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Obama to Lay Out Student-Debt Plan

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DENVER—President Barack Obama will announce a plan Wednesday that would allow Americans to consolidate and reduce interest rates on their student loans, the latest in a string of narrowly tailored moves designed to jolt the economy.



WSJ's Laura Meckler details President Obama's plan that would allow for the consolidation of student loans and the reduction of interest rates. Also, Obama paid a visit to 'The Tonight Show' Tuesday night. Photo: AFP Photo/Jewel Samad

The centerpiece of the plan Mr. Obama is expected to unveil here would allow the estimated 5.8 million people who hold both direct government student loans and government-backed private loans to consolidate their debts into one government loan.

The switch would help borrowers because the U.S. would essentially be refinancing the private loan at the lower government rate. Administration officials estimate borrowers would receive a reduction of up to 0.5% in their interest rate.

The president is also expected to say the administration is moving up the start of a program approved by Congress that

caps monthly student-loan payments for borrowers with low incomes, from 2014 to 2012.

Wednesday will be the third day in a row Mr. Obama has announced an executive action aimed at bypassing Congress, including a housing refinancing plan and a proposal to train and hire veterans. The switch in emphasis comes in the face of staunch Republican opposition to his jobs package, which hasn't advanced in Congress despite weeks of presidential advocacy.

The student loan program is particularly popular with key Democratic constituencies. The issue is of great concern to young people, who make up an important part of Mr. Obama's political base. And many in the Occupy Wall Street movement say there should be relief for what can be crushing student debt.

A spokesman for House Speaker John Boehner (R., Ohio) declined to comment until details were formally released. Mr. Boehner, like most members of his party, has opposed previous Democratic efforts to rein in private student-loan companies, which included a provision in last year's health-care overhaul that nixed subsidies to them.

Alexandra Haynes Sollberger, spokeswoman for the House Education and Workforce Committee, called the move "another example of the Obama administration making changes to federal education policy behind closed doors."

Julie Margetta Morgan, a policy analyst at the liberal think tank Center for American Progress, called the Obama plan a step in the right direction, but said that without Congress on board, the White House can't advance "the kind of really big changes we want to see."

Some student lenders are concerned about the White House move to encourage borrowers to refinance their loans because it could cut into their business. Banks and other firms that supply student loans stand to lose assets and likely lose income because of the conversion, said Shelly Repp, president of the National Council of Higher Education Loan Programs, Inc., which represents lenders.

Investors sharply sold off the stocks of some lenders, such as SLM Corp., parent of Sallie Mae, which saw its stock fall by nearly 13% Tuesday. Shares of education-finance company Nelnet Inc. fell by nearly 7%.

American consumers are starting to shed debt as a result of the recent recession, with student loans being the exception. In June 2010, total student-loan debt exceeded total credit-card debt for the first time, according to Mark Kantrowitz, a student financial-aid expert and publisher of FinAid.org and Fastweb.com. College tuition, meanwhile, is rising at an average rate of 5.6% a year, according to the College Board, a nonprofit association.

In September, the U.S. Department of Education released data showing the percentage of federal student-loan borrowers who defaulted in fiscal 2009 rose to 8.8% from 7% the previous year.

AnaTeresa Bagatella, a Purdue University fitness-management major, started taking out student loans in 2009, when she entered college. Now, 20-year-old Ms. Bagatella has about \$10,000 in debt and expects to need another \$15,000 by the time she hopes to graduate in 2013. "I'm already worried about loans and debt, and I'm not even out of school yet," she said.

The loan consolidation effort is aimed only at borrowers who hold two types of student loans—government-backed loans issued by the private sector known as Federal Family Education Loans and direct loans issued by the government.

The second move will accelerate a program designed to cap repayments. Existing rules allow graduates to limit payments to 15% of their income, with all debt forgiven after 25 years of payments. Congress has changed the program to allow borrowers in 2014 to pay 10% of income, with loans forgiven after 20 years. Mr. Obama will say the program will start next year, not 2014.

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