Education Secretary Denies Govt Takeover of Student Loan Programs Will Hurt Private Sector, Cause Job Loss

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By Penny Starr, Senior Staff Writer

Arne Duncan, U.S. Secretary of Education. (AP photo)

(CNSNews.com) – Secretary of Education Arne Duncan said a provision in the House budget reconciliation bill to nationalize college loan programs would not hurt banks and other financial institutions that will be partly cut out of the process in favor of "direct lending" from the federal government.

Free market analysts, however, said the proposal would kill thousands of private-sector jobs – work that would be assumed by federal employees. And Republican lawmakers said that, under the plan, the government will charge students more for the loans to help pay for the nearly $1-trillion health care bill, which was signed into law on Tuesday, Mar. 23.

When asked by CNSNews.com on Tuesday about industry estimates that thousands of people could lose their jobs if the law goes into effect on July 1, 2010, as expected, Duncan said the private sector would still benefit because some banks will get government contracts to "service" the loans.

"Actually, all of the sources of the loans – a hundred percent of that -- will be done by the private sector, not by us," Duncan said. "So that's not our -- policy.

"All of that will be done on the private side -- good actors will get more business, bad actors will lose business," Duncan said. "The free market will play. As you know, more and more people are going back to college, this is a growing industry, there's a huge opportunity there."

Justin Hamilton, deputy press secretary for Duncan, told CNSNews.com that some financial companies, including Sallie Mae, are already contracted to service the $550 billion outstanding student loan portfolio that Congress authorized the Education Department to buy as part of the government's strategy to stabilize credit markets with the TARP law enacted in the fall of 2008.

Hamilton said the same model will apply in the plan, if the changes are approved by Congress.

"All of the students' interactions is with a private sector company," Hamilton said. "When they call and have a problem with the loan, or they

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want to know what to do with this, or what's to do with that -- customer service, 1-800, answer my questions about my loan. That's all going to be with a private sector company."

Under the administration's plan in the reconciliation bill, the Federal Family Education Loan program would be eliminated and all student loans for higher education would be handled by a federal Direct Loan program. While the House of Representatives passed the reconciliation bill on Mar. 21, it has been sent back to the House for another vote because of changes made by the Senate on Thursday, Mar. 24.

When Rep. George Miller (D-CA), chairman of the House Education and Labor Committee, unveiled the direct lending plan earlier this month, he referred to it as "sweeping changes."

He said the plan was consistent with what President Barack Obama first proposed last year to eliminate subsidies to banks in the federal student loan programs, and instead have all federal student loans originate directly from the government.

Under current law, about $9 billion is allocated "each year to subsidize guaranteed student loans issued by banks," said Duncan in a commentary in ***The Washington Post*****.** "The banks earn profits on the interest; if students default, taxpayers take the loss, not the banks."

Miller, in a Mar. 18 statement, said: "This is really about making a simple choice. Congress can either continue the longstanding boondoggle that rewards banks with tens of billions of dollars in subsidies at the expense of families and taxpayers – or we can invest that money directly in students and America's world economic leadership."

An Education Department spokesman said students probably would not notice any difference in the loan-application process if the administrations plan becomes law because loans would still be handled by college financial aid offices and most student participation can be done online.

But critics charge that the change will be felt by some American businesses and workers.

"Banks will no longer originate student loans and those jobs – we estimate them to be about 35,000 – will disappear," Scott Talbott, senior vice president of governmental affairs with the lobbying group Financial Services Roundtable, told CNSNews.com.

"It's a $70-billion-dollar-a-year industry," Talbott said. "It will have a negative impact on the financial services industry."

Hamilton, however, said eliminating the banks from the loan-origination process will save federal (taxpayer) money, allowing more funds to go to college students, and that servicing contracts in the private sector will continue to create jobs.

In the case of Sallie Mae, Hamilton said, in order to win a government loan servicing contract, the institution had reversed its practice of outsourcing jobs overseas.

