



## Federal Student Loans

The Federal government makes low-cost student loans available to students and parents through three programs. The two major loan programs are, as follows:

- **FEDERAL FAMILY EDUCATION LOAN PROGRAM** is a public-private partnership in which multiple lenders compete in offering federally guaranteed student loans to students and parents, and guaranty agencies help administer the loans. Guaranty agencies and lenders also offer debt management and default prevention services, among other services, to enhance access and success in postsecondary education. The program was established in 1965 and serves about 75 percent of both postsecondary institutions and student and parent borrowers.
- **WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM:** The Direct Loan program was created in 1993 and is administered by the Department of Education. Loans are made directly by the Federal government to borrowers.

The third program is the **Perkins Loan Program** in which campus-based loans are offered by participating schools to students with the greatest financial need. Schools add their own funds to a federal contribution and then disburse, service, and collect the loans. Perkins Loans usually supplement Stafford Loans and other federal aid. They represent about 2-3 percent of all federal education loans.

### Types of Student Loans

FFELP and the Direct Loan program both offer the following loans:

- **Subsidized Federal Stafford Loans** are for students who pass a financial needs test. The federal government pays all interests costs for borrowers while they are in school, and during grace and deferment periods.
- **Unsubsidized Federal Stafford Loans** are for students who do not meet a financial needs test or who need to supplement subsidized loans. Although borrowers may defer payment of interest during school, grace or deferment periods, they are responsible for all interest that accrues.
- **Federal PLUS Loans** are for parents of dependent undergraduate students as well as graduate and professional degree students. They may borrow up to the cost of attendance per child, minus the financial aid from other sources.
- **Federal Consolidation Loans** help borrowers manage repayment of multiple loans by combining all eligible loans into a single, new guaranteed loan with the option of a longer repayment term, thereby lowering the monthly payment.

For more information see ASLP's "What is FFELP" or "Student Loan Fact Book 2008."

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## What is FFELP?

There are two major federal student loan programs, the largest being the **Federal Family Education Loan Program**. In 2007-08 FFELP served 6.5 million students and parents, lending a total of \$54.7 billion in new loans (or 80 percent of all new federal student loans). FFELP loan providers manage and service more than \$285 billion in loans. Since 1965 it has helped 60 million Americans go to college.

- FFELP is a **public-private partnership** in which lenders – *private, nonprofit and state-based* – make federally guaranteed student loans to students and parents. Borrowers with no income or credit history can get loans at below-market interest rates to help pay for school.
- A major difference between FFELP and the Federal Direct Loan (DL) Program is the traditional source of funds: Lenders use **private capital** to make loans, while the DL program uses taxpayer dollars.
- **Choice and competition are central to FFELP**. The law allows student and parent borrowers to choose which lenders best meet their needs. Schools also choose which loan program best serves their students' needs.
- **Not surprisingly, FFELP is the overwhelming favorite of schools**. About 75 percent of postsecondary institutions participate in FFELP – that's over 4,000 nationwide.
- FFELP loan providers offer the Federal Stafford Loan, the Federal PLUS Loan for graduate students and for parents of dependent undergraduate students. However, the main federal student loan is the **Stafford Loan**. There are the following two types of Stafford loans:
  - **Subsidized**. For students who meet a financial needs test, the government pays all interest costs on behalf of borrowers while they are in school, and during grace and deferment periods. Repayment begins six months after graduation.
  - **Unsubsidized**. Students who do not meet a financial needs test or who need to supplement their subsidized loans may receive unsubsidized Stafford loans. Borrowers may defer payment of interest during school, grace, and deferment periods, but they are responsible for all interest that accrues. Repayment begins six months after graduation.

