



Tuesday, October 2, 2007

Report Concludes Overdraft Fees Draining Bank Accounts of College Students

The Center for Responsible Lending, a non-profit research group issued a report last week entitled "[Billion Dollar Deal](#)" that analyzes the impact of overdraft fees on the bank accounts of college students. The report states that banks use "abusive" overdraft loans to collect nearly \$1 billion per year in fees from young adults and that some universities are contributing to the problem by granting a single bank exclusive marketing privileges on campus.

The report was conducted to review the trend of increased debit card use among college students 18-24 and the increased use of "abusive" overdraft practices among major banks. Concerning methodology, the report analyzed the checking account transactions of 18- to 24-year-old account holders spanning an 18-month period, using data from a consumer tracking panel.

Major findings from the report include:

- Banks use "abusive" overdraft loans to collect nearly \$1 billion per year in fees from young adults who earn relatively little as students or new members of the workforce;
- Debit card point-of-sale (POS) transactions are the leading cause of overdraft loans for young adults; and
- Young adults pay more than \$3 for every \$1 borrowed for debit card overdrafts.

As detailed in the report, The Center recommends the following to help curb overdraft practices they deem "abusive":

- To avoid putting their students' financial welfare at risk, universities should not partner with banks that make abusive overdraft loans.
- Young adults should choose a bank that does not make abusive overdraft loans and that will link their checking account to their savings account or a less expensive line of credit for back-up funds.
- Prohibit banks and credit unions from manipulating the order of check clearing or delaying the posting of deposits if doing so results in overdrafts;
- Require banks and credit unions to obtain written consent from customers in order to enroll them in high-cost overdraft loan programs;
- Require banks and credit unions to comply with the Truth in Lending Act for high-cost overdraft loans by disclosing their cost in terms of annual percentage rate, among other policy recommendations.

To address the issue of abusive overdraft fees, Representative Carolyn Maloney (D-NY) has introduced H.R. 946, "The Consumer Overdraft Protection Fair Practices Act." A mark-up of the bill is expected today in the House Financial Services Committee.

For more information, the related press release issued by The Center is included in the expanded version of today's Daily Briefing.

Education Department Update

The following announcements have been posted to the IFAP website:

- Common Origination and Disbursement: 2007-2008 COD Technical Reference [September 2007 Updates Now Available](#);
- [2008-2009 COD Technical Reference Draft Third/Final Installment](#) Now Available;
- Electronic Announcements: [COD Processing Update](#);
- Columbus Day Federal [Holiday Processing and Customer Service Hours](#);
- [Updated Operational Guidance for Action](#) (Supersedes Guidance Posted on 9/24/2007) - How to Accurately Report Verification Status Codes to COD System;
- [Federal Register notice](#): ED has issued Final Rules reflecting the provisions of the Third Higher Education Extension Act of 2006 that authorize the discharge of the outstanding balance of certain Perkins, FFEL, and Direct Loan Program loans for survivors of eligible public servants and other eligible victims of the September 11, 2001, terrorist attacks; and
- Guaranty Agency Support: [Update](#) on Transition to SAIG.

General News:

- A press release from Democratic presidential hopeful John Edwards that discusses his education policy agenda for primary and secondary education.
- *The Wall Street Journal* reports, "Banks and other lenders who issue federal student loans have begun to scale back a host of borrower discounts after a new law took effect yesterday that cuts federal payments to the lending institutions."
- *The Associated Press* reports, "Student Loans: A Higher Degree of Debt."
- An article from The New York Daily News titled, "Building a career in interior design, but student loans create trapped feeling."
- A financial advice column from Kiplinger.com addresses whether student loan debt affects mortgage applications.
- *CongressDaily* reports, "Labor-HHS Bill Might Be Next Vehicle For Democrats In Clash With White House."

These complete stories can be found on the NCHelp Web site in the Daily Briefing section of the NCHelp e-Library at: [db1002.pdf](#).

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High-Cost Overdraft Loans are Draining the Bank Accounts of Young Adults

Center for Responsible Lending
September 24, 2007

Millions of college students and other young adults aged 18 to 24 have become unwitting participants in overdraft loans that cost them nearly \$1 billion a year in fees, a report released today by the nonprofit research group, Center for Responsible Lending, finds.

The report, "[Billion Dollar Deal](#)," says this age group -- which has been dubbed the "plastic generation" because of their reliance on debit and credit cards -- pays over \$3 in fees for every \$1 borrowed in the form of a debit card overdraft. The resulting billion dollar bonanza for lenders -- often on small-purchase items such as a hamburger or coffee -- has been facilitated by universities that in growing numbers are partnering with America's major banks to turn student ID cards into debit/ATM cards.

"Instead of protecting their financial well-being, these banks' overdraft loans are robbing young people of a secure and solid start in their adult lives," said Eric Halperin, director of the Washington, D.C. office of CRL.

Over one hundred universities across the nation have granted a selected bank exclusive marketing privileges on their campuses. Many of those banks automatically enroll their checking-account holders without their consent in overdraft loan programs that can cost a customer hundreds of dollars in a day in cascading overdraft charges.

"That banks no longer discourage overdrawn accounts for the population in general is bad for anyone, but this is especially burdensome for students and entry-level workers," said Leslie Parrish, a CRL senior researcher who is a main author of the report. "They often use their debit cards for small things, not knowing the system is fixed to sting them with fees."

Previous CRL research found that Americans young and old pay \$17.5 billion per year in abusive overdraft lending fees and that debit card use is up for everyone. Today's report shows that young adults tend to use their debit cards for just about everything. This means banks are making more small-dollar loans to cover those overdrafts, typically averaging just \$10, but charging a fee that's three to four times that amount.

Rep. Carolyn Maloney (D-NY) has offered a legislative solution, "The Consumer Overdraft Protection Fair Practices Act" ([HR 946](#)), to curb abusive overdraft fees impacting everyone, including much needed relief for college students. A mark-up of the legislation is scheduled on Tuesday in the House Financial Services Committee.

