

## Questions and Answers from the ASLP Webinar on Financial Market Turmoil and the Impact on Student Aid

**1)** Would it be helpful for schools to reach out to their Congressional representatives to make them more aware of the problems around funding of private loans, and to request congressional assistance and identifying federally-assisted funding sources; as well as their state representatives and guarantors.

**A:** [Brett Lief]: Schools need to contact their Congressional delegation to ensure that funding is sufficient for the Pell Grant, campus-based programs and even the subsidized loan program. Private loans have always been considered as the loans of last resort as they have higher interest rates and are more difficult to repay. Many students do require private loans.

**2)** Are there any discussions to extend some assistance to students who are going into repayment, similar to the rescue of financial firms, banks, etc. For instance, extend the grace period beyond six months; add a grace period to the Graduate Plus loan, etc. Basically, some repayment relief.

**A:** [Bob Moran]: Other than what exists now, the Department does not have the authority to enter into further grace period or forgiveness status beyond what is already available.

[John Dean]: Congressional staff is aware of the employment situation that is worsening. Some legislators are wary that graduates may not be able to find employment as easily. Congress is expected to return for a lame duck session on Nov. 17 to consider a second economic stimulus. Participants may want to contact Congressional representatives and encourage them to consider relief for student loan borrowers in that package. The student loan community stands ready to work with the Congress to take a look at some options.

**3)** I am concerned about the loan servicing situation when lenders sell their loans to the government. This could result in a student ending up with multiple servicers even when they keep the same lender. How can this be avoided?

**A:** [Will Shaffner]: The best way is for the lender to be in a position to not have to sell the loans to the Department of Education. The second option would be to have the Department allow those loans to stay with the servicer and the guarantor that originated the loan. We currently manage student loans that are 97 percent guaranteed by the federal government, so we believe that there is not much difference between that loan and the loan where the Department has financial vested interest on the front end. At this point, if they sell their loans to the government, it can't be avoided. We are in discussions with the Department of Education to talk about what are the options here and do all loans have to be "put" to the Department and to their servicer when sold.

**4)** Is there anything your industry could do to promote federal loan participation among community colleges?

**A:** [John Dean]: Yes. Support continuation of the Ensuring Continued Access to Student Loans liquidity programs and support other actions to restore a healthy student loan financing market.

**5) Is there currently an initiative to put back some of the subsidies that were cut in CCRAA?**

**A:** [John Dean]: Not that I am aware of. When these budget cuts were made, some of us saw them as destructive and representing a disinvestment in students. The fact of the matter is that a large portion of the savings produced presented a large increase in the federal Pell Grant and was supported by many schools for that reason. I don't see Congress turning the clock back. Rather, am hopeful that innovative thinking will take place to make modifications to the program that would enable the continued current participation of the private sector in it. The liquidity programs are working in the short term.

**6) What impact will the Department's liquidity program and the \$700 billion rescue package have on the availability of private education loans?**

**A:** [Conway Casillas]: As Mark Kantrowitz recently wrote, there are three fundamental causes of the credit crisis: liquidity, liquidity and liquidity. Lenders are effectively unable to tap the credit markets for the funds they need to meet the growing demand for private loans. The last reasonably priced private loan securitization transaction was completed in March 2007 at LIBOR plus 24 basis points. Since then the market has effectively been shut down with only one very small transaction completed in July priced at LIBOR plus 500 basis points.

Thankfully, lenders were able to raise sufficient funding to serve the vast majority of students and their families during peak processing season this Academic Year. The extended, irrational dislocation in the credit markets, however, has forced all lenders to tighten credit standards or limit the availability of private loans.