**Guaranteed student loans were an original Great Society program, proposed by President Johnson in his State of the Union Address in January 1965.**

Type of Loan/2007-08	# of Borrowers	# of Loans	Loan Volume
Stafford subsidized	5.1 million	6.4 million	\$23.6 billion
Stafford unsubsidized	3.9 million	4.9 million	\$22.7 billion
PLUS	616,000	768,000	\$8.3 billion
Total Amounts	6.45 million (unduplicated)	12.0 million	\$54.7 billion

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- **Interest Rates** are set by law, as follows:
  - **For most Stafford loans made before July 1, 2006:** Variable rate applies (changing annually with an 8.25 percent cap).
  - **Stafford loans made beginning July 1, 2006:** 6.8 percent.
  - **New *subsidized* Stafford loans to undergraduates beginning July 1, 2008** (per recent budget reconciliation law):
    - 6.0 percent for a loan first disbursed between July 1, 2008, and June 30, 2009
    - 5.6 percent for a loan first disbursed between July 1, 2009, and June 30, 2010
    - 4.5 percent for a loan first disbursed between July 1, 2010, and June 30, 2011
    - 3.4 percent for a loan first disbursed between July 1, 2011, and June 30, 2012
    - Interest rate under the new law does not extend to loans disbursed after June 30, 2012. The rate for these new loans will revert to 6.8 percent.
  - The law did not affect new *unsubsidized* Stafford loans. The rate remains 6.8 percent.
  - **PLUS Loans** made beginning July 1, 2006: 8.5 percent.<sup>1</sup> For PLUS Loans made before July 1, a variable rate applies (with a 9.00 percent cap).
- FFELP loan providers do more than just make or guarantee loans – they offer a **continuum of services**, from college awareness programs to college nights, financial aid seminars to debt management and default avoidance counseling.
- Who are FFELP loan providers?
  - They include **state-based and nonprofit guaranty agencies**, some of which actually predate the federal student loan program. These organizations have longstanding, deep roots in their communities.
  - They include a **wide range of education and financial institutions**, such as:
    - Large, money-center banks, regional banks and community banks
    - Credit unions
    - Nonprofit lenders and secondary markets.

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<sup>1</sup> Because of a drafting error in the Higher Education Reconciliation Act of 2005, enacted February 8, 2006, the interest rate on PLUS loans made by the Federal Direct Loan program is 7.9 percent.

**FACT SHEET:  
A COMPARISON OF FEDERAL STUDENT LOAN PROGRAMS**

<b>CONSUMER CHOICE</b>	<b>YES</b> , students and parents have a choice of hundreds of lenders and decide which ones best meet their needs. In fact, FFELP is the only federal student loan program that offers <b>consumer choice</b> .	<b>NO</b> , the federal government is the sole lender, and it contracts out for loan servicing.
<b>COMPETITION</b>	<b>YES</b> , students and parents benefit from <b>superior service</b> and <b>continuous innovation</b> and have saved millions of dollars through borrower benefits.	<b>NO</b> , at the schools it serves, the Direct Loan program has no competition, and borrowers have no choice.
<b>SCHOOL OPTIONS AND FLEXIBILITY</b>	<b>YES</b> , in FFELP, schools have <b>real options</b> . They have the flexibility to work with multiple lenders and identify those that offer superior customer service and competitive terms.	<b>NO</b> , schools must work with the Department of Education and the servicer it selects.
<b>CONTINUOUS INNOVATION</b>	<b>YES</b> , investments in innovation are <b>market-driven</b> and <b>customer-focused</b> . Because lenders compete, there's powerful incentive to introduce more efficient and convenient technologies and processes.	<b>NO</b> , without competition, there is little incentive to innovate.

