Ensuring Access to College in a Turbulent Economy

Senate Health, Education, Labor and Pensions Committee
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Statement of

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Good morning Senator Kennedy and distinguished panel members. Thank you very much for the opportunity to provide testimony today at this field hearing of the U.S. Senate Health, Education, Labor and Pensions Committee. Your willingness to hold this hearing to bring clarity and calm to the question of federal student loan availability is very much necessary and appreciated.

My name is Eileen O'Leary and I am Assistant Vice President and Director of Student Financial Services at Stonehill College in Easton, Massachusetts where I have worked for nearly 25 years. I have operational and administrative experience with nearly every federal Title IV financial aid program and have counseled thousands of students seeking financial assistance to pay for their dream of earning a college education. I have administered the Federal Pell, ACG, SMART and SEOG programs; the Federal Perkins Loan program and Federal Work-Study programs; and I have processed student loans through both the Federal Family Education Loan Program (FFELP) and the Federal Direct Student Loan program (DL). My professional career has been very rewarding and I am grateful to Congress for its ongoing commitment to providing access to higher education. I am especially gratified by your recent bold and definitive action in passing the College Cost Reduction and Access Act of 2007 (CCRAA) in which you chose students over private sector profits, providing the single largest increase to the Pell Grant in recent history, as well as reduced fees and interest rates on student loans and numerous other student benefits such as public service loan forgiveness, TEACH Grants, and the income based repayment option.

Unfortunately, we have arrived at a confluence of events which is being used by some to characterize the federal student loan programs as "in crisis." These events are:

- the crisis in the credit markets resulting from the sub-prime mortgage debacle which may affect the availability of capital for private (non-federal) student loans;
- the credit market situation making unfeasible the financing of federal education loans through the asset-backed securities market, particularly effecting the not-for-profit FFELP lenders; and
- the recent reduction in lender profits in FFELP through CCRAA.

The executive director of the FFELP trade group America's Student Loan Providers has stated in The Daily Beacon that "If conditions continue in the credit crisis, it's not unimaginable that next fall some families will find it difficult to find a *federal student loan*."

Congressman Kanjorski (D-PA), in his March 4, 2008 press release "expressed concern that many lenders will soon decide…to leave the student loan market."

Many media outlets have reported – either through carelessness or misinformation – that there will not be sufficient capital or indeed lenders to provide students with federal student loans going forward. In fact, the *Wall Street Journal* has reported that students will poor credit "will likely have a harder time getting a government backed federal loan."

Such blatant fear-mongering and misinformation (whether intentional or not) is unfortunate and may prove extremely harmful to students across the country, just as so many of our high school seniors currently decide not just what college to attend next year, but if they should go to college at all.

Congress, schools and FFELP lenders alike seek to help qualified students get a college education. However, any attempt to foster the belief in a federal student loan crisis is harmful, unconscionable, and counter to the national goal of increasing the number of college graduates. Thus, while citizens need to know the facts, these facts should be clearly stated with no attempt to cause panic or to misinform.

First and foremost, as an experienced financial aid professional, I can state with complete confidence that ***there is no federal student loan crisis - all eligible students can get federal student loans now and will be able to do so going forward.***

While lenders may be experiencing problems in securing capital or adjusting to the post CCRAA world, this does not translate into problems for students. Students will still be able to obtain federal student loans!

I do not believe that the HELP Committee's goal is to ensure the continued viability of every player in the FFELP industry. It is, as the title of this Hearing states, to *Ensure Access to College*. It is all about students - nothing more, nothing less.

I fully realize that the financial markets are in crisis and many FFELP lenders are experiencing major shifts in their methods of securing capital, in their personnel requirements as they operationalize the recent changes to inducement and lender list regulations, and in the economies required under compressed profit margins.

However, lender difficulties do not translate into an inability for students to get federal loans for which they are eligible.

Members of the U.S. Department of Education, the FFELP industry, national higher education organizations, and other financial aid administrators concur.