The Emergency Economic Stabilization Act of 2008 is designed to inject up to \$700 billion in liquidity into the country's financial markets. One of the goals of the legislation is to get financial institutions to lend to other financial institutions. "Liquidity, liquidity, liquidity" is needed for this to happen and there is evidence the markets are beginning to thaw. As financial institutions begin to lend again at reasonable rates, student loan companies will be able to return to the markets for the funds they need to make private loans. Also, as the markets continue to thaw costs will drop for lenders and ultimately students. In addition, the legislation specifically states that assets other than mortgages, including private student loans, can be purchased by the government if deemed necessary. While no specific plans have been announced to purchase private student loans, the Departments of Treasury and Education are monitoring the situation very closely.

The student loan community is actively working with key government officials on a long-term solution for both federal and private loans. On October 10, Secretaries Spellings and Paulson issued a joint statement that said: "Using our newly extended authorities, the Administration is moving aggressively to support the continued availability of funding for federal student loans in the next school year with the goal of restoring the government guaranteed student loan market to normal operations. We are working on an expedited basis and will make further announcements in the coming weeks."

The community believes that the forthcoming announcement detailing a long-term solution for federal student loans will have spillover benefits for the private student loan market as well.

**7)** How does the current market look for tax-exempt bond issuances and is this an area the state governments could help increase funding for student loans.

**A:** [Mark Weadick]: Each state has a limit on the total number of tax exempt bonds that can be issued. Under certain IRS regulations the tax exempt markets have had similar disruptions to them, however, there have been moments in time this year that the markets have been open and there have been some state authorities who were able to successfully complete the tax exempt bond issuances. So, it is an avenue that many of the non-profits have been working on. There have been a dozen or more tax exempt financings completed this year. Some have been in the form of a fixed-rate bond but most have been in the form of 7-day resetting bonds that are backed by liquidity or credit and it is obviously those credit facilities that have been swept up in this general credit crunch. An area that has some promise and an area where there is typically 5-8 million new bonds per year. Many states and non-profits continue to look at this market.

**8)** In the future, do you anticipate that any students will be unable to get the federal loans for which they are eligible?

**A:** [Mark Weadick] No. The new DOE programs will continue to work through September 30, 2009. Following that date it is anticipated that either capital markets will have recovered or the Congress will devise additional changes or programs to keep FFELP viable.

**9)** How does the FFELP protect the school in terms of the application and approval process of the FFELP? Suppose students forge their MPNs, how does the school find out about this?

**A:** [Janet Dodson]: If the student has gone through the process of being admitted to your institution with that type of information, they would also have to pass a variety of edits in the FAFSA form. Then if the student were to become a student on false information and files the FAFSA on false information and all of those things go through together, including enrolls in classes and gets grades and a transcript, they would have to be very creative. As for protection, there are enough stopgaps between that somewhere, somebody is going to protect that. On the guarantor side, if it gets all the way to us and someone has matching information, we are going to go back to you and ask for clarity.

**10)** Is it not only institutions that have choice within FFELP?

**A:** [Kevin Bruns] Central to FFEL is consumer choice: borrowers ultimately decide which loan provider best meets his or her needs. So even if schools provide lists of lenders, students and parents may choose to obtain financing from any eligible lender.

**11)** Which of the two presidential candidates would you think has the edge in terms of the support of the student loan program?

**A:** [Terry Muilenburg] ASLP believes the competition between the two principal federal student loan programs—the Federal Family Education Loan Program and the Federal Direct Loan Program—works to the benefit of students, families, schools and taxpayers, and that it is critically important to preserve the choice of schools to participate in the loan program they believe best meets the needs of their students.

Sen. Barack Obama's campaign website,

<http://www.barackobama.com/pdf/issues/CollegeAffordabilityFactSheet.pdf> has this to say with respect to the loan programs:

*Currently, there are two basic college loan programs: the Direct Loan system, funded publicly, and the Federal Family Education Loan Program, funded privately by banks and lenders who*

*receive subsidies and guarantees from the government. Barack Obama and Joe Biden will save taxpayer money billions by eliminating the more expensive private loan program, and directing that money into aid for students.*

Sen. John McCain's campaign website, <http://www.johnmccain.com/informing/news/PressReleases/ed12978d-a54f-471e-aeed-65c65bcba6da.htm> says the following with respect to student loans:

*We have seen significant turmoil in student lending. John McCain has proposed an expansion of the lender-of-last resort capability of the federal student loan system and will demand the highest standard of integrity for participating private lenders. Effective reforms and leveraging the private sector will ensure the necessary funding of higher education aspirations, and create a simpler and more effective program in the process.*

**12)** We are a small school. When students look to find a lender they receive a message that the lender does not lend to our school. Saying this gives the impression that the lender will lend to larger schools, but not to a small school. What can be done about this?