Download the report, available at 8 am ET Monday, 9/24/07, at www.responsiblelending.org.

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About the Center for Responsible Lending

[The Center for Responsible Lending](#) is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with [Self-Help](#), one of the nation's largest community development financial institutions.

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EDWARDS ANNOUNCES BOLD EDUCATION AGENDA TO RESTORE THE PROMISE OF AMERICA'S SCHOOLS

Plan will radically overhaul No Child Left Behind, expand early education, support teachers and create a "School Success Fund" to help struggling schools

Des Moines, Iowa - Today, Senator John Edwards delivered a major education policy speech at Brody Middle School in Des Moines where he unveiled his plan to radically overhaul the No Child Left Behind Act and ensure that every child in America gets the quality education they deserve. Edwards'

plan for Restoring the Promise of American Schools is based on three guiding principles: every child should be prepared to succeed when they show up in the classroom; every classroom should be led by an excellent teacher; and every teacher should work in an outstanding school.

"Education is an issue that's very personal for me," said Edwards. "I grew up in a small, rural town and my parents didn't have a lot of money. But I was lucky to have public school teachers who taught me to believe that somebody from a little town in North Carolina could do just about anything if he worked hard and played by the rules."

"Every child deserves to have the same chances I had," Edwards continued.

"But today, millions of young people don't get these opportunities. More than a half-century after Brown v. Board of Education, we still have two school systems, separate and unequal. George Bush's No Child Left Behind law is not working, and Washington is simply not doing its part to invest in early childhood education, teachers, or support for struggling schools."

Edwards plan for education reform will address the failures of the current system through focusing on the following principles:

Preparing Every Child to Succeed: As president, Edwards will launch a national "Great Promise" partnership to give a quality early childhood education to every four-year-old in the country - starting with poor children in neighborhoods with struggling schools. To reach even younger children, Edwards will create a national "Smart Start" program that will improve child care and invest in child health.

An Excellent Teacher in Every Classroom: Teachers, not tests, are the single most important factor in successful schools. As president, Edwards will increase pay for teachers in successful high-poverty schools by up to \$15,000 a year. He will also create a National Teacher University - a West Point for teachers - to recruit 1,000 top college students a year, train them to be excellent teachers, and encourage them to teach where they are needed the most. His plan also will give extra support to teachers in the first years of their careers, reduce classroom sizes, and train more excellent principals.

Making Every School an Outstanding School: No Child Left Behind used cheap standardized tests to measure our children's learning, failed to accurately identify struggling schools, and mandated unproven cookie-cutter solutions for our schools' problems. Edwards will totally

overhaul it so it meets its goals of helping all children learn through accurately identifying and improving struggling schools. Based on North Carolina's successful education reforms, Edwards proposed a School Success Fund to allow teams of experienced educators to spend a year at struggling schools helping launch reforms. Edwards will also launch a "Great Schools" initiative to build or expand 1,000 successful schools.

In May, Edwards introduced an initiative to improve access to higher education by making college more affordable for millions of students. Edwards' College Opportunity Agenda includes a national "College for Everyone" initiative, which would pay for public-college tuition, fees, and books for any student who is willing to work hard and stay out of trouble.

For more information on Edwards' plan for Restoring the Promise of America's Schools, please read the fact sheet below. Excerpts from Edwards' education address are also included.

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Excerpts from Edwards' Education Address:

"Education is an issue that's very personal for me. I grew up in a small, rural town. My family didn't have a lot of money, but my parents worked hard to put food on the table and a roof over our heads. And they told me that if I worked hard in school, I could be anything I wanted to be. In the classroom, I had heroic public school teachers who taught me the same thing.

I had teachers who cared about me, who took an interest in my life, and who taught me the skills I needed to succeed. My high-school English teacher, Ms. Burns, made me believe that somebody from a little town in North Carolina, where their father worked in the mill, could do just about anything if he worked hard and played by the rules."

"Every child deserves to have the same chances I had. But today, millions of young people don't get them. In America today, children who live in the right zip code get the best education our country has to offer, while children who live in rural and low-income communities face an uphill battle.

In America today, two schools separated by a five-minute drive can be miles apart in the quality of education they offer their students. More than a half-century after Brown vs. Board of Education, we still have two school systems, separate and unequal."

"The 'American Century' was built on the skills and knowledge of American workers, trained by one of the best education systems in the world. If we want this 21st century to be an American century as well, our workforce will need the skills to successfully compete against rising global economic powers like China and India. And today, we are failing to equip them with those skills."

"There are three simple pillars to my plan: First, every child should be prepared to succeed when they show up in the classroom. Second, every classroom should be led by an excellent teacher. And third, every teacher should work in an outstanding school."

"When it comes to reform, a good place to start is by radically overhauling No Child Left Behind. NCLB is a case study in the broken system in Washington, D.C., a system that has looked the other way as its failed policies and incompetent leadership have broken our schools and broken the spirits of our children and their teachers."

Restoring the Promise of America's Schools

As the product of public schools in a small rural town and the father of four children who attended public schools, John Edwards understands the importance of education. He believes every child should have the same chance to get a great education - a commitment that is at the core of his plan to build One America where everyone has a chance to succeed. But more than 50 years after *Brown v. Board of Education*, we still have two school systems that are separate and unequal. No longer legally separated by race, our children are sorted by economics, often with a racial or ethnic dimension. At the same time, our children are preparing for unprecedented global economic competition.

Unfortunately, Washington is letting down our children. George Bush's No Child Left Behind law is not working for schools, teachers and - most importantly - our children, and it needs to be radically overhauled. And Washington is simply not doing its part to invest in early childhood education, teachers, or helping struggling schools. Our students are falling behind in key subjects like math and science, good teachers are leaving the profession, and our graduates aren't as prepared for the global economy as their peers in other countries. Students in poor rural areas and major cities often don't have the same chances as other students, and an achievement gap that falls along economic and racial or ethnic lines undermines the promise of equality.

