No Comprehensive Analysis of Cuts to FFEL Program, Secretary Says

By Carina Zaragoza

Secretary of Education Margaret Spellings asserted that she has not seen any strong evidence that the cuts to the Federal Family Education Loan Program (FFELP) have had negative impacts on students or lenders. Her remarks came after a speech made at the National Press Club on January 9, 2008. Spellings fielded questions centered on the No Child Left Behind Act, among other topics, including the state of the student lending industry.

The College Cost Reduction and Access Act of 2007, enacted on September 27, 2007, cut about $21 billion in federal subsidies to FFELP lenders. Some of these funds were reallocated to the Federal Pell Grant Program, increasing the number of awards and the amount of awards granted. Increasing Federal Pell Grant funds effectively allows more students to have access to higher education by assisting with the cost of attendance.

However, because funds were taken away from FFELP lenders, some observers foresaw a decline in services provided by FFELP lenders. Financial and business analysts anticipated rollbacks of borrower benefits, programs that allowed borrowers to lower the interest rates on their loans. Indeed, many lenders have already eliminated these programs, directly affecting the finances of borrowers. Origination and repayment fees were also anticipated to be introduced on federal loans, making the cost of borrowing money for college more expensive.

Prior to the passing of the College Cost Reduction and Access Act last year, FFELP lenders wrote to Congress asking that they reconsider the amount of the cuts in an effort to prevent programs being eliminated. Lenders lobbied against the bill, anticipating that it would drive some lenders out of business, all to no avail.

Various resources, from economists, financial analyzers, and newspapers to lenders themselves, have reported negative fallout as a result of the Act. Nonetheless, Spellings contended that intermittent reports provide no conclusive, industry-wide analysis of the effects of the cuts. She insisted that she will draw no conclusions from isolated newspaper accounts, though she acknowledged that others will.

It remains to be seen what, if any, effect the Act has on students and lenders, as the provisions of the Act went into effect only a little more than 3 months ago, and many of the provisions will begin in the 2008 to 2009 academic year. However, October 1, 2007, witnessed a broad elimination of borrower benefits from the Federal Student Loan Consolidation Programs offered by FFELP lenders.

Sources

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