**A:** [John Dean]: I have heard stories where that has happened. This is largely a function of the extraordinarily difficult economics that we are all operating under right now. I would note that the liquidity programs are specifically structured to incentivize lenders to make loans to all students. The opportunity for participation and for sale of those loans by the Department encourages lenders to make loans for all students. Make no mistake about it, we need something of a return to health of our student loan financing markets to bring things back to the point where a small school has a large number of lenders all knocking at their door in time to get the business. The Department of Education is expected to make an announcement on some additional liquidity measures, including things to help restore the longer term vitality of the student loan financing market. If those new initiatives are announced and if they work as we all hope they will, this would help lead to a solution.

**13)** What do you think of proposals to inject further liquidity from the federal financing bank?

**A:** [John Dean] To date, the liquidity programs authorized under the Ensuring Continued Access to Student Loans Act have operated successfully and there have been no reported instance of students being unable to get a federal student loan. In light of this success and the recent one-year extension of the ECASLA for a second year, Congress has determined that federal financing bank assistance is not necessary. The student loan community believes that Congress should be prepared to support FFB funding should the need for it arise.

**14)** It sounds like you are saying that the FFELP program is safe for 2009-10. Will there will be funding for 2011 and after?

**A:** [John Dean]: Congress did the right thing and they did so on a bipartisan level and took bold action in passing H.R. 5715 liquidity programs and a short time later extending them for one year. This pretty much removed the worry that any student or parent should have about the availability of an FFEL loan through the 2009-10 academic year. I am very confident that two things will happen to ensure the availability of FFEL loans in the succeeding academic years. First, I am convinced the financing markets will get better, the announcement of student loan financing. It's not a sign that the problems are over, but it's a sign that a lot of creative people are working diligently on this. I also think that Congress is starting to hear from a number of educational institutions. Those institutions are telling the Congress and hopefully the new Administration that they support choice and the benefits of competition. That they support the redundancy of programs so that if there is a glitch in one loan program, that there is the option

of going to another. Schools should be very confident that Congress is going to do the right thing. The financing markets will do better and the FFELP loan program providers will do whatever they can to put students first and to meet the financing needs.

**15)** Our university is currently investigating the idea of leaving FFELP and converting to Direct Lending. With the borrower benefits disappearing from FFELP and funding unsure in the future, what benefit would we be giving the student by staying in FFELP?

**A:** [John Dean]: I work with many schools and in many cases they like the FFELP loan delivery system, which is better integrated with the school's financial accounting system and results in a reduction of errors. Care and diligence in the servicing of loans is most important to schools, that students don't unnecessarily experience delinquency and default. Congress has recently enacted some additional tools to help students stay out of delinquency and default. One is the income-based repayment system which is very attractive and we certainly recommend. Someone needs to counsel those students to be sure they know these opportunities are available to them. And in the FFELP Program, in the form of the guaranty agencies in the form of the services that lenders provide, there is a partner to assist the student in being aware of the forbearance and deferment opportunities so that they can meet those obligations. There is somebody that cares. I see the FFELP Program as one that provides the borrower with a partner in meeting their obligation. I'd be fearful that if you end up with a federal monopoly that some customer responsiveness could be lost.

**16)** In FFELP there has always been a possibility of multiple loan holders. How is the current possibility of the government holding part of a student's educational debt different?

