Testimony from

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"Ensuring the Availability of Federal Student Loans"

Mr. Chairman and members of the Committee, thank you for providing me the opportunity to meet with you today about such an important topic. First, I would like to applaud the leadership for increasing the Federal Pell grant program to an historic high. As you know, Federal Pell Grants provide access and affordability to our highest need students. These funds are critical to the retention and graduation goals of our students. Thank you so very much.

As a quick background, I began my career in financial aid in 1990 as a student employee, advancing to Associate Director of Loan Processing at St. Mary's College of Maryland. I then accepted a position at the University of Maryland, College Park campus as an Assistant Director for Loan Processing, was promoted to Associate Director for Operations in 1997 and to Director of Student Financial Aid in January 2005.

Three years ago I had the opportunity to speak with you about the federal loan program and am excited to be here today to provide an historic perspective of what has happened over that time span. It is evident that we are in the calm before the financial storm and I am so encouraged that we are here to plan for what may be hard times ahead. Current economic conditions threaten the overall health of the federal student loan programs. Access, affordability and choice are in jeopardy. We need to assure students and parents that loans are still a viable source for payment of educational expenses. We need to maintain the public confidence in the financial aid programs so that access to education is attainable for all students.

The University of Maryland – a mere eight miles away from the Capitol -- is home to over 24,000 undergraduate students and 9000 graduate students. Approximately 75% of all students file the Free Application for Federal Student Aid (FAFSA). Of those students, 90% receive a federal loan, for a total annual loan volume of about $90 million. In addition, we have 3400 Federal Pell Grant recipients. We have a very diverse population with almost 45% being non-white. As the Director of Financial Aid, my job is to provide aid packages which assist in the retention and graduation of our student population, with an effort to reduce debt burden. Given the broad range of students who attend our campus, a 'one-size-fits-all' aid package does not advance those goals. Four years ago, we created the Maryland Pathways program as a means to provide a debt free education to our highest need, Maryland resident students. We currently have over 400 students who benefit from this unique program. In 2005, we added to this program by implementing a Pell Pathways program. This is the only program of its kind nationwide. In this program, we provide additional grant funding to students who come from socio-economic disadvantaged backgrounds who did not receive the Pell Grant because the student earned too much money. Last year, we implemented the Senior Debt Cap, which provides a University of Maryland grant instead of loan for those students who borrowed more than $15,900 in need-based federal loans. We were able to implement these programs without new monies by coordinating funding strategies with the State of Maryland and shifting our packaging algorithms for the awarding of federal and institutional funding. As you can see by the chart below, our loan indebtedness has decreased due to these programs.

Loan Guarantees by Program

Loan Program	**Total 2005-06**	**Total 2006-07**	**Difference**
Stafford Subsidized	$45,287,075	$43,641,028	($1,646,047)
Stafford Subsidized	$34,670,529	$33,230,596	($1,439,933)
PLUS	$28,887,088	$26,322,797	($2,564,291)

So how does this impact student loans? Over the last year we've witnessed an array of events that has jeopardized the future of student loans and subsequently our ability to meet the needs of our students. Independently, the events probably would have only caused a ripple; however, when coupled together, the sting is felt in all aspects of financial aid. The financial markets are challenged by the sub-prime mortgage crisis, which has caused investors to back away from asset based securities, which are a source of capital for student lenders. Couple this with the cuts in subsidies to lenders by Congress and we have a formula that equates to lenders scrambling to find funding for their student loan portfolios. Consequently, the ability to lend money to students and parents is negatively impacted.

