

Let VSAC help

Imagine you are soon to become a college freshman and it is time for you to line up a package of financial aid that will make college affordable.

Your college's financial aid office may have sent you a package including a variety of grants and loan options. It is confusing to you. Are these the best interest rates, the best sources of loan money? It's hard to tell. So you go to the Vermont Student Assistance Corp. headquarters in Winooski.

Counselors there are trained to work with you to winnow the choices down to the ones that make sense for you. VSAC is a major source of federal loans, and the interest you pay on your loans pays for the counseling services that help you figure out what to do. There are other sources of federal loans that pass through banks, leaving VSAC out of the process. You can avail yourselves of those as well.

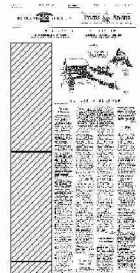
VSAC is a nonprofit agency established by the state of Vermont, and it employs about 350 people to carry out its multimillion dollar loan business. Now it is in danger because of President Obama's student loan reform proposal, which passed the House last week.

An amendment introduced by Rep. Peter Welch of Vermont could save part of VSAC's role in the student loan business, but as the Senate takes up the bill, Sens. Bernard Sanders and Patrick Leahy ought to pitch in on behalf of nonprofits like VSAC, which remain excellent vehicles for the administration of the federal government's loan programs.

The intention of Obama's reform is laudable. Obama wants to cut out the roles of banks, which rack up hefty profits that might otherwise go to paying for education. Instead, the federal government would administer the loans directly.

Republican critics don't like the federal takeover of the student loan business, equating Obama's student loan reforms to health reform. To them it is another unnecessary expansion of big government.

But the loan money is coming from the government. There is no reason to siphon part of it off to private banks. The purpose of the loan program is not to pad the bottom lines of banks, but to help



students pay for college. Cutting out the banks is not example of big government. It is an example of smaller government because the new loan programs will actually save billions of dollars.

And yet someone has to administer the programs. The federal government is not prepared to offer counseling services at the local level or to service the loans over the term of their repayments. If changes aren't made to Obama's bill, the loans will be handled by a distant federal office and then the servicing would be contracted out to banks. Meanwhile, the government would gain the interest now going to banks, increasing the money available for loans and expanding opportunity for students. In addition, part of the money saved would also be used to reduce the deficit.

Welch's amendment would allow agencies like VSAC to bid for contracts from the federal government to offer counseling services and to bid on the job of servicing federal loans. But that is a far cry from the services VSAC and similar agencies now provide.

A number of states have agencies similar to VSAC. Why can they not be the vehicle for administering the federal government's direct loan program? They are closer to the students and their families than offices in Washington, D.C., and they already have expertise on the ins and outs of student loan financing. The new legislation can set down limits on interest and the way the agencies can use their money. But for states benefiting from services like VSAC's it is not necessary to reinvent the wheel.

In fact, the new legislation could be used to encourage states without a VSAC to develop one. Where that doesn't occur, the federal government can provide options for students who otherwise might be sending off interests payments to private banks.

The struggle over student loans is indicative of the larger political struggle undertaken by Obama to reverse the tide toward privatization undertaken by the Bush administration. It was President Bush's aim to let private companies have part of the take from the flow of federal money. Thus, federal money was needlessly diverted to health insurance companies and banks. If Bush had had his way, Social Security money would have been diverted to Wall Street, with disastrous consequences.

Obama is trying to let the government take care of government business, getting the hand of big business out of the government's pocket. It is a worthy effort. But enlisting the help of nonprofit agencies such as VSAC is an efficient and effective way to achieve that end.