**A:** [Will Shaffner]: It is very different. The federal government is not a lender, nor is it a direct servicer. If you have a traditional FFELP lender or servicer handling the loan, we have processes in place that provide higher levels of service. We can customize a share of services that related to managing the debt and communicating with the borrower. In FFELP it has always been possible to have multiple loan holders. The industry stepped up and created CommonLine, the Master Promissory Note, as ways to not only streamline the process, but allow a borrower to virtually stay with the same loan or service provider to reduce the potential of delinquencies and default. We believe that adding another entity after they have already started to borrow, does nothing but increase the risk of defaults. Adding the government would be another entity the borrower would have to work with; this does increase confusion and the likelihood of default.

**17)** What are community colleges to do as lenders back out of serving their populations?

**A:** [John Dean]: This is one of the more difficult questions for FFELP. First, I would note the bold action of the Congress and the Department in enacting the H.R. 5715 liquidity programs. They provide the financial support necessary for lenders to make loans to any eligible student. That is exactly what has happened. There has been no reported case of a student unable to continue their education due to the inability to find a federal student loan. In that sense, the PL 110-227 liquidity programs have been successful. We that work with lenders are well aware of the fact that some lenders have curtailed service, especially to schools with small loan amounts. That is regrettable but a function of the overall market turmoil. There are national lenders who have publicly announced that they will make loans to any student and I would encourage the community colleges to take a look at those lenders and consider putting them on their preferred lender list so that their needs are met.

**18)** How many lenders should the school keep or offer to students for comparison?

**A:** [John Dean] As many as possible. Borrower choice is always good for borrowers in obtaining the best rates and service. Schools should review available lenders and recommend as many as meet the quality and performance criteria set by the school in constructing a preferred lender list. This list, of course, should be exclusively developed with the interests of the borrowers in mind.

**19)** Will students who have their loan servicing split between FFELP and now the "little d" program be forced to consolidate in order to make a single monthly payment?

**A:** [Will Shaffner]: At this point, yes they would. There is still dialogue coming from within the FFELP community, particularly those who service our own loans, to stress to the Department that right now, because they are classified as a Federal asset and they need to place these loans on their own servicer, that our data shows beyond question that any time you move loans for a borrower, or worse, split the loans, that you increase the chance of default. We are trying to work with the Department on this but, today, if loans are put to the Department using their program, the only way the borrower would have a single repayment would be to consolidate.

**20)** Is there any potential for seeing changes to allow consolidation loans to be more profitable to lenders and subsequently available to a wider range of students—especially those with smaller balances?

**A:** [John Dean] If Members of Congress hear from enough student loan borrowers and schools that action should be taken to assure borrower choice of consolidation lender, then maybe lender return will be increased to a level where lenders would return to this market. Until that happens, borrowers will continue to be denied a choice of lenders and borrowers with small balances will have no choice but to consolidate into the Direct Loan program.

**21)** Is there any truth that the Department of Education is not issuing lender codes to financial institutions that want to participate in the FFEL Program?

**A:** [Bob Moran]: I am not aware of us denying any ID to a lender. As far as I know, all lenders would have IDs. We have been issuing new IDs around lender of last resort and new IDs around the two new programs.

**22)** Is it the goal of USDE to have the schools go Direct Lending? How many schools have switched to Direct Lending as a result of the recent economic crisis?

**A:** [Bob Moran]: It is not the goal of the Department to have schools switch to Direct Lending. The Administration has always said it supports both programs and considers them integral to ensuring that student lending is available. It's not a one without the other -- that does not make for a very vibrant program. I do not have an exact number on how many schools have switched. There have been a number of schools that have signed over to get authorization to participate in the Direct Lending program. It's become an option for them but not one that has been pursued. We have seen volume in both programs go up from the previous year.

**23)** Under the PUT program will it be possible for schools to continue to access data regarding delinquent students from the original Lender/GA in order to continue our current default prevention methods?

**A:** [Bob Moran]: The hope would be as we move forward and servicing transfers to the Department, that as far as being able to pull up the NSLDS record and looking at various items that are in there and knowing about payments and structure, our servicer would be working with the borrower to engage those activities and keeping them from default. At the same time status would show up on NSLDS as well. So for those folks who have the authority to enter into the borrower's record, they should see that as well.

