

Bush plan would raise grants to low-income students

Lender subsidies would go down

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USA TODAY

The budget President Bush proposed Monday would increase federal grants to low-income college students by 33% over five years and pay for it by reducing subsidies to private lenders.

The Bush plan calls for raising the maximum Pell grant, which hasn't been increased since 2003, to \$5,400 from \$4,050 over five years.

To offset the cost, the administration proposes reducing interest-rate subsidies to private lenders by half a percentage point. The reduction would save the government an estimated \$12.4 billion over five years, the Bush administration said.

Lenders that provide federally guaranteed student loans denounced the proposal. Sallie Mae, the largest lender, said in a statement that the cuts would cause fewer lenders to participate in the federal loan program.

Also critical was the Consumer Bankers Association, which said the cuts would slash lenders' profit margins by about 20%.

"Driving away banks from this program will leave students' with

Pell grant stagnant

The maximum Pell grant hasn't been increased since 2003. Maximum amounts:

1996-97	\$2,470
1997-98	\$2,700
1998-99	\$3,000
1999-00	\$3,125
2000-01	\$3,300
2001-02	\$3,750
2002-03	\$4,000
2003-04	\$4,050
2004-05	\$4,050
2005-06	\$4,050

Source: Finaid.com

either a government monopoly or an oligopoly of loan providers and

Plan would shift air traffic control financing, 1B

few, if any, of the benefits currently provided by competition," CBA President Joe Belew said in a statement. "Without banks in the student loan program, graduates can look forward to IRS-style quality of service."

News of the plan sparked a sell-off in shares of publicly traded lenders. Sallie Mae's shares fell \$4.09 to \$42.37, a decline of 8.8%. Shares of Nelnet, a Lincoln, Neb.-based lender, fell \$2.65 to \$25.05, a drop of 9.6%.

Consumer groups and student advocates countered that lenders

are highly profitable and could easily withstand lower subsidies. Student lenders are "one of the most heavily subsidized and lucrative financial industries" in the country, said Luke Swarthout of the U.S. Public Interest Research Group's Higher Education Project.

Sen. Edward Kennedy, D-Mass., chairman of the Senate Health, Education, Labor and Pensions Committee, called the current level of subsidies "outrageous," and said the Bush plan "shows how a Democratic Congress is changing the nation's priorities on student aid."

Robert Shireman, director of the Project on Student Debt, said the proposal will spark a healthy debate in Congress, which must ap-

prove any final budget plan. "This is a good time for Congress to look at what the level of subsidies should be and how do we get the most bang for our taxpayer dollars," he said.

Though Pell grants are the primary source of federal aid for low-income students, the value of the grants hasn't kept up with tuition inflation.

Pell grants covered only 33% of the average cost of tuition, fees, room and board at a public college or university in 2005-06, down from 42% in 2001-02, according to the College Board.

Twenty years ago, the maximum Pell grant covered nearly 60% of that cost.