Today, John Edwards outlined his vision for excellent American schools, based on three principles:

- Every child should be prepared to succeed when they show up in the classroom.
- Every classroom should be led by an excellent teacher.
- Every teacher should work in an outstanding school.

Preparing Every Child to Succeed

Half of the achievement gap between children from poor families and their more fortunate peers exists before they start school. Quality preschools compensate for the learning opportunities some children miss at home, reducing remedial education, welfare, and crime. Its benefits are strongly supported by academic research and the experience of universal pre-K programs in Georgia and Oklahoma. Children from poor families benefit most from high-quality preschool, but less than half of poor children attend pre-school compared to two-thirds of other children. [Denton and Germino-Hausken, 2000; Aspen, 2007; PPI, 2004; RAND, 1998; Barnett, 1996; EPI, 2002; Education Sector, 2007]

John Edwards believes that quality preschool education should be as common as kindergarten. As president, he will lead the way toward universal preschool, starting with the children who need the help most. In addition to maintaining and expanding support for existing programs like Head Start and the child care block grant, Edwards will:

Offer Universal "Great Promise" Preschool to Four-Year-Olds: Edwards will provide resources to states to help them offer universal high-quality preschool programs for four-year-olds. Great Promise programs will:

Teach academic skills: Preschool is much more than babysitting; it is a unique opportunity to teach children the skills they will need in school.

Great Promise will help develop children's language abilities and introduce them to early math, reading, and other academic concepts, as well as help develop their social and emotional skills.

Start in needy communities: The federal commitment will begin in low-income neighborhoods where schools are struggling and expand to serve more communities over time.

Be led by excellent teachers: Research shows that the most effective preschool teachers have at least a bachelor's degree. Lead teachers in Great Promise will have four-year college degrees and be paid commensurately.

Involve parents and their families: Research shows that preschool benefits children the most when their parents are involved. Parental involvement will be essential to Great Promise.

Be voluntary and universally affordable: Participation would be fully voluntary for families. Tuition would be charged on a sliding scale based upon family income and waived for children from low-income families.

Create National Smart Start: North Carolina's innovative Smart Start initiative promotes the healthy development of children under the age of five. It helps local partnerships make child care higher quality and more affordable, provides health services and supports families. Participating children show better cognitive and language skills and fewer behavioral problems. Edwards will help other states duplicate Smart Start programs, prioritizing children who are not served by other pre-K programs. Smart Start will:

Offer integrated services for young children: By linking together health care, child care, education, and family support services for children under five, Smart Start addresses all aspects of young children's development and helps them begin school healthy and ready to succeed.

Perform health care outreach: Smart Start makes it easier for young children to get screening for health problems related to hearing, speech, vision, dental, and learning disabilities.

Sponsor home visits to new families: Home visits improve prenatal health and the quality of caregiving after birth. Children receiving nurse visits are cognitively more advanced, have fewer behavioral problems, and are less likely to be abused or neglected. The Smart Start program will fund home visits by registered nurses to 50,000 low-income new parents. [AAP, 2004; RJWF, 2006; NFP, 2006]

An Excellent Teacher in Every Classroom

Nothing is more important in a school than the relationship between a teacher and a child. In a single year, a good teacher can raise student achievement by a full grade level more than a less effective teacher. Yet students with the greatest needs are more likely to have less experienced and effective teachers. Poor urban and rural schools in particular struggle to attract and retain excellent teachers. While pay for CEOs and other highly paid workers skyrocketed in recent years, teachers earn a fraction of the salaries paid to other educated professionals.

John Edwards believes we need to invest more in training and paying our teachers to help every child learn at high levels. As president, he will:

Raise Pay by up to \$15,000 More for Teachers in High-Poverty Schools: Two-thirds of states do not offer any incentives of any kind for teachers to work in high-poverty schools, and many veteran teachers choose to teach in other schools. Edwards will fundamentally change teachers' incentives by helping states pay teachers in successful high-poverty schools as much as \$15,000 more a year. The \$15,000 raise includes:

\$5,000 for all teachers in successful high-poverty schools: High-poverty schools with high academic performance, good student behavior, and high parent satisfaction could give up to \$5,000 in bonuses to each of their teachers, encouraging a schoolwide culture of success. Bonuses will grow over time to reward continuing success and give teachers an incentive to stay. Successful schools will open their doors to share their experiences with other schools.

\$5,000 for teachers with national certification for excellence in high-poverty schools: The National Board for Professional Teaching Standards certifies excellent teachers, but few of these teachers teach in high-need schools. Teachers who have demonstrated high effectiveness in a national process, such as National Board certification, will be eligible for the higher pay.

\$5,000 for veteran teachers who serve as mentors in high-poverty schools:

Giving veteran teachers the opportunity to mentor new teachers creates opportunities for career advancement for longtime successful teachers, while providing much-needed guidance to new teachers.

