

# Higher Education

By Denice Vélez

## The Problem

### College costs have risen faster than inflation

- Since President Bush took office, the inflation-adjusted tuition and fees of attending a four-year public college or university increased by 61%, or \$2,296.<sup>1</sup>

### Federal student aid programs have not kept up

- The share of public college costs covered by maximum Pell Grant award declined from 42% in 2001-02 to 32% in 2006-07.<sup>2</sup>
- As a share of tuition and fees, the maximum Pell Grant award in 2006-07 was the lowest in the history of the program.<sup>3</sup>
- As college costs increased and grants stagnated, the average amount borrowed through the Stafford Loan program also shrunk, declining by 5% in inflation-adjusted terms between 2001-02 and 2006-07.<sup>4</sup> Instead, students borrowed through the pricier parent (“PLUS”) loans which average amount increased by 20%.<sup>5</sup>

### More students are forced to turn to private, more expensive loans

- In 2000-01, 88% of undergraduate loans came from federal government;<sup>6</sup> by 2006-07, this share had dropped to 76%.<sup>7</sup>
- Private loans often carry higher interest rates—up to 20%—while federal loans are capped at 6.8%.<sup>8</sup> Private loans can also be difficult for lower income students to obtain.<sup>9</sup>

## What has President Bush done?

### President Bush sought to cut education funds.

- Although education funds have increased since 2001, President Bush has consistently attempted to reduce education funds, proposing to lower funding in both his 2008 and 2009 education budgets.<sup>10</sup>

### President Bush has failed to invest in loans that are cost effective.

- Government pays a subsidy of 11% for guaranteed loans and 3.65% for direct loans,<sup>11</sup> meaning that for every \$100 lent, taxpayers pay roughly \$7 more on guaranteed loans.<sup>12</sup>
- During President Bush’s tenure, the mixture of government loans has trended toward loan guarantees and away from direct loans. In the first six years of President Bush’s tenure, direct loans dropped from 33% of total federal education loans to 23%, while loan guarantees, which cost taxpayers more money, rose from 67% to 77%.<sup>13,14</sup>

- If all 2007 loan funds were invested in direct loans, \$6 billion could have been saved and used to provide more direct loans for low-income students.<sup>15</sup>

### **President Bush raised interest rates on student loans.**

- In 2006, President Bush increased interest rates on Stafford loans, cutting over \$12 billion from the federal student loan program.<sup>16</sup>

## **What has President Bush failed to do?**

### **President Bush failed to increase the size of Pell Grants**

- Under President Bush and a Republican-controlled Congress, the maximum award for the Pell Grant remained frozen at \$4,050 for four years, and the average grant size fell by over 5% during President Bush's tenure.<sup>17</sup>
- When a new Congress passed the College Cost Reduction and Access Act in 2007 to increase the size of Pell Grants, President Bush initially threatened to veto the legislation.

### **The Bush Administration sat back as loan companies brokered sweetheart deals with universities**

- Loan companies gave payoffs to universities and their officials in exchange for steering students toward their companies.<sup>18</sup>
- The Bush administration allowed the overpayment of about \$578 million in subsidies to student lenders from 2003 to 2006, even after being warned by the Government Accountability Office.<sup>19</sup>
- President Bush neglected regulatory policies that had begun to circulate at the end of the previous administration that could have prevented this from happening.<sup>20</sup>
- A senior Education Department official under the Bush administration has been placed on leave during investigation for having a conflict in interest. Matteo Fontana owned stock in a student loan company while overseeing the lending program.<sup>21</sup>

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<sup>1</sup> Author's calculations, comparing 2001-02 with 2007-08, based on College Board ([http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_pricing\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf))

<sup>2</sup> The average Pell Grant per recipient, \$2,494 in 2006-07, was 5.3 percent lower than it was in 2001-02, according to the College Board. [http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_aid\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf)

<sup>3</sup> Graph illustrates the lowest point is 2006-07.