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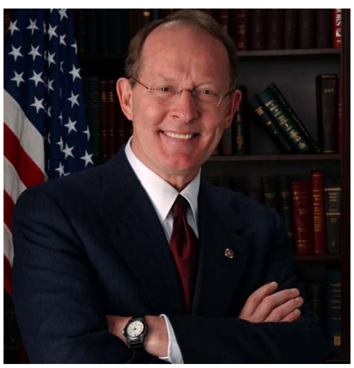
President Barack Obama smiles in the East Room of the White House in Washington, Tuesday, March 23, 2010, during the signing ceremony for the health care bill. (AP Photo/J. Scott Applewhite)

"When we put out the provision it said, if you want to service the loans that we have at the Department of Education, work has to be performed in America," Hamilton said. "They [Sallie Mae] brought back 2,000 jobs from overseas and they said they planned to create an additional 1,500 jobs in the United States just to handle the loans."

Neither Hamilton nor other Education Department officials could say how much money is being paid for the servicing contracts. But Neal McCluskey, associate director of the Center for Educational Freedom at the libertarian Cato Institute, said the contracts are simply another way for certain institutions to continue being paid by a government that has subsidized student loans with taxpayer funds for decades.

"I can guarantee that, once this is passed, they are going to have to write the regulations that really govern what happens, and I can't imagine that lenders like Sallie Mae are not going to be at the table getting as much as they can for themselves," McCluskey told CNSNews.com. "And this is one of the under-reported, underappreciated aspects of this move to all-direct lending, which is that the administration has shamelessly, as always, demonized banks and anybody who's trying to make a profit on student loans."

"And what they didn't talk about is how many of these really big ones, especially Sallie Mae, which started off as a federal entity, are still going to be at the gravy train -- they're still at the trough as part of this law," McCluskey said. "So we're still going to have lots of money that goes to banks that just won't be for them to actually produce loans."



Sen. Lamar Alexander (R-Tenn.)

Senator Lamar Alexander (R-Tenn.) said that the Obama administration's plan is designed to "overcharge 19 million students on their student loans – to help pay for the Democrats' health care bill."

In a **Mar. 18 statement,** Alexander said: "This is how it will work: the federal government will borrow money at 2.8 percent and then lend it to students at 6.8 percent -- spending the difference on health care and new government programs. In Tennessee, 200,000 students have student loans, so what this latest takeover means is that those Tennessee students will, on average, pay $1,700-1,800 more in interest over 10 years -- to pay for the Democrats' health care bill."

"The government -- instead of using that money to reduce costs for students who are borrowing the money -- will use it to pay for more government programs," said Alexander. "According to the preliminary CBO estimate produced this morning, the new bill will take $9.1 billion over 10 years from students' interest payments to pay for this health care takeover."

Last summer, the Education Department announced that it had awarded loan-servicing contracts to Sallie Mae and three other organizations: AES/PHEAA, Great Lakes Education Loan Services and Nelnet, Inc. Duncan spoke to CNSNews.com during an event at J.O. Wilson Elementary School in northeast Washington, D.C. to announce a ticket giveaway for the annual Easter Egg Roll at the White House (which occurs on Apr. 5). He said the government handling federal student loans would help children who want to go to college.

"I don't worry just about the (high school) juniors and seniors, I worry about these guys who want to go to college and mom might lose a job or dad might lose a job and those dreams start to die at a young age," Duncan said. "If this passes, we can look students in the eye and say no matter how tough things are at home and in the community, if you work hard, we're going to have some money there for you."

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So the Socialist/Obabma Administration is telling me I no longer have a choice as a free American to choose who I want to finance my College education. This country is no longer free, when we do not have a choice the Communist are here and they have taken over our country. I think it's time to vote them out of office and get back on a path to freedom for our children's future or they will be under the thumb of the new fuer` Obama. This indeed a sad day to see the American people sell out they're freedom for free entitlement's.

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