

- Increase the annual amount of student loans juniors and seniors can borrow by \$2,000, to \$7,500. This proposal will help students fund the increasing cost of higher education, which over the past decade has grown at more than twice the general national inflation rate. The HERA increased the maximum loan amounts for freshmen, sophomores, and graduate students but did not make similar changes for juniors and seniors, limits for whom have not increased since 1992. The proposal also increases aggregate loan limits for all students. The 5-year cost of this investment is \$1.1 billion
- Reduce interest subsidies to lenders by ½ percent. FFEL private lenders are guaranteed a specified interest rate by law, regardless of what the student borrower pays. Currently, private lenders are guaranteed an interest rate equal to the commercial paper rate plus 2.34 percent on student and parent loans (the current rate on most student loans is 7.72 percent). Reducing this subsidy above the commercial paper rate from 2.34 percent to 1.84 percent would save an estimated \$12.4 billion over 5 years that would be redirected to the Pell Grant program, thus targeting public investments more effectively.
- Reduce default insurance from 97 percent to 95 percent. FFEL lenders currently receive 97 percent of students' loan balances when filing for Federal insurance. Given that the Government compensates private lenders for interest unpaid by students—accruing 6.8 percent a year on new loans—the current 3 percent “risk-sharing” is illusory. Reducing the default guarantee (including a 2 percentage point reduction for lenders deemed “exceptional performers”) would reduce this disincentive and save \$1.6 billion in Federal funds over the next 5 years that would be redirected to need-based grant assistance.
- Reduce guaranty agency default collection payments. The Department of Education pays its collection contractors roughly 16 cents on each defaulted dollar collected. For similar collections—those not made through consolidation or rehabilitation—FFEL guaranty agencies retain 23 cents from each defaulted dollar they collect. The Administration proposes to reduce the amount guaranty agencies may retain from collections on defaulted loans beginning in 2008 to the average paid to the Department's private collection agents, releasing \$2.3 billion over 5 years for reinvestment in aid to needy students.
- Move guaranty agency account maintenance fees to a unit cost basis. Agencies currently are paid an administrative fee based on the original principal amount of active loans they have guaranteed. To encourage agencies to operate more efficiently, the Administration proposes to shift the basis for this fee to a unit cost payment tied to the number of accounts each agency manages, thus reducing program costs by \$1.6 billion over 5 years.
- Increase consolidation lender fee to 1 percent. Lenders making Consolidation Loans currently pay the Department a one-time fee of 0.5 percent of the loan balance. Because consolidations tend to be high-dollar, low-risk loans, they have the potential to be significantly more profitable for private lenders than other student loans. Increasing this fee to 1 percent would reduce Federal costs by \$850 million over 5 years.

In addition to these proposals affecting the FFEL and Direct Loan programs, the Administration is proposing to recall the Federal portion of the Perkins Loans revolving fund currently held by participating institutions. The Administration believes these balances, which will total \$3.2 billion over fiscal years 2008-2012, would be better used to support increases in need-based grants.