To address other recruitment hurdles, Edwards will help states and school districts improve working conditions and increase time for teacher collaboration and planning. He will also address barriers for teachers moving between states by encouraging reciprocal credentials and studying ways to make pension plans compatible. [NCTAF, 1996 and 2002; Sanders and Rivers, 1996; Jordan, Mednro, and Weerasinghe, 1997; Peske and Haycock, 2006; Rural School and Community Trust, 2006 and 2007; NY Times, 8/27/2007]

Create a National Teacher University: While there are some successful education schools, many future teachers graduate without the skills and knowledge they need. In one survey, more than 60 percent of graduates said their education school did not prepare them. Because having great teachers is a national priority, Edwards will create a national teachers' university

- a West Point for teachers - to recruit 1,000 top college students a year, train them to be excellent teachers, and encourage them to teach where they are needed most. The school will waive tuition for students who go on to teach in schools and subject areas facing shortages. It will also lead improvements at education schools nationwide by developing and sharing model curriculum and practices and serve as a forum to promote shared certification and licensing requirements across states. [Levine, 2006]

Help Teachers in Their Early Years: A third of all new teachers leave the profession within three years. Students in high-poverty and high-minority schools are twice as likely as other students to be taught by inexperienced teachers. Edwards will help states support teachers during their early years. He will encourage a transition year for rookie teachers with smaller class sizes, reduced teaching loads, and minimal extra duties. Resources will support structured mentoring programs pairing new teachers with successful veterans. Finally, he will support professional development based in actual classroom needs. [Ingersoll, 2003; Ed Trust, 2007; Levine, 2006; NCATF, 2006]

Reduce Class Sizes: Smaller classes help students learn more by allowing them to get more individualized attention from teachers. According to a Tennessee study, young students in small classes are less likely to drop out of school and more likely to graduate on time, complete more advanced math and English courses, and receive honors. Poor and African-American students gain the most from smaller classes. Edwards will dedicate federal resources to reduce class sizes, particularly for young children who are learning below grade levels. [Krueger and Whitmore, 2001, 2002; Smith, Molnar, and Zahorik, 2003; U.S. Department of Education, 2000]

Train More Excellent Principals: Principals can have a large impact on student achievement by setting high expectations and recruiting and supporting teachers, but many districts face principal shortages and the turnover rate for principals in poor urban and rural districts is as high as 20 percent a year. Edwards will help train excellent principals for high-need schools. Programs could be operated by schools of education, school districts, business schools, or other non-profits with a proven track record like New Leaders for New Schools. Establishing programs to train 3,000 principals a year will meet the needs of most of the country's high-need urban and rural schools. [Education Sector, 2007; Aspen Commission, 2007; Leithwood et al. 2004; Education Week, 9/12/2007]

Use Highly Qualified Teachers for Tutoring: No Child Left Behind requires schools that fail to make adequate progress for three years in a row to set aside up to 20 percent of their Title I funds to pay for "supplemental service" tutoring programs, often offered by private companies with unproven capabilities. Edwards will require that tutors be highly qualified teachers.

Making Every School an Outstanding School

Every child in America should have the chance to attend an outstanding public school that has high expectations for every child. Children need to master both basic skills in reading, writing and math and advanced thinking skills like creativity, analytic thinking and using

technology. We cannot tolerate the benign neglect of our schools. No Child Left Behind has lost its way by imposing cheap standardized tests, narrowing the curriculum at the expense of science, history, and the arts and mandating unproven cookie-cutter reforms on schools. As a result, it has lost the support of teachers, principals, and parents, whose support is needed for any reform to succeed.

John Edwards believes that we need to overhaul No Child Left Behind to center our schools around children, not tests, and help struggling schools, not punish them. He will:

Overhaul No Child Left Behind: The law must be radically changed to live up to its goal of helping all children learn at high levels, accurately identifying struggling schools, and improving them. Its sole reliance on standardized, primarily multiple choice reading and math tests has led schools to narrow the curriculum. Its methodology for identifying failing school can be arbitrary and unfair. And it imposes mandatory, cookie-cutter reforms on these schools without any evidence they work. Edwards supports:

Better tests: Rather than requiring students to take cheap standardized tests, Edwards believes that we must invest in the development of higher-quality assessments that measure higher-order thinking skills, including open-ended essays, oral examinations, and projects and experiments.

Broader measures of school success: Edwards believes that the law should consider additional measures of academic performance. The law should also allow states to track the growth of students over time, rather than only counting the number of students who clear an arbitrary bar, and give more flexibility to small rural schools.

More flexibility: Edwards will give states more flexibility by distinguishing between schools where many children are failing and those where a particular group is falling behind. He will also let states implement their own reforms in underperforming schools when there is good reason to believe that they will be at least equally effective.

Launch a "Great Schools" Initiative to Build and Expand 1,000 Successful

Schools: Across America, there are public schools that are helping children from all backgrounds succeed, including traditional public schools, public charter schools, small schools, and other models. Edwards will help 250 schools a year expand or start new branches. Federal funds will support new buildings, excellent teachers, and other needs. Among the schools he will support are:

Small schools: Small high schools create stronger communities, reducing adolescent anonymity and alienation and encouraging teachers to work together. At 47 new small high schools recently opened in New York City, graduation rates are substantially higher than the citywide average.

Communities can establish multiple schools within an existing facility, build new schools, and reopen old facilities. [Aspen Institute, 2001; N.Y.

Times, 6/30/2007] **Early college high schools:** High schools on college campuses let students earn both a high school diploma and an associate's degree (or two years of transfer credit) in only five

years. In North Carolina, Governor Mike Easley's Learn and Earn initiative raises rigor and aspirations, reduces tuition costs, and relieves overcrowded college campuses. [American Institutes for Research and SRI International, 2007; Easley, 2007] Economically integrated schools: While income diversity is not a substitute for racial diversity, low-income students perform best when in middle-class schools where they are more likely to have experienced teachers and classmates with high aspirations. States can build magnet schools in low-income communities and create incentives for middle-class schools to enroll more low-income children. [Kahlenberg, 2007; Harris, 2006; NY Times, 7/15/05]

Create a School Success Fund to Turn Around Struggling Schools: Improving our worst schools is going to take more than federal mandates of unproven remedies; it will require a serious commitment of resources. A new School Success Fund will:

Let experts design and implement reforms: Based on North Carolina's successful reform, Edwards will ask teams of experienced educators to spend a year at struggling schools helping start reforms. These educators will tailor comprehensive solutions to each school, rather than adopting silver bullets or one-size-fits-all solutions. Provide resources to implement them: Some schools need more resources to help their children succeed. The School Success Fund will target resources to the neediest schools. Resources will be available to recruit new school leadership and a core of excellent teachers, reduce class sizes, duplicate proven models, strengthen the curriculum, and other reforms.

