan consolidation. Almost exactly 1 year ago I graduated from Whitman College in Walla Walla, Washington. Like most of my classmates I was anxious, excited and a little bit nervous about the possibilities awaiting me outside of my college experience. I was eager to pursue a career giving back to the community and had doubts about whether or not I would be able to manage because of my student loan debt. But giving back to the community through non-profit service has always been a goal of mine. I knew that I wouldn't make as much money as many of my peers who pursued careers in the for-profit sector, but I had to give it a try.

After 4 years of college, I have almost \$22,000 in Federal student loans. I also received about \$8,000 in Pell Grants and participated in subsidized work-study programs throughout my academic career to help cover the costs of tuition, rent and day-to-day expenses. Without these Pell Grants my college education would have been out of reach. My student loans and work-study were also essential in making college a reality, since neither my mother nor I could cover the total costs of my education.

My financial aid was particularly important during my final 2 years at Whitman when my mother, who raised me single-handedly, was diagnosed with Lupus, a chronic illness. Her illness put huge emotional and financial strains on our family with our income dipping to about \$20,000 per year. While this meant that we weren't able to take advantage of tax incentives like the Hope Credit, my financial aid, particularly my Pell Grants and Federal student loans were the only reasons that I was able to finish school.

Just after graduation I found out about consolidation benefits with the Department of Education from a friend who had consolidated his loans. It seemed like a great option since I could consolidate my multiple loans to one holder and lock in the low 6 percent interest rate over the life of my loans. Consolidation also made income contingent repayment available to me. Although I have not used this option yet, it is a comfort to know that if my financial situation worsens, I could reduce my monthly payments without having to go into forbearance.

I consolidated my loans in October of 2001 through the Department of Education's Direct Loan program. I expect that this will save me at least several thousand dollars over the life of my loan. The money that I'm saving from consolidation benefits help to make it possible for me to continue my work. Living on my \$18,000 salary is possible, but it requires careful financial planning.

Consolidation has allowed me in my first year out of school to pursue making a difference in my community, working to improve public health and air quality standards. I am happy to say that, thanks to Congress' support through the Federal financial aid programs, I've been able to realize my life-long dream of pursuing a non-profit career.

Again, thank you for your support of the Federal financial aid programs, such as Pell Grants and student loans that have made higher education a reality for me and millions of other students across the country.

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PREPARED STATEMENT OF MARK BRENNER

I would like to thank Chairman Kennedy and the distinguished members of the Senate Health, Education, Labor and Pensions Committee for inviting me to testify on the important issues surrounding the Federal Family Education Loan Consolidation Program. I would like to take this opportunity to introduce College Loan Corporation and express our support for the Consolidation Loan Program, including key provisions of the program that allow young Americans to better manage their student loan debt burden.

I also want to thank Senator Kennedy, Senator Gregg and other Members of the Senate Health, Education, Labor and Pensions Committee for allowing College Loan Corporation a voice in the discussion of higher education policy. Our company is grateful for this chance to be heard on this important issue and we are hopeful that we will continue to have the opportunity to discuss any related issues at the time

they arise and in consideration of the upcoming Higher Education Act reauthorization.

Allow me to go directly to the main point of this discussion. I have heard a few prominent loan providers say that Congress should “fix” the Consolidation Loan program.

- In short, the Federal Family Education Loan Consolidation Program is NOT broken.

- Student loan borrowers face a unique opportunity to save an average of more than \$3,100 through loan consolidation, beginning on July 1, 2002.

The current fixed rate Consolidation Loan program is an exceptionally pro-consumer program that allows borrowers options and opportunities. College Loan Corporation is committed to working with recent college graduates to explain the Consolidation Loan program and allow those who qualify to lock-in historically low-fixed rates. During fiscal year 2002, we believe that well over one-half million recent college graduates will avail themselves of the low-fixed rate loans they are allowed to receive under this program. Congress should definitely not try to “fix” a program that is benefiting so many people in so many ways.

I have also heard a few lenders say that a high volume of new Consolidation Loans has the potential to “destabilize” the Federal Family Education Loan Program (FFELP). We know this statement is untrue. The terms of loans originated by FFELP participants will continue to be economically viable for participants. For example, we are a full participant in the FFELP and we are absolutely committed to access and providing loans to college students and parents in all 50 states and the District of Columbia.