1. Al Lord, Vice Chairman and CEO of Sallie Mae, the largest FFELP lender stated in his March 3, 2008 letter to financial aid directors that while "These issues…have created uncertainty among many who rely on student lending…my purpose in sending this letter is to remove the uncertainty. The capital market disruption is the lenders' problem; Sallie Mae does not want it to be yours."
2. JP Morgan Chase bank has announced that it will continue to make federal student loans and is voluntarily cutting interest rates and fees on federally-backed student loans in order to gain greater market share.
3. Mark Kantrowitz, the publisher of Finaid.org, a web site sponsored by Citibank, a FFELP lender, has disseminated a list of lenders who have announced that they are leaving the FFELP program, or temporarily suspending new loan originations. His list of "drop-outs" includes fewer than two dozen lenders, some of whom were simply consolidation companies looking to make fast money – a process that is no longer attractive to students given the change from variable to fixed interest rates on federal student loans. Since over 2000 unique lenders made FFELP loans this year, the loss of a few dozen is inconsequential. Many of the remaining 1900 plus lenders will certainly be willing to take on the added market-share.
4. Mike Reardon, CEO and President of Citibank stated on February 22, 2008, that "…this is an unprecedented and challenging time for the FFELP community. The recent and upcoming legislative changes are significantly impacting how we manage our business. Congress has required us to do more with less and we are rising to the challenge."
5. C.E. Andrews, President of Sallie Mae has stated on January 29, 2008 that "The changes we have announced reinforce our ability and commitment to provide the right saving- and paying-for-college solutions to our schools, students, and families."
6. Mike Dunlap, President and CEO of Nelnet wrote to financial aid directors on January 23, 2008, that "Nelnet is a stable business partner because of our financial strength. We have made decisions for the long term and have the capital, cash, and revenue we need to serve you and be successful."
7. Secretary of Education Margaret Spellings has stated in her recent letter to college presidents that "While a few lenders have chosen or may choose to reevaluate their continued participation in this program, we expect other lenders will actively compete for this loan volume and ensure that a competitive, efficient, and comprehensive FFEL Program

continues to provide a variety of lending options, foster innovation, and improve customer service."

8. Anita Weier of the Capital Times reported that Richard George, president and CEO of Great Lakes Higher Education Guaranty Corporation, has stated that "there should not be any impact on federal Title IV loans" as a result of the "student loan troubles." Mr. George was further quoted in Weier's *Student Loans are Safe Here* article that "lenders being affected by the spillover of the sub-prime mortgage loan crisis are largely nontraditional lending companies that have auctioned securitized student loans."
9. "We're concerned, as everybody is, because there is turmoil in the financial markets, but so far we haven't found it in the student loan office…I'm afraid people are panicking with no reason to," stated Larry Warder of the U.S. Department of Education in that same article.
10. The University of Wisconsin - Madison director of student financial services also stated in the Weier article that student loans will not be much of a problem at her institution. "We are not in a panic mode at all."
11. The Executive Director of the Iowa College Student Aid Commission, Karen Misjak stated in a March 6, 2008 press release that "Many of our lender partners, both local and national, have stepped up to the plate to ensure that access…remains attainable and affordable."
12. Joe Belew, president of Consumer Bankers Association in his March 10, 2008 message to financial aid administrators stated that "There have been numerous reports of lenders throughout the country announcing that they will no longer be making Federal Family Education Loans or that they will be reducing or stopping the lending of private education loans. We are writing to let you know that despite a series of negative developments…banks plan to continue making both FFELP and private loans in academic year 2008-2009." He also elaborated that while some lenders will cease making FFELP loans, "some banks plan to expand their lending in the upcoming academic year to ensure that students have the funds they need."
13. Dr. Phil Day, President and CEO of the National Association of Student Financial Aid Administrators (NASFAA) in his March 11, 2008 letter to membership stated that "NASFAA is not aware of any student being denied a federal student loan due to market conditions…Even in instances where student loan providers have suspended their loan programs, other loan providers have stepped in to fill any vacancies."
14. The Project on Student Debt has confirmed that "federal student loans are and will remain widely available to students and families at all income levels."

