April 23, 2008

The Honorable Christopher J. Dodd
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter concerning the challenges facing the student loan markets. The Administration is committed to ensuring that students and their parents have access to Federal student aid through today’s student loan programs to help pay for tuition during the 2008-2009 academic year. We are also strongly committed to working with members of the House and Senate to quickly provide the Department of Education with additional authorities to minimize disruptions with student loan originations this coming school year, such as the provision found in the Ensuring Continued Access to Student Loans Act of 2008 (H.R. 5715).

The Administration is taking several steps to prepare for the approaching Federal student aid peak season of July and August. The Department of Education is working to make certain that the Lender-of-Last-Resort (LLR) program, the safety net for students who are unable to secure FFEL loans through traditional channels, is prepared to handle the necessary volume. The Department expects to finalize LLR plans from all thirty-five guaranty agencies shortly. On April 11, the Department held a meeting with key guaranty agency leaders and continues to engage a working group representing these agencies to ensure that the program is implemented effectively and efficiently. The Department will issue comprehensive guidance that will include details describing the use of funding advances from the Federal government, and will work to ensure that the Direct Loan program has the capacity to absorb additional loan volume should institutions make the decision to participate in the program.

The Administration has also considered various means to ensure that necessary short-term liquidity is available for student loan originations for the coming school year. We explored utilizing the Federal Financing Bank (FFB) in this manner but after a thorough analysis, it is clear that the FFB does not have the authority under the Federal Credit Reform Act to purchase, or otherwise participate in, loans to non-Federal borrowers in these circumstances.

The Administration intends to work closely with the Senate to ensure that it can take prompt action on H.R. 5715, a recently passed House bill that would provide flexible authority to the Secretary of Education to purchase FFEL loans. Implementing this authority will take time so it is imperative to move this legislation without delay if this authority is to be used in the upcoming school year. We appreciate that Congress shares our concerns regarding the effect of credit-market conditions on the student loan market, and we are committed to working with
Congress to meet our shared commitment to ensure that students are able to obtain Federal student loans.

Sincerely,

/s/          /s/          /s/
Margaret Spellings  Henry M. Paulson, Jr.  Jim Nussle, Director
Secretary of Education  Secretary of the Treasury  Office of Management and Budget

cc:  The Honorable Richard C. Shelby  
    The Honorable Edward M. Kennedy  
    The Honorable Michael B. Enzi  
    The Honorable Barney Frank  
    The Honorable Spencer T. Bachus  
    The Honorable George Miller  
    The Honorable Howard "Buck" McKeon