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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Statement of Dr. Philip Day

President and CEO

National Association of Student Financial Aid Administrators

U.S. Senate

Committee Health, Education, Labor and Pensions

Hearing on Ensuring Access to College in a Turbulent Economy

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Mr. Chairman and Members of the Committee. On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I am pleased to offer this statement. I am Dr. Philip Day, President and CEO of NASFAA. Formed over forty years ago, NASFAA represents student financial aid administrators at some 3,000 postsecondary institutions across the nation.

Our association illustrates the diversity of our higher education enterprise with members from private and public institutions, community colleges, four-year schools, proprietary schools, and graduate/professional institutions. At these schools, NASFAA represents approximately 12,000 financial aid professionals who are dedicated to helping families apply for and receive the funds they need to send their students to college. Each year, financial aid professionals help more than 16 million students receive funding for postsecondary education. Given the complexity of the state, federal, and institutional aid programs, it is necessary to have someone with that kind of expertise guiding students and families through the process.

I want to begin by complementing the work of you, Mr. Chairman, and the members of the committee for all you have accomplished providing additional numbers of students with opportunities to gain a postsecondary education. The College Cost Reduction and Access Act (CCRAA) is magnificent testimony to your commitment to the Title IV programs.

Just to name two examples of that commitment found in the CCRAA are the substantial increases in the Pell Grant maximum award and establishment of the Teach Grant program. These two programs illustrate your devotion to serving the needs of students expeditiously and creatively. We applaud mandatory spending increases for the Pell Grant. We likewise welcome inventive programs like the TEACH Grant that seek to help meet the unique needs of specific students.

The Committee on Health, Education, Labor and Pensions will soon complete reauthorization of the Higher Education Act. S. 1642, The Higher Education Amendments of 2007, also contributes to your record of success. S. 1642 authorizes year-round Pell Grants, simplifies the granting of deferments and allows for better consumer information on the impact of consolidation loans, and simplifies the FAFSA.

Again, Mr. Chairman, I thank you and the Committee for your accomplishments in the 110th Congress that will help so many students and families. This is a record of success you can justly be proud of and NASFAA salutes your efforts and contributions to making college affordable and the making student aid process more effective and simpler.

Today's hearing is timely. Last week I wrote to my membership. Here is what I told them.

> Alarming reports in the media about disruptions in the credit markets that are affecting student loans have many families worried that they won't be able to get student loans in the fall. I have assured financial aid administrators, students, and parents that the likelihood of disruptions in federal student loans remains low.

> To date NASFAA is not aware of any student being denied a federal student loan due to market conditions.
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> Some news reports fail to distinguish between federal and private student loans, but understanding the difference between the two is crucial. The vast majority of student borrowers use federal student loans. Federal student loans - like Perkins, Stafford, and PLUS loans – that are backed by the federal government. Federal student loans are not dependent on borrowers' credit scores; the repayment terms and conditions are specified by federal law, and are better than private loans. Interest rates and fees on federal student loans will not increase. Low-cost federal student loans are still available. Even in instances where student loan providers have suspended their loan programs, other loan providers have stepped in to fill any vacancies.
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> A far smaller group of students rely on private student loans or other forms of consumer financing like home equity loans. These students turn to private loans if they cannot cover their cost of attendance with federal, state, and institutional financial aid – including federal loans. Like other consumer loans affected by the subprime mortgage meltdown, private student loans will be costlier for some borrowers at some institutions this academic year. However, students and parents should only use private education loans as a last resort. Before borrowing private loans, students should exhaust all the federal, state and institutional financial aid available to them.

NASFAA understands that what is happening in the student loan market is fluid. The liquidity that exists today to continue funding federal student loans could be gone tomorrow if the markets worsen. Of particular concern are the liquidity problems that state and non-profit secondary market lenders face. Unlike traditional banks, nonprofit state agencies that operate secondary markets raise capital through bond auctions. As you know, these bond markets are currently frozen and they are unable to raise enough money to provide additional liquidity to other lenders. Their inability to raise capital serves as another warning sign that all is not well in the student loan markets.

Nonprofit loan providers fill an important niche in the student loan market and often times purposefully target low-cost loans to specific, underserved populations or offer specific loan benefits to particular populations such as future teachers, nurses and military veterans. These are the students and families that are often-times overlooked by other lenders and the types of students the federal student aid programs were created to help. A total departure by state agencies and nonprofit lenders would be detrimental to students and parents, especially those attending schools that lenders have deemed "at-risk." While federal student loans remain available for the majority of students, we are hearing reports that some loan providers are shying away from schools with students who need low-cost loans the most. It is conceivable that if the nonprofit lenders are unable to offer loans this fall the students who would be harmed most would be from our community colleges, proprietary schools, and other urban-based public and private institutions. Special measures may be necessary to assist these nonprofit, state-based organizations to ensure their continued presence in the federal student loan market.

If conditions worsen to the point where the availability of federal student loans becomes threatened, the following alternatives are in place.