Currently, there are about 3500 approved lenders in the Department of Education's database of eligible FFELP lenders. This means that there are approximately 2 schools for every lender. We also know, based on Department of Education records, that over 2000 unique lenders are defined as "active" since they made loans to students during this academic year. Through media reports as well as lender statements, we can ascertain that less than two dozen of these lenders to date have decided to cutback or cease lending activities for next academic year. This is a mere 1% of active lenders. There is no doubt that some of the remaining lenders will see this as an opportunity to increase their market share, and indeed a few have already indicated that they are ready and able to do so. These numbers also tell us that in any given year, all eligible lenders are not necessarily actively participating in FFELP, for unique business reasons unrelated to the current capital market crisis. These past hiatus' from lending have never caused a panic or lack of FFELP loan availability for students.

I recently conducted an informal survey of Massachusetts colleges, universities and trade schools and every responding financial aid administrator indicated that they have not experienced an inability for their students to get FFELP loans this year, and expect no change for next year. While a minority have been notified that one or more of their historical lenders will reduce or stop FFELP participation, there are other lenders who have filled the resulting gap. They reported only that some loan terms have changed – not because of the credit crisis, but due to the smaller profit margins resulting from CCRAA. (As you know, the reduction in special allowance payments has resulted in the reduction of some lender-defined benefits enjoyed by some borrowers and instead Congress has moved these excess profits into significantly higher Pell Grants for *all* eligible needy students.)

(It must be noted that we will in all likelihood see a tightening of credit requirements for private, non-federal, alternative loans that are not federally guaranteed. Most typically, students with bad credit will be unable to obtain alternative loans with high interest and exorbitant fees at schools with high default rates and low graduation rates – loans that are not dischargeable, even in bankruptcy or death. I for one do not believe this is a bad thing.)

We must, however, err on the side of caution and be prepared. In the extremely unlikely event that students at FFELP schools do experience difficulties obtaining their federal student loans, Congress has already established two fail-safe means to insure access.

First, Congress created the "Lender of Last Resort" option to allow guaranty agencies to secure capital from the government to use to cover any shortfalls of available funding for FFELP loans. While it has never been necessary to resort to this fall-back position to date, the U.S. Department of Education is putting the mechanisms in place to do so if necessary, according to the Secretary of Education, Margaret Spellings. This means that if lenders in general are unable to secure sufficient capital to meet the needs of students, then the Department of Education will insure that capital through the established guaranty agencies across the country.

Second, Congress has already put into place the most efficient and reasonable means of insuring against capital shortfalls in FFELP and disruptions for students. In 1992 Congress created the Federal Direct Student Loan Program (DL). Direct Lending provides the same federal loans to students as does FFELP; however, operationally it is an alternative delivery system for getting students their federal loan proceeds. The capital is not provided by the private lending industry as in FFELP; instead, the federal government provides the loan capital for DL directly from Treasury. There are currently about 1100 schools across the country whose students receive their loan funds through the DL delivery method instead of through FFELP. This accounts for about 20% of all student and parent federal loan volume. In fact, DL has the largest market share of federal student loans of any lender in the country, including the largest FFELP lender, Sallie Mae.

Some FFELP lenders have stated that the Department of Education is not capable of increasing volume in DL if FFELP partially or fully fails. It appears, however, that it is basically the lenders who have this opinion, and that opinion is apparently based on no more than wishful musings. We must remember that at its inception, Direct Lending increased its market share from zero to one third of the market over a two year period, as a new, unproven program with no previous infrastructure. The U.S. Department of Education proved it was extraordinarily capable of handling a large increase in volume then, and one would expect that after fifteen years of improved technology and experience, it could rapidly and smoothly expand from its present market share of 20%. There is no basis in fact to assume that the Department is not fully capable of exceeding its initial success.

One of the efficiencies introduced by the Department over the Direct Lending program's history is its movement to the Common Origination and Disbursement system, or COD. COD is the system used by every college, university, and trade school in the country to process Pell Grants, ACG, SMART, and the new TEACH grants. Therefore, every school is already up and running on the system necessary to process direct loans. Movement to Direct Lending, if necessary, is not akin to a systems change for schools, but rather an expanded use of the current federal aid delivery system. Direct loans are simply Pell Grants with a promissory note.