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<p><b>DELINQUENCY &amp; DEFAULT PREVENTION PROGRAMS</b></p>	<p><b>YES</b>, schools receive <b>comprehensive and customized</b> delinquency and default prevention services. Guarantors and lenders work closely with schools and students in helping students manage repayment and avoid default.</p> <ul style="list-style-type: none"> <li>– These comprehensive services resulted in more than \$52 billion in delinquent FFELP loans being successfully returned to repayment status in FY 2007.</li> <li>– For loans that did default, FFELP participants were able to rehabilitate \$2.24 billion in FY08, clearing well over 200,000 borrowers’ credit records and restoring their eligibility for federal student assistance.</li> </ul>	<p><b>NO</b>, only the minimum required by statute with no customized services and products tailored to needs of schools and borrowers.</p>
<p><b>LOAN RECONCILIATION PROVIDED</b></p>	<p><b>YES, lenders and guarantors – not schools – are responsible for reconciliation</b>, much of which is performed before the loan dollars are disbursed.</p>	<p><b>NO</b>, the school is entirely responsible for loan reconciliation.</p>
<p><b>CUSTOMIZED SERVICE</b></p>	<p><b>YES</b>, schools benefit from customized loan processes and materials. Customer service is market-driven, customer-focused, <b>tailored to the needs and circumstances</b> of institutions and its students.</p>	<p><b>NO</b>, customer service is one-size-fits-all, regardless of the size, technological capability and resources of institutions.</p>
<p><b>DEDICATED CUSTOMER SERVICE REPS</b></p>	<p><b>YES</b>, dedicated customer service reps answer questions, <b>help borrowers</b> through the application process and provide the flexibility of <b>fast, easy, online processes</b>. Consultative service and experts assist schools with processing needs.</p>	<p><b>NO</b>, schools and borrowers contact <i>the</i> loan servicer who “starts from scratch” to respond to each inquiry.</p>
<p><b>FINANCIAL EDUCATION</b></p>	<p><b>YES</b>, FFELP participants offer families across the nation a <b>wide range</b> of financial literacy programs and workshops – <b>free-of-charge</b>.</p>	<p><b>NO</b>, financial education is not a component of the Direct Loan program.</p>

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<p><b>COLLEGE AWARENESS PROGRAMS</b></p>	<p><b>YES</b>, FFELP's guarantors and many lenders sponsor college awareness programs, such as <b>college nights, financial aid workshops, web sites</b> (e.g., <a href="http://www.mappingyourfuture.org">www.mappingyourfuture.org</a>), programs that promote college preparation and need-based scholarships.</p>	<p><b>NO</b>, these services are not a component of the Direct Loan program.</p>
<p><b>BETTER FOR TAXPAYERS</b></p>	<p><b>YES</b>, the hallmark of the guaranteed student loan program is that private capital, not taxpayer dollars, fund loans, so there is <b>no impact on the national debt</b>. Plus, according to the Pres.'s FY 2009 Budget, FFELP costs taxpayers less to operate – FFELP's FY 2008 subsidy rate is 1.44 cents per dollar loaned, as compared to 2.26 cents per dollar loaned for Direct Lending.</p>	<p><b>NO</b>, every dollar lent adds to the national debt and costs taxpayers more.</p>

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## What Is America's Student Loan Providers?

America's Student Loan Providers (ASLP) represents more than 80 leading providers of higher education funding. Our members include lenders and guaranty agencies that provide federally guaranteed student loans through the Federal Family Education Loan Program (FFELP), a public-private partnership that has financed the dreams of millions of Americans since 1965. Our members are non-profit, state-based as well as private, for-profit organizations.

Although our members may compete with one another, all agree that FFELP is the most efficient and effective way to provide student loans. By leveraging private financial markets and competing to serve schools, students and parents, we bring value to borrowers, schools and taxpayers. In fact, ASLP members offer low-cost loans and superior levels of service to millions of students and most of the 5,000 postsecondary institutions that participate in FFELP. More information is available at [www.aslp.us](http://www.aslp.us) or call 202.721.1190

