

In this issue . . .

- NAICU Survey Offers Snapshot of Student Loan Credit Crunch Impact
 - House Committee Explores Loan Crisis, Views Secretary's Assurances Skeptically
 - HEA Extended for a Month as Conference Continues
 - House and Senate Budgets Up the Ante on Education Spending
 - Negotiations Continue on Loan Provisions
-

NAICU Survey Offers Snapshot of Student Loan Credit Crunch Impact

A sizeable number of NAICU member institutions are seeing effects from today's constricted loan market on student loans, a new survey by the association shows. Roughly a third of NAICU member institutions responded to the survey on a crash basis earlier in March. It is one of the first attempts to gain a broad perspective on the impact of the current credit crunch on student aid across private colleges and universities. A detailed summary of the survey results is available on the NAICU Web site.

"While the comments offered by survey respondents indicate that there is little evidence of the credit crunch limiting access to student loans at the specific time of the survey, the data collected serve as a warning flare," said NAICU President David L. Warren.

Private Label Loans

Of 315 responding institutions, 176 reported receiving information from "preferred" lenders about their ability to make non-federal private label loans for the 2008-09 academic year:

- 46 percent said that one or more of their lenders are tightening credit requirements for private label loans.
- 43 percent said that one or more are no longer providing private label loans.
- 30 percent said that one or more are reducing or eliminating borrower benefits.
- 20 percent say that one or more lenders are increasing interest rates.

Another 111 institutions reported they participate in non-federal, private label loans, but had not gotten any information from "preferred" lenders.

The survey asked institutions participating in non-federal student loans what actions they would take if lenders were no longer able to meet students' financial needs. Of the 228 responding to the question:

- 20 percent would offer budget counseling.
- 15 percent would increase institutional funding for loans.
- 15 percent would direct students toward other outside scholarships or alternative loans
- 12 percent would increase institutional funding for grants or work study.
- 11 percent would increase PLUS loans.
- 6 percent would offer tuition payment plans.

For a number of reasons, nearly half of the 228 institutions answering the question said they had no plan in place to respond to a shortage in private-label loans. Some have not received indications that their individual lenders and students will be affected significantly by the credit crunch. Many don't have the financial resources needed to make up for a shortfall in private loans. Others say they have placed their planning on hold because of the uncertainty in the

markets and among federal officials.

"There is widespread uncertainty about what the full extent of the credit crunch and its impact on student borrowers will be, and what safeguards the federal government will have in place to avert a crisis," Warren said. "Institutions are looking for national guidance."

Sixty percent of the 284 respondents participating in private-label loans that answered the question "how important is private student loan borrowing to your institutional financial health?" said they are either "very important" or "critically important" to their institutional financial health.

Federal Family Education Loan Program (FFELP)

Of the 211 responding institutions that reported receiving information from "preferred" lenders regarding their ability to make loans through the Federal Family Education Loan Program (FFELP) for the 2008-09 academic year:

- 68 percent said that one or more of their lenders are cutting borrower benefits on FFELP loans.
- 57 percent said that one or more of their lenders are no longer providing FFELP loans.

(Note that when Congress reduced FFELP subsidies in 2007 to increase funding for Pell Grants and other student aid, cuts in borrower benefits were widely anticipated, and are not necessarily directly attributable to the current credit crunch.)

About the Survey

NAICU surveyed its 952 member institutions March 3-14. A total of 315 institutions responded – approximately 33 percent. Of the respondents, 88 percent participate in FFELP loans, and 76 percent participate in private-label student loans. Twelve percent of responding institutions participate in the William Ford Direct Loan Program, compared to 16 percent of all private, not-for-profit institutions. The survey also gathered information on the effects of declining bond markets on institutions. This portion of the survey is still being analyzed.

For more information, contact Sarah Flanagan, sarah@naicu.edu

House Committee Explores Loan Crisis, Views Secretary's Assurances Skeptically

The House Education and Labor Committee held a full committee hearing on March 7 to explore the ramifications for students and academic institutions of the current crisis in the financial markets. Democrats and Republicans alike expressed concern that the Department of Education had yet to assess and prepare adequately for a credit crisis that could affect access to student loans.