Emphasize extra learning time: Due to our 180-day school year, American children spend much less time in class than their foreign competitors. Many other countries have 25 percent more instructional time, which adds up to more than two years by the end of high school. When combined with making better use of learning time and designed with educators, longer school days and years create new opportunities for children to master the basics and a broader curriculum. [ED in 08, 2007; Zimmerman, 1998; CAP, 2006] Establish stronger academic and career curricula: The rigor of high school classes is the number-one predictor of college success. Even students who do not go to college need strong math and reading skills in the workplace. Edwards believes that all schools - even those in small, isolated, and high-poverty areas - should have access to challenging Advanced Placement courses. And he will support partnerships between high schools and community colleges to help high school students get the training they need for the good jobs where skilled workers are in short supply today. [US Department of Education, 1997; ACT, 2006; ED in 08, 2007]

More Resources for Poor and Rural Schools: Four out of five urban school districts studied nationally spend more on low-poverty schools than on high-poverty schools. Rural schools enroll 40 percent of American children - including most children in Iowa, New Hampshire, and North Carolina - but receive only 22 percent of federal education funding. Edwards will increase federal Title I funding and dedicate the increases to low-income schools and districts and rewarding states that distribute funding where it is needed most to increase learning. He will also invest in distance education and cutting-edge software to bring the

promise of new learning technologies to remote areas. [NASBE, 2003; Rural School and Community Trust, 2007; Digital Promise, 2003]

Meet the Promise of Special Education: More than thirty years ago, Congress committed to fund 40 percent of the excess cost of educating children with disabilities, but it provides less than half that amount. George Bush has proposed a \$300 million cut. Edwards opposes the Bush cuts and supports getting on a path toward meeting the federal promise. [Committee for Education Funding, 2007]

Raise Graduation Rates: Almost a third of all students drop out of school before earning a high school diploma, and rates among children of color or from low-income families are higher. At nearly 2,000 high schools nationwide - called "dropout factories" - more than 40 percent of students won't graduate. Edwards will create multiple paths to graduation such as Second Chance schools for former dropouts and smaller alternative schools for at-risk students. He will focus on identifying at-risk students and support the Striving Readers literacy program and one-on-one tutoring to keep them in school. Edwards will also fund additional guidance counselors in high-poverty schools. [Baron, 2005; Alliance for Excellent Education, 2007; Balfranz and Legters, 2004; NCES, 2004]

Support High School Service Programs: The energy and enthusiasm of high school students who want to make their community and their country a better place to live. One type of service program, service-learning, has been shown to have positive impacts on students' civic engagement, college enrollment, career development, and personal relationships. Nearly half of school-age children lack the activities and role models that are opportunities to make a difference through helping others. Edwards will create a Community Corps service programs for high school students. It will provide resources to high schools that choose to make community service a graduation requirement, helping them make service opportunities higher in quality and integrate them into the curriculum. [NYLC, 2006; America's Promise Alliance, undated]



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October 2, 2007

Student-Loan Discounts Cut

Lenders Retrench As New Law Trims Payments by U.S.

By JANE J. KIM
October 2, 2007; Page B14

Banks and other lenders who issue federal student loans have begun to scale back a host of borrower discounts after a new law took effect yesterday that cuts federal payments to the lending institutions.

Lenders have long used discounts to compete for borrowers of federal student loans, including Stafford, PLUS loans taken out by parents of undergraduates or by graduate students themselves, and federal consolidation loans. These so-called borrower benefits typically included interest-rate reductions for signing up to have payments automatically debited from a bank account or for making a certain number of consecutive, on-time payments.

FEWER PERKS

The news: Many student-loan issuers are cutting borrower discounts on new federal loans, raising student costs.

Why: New legislation reduces payments to lenders who make federal student loans, cutting into their profit margins.


What you can do: Some lenders are still evaluating their programs, and you may be able to find loans with good discounts by shopping around.

Now, in a push by politicians to make college more affordable, the new law, known as the College Cost Reduction and Access Act of 2007, will cut payments to lenders for issuing the federal loans by \$21 billion over five years. In turn, the law reduces the cost to undergraduate borrowers who qualify for federally subsidized Stafford loans by lowering the rate on the loans to 3.4% from 6.8% by 2011. It also, among other things, increases the maximum Pell Grant amounts for low-income families.

Feeling their profit margins squeezed, several lenders, including **Wells Fargo & Co.**, **Nelnet Inc.** and **Goal Financial LLC**, eliminated many of their borrower benefits on new federal loans. Nelnet also reinstated origination and default fees on its Stafford loans, which were previously waived, of as much as 2.5%. And **National City Corp.**, which had discounted the rate on its Graduate PLUS loan to 6.8%, raised the rate to 7.65% as a result of the new regulations, although this is still below the typical market rate of 8.5% for Graduate PLUS loans.

Some lenders are evaluating their programs. **Bank of America Corp.**, J.P. Morgan Chase & Co.'s Chase, **KeyCorp's** KeyBank and **MRU Holdings Inc.'s** MyRichUncle say their borrower-benefit programs remain unchanged. "We do anticipate there will be changes, and we're still working through the details of what those changes will be," says Jill Arslanian, a KeyBank spokeswoman.

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Lenders are making the biggest cuts in their federal consolidation loans, which typically have the slimmest profit margins. SLM Corp.'s Sallie Mae and Citigroup Inc.'s Citibank, for example, which kept their borrower benefits on Stafford, PLUS and Graduate PLUS loans, now only allow borrowers to get a 0.25 percentage point rate reduction on consolidation loans for enrolling in automatic payments. Previously, the lenders also offered a one percentage point rate reduction after the first 36 months of on-time payments.

