

Obama's student aid reform: A concise guide

Democrats are touting a new law that eliminates middleman banks and has student loans coming directly from the government. How will it affect you?

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What will Obama's student aid reform do for college grads? *Photo: Corbis*

Best Opinion: *Huffington Post, New York Times, National Review*

As President Obama signed the final health-care reform package last month, he also approved an overhaul of the financial-aid system for college students. The Student Aid and Fiscal Responsibility Act, which Congress approved last week despite strong opposition from private financial institutions, cuts commercial banks out of the student-loan market and makes the government the main lender. (Watch a Fox Business report about student loan reform.) Here, a quick guide to what the law does, and how the changes will affect students and taxpayers:

What's in the law?

The student-loan reform "strips banks of their role as middlemen in federal

student loans and puts the government in charge," says Philip Elliott in *The Huffington Post*. Since commercial banks will no longer be drawing profits from the loan money, President Obama says the new system will save more than \$60 billion over the next 10 years. That money will go toward Pell Grants for students and investments in community colleges and historically black institutions.

How did the system work before?

Under the old program, which began in 1965, "commercial banks like Sallie Mae and Nelnet have received guaranteed federal subsidies to lend money to students," say David M. Herszenhorn and Tamar Lewin in *The New York Times*. The banks made the profits, but the government assumed "nearly all the risk" — which is why Democrats complained that it "fattened the bottom line for banks at the expense of students and taxpayers."

How will the changes affect students?

If the act works as planned, it will make it easier for students to repay loans. The law eliminates the "Stafford" loans that were administered by private firms, and replaces them with lower interest loans provided directly by the government. The cap on loan payments will fall to 10 percent of a graduate's income, down from 15 percent under the current program.

Will more low-income students get outright grants?

Yes. There's an extra \$36 billion set aside annually over 10 years for Pell Grants, which students don't have to pay back. That means an additional 880,000 grants will go out by 2020, and the maximum grant will rise from \$5,550 in the 2010-2011 school year to \$5,900 in 2019.

What do the law's critics say?

Banks say the changes will put thousands of people out of work. Sallie Mae, which spent \$3 million lobbying against the changes, warned that eliminating private government-backed student loans would force it to eliminate up to a third of its 8,500 jobs. Sen. Lamar Alexander (R-TN) says up to 31,000 private-bank employees could lose work, and students could face a customer service nightmare as four federal call centers try to do the job previously handled by the employees of more than 2,000 community and nonprofit lenders.

How big is this victory for Democrats?

That depends on whom you ask. The *Washington Post* described the signing ceremony as a "Democratic love-fest." But Neal McCluskey argues in *National Review* that Democrats are overselling the reforms, because the federal government already dominated student lending under the old system, and Sallie Mae and other private companies will still "get theirs" because they've been "promised big federal contracts to service loans under the new regime."