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Banks on verge of losing student lending business

By JIM KUHNHENN Associated Press Writer
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WASHINGTON—President Barack Obama's health care success has an intended side effect: Attached to the fast-track package of health care fixes is an overhaul of college assistance programs that would cost private lenders billions of dollars in college loans.

Industry lobbyists have watched helplessly as Democrats and the Obama administration this week appear on the verge of shifting student lending from private banks to the federal government.

Under the measure, private banks would no longer get fees from the government for acting as middlemen in loans to low- and middle-income college students. With those savings, the government would increase Pell Grants to needy students and make it easier for some workers burdened by student loans to pay them back. It would also help pay for a small portion of expanded health care.

The bill would mean the loss of a $70-billion-a-year business to a lending industry that includes student loan giant Sallie Mae as well as large financial institutions such as Citigroup, JPMorgan Chase and Bank of America.

"The education secretary is the new banker of the year," said Sen. Lamar Alexander, R-Tenn., himself a former education secretary. Republicans offered amendments Wednesday to weaken or kill the student loan bill. But any change to the expedited measure would send it back to the House, and Democrats have vowed to kill any amendment.

In an unusual twist, the fate of the student loan overhaul went from certain death in the Senate to certain victory, thanks to Republican Scott Brown's election in January in the race for the seat of the late Sen. Edward Kennedy.

Until then, the legislation was stalled in the Senate because it lacked 60 votes to overcome a filibuster. But after Brown's election, Democrats decided that their health care initiative must be accompanied by a companion bill that resolved differences between the House and Senate health care plans.

The companion measure was expedited to require a simple majority and not 60 votes. That measure became a home to the student lending proposal and gave it a new lease on life.

Earlier this month, six Democratic senators wrote a letter to Senate Majority Leader Harry Reid voicing concern over the president's lending overhaul plan.

But on Wednesday, only two of them—Ben Nelson of Nebraska and Blanche Lincoln of Arkansas—indicated they planned to vote against the Senate "fix it" bill. Nelson's home state is headquarters for Nelnet, another major lender and a big employer in the state.

The industry has conducted an all-out lobbying effort against the bill, arguing it would cost thousands of jobs and unnecessarily put the program in the hands of the government.

"The industry plays a role in maintaining competition and choice," said Scott Talbott, the chief lobbyist for the Financial Services Roundtable, an industry group. "If the government is the only

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lender, there is no choice."

But private lenders would still keep a hand in the government lending business, competing for contracts to service the loans. What's more, they would continue to service about $500 billion in outstanding student loans.

Under the existing college lending program, financial institutions provide college loans at low interest rates, and the government guarantees the loans in the event of default and subsidizes private lenders when necessary to keep rates low.

"This is a case of corporate welfare, a giveaway to bankers and to Sallie Mae," said Sen. Tom Harkin, D-Iowa.

The bill would see $61 billion in savings over 10 years from the switch to direct government lending. It would pay for Pell Grants and provide more than $4 billion to community colleges and historically black colleges. It also would direct about $19 billion to reducing the deficit and offsetting expenses in the health care legislation.

In addition, beginning in 2014, certain college graduates would be allowed to devote no more than 10 percent of their monthly income to repay their student loans. The current cap is 15 percent.

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