College Cost Reduction Act of 2007

The largest investment in higher education since the GI Bill – at no new cost to taxpayers

The College Cost Reduction Act of 2007 will provide **the single largest investment in higher education since the GI bill**. And it will do so at **no new cost to taxpayers**, by cutting excess subsidies paid by the federal government to lenders in the student loan industry. The following fact sheet provides information on the offsets that collectively will pay for the entire cost of the bill.

- Four of the six offsets have already been approved by the House this year, when it overwhelmingly voted to pass the College Student Relief Act of 2007 (H.R. 5) in January.
- Four of the six offsets have been proposed in the President's fiscal year 2008 budget.

1. Decrease lender Special Allowance Payment (SAP) rate by 0.55 percentage point:

The Special Allowance Payment is the subsidy paid to lenders ***over and above*** the cost of money. Right now, the SAP is 2.34 percentage points (234 basis points). The College Cost Reduction Act includes a 0.55 percentage point (or 55 basis point) reduction in the SAP payment.

►***In his FY 2008 budget, President Bush proposed decreasing the SAP rate by 50 basis points.***

2. Lower lender insurance rates from 97% to 95%:

When a student or parent defaults on a loan, the government pays the lender this share of the owed funds.

►***The House passed this offset as part of H.R. 5 and it was also proposed in the President's FY 2008 budget. The Education Department estimates that approximately 5% of loans default.***

3. Eliminate "Exceptional Performer" lender status:

Lenders may be designated on an annual basis as "exceptional performers" by the Secretary of Education if they are in substantial compliance with loan servicing or "due diligence" requirements. This status is nothing more than a reward to lenders for merely doing their job, rather than any exceptional activity. Lenders designated as "exceptional performers" receive a two-percentage-point higher insurance rate.

►***The House passed this offset as part of H.R. 5.***

4. Increase for-profit lender origination fees from 0.5% to 1% and eliminate fees for small and non-profit lenders:

Lenders are currently charged a fee of 0.5% on all new loans to partially offset the federal cost of administering the FFEL program.

►***The House passed a similar offset in H.R. 5. The President proposed a similar provision in his FY 2008 budget.***

5. Lower guaranty agency collection fees to 16%:

Guaranty agencies now retain 23% of the funds they collect from defaulted loans, partly to cover the cost of collection. But guaranty agencies' collection methods have become more efficient, thus reducing collection costs. The Education Department projects that these efficiencies will continue to increase. The Department pays just 16% of funds to its collection contractors in the Direct Loan program.

►***The President proposed this offset in his FY 2008 budget. A provision to lower the collection fees to 16% by 2010 was passed by the House as part of H.R. 5.***

6. Change the guaranty account maintenance fee:

Guaranty agencies are paid a fee based on the original principal amount of active loans they have guaranteed. This proposal shifts this fee so that it is tied to the number of accounts lenders have – which more accurately reflects guarantors' costs.

►***The President proposed this change in his FY 2008 budget request.***

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