College Loan Corp., which scaled back many of its borrower benefits across its Stafford and PLUS loans, says it is no longer offering any repayment benefits on its federal consolidation loans. And **Wachovia** Corp. dropped its benefit programs on its federal consolidation loans, which had allowed borrowers to cut their interest rates by as much as 1.25 percentage points. A federal consolidation loan allows borrowers to combine all their federal loans into one loan to lock in a fixed interest rate and simplify and reduce monthly payments.

Mark Kantrowitz, publisher of FinAid.org, says he expects that many lenders will reduce their discounts by about half or eliminate them. And while some lenders might maintain some of their discounts on PLUS or Stafford loans, they will likely make it harder for borrowers to qualify for the discounts. For example, instead of requiring 36 months of on-time payments to get an interest-rate reduction, they might require 48 or 60 months of on-time payments, he says. Borrowers with larger balances may get more of a break, because those loans are more profitable, he says.

The changes may also force schools with preferred-lender lists to re-examine their lists if the changes significantly affect borrowers' costs, he adds.

Only a fraction of borrowers received all of the discounts offered. Only 20% of borrowers, for instance, are able to make the first 36 months of payments on time, Mr. Kantrowitz says.

Despite cutting its borrower-benefit programs, Wells Fargo says it will continue to pay the 1.5% origination fee on Stafford loans and the default fee of 1%, when a guarantor doesn't pick up this fee.

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STUDENT LOANS: A HIGHER DEGREE OF DEBT

Rising tuition has led to borrowing that threatens to hobble the economy

By Marcy Gordon

Associated Press

Published on: 10/02/07

The near doubling in the cost of a college degree in the past decade has produced an explosion in high-pr

While scholarships, grant money and government-backed student loans — whose interest rates are capped at 8 percent — have declined, fees and interest rates that are often variable and up to 20 percent.

Many in the next generation of workers will be so debt-burdened they will have to delay home purchases

Kristin Cole, 30, who graduated from Michigan State's law school and lives in Grand Rapids, Mich., owes her take-home pay, is scheduled to jump to \$800 in a year or so, confronting her with stark financial choices.

"I could never buy a house. I can't travel; I can't do anything," she said. "I feel like a prisoner."

A legal aid worker, Cole said she may need to get a job at a law firm, "doing something that I'm not really interested in."

Parents are still the primary source of funds for many students, but the dynamics were radically altered in the past decade as education seemingly available to anyone willing to sign a loan application.

Students with no credit history and no relatives to co-sign loans (or co-signing parents with tarnished credit records) are finding it increasingly difficult to get loans, proving elusive for many graduates.

"This is literally a new form of indenture ... something that every American parent should be scared of," said a former U.S. Attorney General. "It's a new form of indenture."

More than \$17 billion in private student loans were issued last year, up from \$4 billion a year in 2001. One of the reasons for the increase, lawmakers say, is that the federal government has cut back on its own lending.

Rocketing tuition fees made borrowing that much more appealing. Consumer prices on average rose less than 2 percent a year, but tuition at public institutions soared 79 percent to \$12,796 a year and 65 percent to \$30,367 a year at private institutions, according to the College Board.

The maximum available per person in government-guaranteed student loans, which by law can't charge more than 8.25 percent interest, is \$5,500 a year.

room and board of \$51,000 at public colleges and \$121,000 at private institutions.

Sallie Mae, formally known as SLM Corp., has been on the winning side of the loan bonanza. Its portfolio

However, private equity investors who had offered \$25 billion to buy the company backed out last week,

Citigroup, Bank of America, JPMorgan Chase, Wells Fargo, Wachovia and Regions Financial are also big players in the student loan market. Other lenders include EduCap, Nelnet, NextStudent, Student Loan Corp., College Loan Corp., CIT Group and Education Finance

The question is whether everyone who borrowed will be able to repay. Experts don't track default rates on

Dr. Paul-Henry Zottola, a 35-year-old periodontist in Rocky Hill, Conn., faces paying \$1,600 a month on

His credit record remains solid, but he owes more than \$300,000 in student loans as he and his wife, Heather

"It would be very easy to feel crushed by it," Zottola said in an interview. "All my income for the next 10

Meanwhile, complaints about marketing of private loans — like ads promising to approve loans worth \$

The complaints have made their way to lawmakers, who see a need to regulate the highly profitable and

In August, the Senate Banking Committee approved a bill that would mandate clearer disclosure of rates

The bill also would require a 30-day comparison shopping period after loan approval, during which time

New York Attorney General Andrew Cuomo says many graduates who borrowed owe as much if not more

Unlike mortgages with clear consumer disclosure requirements — even from nonbank lenders — private

Critics say what happened in the mortgage market could happen in the student loan market.

Cuomo, who conducted a nationwide investigation, says the parallels between the two markets are "proving

Demand for bundled student loans sold to institutional investors worldwide fueled lending to students. That's

The student-loan-backed securities market has yet to suffer noticeable effects of a global credit squeeze that

"Once the economy starts to slow, you're going to see a large increase of these people in bankruptcy court

Associated Press

ACQUIRING DEBT AND HIGHER EDUCATION

As college tuitions rose in the past decade, so did the volume of student loans. Federal

Graph compares Public and Private school costs: Tuition, fees, room and board.

Private school:

'96-'97: \$12,796

'06-'07: \$30,367

Total volume of student loans

Private loans*

1995: 1.4 billion

2005: 16.3 billion

Federal loans

1995: 36.9 billion

2005: 68.6 billion

Adjusted for inflation using 2005 dollars

*Unregulated loans with interest rates that are not capped

Sources: The College Board; Institute for Higher Education Policy

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Building a career in interior design, but student loans create trapped feeling

BY PHYLLIS FURMAN
DAILY NEWS BUSINESS WRITER

Monday, October 1st 2007, 4:00 AM

Danielle Fennoy tries to make homes look fabulous, but she hasn't been able to get her own financial house in order.