Chair George Miller (D-Calif.) began by querying the department on its state of readiness, and warned of the consequences of students having to disrupt or discontinue their studies because they couldn't get student loans. He asked Secretary of Education Margaret Spellings about the feasibility of schools converting from participation in the Federal Family Education Loan Program (FFELP) to participation in the Direct Loan Program (DLP), and what other options exist to ensure loan availability.

Rep. Buck McKeon (R-Calif.), the ranking minority member, continued in a similar vein by noting that he had heard from a number of schools, particularly the for-profit schools, that their students were having difficulty obtaining loans. He added that the current credit shortage, when combined with cuts to lender subsidies made in the budget reconciliation of 2007, was creating a "perfect storm."

In her opening statement and throughout the hearing, Spellings assured the committee that students would be able to obtain federal student loans. She cited a number of courses of action that would help counteract any "unlikely" shortage in the FFELP, including the department's capacity for integrating schools into the direct loan program.

She noted that the DLP currently makes 20 percent of the federal student loans, and said that amount could be easily doubled. In addition, access to capital would not be a problem for the department, she said. Several colleges and universities have already announced their intention to convert, or revert, to the DLP – most notably in recent weeks, Penn State. Spellings reported that 850 schools have been certified by the department as DLP-eligible, and are "ready to go." She did not mention, however, that certification is just the first step in a conversion process that entails considerable work and training on the institution's end.

Another option proposed by Spellings is use of the "lender of last resort" provision in the Higher Education Act, enabling guaranty agencies to make loans financed by the federal government. This option is most often used to assist borrowers who cannot find lenders. It was established in the late 1990s to cope with a financial crisis at the time, but was not designed for the current situation. Spellings said she has spoken to the guarantors to see what would have to be done to make this operational. A number of questions remain about how this provision would work, and how quickly it could be implemented.

The Secretary repeatedly claimed the department "would be ready," although at the present time, it was "monitoring the situation and "fact-finding." She mentioned that as part of its effort, the department had sent letters to colleges and universities to get feedback about the situation in the field (60 had replied as of the hearing date), and that the department was conferring with guaranty agencies.

Spellings said guarantors' plans to deal with a crisis are "uneven," and said she plans to talk to Treasury Secretary Paulson soon. Larry Warden, the department's chief financial officer, added that they are "following the stories in the newspaper," and are checking with schools whose lenders appear to be having trouble. He said that, to date, loan originations appear to be similar to last year, though what happens in the "crunch time" of July and August will be crucial.

Spellings also opined that part of the crisis is a result of the increasing cost of a college education, and called for more transparency on college costs and more simplicity in applying for student aid, as described in the report from her Commission on Higher Education.

For more information, contact Maureen Budetti, maureen@naicu.edu

HEA Extended for a Month as Conference Continues

House and Senate higher education committee staff have been meeting furiously for weeks to iron out differences on the House and Senate versions of the Higher Education Act (HEA) reauthorization bills. There have been few leaks on what the staffs have been discussing or deciding – a sure sign that progress is being made and comradery is high. Leaks typically happen when the atmosphere in conference is disagreeable and disgruntled staff want to upset the process.

Although conferees have not yet been formally appointed, most of the differences in education bills are typically worked out among staff for the various members of Congress. Then when a compromise looks possible, formal conferees can quickly be appointed, and a brief meeting among members can handle any legislative formalities and seal the deal.

In the meantime, the existing HEA – due to expire on March 31 – has again been extended, this time until the end of April. Congress is on recess the last two weeks in March, and needed to pass the extension before leaving town. The extra time allows staff members to continue their work on resolving the differences between S. 1642 and H.R. 4137

This is the third Congress in which members have tried to reauthorize the HEA, which was last reauthorized in 1998.

For more information, contact Maureen Budetti, maureen@naicu.edu

House and Senate Budgets Up the Ante on Education Spending

The House and Senate budget committees have tackled the annual task of creating a congressional budget resolution – a non-binding budget plan – for Fiscal Year 2009. Both budget plans, presented March 5 and 6, reject the president's proposal to cut spending and eliminate programs, and propose substantial increases in discretionary spending, especially education.

Both the House and Senate passed their version of the FY 2009 budget resolution on March 13, but education was not a hot topic during floor debate in either chamber. Now that both have approved the resolution, the committees will conference to work out their differences, to produce a final budget plan.

The House committee plan would provide a total of \$1.1 trillion in discretionary spending, which is \$23 billion above the president's request. The House budget meets the president's request for defense, at \$538 billion, and has \$551 billion for domestic spending.