### ASLP MEMBERS

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<a href="#">Access Group</a>	<a href="#">Montana Guaranteed Student Loan Program</a>
<a href="#">Alaska Student Loan Corporation</a>	<a href="#">Montana Higher Education Student Assistance Corporation</a>
<a href="#">ALL Student Loan Group</a>	<a href="#">National City Bank</a>
<a href="#">AmSouth</a>	<a href="#">National Council of Higher Education Loan Programs</a>
<a href="#">Arizona Higher Education Loan Authority</a>	<a href="#">National Student Loan Program</a>
<a href="#">Arkansas Student Loan Authority</a>	<a href="#">Navy Federal Credit Union</a>
<a href="#">Bank of America</a>	<a href="#">Nellie Mae</a>
<a href="#">Bank One Education Finance</a>	<a href="#">Nelnet</a>
<a href="#">Brazos Higher Education Service Corporation</a>	<a href="#">New Hampshire Higher Education Assistance Foundation</a>
<a href="#">California Student Aid Commission/EDFUND</a>	<a href="#">New Hampshire Higher Education Loan Corporation</a>
<a href="#">Chela Education Financing</a>	<a href="#">New Jersey Higher Education Student Assistance Corporation</a>
<a href="#">Citibank, The Student Loan Corporation</a>	<a href="#">NextStudent</a>
<a href="#">Citizens Bank</a>	<a href="#">North Carolina State Education Assistance Authority</a>
<a href="#">College Invest</a>	<a href="#">North Texas Higher Education Authority</a>
<a href="#">Collegiate Funding Services</a>	<a href="#">Oklahoma Guaranteed Student Loan Program</a>
<a href="#">Colorado Student Loan Program</a>	<a href="#">Oklahoma Student Loan Authority</a>
<a href="#">Connecticut Student Loan Foundation</a>	<a href="#">OneSimpleLoan</a>
<a href="#">Consolidation Assistance Program</a>	<a href="#">Oregon Student Assistance Commission</a>
<a href="#">Consumer Bankers Association</a>	<a href="#">Panhandle-Plains Higher Education Authority, Inc.</a>
<a href="#">Edsouth</a>	<a href="#">PNC Bank</a>
<a href="#">Educaid, Wachovia Corporation</a>	<a href="#">Rhode Island Higher Education Assistance Authority</a>
<a href="#">Education Assistance Corporation (South Dakota)</a>	<a href="#">Rhode Island Student Loan Authority</a>
<a href="#">Education Services Foundation</a>	<a href="#">Sallie Mae</a>
<a href="#">Educational Credit Management Corporation (ECMC)</a>	<a href="#">South Carolina Student Loan Corporation</a>
<a href="#">Finance Authority of Maine</a>	<a href="#">Southwest Student Services Corporation</a>
<a href="#">Greater Texas Foundation</a>	<a href="#">Student Assistance Foundation (Montana)</a>
<a href="#">Higher Education Services Corporation (New York)</a>	<a href="#">Student Loan Finance Association</a>
<a href="#">Illinois Student Assistance Commission</a>	<a href="#">Student Loan Funding</a>

[Indiana Secondary Market for Education Loans, Inc.](#)  
[Iowa College Student Aid Commission](#)  
[JPMorgan Chase](#)  
[Kentucky Higher Education Assistance Authority](#)  
[Kentucky Higher Education Student Loan Corporation](#)  
[Key Bank USA, N.A., Key Education Resources](#)  
[LoanStar Funding Group, Inc.](#)  
[LoanStar Systems, Inc.](#)  
[Louisiana Education Loan Authority](#)  
[MHEAA – Michigan Guaranty Agency](#)  
[Michigan Higher Education Student Loan Authority](#)  
[Missouri Higher Education Loan Authority \(MOHELA\)](#)

[Student Loan Guarantee Foundation of Arkansas](#)  
[Student Loans of North Dakota](#)  
[SunTrust Education Loans](#)  
[Tennessee Student Assistance Corporation](#)  
[Texas Guaranteed Student Loan Corporation](#)  
[USA Funds](#)  
[U.S. Bank](#)  
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