**24)** For students whose loans are "put" to ED, will they meet the loan forgiveness requirements for Public Service Employees?

**A:** [Bob Moran]: They would still qualify.

**25)** Can someone comment on the availability of private or alternative loans for the balance of the current academic year and 2009-10?

**A:** [Mark Weadick]: It would be fair to say that the private loan market situation has been impacted more than FFELP loans. Largely this becomes a question of lenders who do not use securitization and their willingness to hold loans on their balance sheet. We have seen a fair number of significant lenders either restrict or end their private lending program. I would say there have been some positive developments in the capital markets, generally this week. It does feel as if the recovery of the capital markets with private student loans will take some time longer than for FFELP loans.

**26)** Some speculation required but with all the momentum with private lending being backed (capitalized by the government) do you see a more seamless comparison between Direct Lending and FFELP as far as borrower benefits / o-fees? If that's the case, why stay in FFELP if the choices are the same just different names.

**A:** [Kevin Bruns] The availability of borrower benefits is only part of the reason most institutions remain in FFELP. Schools prefer the level, responsiveness and flexibility of the service provided by loan providers; moreover, the default prevention programs offered in FFELP are more effective in reducing defaults. As you may now, FFELP's lifetime default rates are lower than the FDLP's. Finally, the emergency liquidity program addresses short-term conditions in the credit markets; eventually, conditions will return to normal.

**27)** What's the future of alternative student loans?

**A:** [Kevin Bruns] It's hard to predict what the final outcome will be for the private education loan market once credit market conditions return to normal. It's highly likely, however, that it will recover, given increasing demand for private loan financing and growing college enrollment. College costs are not likely to moderate to any significant degree, and federal grant and loan caps unlikely to keep pace with rising costs.

**28)** Is there any way to do some kind of national comparison of alternative loan approval rates from 07/08 to 08/09? This can help us find out how much of a problem we are facing.

**A:** [John Dean] This data is not currently collected but even if it was it might not be helpful given that approval rates of the past might not be indicative of those of the future. Lenders modify underwriting criteria based on a number of factors, including prevailing cost of funds and market conditions. A better means of ascertaining the extent of loan availability is to conduct period surveys of major non-federal student loan lenders and request information on their product offerings. Several organizations are doing this now.

**29)** Can Janet go into further detail about "Enhanced Default Prevention"?

**A:** [Janet Dodson]: Many of the enhanced activities that guarantors and lenders are coming together on is in the arena of financial literacy and making sure that students and their parents learn early about what is necessary to save for school and also the costs. Also make sure that families understand the importance of completing the FAFSA form. For the current students, we help schools through calling programs, to make sure students understand that if they haven't gone back to school, that they are enrolling in a rolling enrollment program. We make sure that we work with schools to figure out to work their cohort default rate information, also through

electronic default aversion opportunities to make sure that schools are in partnership with us. We know that in partnerships, schools sometimes have a better opportunity to communicate with that student than maybe our letter does, so we work with them to personalize those letters, also ramping up technology opportunities to make sure that we communicate best. Making sure that we use text messaging opportunities, email and other things that help keep students in tune and understand that they need to repay their student loans and make sure that through default prevention and intervention that our schools are staying up to date and current with any suggestions they might have to move forward in a way that communicates with the borrower the best.

**30)** Janet, you said the use of email is being used more. We have found this year that lenders are still very reluctant to use this type of communication. It is imperative for lenders and guarantors to move in this direction. Snail mail does not work when students are away at school. Many of our students travel around the world and never receive the mail.

**A:** [Janet Dodson]: Private information cannot be included in electronic mail. So, at this moment that is the challenge. We find that students also change their email addresses a lot. Will keep that in mind and see what we can do to make sure that we keep all of that information going forward, however we also contend with the issue of confidentiality.