September 10, 2009

The Honorable Jim Cooper
1536 Longworth House Office Building
Washington, DC 20515

Dear Congressman Cooper:

The House of Representatives will soon consider H.R. 3221, the Student Aid and Fiscal Responsibility Act which would fundamentally restructure the federal student aid system and funnel the projected savings into a variety of higher education and K-12 programs as well as deficit reduction. While Vanderbilt supports efforts to restructure and expand federal student aid programs, we have serious reservations about this legislation.

As you know, one proposed change has to do with the Direct Loan (DL) program, in which the government acts as the lender, and the Federal Family Education Loan (FFEL) program, in which lending institutions provide loans to students. Vanderbilt has a long and successful history of participation in the FFEL program which has provided our students with superior loan products, service, and choice in their federal loans for many years.

Earlier this year, the administration proposed eliminating the FFEL program, requiring all institutions to participate in DL and using the projected $87 billion in savings over 10 years from this switch to fund a mandatory Pell Grant and expand the Perkins Loan program.[Other estimates have put the ten-year savings figure at closer to $47 billion.] H.R. 3221 seeks to implement those proposals. Unfortunately, the legislation has attracted a host of other education-related provisions which, while perhaps meritorious in their own right, we believe should not be attached to federal student aid legislation.

We applaud and strongly support a number of provisions of H.R. 3221:
• **Modest increases to Pell Grants.** Any increase in Pell Grants is deeply appreciated and will benefit undergraduate students. Although the bill does not create the mandatory Pell Grant proposed by the administration, it calls for $40 billion of the projected savings to be invested in the Pell Grant program, moving it toward a $6,900 maximum grant by 2019.
• **Converts Stafford Loan interest rates from fixed to variable.** The bill provides $3.25 billion to change the fixed interest rates on subsidized loans to a variable rate capped at 6.8 percent.
• **Simplifies the FAFSA.** We support reasonable efforts included in the bill to simplify the FAFSA for federal student aid programs.

**Eliminating the FFEL Program**

Our overarching concern with H.R. 3221 is that the legislation forces institutions, including Vanderbilt, to switch to Direct Lending. Of additional concern is the fact that the proposed legislation does not then direct all of the savings from this federal mandate back into federal aid programs. **Vanderbilt opposes the elimination of the FFEL program.** We encourage Congress to carefully study the many alternate proposals to a mandatory conversion to DL. In addition to our concerns about the elimination of choice, competition, and the high level of services, products and debt management that we believe would come with this switch, we are very concerned that the proposed timeframe for this mandated conversion is unreasonable. Institutions will need sufficient time to make changes to their IT systems and update their printed and on-line recruitment materials. Completing this by the proposed July 1, 2010 deadline is simply not feasible. In fact, Vanderbilt has already printed many of its recruitment materials and launched its 2010-2011 admissions and financial aid efforts. We would advise that, if a mandated conversion to DL is implemented, the earliest effective date be July 1, 2011.

**A New Perkins Loan Program**

The bill restructuring the Perkins Loan program into essentially a second DL program that is campus-based, with an additional $5 billion. The legislation proposes a complex institutional allocation formula based on holding
past participants, such as Vanderbilt, harmless, while significantly expanding participation based on low tuition and improved Pell recipient graduation rates. We believe that a Perkins program allocation formula should be based on the aggregate need of an institution’s students relative to the aggregate need of all students at institutions participating in the program nationally, subject to and including the hold harmless provisions.

While Vanderbilt supports expanding participation in the Perkins Loan program as well as the provisions that would hold harmless existing participants, we are troubled by proposals to eliminate the in-school interest subsidy and loan forgiveness programs. These features have made Perkins Loans uniquely attractive for many of our students. Vanderbilt also opposes proposals to require institutions to pay the accrued interest while students are still enrolled in school. This would impose significant costs on our financial aid budget and could jeopardize our participation in the program. H.R. 3221 is also not clear as to whether institutional matching funds will be required or how that determination would be made.

**Creates Access, Completion, and Persistence Grant Programs**

Included in the bill is $3 billion for the College Access Challenge Grant program. These funds would be allocated primarily to states and guaranty agencies with a small portion retained for a national competition. While Vanderbilt supports the goals of this program, and is proud of our 95 percent freshman retention and 92 percent six-year graduation rates, we are concerned that diverting up to 75 percent of the funding to the states could severely restrict the ability of private institutions to compete for the funding and could inappropriately increase state oversight of private institutions. We also believe that any savings generated from the switch to DL should remain in the existing federal student aid programs.

In addition to these, there are several other provisions of the legislation that are troubling to us:

- **Family Asset Cap.** Students with family assets of more than $150,000 would be ineligible for any need-based federal aid. While the value of a family's house, farm, business, or employee pension benefit plan would be excluded, we believe this cap should be increased to at least $250,000, geographic factors should be applied, and an option established for financial aid administrators to be able to use their professional judgment to determine when students and parents in unique circumstances can be held harmless by this provision.

- **Beyond Student Aid.** H.R. 3221 goes far beyond federal student aid to include funding for other higher education programs as well as K-12 school construction and early childhood education. We believe that all savings generated from the switch to DL should remain in these programs. These initiatives, while potentially meritorious, should be funded through avenues other than student aid programs’ savings.

H.R. 3221 truly is a mixed bag. While Vanderbilt supports the significant new investment in the Pell Grant program, we are concerned that allocations to other initiatives have significantly reduced the possible level of support for the Pell Grant program. We remain strongly opposed to the elimination of the FFEL program. And, although it could bring low-cost Perkins Loans to millions of new students, we are troubled by proposals to eliminate the in-school interest subsidy and other changes to that program.

Vanderbilt remains committed to the federal student aid programs, which provide a foundation to our aid packages for both undergraduate and graduate students. We look forward to continuing to work with you to ensure that all capable and eligible students, regardless of financial circumstances, are able to access and complete post-secondary education. If you have any questions or if I can provide any additional information, please let me know.

Sincerely,

Christina D. West
Director of Federal Relations

c: Beth Fortune, Vice Chancellor for Public Affairs
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