THE SECRETARY OF EDUCATION
WASHINGTON, DC 20202

November 10, 2008

Subject: Extension of Authority to Purchase FFEL Program Loans

Summary: This letter provides information on how the Department of Education will implement the extension of the Secretary's authority to purchase FFEL Program loans to address issues of liquidity in the student loan market.

Dear Colleague:

On October 7, 2008, the President signed Public Law 110-350, which extends for one year the authorities contained in the Ensuring Continued Access to Student Loans Act (ECASLA). By signing this law, the President reinforced the Administration's strong commitment to providing students and families with every opportunity to obtain federally guaranteed loans to help pay college expenses.

As many know, the U.S. Department of Education (the Department), in collaboration with the U.S. Department of the Treasury and the Office of Management and Budget, has implemented two programs – the Purchase of Participation Interests (PPI) Program and the Loan Purchase ("Put") Program. Both programs are working exceedingly well. To date, the Department has purchased \$8.7 billion in participation interests and has purchased approximately \$62 million in loans through the Put Program.

However, additional action is needed to help ensure students have continued access to federal student loans. The continued tightening of the credit markets has created conditions making it difficult for lenders to secure needed private capital. These conditions have generated concern among students and families, schools, and lenders about the availability of federal guaranteed loans for the 2009-10 academic year. Schools are also in the process of securing commitments from lenders for the next school year.

For these reasons, I am announcing several additional actions the Department is taking to ensure that students and families will have access to loans in the 2009-10 academic school year. Our goals in taking these actions are to:

- Ensure availability of federal student loans for the 2009-10 school year;
- Uphold the public/private partnership in the federal student loan program;
- Protect taxpayer interests by adding no net costs to the Federal Government; and
- Provide the liquidity and support needed to stabilize the student loan marketplace.

Therefore, the Department will replicate the successful PPI and Put Programs for the 2009-10 academic year. The current PPI and Put Programs for the 2008-09 school year will terminate as provided for in the Master Agreements between Federal Family

Education Loan (FFEL) Program lenders and the Department. In addition, I am announcing a new program designed to provide longer-term stability in the federal student loan marketplace through the development of a private market financing vehicle.

REPLICATION OF PPI AND PUT PROGRAMS FOR 2009-10 LOANS

The Department will publish in the *Federal Register* the terms and conditions on which the Department will purchase FFEL Program loans (the Put Program) and participation interests in loans (the PPI Program) originated for the 2009-10 academic year. We anticipate that the terms and conditions for these programs will closely mirror those for the current year's programs, though the pricing and terms of these programs may need to be refined in order to ensure that they result in no net cost to the Federal Government.

In the Put Program, lenders will have the option to finalize the sale of a loan or loans to the Department as late as September 30, 2010. Thus, a lender that completes the disbursement of a loan for the 2009-10 academic year can hold and service that loan until September 30, 2010. This option continues to provide an opportunity for lenders to finance and keep loans in the event that capital markets improve, and is designed to protect against losses on new loans for an additional year.

Also, the Department will replicate the PPI Program. These participation interests will be held by the Department until September 30, 2010. As in the current program, 2009-10 academic year loans originated by FFEL Program lenders will be put into short-term participation facilities. No later than the expiration of the program on September 30, 2010, the lender may refinance the loans in the private financial market and redeem the Department's participation interest, or it may sell the loans to the Department under the Put Program.

THE CONDUIT – A PRIVATE MARKET FINANCING VEHICLE

Credit markets remain stagnant, and the effects are felt most acutely in those markets with unsecured consumer debt such as student loans. We estimate that approximately $130 billion of eligible academic year 2003 to academic year 2007 student loans remain on bank balance sheets and tied to auction rate securitizations. Capital markets have been unable to generate sufficient funds at prices that will ensure student loans are made for the 2009-10 academic year.

In order to address this situation, the Department intends to provide liquidity support to one or more conforming Asset-Backed Commercial Paper (ABCP) conduit(s) to purchase FFEL Program loans. These ABCP conduits will purchase FFEL Program loans, providing longer-term stability to the guaranteed student loan marketplace. The Department intends to make all fully disbursed, non-consolidation FFEL loans awarded between October 1, 2003, and July 1, 2009, eligible for this program. An eligible lender trustee creates a pool called a conduit, to which other lenders transfer ownership of their student loans. This conduit issues commercial paper to sell, backed by the loans in the pool. After private investors purchase the commercial paper, student lenders would be paid out of the amounts received from these investors. The Department will provide liquidity to the facility by entering into forward purchase commitments with these eligible lender trustees, whereby the Department promises to purchase, at a date in the future, eligible student loans at a prearranged price if the commercial paper that has been issued by the conduit cannot be reissued or "rolled" at maturity and the conduit does not have sufficient cash to repay commercial paper investors.

The Department continues to refine the pricing and the terms of these programs to ensure that they will meet the legal obligation of no net cost to the Federal Government. The *Federal Register* Notice for these programs will include the final prices, terms, and conditions, as well as the Administration's methodology for determining cost neutrality.

The Department has also taken the steps necessary to ensure the Lender-of-Last-Resort Program is ready should it be needed. Further, in recent months, the Department has expanded its capacity in the Direct Loan Program. These measures, along with the new ECASLA programs, will ensure that students and families are able to obtain FFEL Program loans for the 2009-10 academic year and beyond.

Sincerely,

/s/

Margaret Spellings