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*Weekly Financial Article for the Week of September 17, 2007*

## **The New Student Loan Bill**

### ***We're a signature away from sweeping changes in student aid.***

President Bush appears poised to sign the Higher Education Access Act of 2007 into law. If he does, some big changes in student aid will occur starting October 1. This new bill aims to redirect billions of dollars into the public sector for student assistance, away from private sector student loan programs.

**A response to scandals.** In May, Congressional investigations revealed that some loan companies had tempted university financial aid officers with free trips, gifts and stock options to entice new business. H.R. 2669, sponsored by Rep. George Miller (D-CA) and Sen. Edward Kennedy (D-MA), seeks to erase such conflicts of interest. If it becomes law, it will slash billions in subsidies earmarked for lenders who finance college loans and use the savings to fund a \$20.2 billion federal increase in student aid.

**Revamping loans and grants.** If the President signs H.R. 2669 into law, interest rates on subsidized student loans will be cut from 6.8% to 3.4% during the next four years (although rates will revert back to 6.8% at the end of this four-year period). Monthly payments on federally backed student loans will be limited to 15% of the borrower's discretionary income. Pell grants for middle-income and low-income students will be raised to \$5,400.

**Debt forgiveness.** According to the Department of Education, the average collegian now graduates with more than \$19,000 in debt. H.R. 2669 would permit student loan debts to be forgiven if students spend 10 or more years in a public service career following graduation. Teachers, police officers, and firefighters could qualify, as could other types of public servants.

**Bidding for business.** If signed into law, the bill would also lead to an unusual auction of sorts: lenders would have to bid for the right to offer subsidized college loans to parents in a particular state. The two lowest bidders in each state would win permission.

**Quote of the week.** "A friendship founded on business is a good deal better than a business founded on friendship."— John D. Rockefeller

**Riddle of the week.** A man pulls socks from a drawer in a pitch-dark room. The drawer has only six socks in it, and all are either black or white. If he chooses two socks, his chances of drawing a white pair are 66.6%. What are the chances of him drawing out a black pair? (Read the answer here next week.)

**Answer to last week's riddle:** Burgundy, champagne, cocoa, coffee, cream, wine.