For the education and training function of the budget, the House proposes \$85.3 billion, which is \$7.1 billion over the president's request. The plan rejects the president's cuts to education programs, and provides additional resources to increase funding in priority areas.

The Senate committee plan would provide \$1 trillion in discretionary spending, which is \$18 billion more than the president's budget. For defense, the Senate budget proposes \$564 billion, and for domestic spending, \$436 billion.

For education, the Senate budget proposes \$8.8 billion above the president's request, which is \$5.5 billion over last year. The budget committees do not specify what programs would be increased, rather the appropriations committees do that later in the spring.

The Senate plan also includes a \$35 billion economic stimulus package, and \$13 billion for a two-year extension of the tuition deduction, but does not propose any reconciliation instructions. The House budget, however, includes reconciliation instructions to the Ways and Means Committee for an alternative minimum tax fix, and Medicare payments to physicians.

Once the final budget plan is produced, the next step will be to watch what the appropriations committees do with the total discretionary allocation they are given. While both chambers have proposals above the president's request, there are rumblings that this is not as high as the appropriators would like to go. President Bush has already stated that he will not sign appropriations bills that go over his budget, as he did last year. This has caused congressional Democratic leaders to consider waiting until after the November election, to see who the next president will be before moving on final spending bills.

For more information, contact Stephanie Giesecke, stephanie@naicu.edu

Negotiations Continue on Loan Provisions

The negotiated rule-making team charged with crafting regulations for recent changes to loan provisions has scheduled a fourth session for April. The additional session was necessitated by the group's inability to reach consensus on certain payments to lenders as calculated under the new income-based repayment plan.

The negotiators have been hammering out language on the loan provisions that were part of the budget reconciliation bill passed late last year. Items requiring action include the new public service loan forgiveness program, coordinating new and existing benefits to those in the military, the definition of a not-for-profit holder, and an income-based repayment plan.

A key sticking point has been how to deal with a lender payment calculation in the new income-based repayment option. The option is intended to give borrowers with a debt-to-income ratio above a predetermined level another alternative to existing repayment plans. The current options are standard 10-year, graduated, extended, income-sensitive, and income-contingent repayment.

While lowering monthly payments is attractive – especially for low-income, high-debt borrowers – it could make loans more costly in the long run, the loan servicers on the rule-making team argue, because of unreduced principal, since payments are first applied to interest, and the accumulated interest is not covered by the payment amount. They also assert that few borrowers will reach the 25-year point for loan forgiveness unless they opt for public service jobs, through which the loan may be forgiven after 10 years.

A second TEACH grant negotiated rule-making team has been dealing with the new grant program designed to attract and keep teachers in the science, mathematics, foreign language, and special education fields. That group wrapped up its work in February, and the draft regulations will be published for comment in the coming weeks.

The proposed TEACH program rule should be carefully reviewed by those on campus. The grants – \$4,000 grants per year for four years – will be available to students studying science, math, and foreign languages, and intending to teach in those fields. However, the grants would convert to loans if a student changes majors, doesn't graduate, or graduates but is unable to complete the four-year teaching service requirement on time.

For more information, contact Maureen Budetti, maureen@naicu.edu

The Week in Review is published by the National Association of Independent Colleges and Universities.

Victor J. Boschini, Jr., Chancellor, Texas Christian University, *Chair, NAICU Board of Directors*
David L. Warren, *NAICU President*
Sarah A. Flanagan, *Vice President for Government Relations and Policy Development*
Roland H. King, *Vice President for Public Affairs and Acting Editor*

We welcome your comments. Contact us at (202) 785-8866, by fax at (202) 835-0003, or by e-mail at roland@naicu.edu. Our mailing address is 1025 Connecticut Ave., N.W., Suite 700, Washington, DC 20036. *The Week in Review* is available to NAICU member presidents and their staff via e-mail upon request, and is archived on the NAICU Web site, www.naicu.edu (go to user log-in on home page). To subscribe, or for member log-in user name and password, e-mail roland@naicu.edu.

© 2008 by the National Association of Independent Colleges and Universities

 **NAICU**
The Week in Review
National Association of Independent
Colleges and Universities
1025 Connecticut Ave., N.W., Suite 700
Washington, DC 20036