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News from NASFAA

Expect Changes to Legislation Lowering Student Loan Interest Rates

Washington, D.C. (January 2007) – The House of Representatives overwhelmingly passed legislation to cut the interest rate on subsidized Stafford loans in half over the next five years, but it is unlikely that a Senate companion bill will look much like the bill passed by the House on Jan. 17.

The legislation passed by the House, the College Student Relief Act (H.R. 5), was a scaled down version of House Democrat Leaders' campaign promise to cut interest rates on all student loans in half. In order to comply with budget limitations, Democrats were forced to (1) limit the interest rate cuts to subsidized Stafford loans, (2) gradually reduce the rates over a five year period, and (3) return rates to 6.8 percent when the bill expires only six months after the rates is reduced to 3.4 percent. Democrats have indicated they plan to extend the 3.4 percent rate with subsequent legislation. House Republicans begrudgingly voted for the bill after accusing Democrats of using "bait and switch" tactics to secure votes in the 2006 elections.

House Republicans are the first in a long list of vocal critics who disapprove of the bill, including the Bush Administration, which issued a statement opposing the bill. Opponents of the bill all argue that lowering interest rates will do little to increase college access because it only helps college graduates and not students who are trying to decide if they should, or can, go to college. They also argue that the money spent reducing interest rates could be better spent on grant aid for needy students.

The good news for opponents of the bill is that there is little chance that the bill will make it to President Bush's desk without being drastically altered.

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Sen. Edward Kennedy (D-MA), the chairman of the Senate's education committee, has already announced that the College Student Relief Act will be included in his legislation that will include a wide array of student aid changes. Kennedy said his bill will include provisions that increase the maximum Pell Grant to \$5,100, cap student loan payments to 15 percent of a borrower's discretionary income, and reform the student loan programs to encourage the use of the Direct Loan program, which he claims is less expensive.

Because Democrats only hold the slimmest majority in the Senate, Senate Republicans will have a greater opportunity to influence the bill. House Democrats were able to pass H.R. 5 without holding committee hearings or allowing the bill to be amended, it is unlikely this will happen in the Senate. Senate Democrats will likely amend the bill in order to secure enough Republican support to pass the bill.

Additionally, Democrats in Congress will likely have to change the bill enough to appease the Bush Administration to ensure that it will not be vetoed by the President.

All this makes the College Student Relief Act much like the weather across the country this year: If you don't like it, wait a little and it will change.

By Haley Chitty, Assistant Director for Communications, National Association of Student Financial Aid Administrators (NASFAA). Comments may be addressed to the author at ChittyH@NASFAA.org.

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents more than 12,000 financial aid professionals at nearly 3,000 colleges, universities and career schools across the country. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. Each year, members help more than 8 million students receive funding for postsecondary education. In addition to its member Web site at www.NASFAA.org, the Association offers a Web site with financial aid information for parents and students at www.StudentAid.org.