A 27-year-old interior designer from Brooklyn, Fennoy spends a lot of her days browsing antique stores and scouting out design trends. Most nights she's off to dinner with friends. Then she returns to her Prospect Heights two-bedroom duplex rental across the street from the Brooklyn Museum that she shares with her 29-year-old boyfriend, Web designer Jevaun Howell.

It may sound like a glam New York lifestyle, but in reality it describes a young woman drowning in debt and worrying about her future.

Fennoy had visions of making it as an interior designer and eventually buying a big Brooklyn brownstone when she moved to New York six years ago from Pasadena, Calif.

But the \$95,000 in student loans Fennoy took on to finance a master's degree in interior design from the Pratt Institute in Brooklyn are derailing her plans.

While Fennoy will take in about \$55,000 this year from her Tribeca-based business, Make Design, and from teaching spin classes at a Brooklyn gym, she won't have much to show for it.

More than one quarter of her \$36,744 after-tax income goes toward paying back her student loans. Add on her \$850-a-month share of the rent, and other living and entertainment expenses, and Fennoy's average monthly tab exceeds her income by \$1,068.

To pay her bills, Fennoy taps her Visa credit card with its 19.95% interest rate (she owes \$1,637), and her rapidly depleting bank account, which has shrunk to \$6,100 from \$10,000 in the last two years.

"At the end of the day, I go home to my debts," Fennoy said. "It's such a weight on my shoulders."

Fennoy didn't just take out student loans that are low interest and federally subsidized. About \$60,000 of her debt is a Citibank loan at a variable interest rate, an increasingly common borrowing option many students pursue after hitting federal loan limits. The interest rate has ballooned to 8.5% from 4.5% in the last two years.

"It keeps going up - how high will it go?" she wondered.

Fennoy's bind is a stark example of a phenomenon gripping new grads nationwide. As tuition has soared, student borrowing has grown at an average annual rate of 27% since 2000, and now totals \$17.3 billion, according to the College Board.

The student loan business has drawn the scrutiny of state Attorney General Andrew Cuomo, who recently highlighted financial ties between lenders and school financial aid officers, sometimes in the form of kickbacks.

One of the institutions exposed in Cuomo's investigation was Fennoy's grad school. Pratt and other schools agreed to better police its relationships with lenders. The investigation found no unscrupulous ties between Pratt and Citibank, which also voluntarily committed to a new code of conduct.

Nonetheless, as more students take on loans they can't afford, education experts complain schools aren't doing enough to warn students about the huge burdens they're taking on.

Fennoy said she wished she more fully understood the specifics of what her obligations were going to be.

"The majority of the blame falls on Pratt's shoulders," Fennoy insisted. But she also wished her parents had guided her more and that she had "asked more questions to really understand how this would play out."

Pratt's director of financial aid, Karen Price-Scott, said the school has long had a number of programs aimed at informing students about loans and scholarships. "We try to educate students as much as we possibly can," Price-Scott said.

Regardless, Fennoy needs help. At her request, the Daily News arranged a sit-down with Manhattan financial planner Stacy Francis.

Fennoy is on a dangerous path, Francis said.

If she continues this way, she'll deplete the rest of her savings and become ever more trapped in credit card debt.

"She doesn't make enough money to pay the debt and live," Francis noted. "She's using her savings to get by. What happens when you no longer have the savings?"

Fennoy's first priority should be to attack the Citibank loan, Francis said.

Fennoy asked if she should roll it over into a zero percent credit card.

Absolutely not, Francis said. By doing that she would lose her \$2,500 student loan tax deduction. And such a move would only be a temporary fix because, soon enough, the credit card company would jack up the interest rate.

Instead, Fennoy should research loan rates at other banks and then approach Citibank to see if she can persuade loan officers to refinance.

"I'd like to see her at 6.5%," Francis said, adding a warning that Fennoy must "read the fine print and be wary of high consolidation fees."

Fennoy also needs to focus on ramping up her income, Francis said. By adding two more spin classes a week, Fennoy can add about \$7,000 a year to her income.

The planner also prodded Fennoy to be more aggressive in chasing interior design clients. The goal is to add at least \$3,000 a year in design income.

Fennoy also needs to rethink her expenses, Francis advised.

By cutting down on her bar and restaurant tabs, Francis estimated, Fennoy could save another \$3,300 a year.

If Fennoy can stay disciplined, it will take her seven years to pay off the student loans.

One temptation might be to lean on her boyfriend, who earns more than \$100,000 a year. Fennoy wouldn't hear of it.

"I don't think it's helpful for any relationship to put that on someone else," Fennoy said. "This is my responsibility."

Despite the obvious hurdles, Fennoy is eager to make changes. "My goal would be to go faster," she said. "I want to ramp up my business. There is a big opportunity.

"I did not come here to be poor and in this much debt," she added. "It's my goal to alleviate this debt and get on with my life."

pfurman@nydailynews.com

Do Student Loans Affect a Mortgage Application?

Lenders don't necessarily view education debt as a bad thing. Your ability to buy a house when you owe student loans depends largely on your credit score and how much money you make.

By Janet Bodnar

September 26, 2007

I'm in my early twenties and I'm thinking about buying a house. I don't have any credit-card debt, but I owe about \$20,000 in student loans. Will that hurt my chances of getting a mortgage?

Not necessarily. When you apply for a mortgage, lenders don't just look at how much you owe; your income is also a factor.

Mortgage lenders traditionally follow what's known as the 28/36 rule: No more than 28% of your monthly gross income should be dedicated to your mortgage payment, property taxes and insurance. And your total debt payments should equal no more than 36% of your gross income.

Two other factors are also important: The more money you put down, the less risk the lender takes on and the more likely you are to get a mortgage. Especially in today's market, in which lenders are looking for squeaky-clean borrowers, a bigger down payment makes you more attractive.