Schools who believe their students may not continue to be well-served through FFELP can move quickly into the DL program if they so choose. For a school already approved for Title IV program eligibility, the steps are few and simple: A change to the Program Participation Agreement (an on-line process) to include DL, expansion of use of EdExpress or similar file transfer method for COD, and internal process adjustment and training. After fifteen years of Direct Lending, nearly every enterprise system used by schools are DL processing capable already. A school determined to shift from FFELP to DL has only to make the decision and follow the short-course.

While some acknowledge that the Department, over time, could handle a significant increase in direct loan volume, they have expressed concerns about an ability to do so in the short term. However, I have been advised by the Department that it is capable of doubling direct loan volume immediately, without any system or contractor upgrades since they are currently underutilizing capacity. In addition, over approximately two months, they are confident that direct loan volume could increase to 60% of market share (from the current 20%) with relatively minor accommodations and adjustments. To increase further would require some systems and contractor upgrades. These upgrades, however, could be accomplished relatively quickly.

There has been much misinformation about Direct Lending promulgated by those with a vested interest in its failure. In my experience, and the experience of over 1100 other successful direct loan schools, it is a better alternative to FFELP for many reasons, including the following:

- The Department of Education does not redline students at any schools and provides funds to all eligible students. This is not always the case in FFELP.
- Direct Lending provides a simple, one-stop shopping alternative with great customer service to students and families.
- Direct Lending provides a high level of transparency and simplicity, reducing administrative time and expense.
- The streamlined process is easy for families to understand and navigate.
- While in FFELP borrowers may have multiple loan servicing agents and loans may be sold several times over the life of the loans, Direct Lending maintains a single point of service for the life of the loan.
- Direct Lending provides ease, predictability and reliability of obtaining funds to assist in cash flow predictions at the institutional level.
- Perkins Loans consolidated into Direct Lending do not lose their grace period.
- DL borrowers can change repayment plans at any time without loss of benefits; this is not always true in FFELP.
- Borrowers can take advantage of the new Public Service Loan Forgiveness available only in the DL program.

Stonehill College's experience with Direct Lending can best be expressed in our latest estimated cohort default rate: 0%. The DL servicer is available, helpful, and committed to reducing defaults. They are highly successful, with the cohort default rate lower than in FFELP for every applicable year but one in the last 10 years.

Finally, I would urge you to work with the Secretary of Education on these issues.

It is obviously not enough that the Department is *capable* of handling a sudden, significant increase in direct loan volume. It must set the stage now to handle any major influx of schools.

Over the past eight years, the Department has not been actively advancing the Direct Loan Program, allowing a comfortable status quo to evolve. However, in the unlikely event that FFELP does degenerate and more schools decide to move quickly to Direct Lending, the Secretary must be prepared and that preparation should begin immediately.

I would suggest that the Secretary pro-actively inform schools in FFELP of the steps necessary to move to Direct Lending if they so choose. These steps must assume current Title IV eligibility and provide simple and concise instructions for approval and training both on-line and in person. I would advise that the Secretary immediately and conspicuously place these simple instructions on the Department's IFAP web site.

She should re-assemble her team of internal experts to work with new direct loan schools to get them up and running in the shortest time-frame possible to avoid disruptions to students, a method that was highly successful in the beginning of the program. This will allow schools to have a single-point-of-contact at the Department when it has implementation questions.

If needed, both the Lender of Last Resort option and Direct Lending must be fully ready to relieve any FFELP emergency that may evolve, without delays. The Department of Education has certainly proven itself capable of bringing up new programs quickly and efficiently most recently operationalizing both ACG and SMART on short notice. I have no doubt that with pre-planning now, students will see no disruptions in Title IV loan fund disbursements under any required Lender of Last Resort or Direct Loan expansion.

I thank you again for the opportunity to present testimony at this Field Hearing. I urge you to continue to do your good work, insuring access to higher education for all qualified students, regardless of the financial circumstances into which they are born. I would be pleased to answer any questions that you may have.