We wish all FFELP participants could embrace what is best for the student and join us in the upcoming year in providing the benefits of the Consolidation Loan program to all qualified borrowers. On a going forward basis, College Loan Corporation believes Congress must consider further expanding borrower choice to assure the Consolidation Loan Program is available to all students.

#### THE ADMINISTRATION AND CONGRESS’ COMMITMENT TO EDUCATION

The Bush administration has spent the last 18 months working in a bi-partisan manner with Senator Kennedy, Senator Gregg and other members of the Senate as well as Congressman Boehner, Congressman Miller and members of the U.S. House of Representatives to improve education in this country. President Bush said it best, “when it comes to the education of our children failure is not an option.” The exchange of ideas and the ability to work together has been a hallmark of success for this 107th Congress on education issues. All Americans should thank members of this committee for their tireless efforts.

I know that fully funding the Pell Grant program is an important priority for this Administration, the Senate HELP Committee and all of Congress. However, changing the way interest rates are calculated on student Consolidation Loans is not an appropriate approach to saving taxpayers money. I was heartened to hear that the Bush administration quickly discarded the idea after initially considering it.

#### INTRODUCTION TO COLLEGE LOAN CORPORATION

College Loan Corporation (“CLC”) a California corporation, was formed in 1999. CLC is a national student loan company offering Federal Family Education Loan Program loans (Stafford, Plus and Consolidation Loans) to eligible applicants in all 50 states and the District of Columbia. CLC specializes in providing one-on-one counseling to families searching for the best way to pay for college. CLC has helped students finance their education at over 1,500 colleges and universities. The CLC business development team works directly with schools to provide a high level of service to students and their families. Additionally, CLC works with eligible consumers to facilitate the completion of Federal Consolidation Loans.

College Loan Corporation’s sole business consists of originating loans under the FFELP Program. At this time, CLC refers its borrowers applying for non-Federal loans (commonly referred to as alternative or private loans) to a business partner so that the student loan borrower’s needs are met.

College Loan Corporation is a 100 percent employee-owned corporation. CLC currently occupies approximately 31,000 square feet of office space, including an onsite data center that maintains all CLC software applications. CLC is open 14 hours a day, 7 days a week. This coverage allows CLC to offer its clients extensive customer service.



## THE COLLEGE LOAN CORPORATION MISSION

College Loan Corporation's primary mission is to provide the highest quality service to its borrowers and schools. To achieve this mission, it has selected business partners with a reputation for superior service. Our overall goal is to provide the best possible experience for the student loan borrower.

An example of our emphasis on customer service is how we work with the borrower or school if an issue arises. Our borrowers are never told, "Call the servicer". We personally follow up with our business partners and then return calls to the borrower. We have what we call a "One Call Promise". We will endeavor to solve every problem brought to our attention without the need for a second call from the student loan borrower.

CLC's employees follow one main rule: we must commit ourselves to the highest quality of customer service every day. We are pleased to say that our employees have embraced this concept. As an employee-owned company, our employees have a vested interest in making decisions to ensure each client is pleased with their level of service. We have a "no limits" philosophy about service and our employees appreciate that they can ask for anything it takes, provided that the actions required are in compliance with the Higher Education Act and all other relevant laws.

## TODAY'S INTEREST RATE ENVIRONMENT AND ITS IMPACT ON STUDENT LOANS

Here are key historical interest rates compared to current interest rates:

- The 91-Day T-bill rate averaged 4.53 percent over the last 10 years, which included the last 6 months of exceptionally low rates.
- The 91-Day T-bill rate was as high as 6.39 percent in October 2000 and as low as 1.73 percent in December 2001.
- The 91 day T-bill rate from this week's auction was 1.77 percent.

Today's interest rate environment is the lowest it has been since the inception of the student loan program. The student loan rate resets on July 1 based on the last T-bill auction of this month. If interest rates do not change before this auction, the new rate will be almost 2 percent lower than it was last year and approximately 2.75 percent below the 10-year historical average. Recent college graduates will have a tremendous opportunity to lock-in this low rate for the life of their loans.

