



# Student Lending

## Navigating the Perfect Storm



## CCA: Who We Are

- DC-based National Trade Association with 1250 schools
- All Accredited
- Serving Over 1 Million Students

# Student Lending Landscape

- A Perfect Storm
  - Subprime Mortgage Lending Crisis Spills into Securitization Markets
  - Cuts to Lender Subsidies (2006 and 2007)
  - Action by the State Attorneys General

# Student Lending Landscape

- What's the Predicate?
  - Student Loans Represent an \$85 billion Marketplace
  - 20 Percent of Federally guaranteed loans are Borrowed Directly from Uncle Sam--DL
  - 80 Percent from Commercial Lenders--FFEL
  - Average Student Graduate Debt is About \$17,000
  - In 2006-2007 Private, Non-guaranteed Student Loans Totaled \$17 billion, Up 989 Percent for Decade

# Student Lending Landscape

- What's the Predicate?
  - Private Loans Account for 24 Percent of all Student Loans (up from 13% in 2002)
  - FFEL Aggregate Lending Limits Unchanged Since 1992, while CPI has increased over 50%
  - Department of Education Claims 2000 FFEL Lenders but Top 50 Lenders Account for 83 Percent of All FFEL Loans

# Student Lending Landscape

- What's the Predicate?
  - Government Subsidized Lending Limits Do Not Reflect General Rate of Inflation
  - PLUS Loan Program Does Not Reflect Rise of Non-Traditional Students—Only Dependent Students
  - Students must use private loans as a means to obtain higher education—to cover “the gap”

# Student Lending Landscape

- What's Happening Now?
  - 36 Lenders Announce Plans to Exit All or Part of Federal Student Loan Marketplace
  - 11 Lenders Announce Plans to Exit All or Part of Private Student Loan Marketplace
  - 16 Private Lenders Announce Employee Layoffs
  - Private Student Loans Virtually Unavailable Save for Highest Credit Students (680 and above)

# Student Lending Landscape

- Second CCA Member Survey (March 2008, first in January)
  - 80% have concerns about student access to Federal Family Education Loan (FFEL) program, Direct Loan (DL) program or private loans
  - 37% indicate that they have been notified by a least one FFEL lender about changes/leaving, up from 24 percent in January

# Student Lending Landscape

- More CCA Survey Results...
  - 56% of respondents indicated that they have been informed by a least one private lender of a pullout, up from 37% in the last survey
  - 50% of respondents indicate more stringent lending requirements, compared to 27% in January

# Student Lending Landscape

- More CCA Survey Results...
  - 56% of respondents say lenders have reduced borrower benefits such as a waiver on loan origination fees. Almost 50 percent cited such a reduction in the previous survey
  - Given 90-10 rules, almost 1/3 say they would be forced to turn away students if private loans become unavailable

# Student Lending Concerns Summary

- Gap Lending Sources Disappear and Not Replaced
- No Liquidity in Commercial Lending Markets
  - Continued Exodus from Student Lending
- Scalability Questions in Direct Lending Program
  - Delays, Disruptions Leaving Students in Cold
  - Single Payer Monopoly
- Lender of Last Resort
  - Untested
- FFEL Lender Ability to Bounce Back Very Uncertain

# Student Lending Reform

- What Are the Possible Fixes?
  - Grant and Loan Ceilings Raised
    - Kennedy and Miller Bills Introduced in April
      - Raise Unsubsidized Loan Limits
      - Kennedy Increases Pell
      - Government Can Buy Loans from Lenders to Increase Liquidity
      - Lender of Last Resort by School, Not Student
    - Independent PLUS Loans—No Bills Introduced
    - Basic Premise: Close the Gap

# Student Lending Reform

- What Are the Possible Fixes?
  - Raising Federal Lending Amounts Only of Limited Help without 90-10 Rule Revisions
    - HEA Would Allow Institutional Discounts (Senate) and Loans (House)
    - CCA Seeks Both Discounts and Loans to Count Against 10 Percent
    - Also Will Need Special Relief if Government Aid Increased

# Student Lending Reform

- What Are the Possible Fixes?
  - Opportunity Pool Definition Clarified so as Not to Exclude Recourse Loans (School Shares Risk with Lender)
  - Recourse Loans Continued to Allow Higher Education Access to High Credit Risk Students

## Let's Review the Bidding...

- Substantial increases in Federal student loan aggregate and individual limits to eliminate dependence on private loans that are not available for many career college students (which creates “profit” for government, not cost)
- Fixes to 90/10
- More liquidity for Federally guaranteed loans so that market does not continue to get squeezed, and FFEL lenders do not continue to exit

## Conclusion

- Private student loans are gone, for now.
- FFEL lenders represent 74% of the total guaranteed student loan market, but with changes in the credit and lending markets, FFELP future is uncertain at best.
- The inability to obtain private lending to finance higher education affects students at minority serving institutions, community colleges, and traditional public and private universities greatly, too
- But our sector is “canary in the coal mine”

# Conclusion

- Higher education is critically important to building and maintaining a globally competitive 21st century American workforce
- Inflation has placed a college education beyond the means of typical families either to fund out of savings or to pay out of cash flow

# Conclusion

- Americans look to the credit markets to gain the necessary financing
- These sources of college funds are now at risk, placing access to higher education itself at risk for thousands of working class and low income individuals
- Solutions are available that can expand access to even more Americans, fostering economic growth and sustaining the middle class