

MESSAGE FROM THE PRESIDENT OF HILLSDALE COLLEGE

When the circus in Washington, D.C., finally passed the health care bill on the last weekend in March, a student loan component was included. This has led many kind people to call us to find out if our students will still be able to get student loans. I write to explain that, to say something about these changes in student loans, and to discuss how our student loans work here.

First of all, thank you for your concern. We are fine. We do not participate in any federal or state education subsidies, direct or indirect. This includes the loan programs. Although private banks are forbidden now to make the subsidized federal student loans, they can still make ordinary loans—those without the federal guarantee. These are the only kind we have here, and so we are not directly affected by these changes.

Second, what were the changes? That is where the whole thing looks like a circus, except for it not being funny.

Probably you followed the health care bill, its various midnight passages, the trickery with which the final passage came, and the predictions about its expense. Like most businesses, we are expecting our health care costs to go up 20 or 30 percent in the short term. This is a shame, because we have used health savings accounts here to keep those costs well under control for years now. Many of our employees have built up balances in these personally-owned bank accounts to defray ordinary health care costs. That system will have to be abandoned unless the bill is repealed, for which we pray.

The clowns began to perform right at the end of the circus, when education came into the bill. In order to “save” money to spend on health care, Congress decided that the government would become the direct lender to students for federally subsidized loans. Private banks will be cut out. Now those lean and hungry cost cutters at the Department of Education will do the job directly, thereby saving the taxpayer a lot of money that can then be spent on health care. No need to wait for the savings to come in; we can spend them now.

Make no mistake, the existing federal student loan system is probably very inefficient. Repayment rates are spotty and expenses are high. But at least the system until now has had an element of competition in it. Private banks, in competition for business, could make more money by running things efficiently. Now there is only the bureaucracy in Washington, which faces no competition.

One does not know whether to laugh or cry. I suppose at tax time, one will have to cry.

Third, how do our own student loans work? They work in three different ways, none of them involving either federal or state government. First, we have a pool of loans that are made directly by the College to students from private resources it has accumulated for that purpose. Supported by our Student Independence Grant and Loan Fund, these loans have been in existence for many years now, and they are self-sustaining. When one student pays the money back, another is able to receive the loan. Repayment rates are very high: our most recent numbers show a default rate of only 1.7 percent, compared with a 7.2 percent default rate on student loans nationally.

In a second kind of pool, Hillsdale students get loans from private banks. The College has an arrangement with these banks whereby it guarantees repayment and the students receive low interest rates and deferment while they are still studying. Unless and until the federal government takes over all forms of private lending, we are likely to be able to continue these arrangements. The College takes care with its balance sheet so as to be creditworthy.



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DID YOU KNOW?

During the 2009-2010 school year we have replaced nearly \$6 million in federal and state aid, assisting over 600 students. Over the life of our Student Independence Grant and Loan Fund, we have replaced approximately \$64 million in federal financial assistance to help maintain our independence.

In a third and smaller category, students take out loans from banks without involvement by the College. Several years ago we formed a relationship with three banks that have specialized in this kind of lending. They have been under some pressure, and we worry about this market. During the credit crisis of 2008, two of the three suspended making loans. But after some searching, we found two replacement banks willing to work with us. So far this kind of lending has not disappeared, and we hope that it will not.

There are finally some troubling indirect effects on us from the increasing federal subsidy and control of higher education. These are both powerful and growing, and they cut in opposite directions. For decades now we have survived without this huge revenue stream that is available to our competitors. As it grows, it influences the market in which we compete. Student X can get more money at another place, and so we must try to match it. In practice, we do not have to match it completely. Demand for Hillsdale College is very high. Applications are up this year 17 percent, and they have been rising steadily for years. On the other hand, very few of our families are wealthy, and so they must pay attention to what is possible elsewhere.

In the opposite direction, the additional money from the federal government is always accompanied by new regulations. For example, the Department of Education has just begun collecting more information on race, and we read that this is now being matched up with individual students. Students and staff members are now asked to indicate all of the races that they may have in their heritage. One might have hoped that the mixing of the races—a sign that race consciousness diminishes—would result in fewer such questions. Alas, it is only an opportunity to gather more, and more complicated, data.

We escape such regulations by refusing this money. Also we are able to focus upon our key business, which is the education of our students. We treat these students as we have always treated them, as equal souls, each with the potential to become what providence and nature intend, educated in the best things, possessed of both moral and intellectual virtues.

It is a turbulent time, of course. Like everyone, we face dangers both economic and political. We will face them as we have faced every war and depression, every political shift, since 1844: we will stick to our mission. It will require force to make us alter that practice, and not just a little of that. With this attitude and the steps that follow from it, we are able to be of service to our country.

So far, so good.



Larry P. Arnn
President, Hillsdale College



If you wish to support Hillsdale College's historic Student Independence Grant and Loan Fund, please go to hillsdale.edu/siglf.