Under the Higher Education Act, borrowers who consolidate their loans receive a fixed rate loan at a rate equal to the weighted average interest rate of the underlying loans rounded up to the nearest  $\frac{1}{8}$  of 1 percent. Borrowers who do not qualify, or choose not to consolidate, retain a variable rate loan that is adjusted every year based on the 91-Day T-bill plus a specific percentage, as defined below.

## VARIABLE RATE STUDENT LOANS RESET ANNUALLY

Non-consolidation student loans are a variable interest rate that resets annually. The rate is computed on the basis of the 91-Day T-bill. In addition, the rate is dependent upon when the borrower first received a student loan. The following table provides examples of how the interest rate is calculated for student loans that are not consolidated:

Date of Loans	Student Loan Borrower Rates (In Percent)
On or after October 1, 1992 .....	T-Bill Rate + 3.1%
On or after July 1, 1995 .....	T-Bill Rate + 3.1 <sup>1</sup>
On or after July 1, 1998 .....	T-Bill Rate + 2.3 <sup>2</sup>

<sup>1</sup> Substitute 2.5 percent in this formula while such loans are in the in-school or grace period.

<sup>2</sup> Substitute 1.7 percent in this formula while such loans are in the in-school or grace period.

## BENEFITS OF THE CURRENT FIXED RATE CONSOLIDATION LOANS

With today's interest rate environment, student loan borrowers have a once in a lifetime opportunity to lock in the lowest fixed interest rates in the history of the student loan program:

- Recent borrowers that have entered repayment can lock in rates just over 4 percent for the life of their loan.
- Recent borrowers that consolidate while "in-grace" can lock in rates as low as 3.5 percent for the life of the loan.

In-grace borrowers have a lower fixed rate because their interest rate is .6 percent lower than borrowers already in repayment. As long as the borrower consolidates before the grace period is over, this provision of current law provides a natural advantage of .6 percent to recent college graduates. As long as borrowers know about the program and can gain access to a lender participating in the program, Student loan borrowers may receive the single best long-term interest rate on any consumer loan they will ever have to take.

Borrowers that wish to extend their repayment and maintain a variable rate loan already have that option. The 1998 Higher Education Act allowed for extended repayment of loans with a variable rate if the balance is more than \$30,000. Changing consolidation loans to a variable rate constricts rather than expands borrower choice.

#### FEDERAL BUDGET POLICY

There are certain key facts that I would like to present at this time. First, the consolidation loan program generates positive revenue for the Department of Education. There are two fees that are required to be paid by a Consolidation loan lender:

- A 0.50 percent origination fee, and
- A 1.05 percent per annum fee on the total Consolidation loan balance (principal and interest).

These two lender fees have consistently generated additional net revenue for the Department that they would not otherwise have if loans were not consolidated.

According to numbers prepared by the Congressional Research Service:

- More than \$1.077 billion in revenue was generated by the .5 percent Consolidation Loan origination fee and the 1.05 percent per annum fee between the beginning of fiscal year 1995 and the end of fiscal year 2001.
- Fiscal Year 2002 will likely provide more than \$400 million in additional revenue to the Department.

Reducing demand for consolidation loans will significantly reduce the revenues of the Department of Education:

- If the variable rate proposal was to become law and the Federal Family Education Consolidation Loan Program was cut by 50 percent there would be a significant reduction in revenue to the Federal treasury.
- The lost revenue from these fees based on loan volume projections for loans made over the next 5 years alone would be \$2.016 billion.

#### EXPANSION OF BORROWER CHOICE

Expansion, not contraction, of borrower choice should be encouraged. The 1998 Higher Education Act Amendments provided significantly greater borrower choice by allowing borrowers with two or more lenders to consolidate with whom ever they wish. Student loan borrowers should be allowed to choose any eligible lender for Consolidation Loans. Under the current statutory provisions found in section 428C (b) of the Higher Education Act, many students seeking consolidation loans to reduce their monthly student loan payments and simplify the payment process may be denied the right to seek out the lowest cost Consolidation Loan. Some borrowers are precluded from receiving a Consolidation Loan from their lender of choice—even if the other lender offers preferable terms and conditions—if the current holder of their loans offers a Consolidation Loan with an income sensitive repayment option. This restriction of borrower choice provision is known as the “Single Lender Rule.”