[http://www.google.com/search?q=college+board+the+proportion+of+college+charges+covered+by+the+maximum+pell+grant&rls=com.microsoft:\\*&ie=UTF-8&oe=UTF-8&startIndex=&startPage=1](http://www.google.com/search?q=college+board+the+proportion+of+college+charges+covered+by+the+maximum+pell+grant&rls=com.microsoft:*&ie=UTF-8&oe=UTF-8&startIndex=&startPage=1)

<sup>4</sup> "Trends in Student Aid" *College Board*, 2007, Table 4

[http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_aid\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf)

<sup>5</sup> "Trends in Student Aid" *College Board*, 2007, Table 4

[http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_aid\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf)

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- <sup>6</sup> College Board *2007 Trends in Higher Education Series: Student Loans*  
[http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/student\\_loans.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/student_loans.pdf)
- <sup>7</sup> College Board *2007 Trends in Higher Education Series: Student Loans*  
[http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/student\\_loans.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/student_loans.pdf)
- <sup>8</sup> Schemo, Diana. "Private Loans Deepen a Crisis in Student Debt," *New York Times*, June 10, 2007  
<http://www.nytimes.com/2007/06/10/us/10loans.html?ex=1339214400&en=f2e976b7c1424284&ei=5124&partner=digg&exprod=digg>
- <sup>9</sup> Roy, Joydeep, "Government grants and loans cover less of college costs" November 15, 2006  
[http://www.epi.org/content.cfm/webfeatures\\_snapshots\\_20061115](http://www.epi.org/content.cfm/webfeatures_snapshots_20061115)
- <sup>10</sup> "Summary of Discretionary Funds," *Department of Education*, January 2008  
<http://www.ed.gov/about/overview/budget/budget09/summary/appendix1.pdf>
- <sup>11</sup> Sabastini, Kate, Irons, John S. *Student Loans in Bush's Budget* February 7, 2006  
<http://www.americanprogress.org/issues/2006/07/studentloans.html>
- <sup>12</sup> Sabastini, Kate, Irons, John S. *Student Loans in Bush's Budget* February 7, 2006  
<http://www.americanprogress.org/issues/2006/07/studentloans.html>
- <sup>13</sup> "Table 4.—Federal Family Education Loan (FFEL) program and Federal Direct Loan Program (FDLP) comparison of committed loan volume: FY97-FY00," *Department of Education*  
<http://www.ed.gov/finaid/prof/resources/data/fslpdata97-01/table4.xls>
- <sup>14</sup> "Fiscal Year 2007 Budget Summary" *Department of Education*, February 6, 2006  
<http://www.ed.gov/about/overview/budget/budget07/summary/edlite-section2d.html>
- <sup>15</sup> Jonathan Sabastini, Kate, Irons, John S. *Student Loans in Bush's Budget* February 7, 2006  
<http://www.americanprogress.org/issues/2006/07/studentloans.html>
- <sup>16</sup> Weisman and Shailagh Murray, "GOP Leaders Agree to \$41.6 Billion Spending Cut; Deal Includes Defense Bill With Arctic Drilling; Reductions in Medicaid, Student Programs Also Planned," *The Washington Post*, December 19, 2005  
<http://www.washingtonpost.com/wp-dyn/content/article/2005/12/18/AR2005121801093.html>
- <sup>17</sup> The average Pell Grant per recipient, \$2,494 in 2006-07, was 5.3 percent lower than it was in 2001-02, according to the College Board. [http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_aid\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf)
- <sup>18</sup> Arenson, Karen W. "Report Details Deal in Student Loan Industry" June 15, 2007  
<http://www.nytimes.com/2007/06/15/washington/15loans.html>
- <sup>19</sup> Paley, Amit. "Confusion Cited in Overpayment to Student Lenders" October 20, 2007  
<http://www.washingtonpost.com/wp-dyn/content/article/2007/10/19/AR2007101902607.html>
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