- The Department of Education could utilize the "Lender of Last Resort" provision, where federally-designated guaranty agencies would line up lenders to continue making loans to students or would be given funds directly from the government to disburse to students.

- A school that has a problem accessing federal student loans through the Federal Family Education Loan Program (FFELP) can join the federal government's Direct Student Loan program (DL), where the government lends the money directly to students without using any lender.

To ensure a smooth financial transition into college this next academic year, NASFAA advises students and families to apply for financial aid early by using the Free Application for Federal Student Aid (FAFSA). We are telling students to work closely with their school's financial aid office to complete the financial aid process – including applying for federal student loans - as early as possible. Students and parents with any questions or doubts about the availability of student loans or other forms of financial aid should always contact their financial aid office for specific information.

There are also things that legislators and the Department can do to ensure there are no disruptions in federal student loans. Schools who are interested in moving to the Direct Loan Program face many system conversion costs. Given that we are only five months away from the beginning of fall term, other schools question whether there is enough time to move into the Direct Loan Program. We advocate the Department take extraordinary steps to ensure that such a transition is as seamless as possible for schools.

Lender-of-last resort provisions should also be examined to ensure that students have direct access to federal loan funds without some of the roadblocks currently stipulated in regulation. For example, current ED regulations allow guarantors to require proof that a borrower has been denied a loan by as many as two lenders before a lender-of-last resort loan can be approved. This requirement requires diligence and an understanding of the student loan process, which puts an undue burden on the student borrower. Another example is the requirement that a guaranty agency act on the borrower's lender-of-last resort application within 60-days. Certainly, we believe most agencies would not take 60-days. But, the lender-of-last resort statutory and regulatory provisions should be reexamined in light of their possible widespread use.

As we move forward, NASFAA will continue to research and identify workable solutions that should be taken to ensure the continued availability of federal student loans.

Let me say a word or two about private educational loans. Approximately 25 percent of student loan volume comes from these educational loans. Those loans are made when a student's financial aid package (Federal grants, work/study, and loans, plus any state aid or school-based grants) is insufficient to cover their educational costs.

Our members are telling us that private educational loans are changing for some borrowers. The credit score needed to secure these loans are rising. Interest rates and origination fees are also increasing. Access to private loans could be a problem in certain sectors of higher education, such as proprietary schools, community colleges and urban-based colleges and universities, all of whom serve a disproportionately large number of high-risk, economically disadvantaged students. Correspondingly, and to the best of our knowledge, most traditional colleges are not experiencing access problems.

We believe that as a nation we should do everything in our power to decrease the need and growing dependence on private student loans. To that end, NASFAA recommends fully funding the Pell Grant Program to prevent the neediest students from having to borrow at all. We also believe the campus-based programs should be funded at sufficient levels to help middle-income families. Finally, we believe the federal student loan programs' annual and aggregate loan limits should be significantly increased to reduce reliance on private educational loan borrowing and keep borrowers within the safety of the federal loan programs. In order to accomplish that objective **we want to strongly express our support for Senator Kennedy's amendment offered on the Budget Resolution to modify the provision establishing a Higher Education Reserve Fund to allow for increases in the federal loan program's loan limits. Thank you, Mr. Chairman!**

These actions will go a long way towards fulfilling the promises made by the Higher Education Act when it was signed into law nearly 43 years ago.

When President Johnson signed the Higher Education Act into law on November 8, 1965, he said, "[W]hen you look into the faces of your students and your children and your grandchildren, tell them that you were there when it began. Tell them that a promise has been made to them. Tell them that the leadership of your country believes it is the obligation of your Nation to provide and permit and assist every child born in these borders to receive all the education that he can take… And tell them that we have opened the road and we have pulled the gates down and the way is open, and we expect them to travel it. And when we meet back here again a few years from now, there will be many more than the 1,300 and the 5,500 that will be here seeking and receiving the knowledge that is an absolute necessity if we are to maintain our freedom in a highly competitive world."

My members know all too well how far away we are from achieving the goal of equal opportunity to postsecondary education for low- and middle-income families and students. But we are getting closer. Our focus, first and foremost, must be on meeting the financial needs of the disadvantaged. I know we all share President Johnson's commitment to make his dream our nation's reality.

I pledge NASFAA's support – along with the 12,000 aid administrators that I represent – to assist you, Mr. Chairman, and to assist your colleagues as you address the issues involved in today's hearing. You must cajole when cajoling is necessary. You must act when action is necessary. I do not believe the American people will tolerate a meltdown in access to federal student loans similar to what they're seeing in other credit markets.

The good news is that tools are available at your and the Department of Education's disposal to deal with any disruptions in federal student loans, no matter how unlikely that may be. While the law has solutions in place, it is critical that we test these solutions and prepare for the worst case scenario today. In addition, new tools can be created as needed to meet specific needs that the Congress believes are appropriate to prevent problems. Waiting until the height of the lending season in July through September is not an option. All parties should meet to discuss solutions and develop plans to prevent a possible train wreck this fall. We look forward to working with you to ensure all our citizens credit needs are met in paying for a postsecondary education.