As we all know, more and more students find it necessary to borrow to pay for the cost of higher education. The cost of providing high quality education has grown, and continues to grow, at a rate far greater than inflation. This year, 1.7 million college graduates will enter the U.S. workforce with a student loan debt load of more than \$16,000 on average. For graduate and professional students the burden is even greater. The Higher Education Act, in Section 428C, set up a program for consolidating student loans that was intended to assist borrowers with a high level of debt to manage their financial situations.

The 1998 Higher Education Act allowed for borrower access to a choice of lenders. Under this law, a borrower may seek a Consolidation Loan from any eligible lender provided that the borrower has two or more lenders under the Higher Education Act. The 1998 Act ultimately provided a solid incremental step toward maximizing borrower choice.

As I mentioned earlier, today’s interest rate environment allows student loan borrowers a once in a lifetime opportunity to lock in the lowest interest rates in the history of the student loan program. Borrowers from lower and middle-income families will have the chance to lock in rates that could be as low as 3.5 percent for

the life of the loan. In short, there may be no better opportunity for borrowers to lock in low rates than there will be between July 1, 2002 and June 30, 2003. Many of today's borrowers are unlikely to take advantage of this opportunity, because their student loan providers do not actively attempt to educate borrowers about this program. In fact, many current loan holders actively discourage borrowers from consolidation loans, because it is not as profitable for the lenders.

#### WHO CONSOLIDATES?

Arguments have been made that the Consolidation Loan program benefits doctors and lawyers. The answer is, "Yes, the Consolidation Loan program benefits doctors and lawyers". However, it also benefits Peace Corps volunteers, nurses, teachers, and any other recent college graduate that chooses to consolidate. The Consolidation Loan program does not discriminate. It benefits those who had to borrow to pay for college, regardless of whom they are or where they work.

#### ENCOURAGE REGULATORY COMPLIANCE

According to Department of Education Regulation 34 CFR 682.209 (j) Certification on loans to be repaid through consolidation: Within 10 business days after receiving a written request for a certification from a lender under § 682.206(f), a holder shall either provide the requesting lender the certification or, if it is unable to certify to the matters described in that paragraph, provide the requesting lender and the guarantor on the loan at issue with a written explanation of the reasons for its inability to provide the certification.

In order for a borrower to receive a Consolidation Loan, the lender (including a lender in the FFELP program and the Direct Loan Program) is required to receive the payoff amount(s) from the existing loan holder(s). The holder is required to complete the LVC within 10 business days. Once the LVC is returned and the original loan holder is paid in full, the loan is officially consolidated.

When a loan holder does not return the LVC in a timely manner, borrowers are delayed in effecting their Consolidation Loan. Often, borrowers need to reduce their payment, or they need to lock-in a low fixed-rate loan. Timely LVC returns will allow borrowers to lock in at least a .6 percent per year for the life of the loan benefit (thousands of dollars in additional interest payments).

In a strictly private transaction, student loan borrowers would have a private right of action against loan holders if the LVC were not returned in a timely manner. But, the Higher Education Act does not allow a student loan borrower to sue directly. There is no private right of action granted under the Higher Education Act even if the student loan borrower is severely damaged by the result. The courts have stated that it is solely up to the Department of Education to enforce the Higher Education Act and the associated regulations. Young Americans are counting on the Department of Education and the Congress to protect them and enforce the existing rules.

#### CONCLUSION

It is important that Congress continue to support young Americans and preserve their right to benefit from what might be the single best borrowing opportunity of their lifetimes. In the last few weeks, we have observed an incredible level of support by Members of the Senate and the U.S. House of Representatives in supporting recent college graduates. On behalf of College Loan Corporation and the students and recent college graduates we serve, we thank you for this support and the opportunity to speak to you about these important issues. Student loan borrowers face a unique opportunity to save more than \$3,100 on average through loan consolidation, beginning on July 1, 2002. Changing this program at this point in time would be detrimental to hundreds of thousands of low- and middle-class students and recent graduates.