And, of course, lenders look at your credit score. Here, too, your student loans could have an effect -- but not necessarily negative. When credit scores are calculated, student-loan debt is viewed more favorably than credit-card debt.

That's because the FICO score, which most lenders use, divides debt into two categories: installment loans and revolving loans. Student loans, mortgages and car loans -- which require you to pay a fixed amount every month -- are installment loans. Credit cards -- which let you control your monthly payments -- are revolving loans.

Owing a lot of money in installment debt isn't going to hurt your credit score as much as maxing out your credit cards.

But young adults often get themselves into trouble by blowing off their student loans. In 2006 the default rate on federally sponsored Stafford loans was more than 12%. That's huge, when you consider that even in the current mortgage "crisis" only 5.1% of mortgage payments were late in the second quarter of this year.

Because new grads typically build their credit history based on a credit card and student loans, it's important to make your payments on time. If you're struggling to pay off your federal Stafford loans, you have several options:

- If you can't find a full-time job or you experience some other kind of economic hardship, buy time by asking your lender about deferring your loan repayment.
- If you're working for peanuts, you can lower your payments by stretching out the loan term or basing your payments on your income. (See [How to Pay Off Student Loans](#).)

A bill just passed by Congress would phase in repayment terms that are even more generous for borrowers who need help. See [A Break on College Costs](#) for more information.

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APPROPRIATIONS

Labor-HHS Bill Might Be Next Vehicle For Democrats In Clash With White House

House and Senate Democrats are considering making the Labor-HHS Appropriations bill the next major domestic policy fight with President Bush after the debate over children's health insurance.

None of the 12 FY08 spending bills have been signed into law, and the Senate has not even taken up the \$150 billion health, education and social services bill.

Senate Majority Leader Reid plans to bring it up as early as Oct. 15, and sources said upon passage, House-Senate negotiators could quickly reconcile their differences and send the measure to the White House for Bush's expected veto.

The tactic would be similar to the current standoff over the State Children's Health Insurance Program, which Democrats perceive as a political winner despite lacking the votes to override a veto. (See story below.)

"I think the president has to demonstrate and say why he's vetoing it ... They're taking a hard line on spending on everything except contractors in Iraq, and the war in Iraq and the war in Afghanistan. Anything goes there," said Senate Labor-HHS Appropriations Subcommittee Chairman **Tom Harkin**, D-Iowa.

"The grand game here is: Let's see the president veto the bill and if he does, where is the support on an override [attempt]," said one lobbyist familiar with the discussions.

Bush says he will veto the Labor-HHS measure because it spends billions of dollars more than he wants; the House measure, at \$11 billion above his request, fell several votes short of enough for a potential override.

The Senate version is roughly \$9 billion above the request.

"It's going to be a challenge to get this done and through, but clearly the plan is to force the issue and force the choices," said Marcia Mabee, executive director of the Coalition for Health Funding, which represents advocacy groups like the Association of American Medical Colleges and American Public Health Association.

Sending Bush the Labor-HHS bill would "demonstrate to the American people what our priorities are as Democrats. The priorities are health and education, human services, making sure the [Low Income Home Energy Assistance] program has enough money, making sure Pell Grants go out, making sure we have funding for biomedical research, cancer research, that's a very high priority," Harkin said. "For the Republicans, it's not a very high priority, and that's why we're going to show that."

Leadership aides said Reid and **House Speaker Pelosi** have discussed the option but have not made a final decision, in part because the Labor-HHS bill has to clear the Senate. That is shaping up to be at least a weeklong battle with contentious debate over stem-cell language, which Bush is likely to threaten a veto over, as well as funding priorities and earmarks.

One reason Reid has delayed the Labor-HHS measure thus far is because Republicans have threatened numerous amendments.

Debate on appropriations bills thus far has been cordial, but a Senate GOP aide said that will soon change. "It's been a verbal and philosophical fight so far, but the war of amendments is starting" once the Labor-HHS measure comes up, the aide said.

The aide added that Democrats would pay a political price if they "hold hostage" spending for veterans' programs and the Iraq war by delaying final passage of those bills

in favor of their domestic priorities.

Harkin acknowledged that his stem-cell rider could cost votes on the floor.

Nebraska Democratic Sen. **Ben Nelson** voted against the measure in committee, for example. Harkin noted the House bill does not contain similar language, hinting it could be dropped in conference, and lobbyists said that could provide leverage to "trade" for higher spending.

Harkin said he has spoken with Reid about making the Labor-HHS bill the first FY08 spending measure to be sent to Bush.

"I don't have any commitments yet, but I think more and more he's hearing from people that this ought to be the first bill sent to the president," he said.

House Appropriations Chairman Obey, who also chairs the Labor-HHS panel in his chamber, feels the same way, Harkin said.

The Labor-HHS bill represents roughly half of the \$23 billion in overall spending increases above Bush's request.

That is 9.5 percent more than last year's budget, whereas Bush requested about 6.9 percent more. The administration says anything above that level is "excessive."

By contrast, House Budget Committee Democratic staff director Tom Kahn estimated that Bush and the GOP Congress "wiped out a \$5.6 trillion projected surplus and added more to the national debt in six years than every president from George Washington to Ronald Reagan."

A Reid spokesman said Democrats are not looking for a fight on spending.

"I am not sure if the president is trying to change the subject from Iraq or just spoiling for a fight to score political points with his base, but this is a fight that can be avoided," he said.

On the other hand, a lobbyist said Democrats might be picking fights with Bush over domestic policies by default.

"Politically it's the only fight they have, because Democrats right now are incapable of having a coherent Iraq strategy," he said.

In the meantime, Senate Democrats this week will debate the FY08 base Pentagon budget, minus war-funding, as well as the Commerce-Justice-Science bill, in which Democrats will highlight increased funding for law-enforcement that Bush proposed to cut. *By Peter Cohn*

