PREPARED OPENING STATEMENT FOR
U.S. SECRETARY OF EDUCATION MARGARET SPELLINGS
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON EDUCATION AND LABOR
FRIDAY, MARCH 14, 2008

Thank you for inviting me here today. I welcome the opportunity to discuss what the Department is doing to ensure that students and families can access and afford higher education. I share your concern and appreciate your vigilance on this issue.

First of all, let me assure you…and especially students and families…that Federal student aid will continue to be available. As your recent letter noted, Mr. Chairman, disruptions in the private lending market have “so far not negatively affected students’ ability to access federal loans.” That’s what we’re seeing also.

Student loans are more than a 400 billion dollar enterprise, involving multiple federal agencies, guaranty agencies, and secondary markets.

Federal loans and other federal aid comprise one piece of this sector. Of eighteen million college students, more than ten million receive financial aid from my Department.

The two sources of Stafford loans are the Direct Loan program and the Federal Family Education Loan program—what we call FFEL. More than 2,000 originating lenders participate in FFEL. As recent media reports have noted, a small number of these lenders have reduced their participation or stopped originating new loans.

As you know, these actions are largely a result of broader stress across credit markets and the economy as a whole. Even in the cases where lenders have reduced participation in FFEL, other lenders have stepped in to meet student needs. My Department is in regular contact with schools. In our extensive outreach, no institutions have notified us that any eligible student has been denied access to federal loans. And earlier this week, the Consumer Bankers Association reaffirmed that banks plan to continue making both guaranteed and private loans.

Of course, we all understand the anxiety that students and families experience when they hear news accounts suggesting that federal student loans could be at risk. We also understand that credit markets are under stress, and conditions may change rapidly.

For that reason the Department of Education – in consultation with other offices and agencies across the executive branch such as the Domestic Policy Council, the National Economic Council, and the Treasury – is taking the following steps:

First, we are monitoring the situation closely—just as you are doing. We’re examining market conditions on a daily basis and working with the lending community… including the many stakeholders involved in federal aid… to assess any potential impact on students.

This first step will provide us with information on how best to proceed. For example, we are tracking the volume of loan originations for both FFEL and the Direct Loan program against previous years. We know that originations will peak, as they always do, in July and August before the school year starts. If origination trends shift, we will be prepared to act.

We are also tracking inquiries daily into the Direct Loan program to be prepared for any significant shift in loan volume between the programs. Again, rest assured that we will be ready should such a shift occur.

Second, we're engaging our customers—students, families, and institutions—by helping them understand all their options. Recently, we sent letters to college presidents and financial aid officers to assure them of the continued availability of federal loans… and to ask for their help tracking developments, including any reduction of lender participation at their schools.

In cases where the institutions are relying heavily on a single lender that chooses to reduce participation in FFEL, we have actually communicated with these institutions to ensure that their students will continue to be served, be this either a single lender or other new lenders.

Third, we're reviewing the options and tools available should the situation warrant their use. For example, some are suggesting that we shift more of the federal aid volume to the Direct Loan program. Whether to participate in the FFEL or Direct Loan programs are choices that schools make. The Administration continues to support having two strong Federal student loan programs. Currently, 850 schools already authorized to make Direct Loans have chosen to remain with FFEL as their primary program. We stand ready to support them in whatever choices they make, now and in the future.

Congress included the Lender of Last Resort provisions in the Higher Education Act to provide a way for the Federal Government to ensure, should the need arise, that students and families can continue to access FFEL loans. These provisions are called "last resort" for a good reason—they're the final option for eligible students unable to access federal loans. At present, the FFEL and Direct Loan programs continue to meet student needs. Lender of Last Resort provisions remain available, and guarantee agencies are already using their authorities as needed.

Private loans can also be an important resource for students and families. However, many who use private loans haven't exhausted their federal aid. To inform them of the more affordable Federal options, we've created materials like this Federal Aid First brochure—user-friendly guides on how to apply for and receive Federal aid.

As early as 2006, my Commission on the Future of Higher Education called for streamlining the entire financial aid system by addressing the interrelated issues of cost, financing and consumer information. As you work to reauthorize the Higher Education Act, I hope you will take this opportunity to simplify the current system, which is burdensome and complex, and make it more responsive to students and families.

Already, we've worked together to dramatically increase Pell Grants, to address the needs of 5.8 million low-income students. We achieved the largest increase in budget authority in 30 years, and the President has once again asked to increase the maximum annual award in his 2009 budget, to $4,800 per year.

Postsecondary education grows more important by the day, and ever more necessary in our global knowledge economy. Times of economic uncertainty are all the more reason that Americans will look to higher education to acquire new skills and knowledge. Together, we can help more of them do so.

Federal student loans are an important part of this effort, and the steps my Department is taking will help ensure that they remain available. Market conditions are dynamic, not static. As you said in your letter, Mr. Chairman, while "we expect that overall credit market conditions will soon improve…it is only prudent to prepare now to ensure that these conditions do not negatively impact students…" I look forward to working with you to ensure that students can continue to access and afford the invaluable opportunities of higher education.

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