The CHAIRMAN. I will just conclude, since we are talking about Pell Grants—the fact of the matter is that last year, Congress approved \$400 million more than the Administration requested, and last year, about \$600 million more than the Administration requested. During the period that we have over here for Pell Grant maximums, during the Clinton administration, Pell Grants increased by \$1,450, and in 4 of those years, he even requested additional funds which were denied by the Congress; in only 3 years did he get what he actually requested.

We will make this available to the press, exactly the difference that the Democrats have made in terms of increasing the Pell Grants.

I thank you—Sally Stroup, you have had quite a morning here. I want you to know that you are very welcome here. And Mr. Hansen, we look forward to working with you.

Our committee will stand in recess.

[Additional material follows:]

## ADDITIONAL MATERIAL

### STATEMENT OF AMERICAN MEDICAL ASSOCIATION

Re: Variable Rate Consolidated Student Loans For Higher Education

On behalf of the medical student, resident physician, and physician members of the American Medical Association (AMA), we are pleased to submit this statement on the critical issue of consolidated student loans.

#### INTRODUCTION

In 1986, the Federal Consolidation Loan program was established by Congress to help student borrowers with the burden of Federal student loan debt. A Federal Consolidation Loan allows an individual to consolidate his or her Federal student loans into a single loan, choose a flexible repayment term and have a fixed interest rate for the life of the loan.

According to recent press accounts, a proposal for a variable interest rate for consolidated student loans has been under discussion. The AMA urges Congress to allow the student loan consolidation program to continue with the fixed interest rate. Consolidated loans with a fixed interest rate benefit all student loan borrowers who chose to consolidate their loans. If Congress accepts the variable interest rate proposal it would effectively raise the interest on education loans for millions of Americans entering the workforce.

#### THE FEDERAL CONSOLIDATION LOAN PROGRAM EXPLAINED

The Federal Consolidation Loan program was established by Congress to assist student borrowers with the burden of Federal student loan debt. The amount of a Federal Consolidation Loan reflects the total amount of loans one consolidates.

According to law, each year on July 1, the Department of Education resets the student loan interest rate based on the 90-day Treasury Bill. The formula for loans in repayment is 91-day T-bill + 2.3: the formula for in-school loans is 91-day T-bill + 1.7 (thus, it is better for a student to consolidate his or her loans while in school, or during the 6-month automatic deferment period).

The interest rate on consolidated loans is the weighted average (rounded up to the nearest  $\frac{1}{8}$  percent), or 8.25 percent, whichever is less, of the interest rate on each loan. Unless consolidated, Federal student loans have variable interest rates, which are set by the Federal Government each July. Consolidation converts the variable interest rate to this fixed rate for the life of the loan.

Federal Regulations do not allow lenders to consolidate loans that are currently in default. A loan is considered to be in default only after a borrower fails to make payment on the loan for 270 consecutive days. Any loans that are not in default are eligible for consolidation.

Student borrowers, out of school borrowers and parent borrowers are all eligible to consolidate the following loans (one may consolidate a Consolidation Loan only if he or she is combining that loan with at least one other eligible loan):

- Subsidized Federal Stafford Loans, formerly Guaranteed Student Loans (GSL)
- Direct Subsidized Stafford Loans
- Unsubsidized and Nonsubsidized Federal Stafford Loans
- Direct Unsubsidized Stafford Loans
- Federal Supplemental Loans for Student (formerly Auxiliary Loans to Assist Students/ALAS and Student PLUS Loans)
- Federal Perkins Loans, formerly National Defense/National Direct Student Loans (NDSL)
- Health Professions Student Loans, including Loans for Disadvantaged Students
- Health Education Assistance Loans
- Federal Insured Student Loans
- Federal PLUS (Parent) Loans
- Direct PLUS Loans
- Subsidized Federal Consolidation Loans
- Direct Subsidized Consolidation Loans
- Unsubsidized Federal Consolidation Loans
- Direct Unsubsidized Consolidation Loan, including Direct PLUS Consolidation Loans
- Federal Nursing Loans

## CONSEQUENCES OF HIGH LOAN DEBT

Students are taking on a tremendous burden as they move through college and graduate school in order to pursue higher education. Roughly two out of three college graduates leave college with debt, and, within the last 8 years, the student loan obligation has doubled for American students. Presently, 39 percent of college students graduate with debt that is more than 8 percent of their monthly income, creating a severe financial burden on them.

As previously mentioned, a proposal has been considered that would replace the fixed interest rate with a variable rate for consolidated student loans. This approach was suggested in order to offset a deficit in the Pell grant program, which benefits low-income college students. Such a measure could cost students and graduates (including Pell grant recipients) on average, \$2,800 in higher interest rates. This figure applies to the national average of \$ 16,000 in student loan debt by college graduates.

Medical school graduates enter their residency with an average of almost \$100,000 in student loan debt. Such debt is a tremendous hardship throughout the repayment period of the loan, but it is especially difficult during the years a physician is undergoing his or her 3 to 8 years of training in a residency program.

Almost all first-year residents make less than \$31,000 a year. This figure does not substantially increase throughout residency training. Under a variable rate system it is assumed that there is an increase of \$2,800 for every \$16,000 in loans. Thus, for \$100,000 in loans, the variable interest rate would increase interest by an additional \$17,500 over a 10-year period, and, \$39,375 more in loan interest over a 20-year repayment period.

When education is so costly, graduates' career choices are affected. With such high loan debt, careers serving the public often are put aside for more lucrative jobs so the loan borrower is able to pay off his or her loans. Thus, those who may be considering whether to practice medicine in an "underserved" area, enter the public health service, start a career in medical education or research, or practice primary care medicine are often deterred from such paths.

## CONTINUED PROGRESS REQUIRED FOR THE AFFORDABLE FINANCING OF HIGHER EDUCATION

Recently, Congress passed and the President signed into law a number of provisions assisting student loan borrowers. Included in the "Economic Growth and Tax Relief Reconciliation Act of 2001" (P.L. 107-16) is a provision that greatly expands previous law allowing student-loan borrowers to receive a tax deduction on the interest paid on their student loans. Specifically, the law:

- Increases the income threshold for the phaseout of the tax deduction for student loan interest up to a modified adjusted gross income of \$65,000 (up to \$130,000 for joint returns);
  - Adjusts the income phase-out ranges for inflation after 2001;
  - Repeals the 60-month limitation on the tax deduction; and
  - Repeals the restriction that voluntary interest payments are not tax deductible.
- Another provision of P.L. 107-16 allows recipients who earn scholarships granted by the National Health Service Corps (NHSC) and the Armed Forces to receive tax-free status as "qualified scholarships" without regard to any service obligations by the recipient.

In February 2002, additional legislation (P.L. 107-139) was enacted that will:

- Fix the student loan interest rate at 6.8 percent beginning in 2006,
- Extend the current rate structure until that date,
- Fix the interest rate on PLUS loans (loans taken out by students' parents) at 7.9 percent, and
- Fix the student loan consolidation rate at no more than 8.25 percent.

Given these positive developments relating to the financing of higher education, it would be a tremendous step backward to allow the latest proposal on loan consolidation to go forward. It is essential that all student loan borrowers be able to avail themselves of the best possible loan terms when seeking to refinance their debt.

## SMART EDUCATION POLICY

Keeping higher education affordable and keeping the student loan interest rates at an affordable level contributes to the United States' overall competitiveness as a nation. When individuals make career choices based on how much money will be earned to pay back student loans, it affects how diverse the country is in terms of chosen career paths. The entire country benefits when the Federal Government con-

tributes to the higher education system by offering student borrowers with affordable interest rates.

The AMA believes that it is in our national interest to encourage the best and brightest to complete their education, to be involved in the communities of this country, and to contribute to our Nation's values. One such value is to pay off our debts. Since the Federal Government has allowed student loan consolidation, the default rate has dropped from 22 percent to 5.6 percent. Additionally, by allowing students to lock in today's historically low interest rates, it will assist students in lowering their overall debt load.

At a time when many states are cutting their higher education budgets and more individuals are struggling to pay for a college education, we need the Federal Government to assist students in obtaining their goal of a college degree and graduate study, when possible.

#### CONCLUSION

Thank you for the opportunity to submit our views regarding the proposal to change loan consolidation interest rates from a fixed interest rate to a variable interest rate. The AMA looks forward to working with the Committee on finding solutions to the critical issue of financing higher education for all American students.

[Whereupon, at 10:55 a.m., the committee was adjourned.]

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