As we enter our peak packaging season, I am concerned about our ability to meet the needs of our students for a variety of reasons. First, consolidation loans which have historically been a financially attractive solution for students have almost disappeared. This in turn has significantly reduced the amount of Perkin's loan repayment. Last year we disbursed $2.3 million in Perkins loan funding. This year (2008-2009), we have less than $200,000 to award to our students. Second, the Federal Work Study Program and the SEOG programs were cut by 20 million dollars nationally. That translates to a $120,000 reduction in SEOG and a $50,000 reduction in Federal Work Study for the University of Maryland. Overall, we have almost 2.5 million dollars less in need based financial assistance to award to our neediest students in the Campus

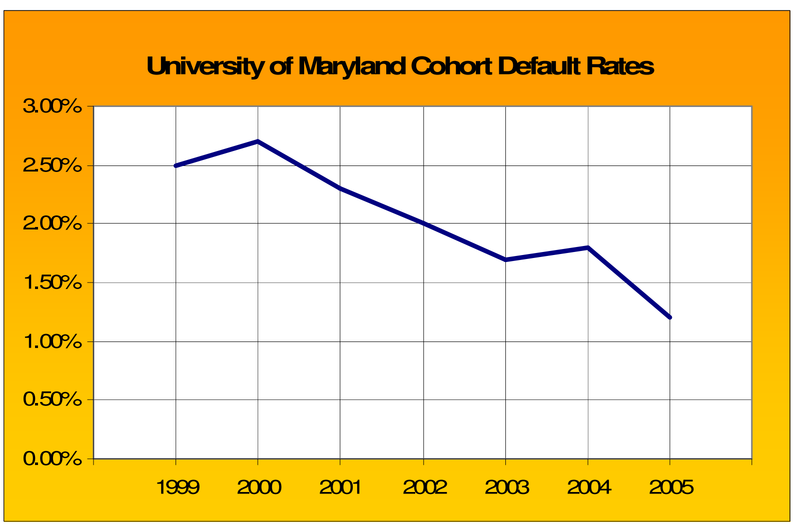
Based Programs. Third, due to the sub-prime mortgage crisis, home equity is less of a resource for families to utilize to pay for the cost of education, as are retirement funds. I have concerns as to the availability of funding options for our families. Couple these events with lenders having to tighten their lending standards, and there are fewer resources available to families to pay for college. Our parents borrow, on average, about $30 million in Federal PLUS loans, while graduate students borrow about $20 million in Graduate PLUS loans. With the overall economic condition, our families and students who typically borrow credit worthy loans will experience increased denial rates.

Since we just completed the packaging of our incoming freshman class, I think it may be helpful to see the impact of these events on an average student. For example, if we superimpose the reduction in aid on a packaging scenario for a typical Maryland resident freshman student, with a zero dollar ($0) expected family contribution (EFC) attending the University of Maryland in academic year 2008-2009, we find that students/families may need to borrow an additional $2770 in loans (see chart below) as compared to the 2007-2008 academic year.

	2007-2008	**2008-2009**
Direct Cost of Attendance (tuition, fees, room, board, and books)	$17,848	$18,139
Types of Aid		
Pell Grant	$4,310	$4,731
SEOG	$1,000	$500
Federal Work-Study	$2,400	$1,800
Perkins Loan Funds	$2,000	$0
Stafford Loan	$3,500	$3,500
UM Grant Funding	$3,800	$3,800
TOTAL funding	$17,010	$14,031
Potential PLUS/Private loan	**$838**	**$3,608**

With reduced financing options, families inevitably will need to borrow more funds to pay for college. Further there are fewer lenders providing student loans. One concern circulating among my colleagues is the disruption in the student loan industry as lenders withdraw from the FFEL program. This creates an administrative burden as lender lists need to be revised and students need to be informed to choose another lender. In addition, lender policies are changing. For schools serving high risk students, this may impact their ability to borrow a student loan. As of today, lenders representing 10% of Stafford and PLUS loan origination volume and 30% of consolidation loan volume have either suspended or discontinued their participation in the student loan programs. The University of Maryland never denies choice of lender to a student, which is why we work with over 80 different lenders. As lenders leave the FFEL program, we feel the administrative impact. I am somewhat nervous about the dilemma we are facing in the student loan industry and the availability of funds for our students and the potential disruption this could cause our families.

We review our lender lists every year. As a historical perspective, we've chosen lenders who have quality customer service, advanced technology, excellent pricing, and who advance the mission of our University. Due to the cuts in subsidies, the zero fee loans our students benefited from are disappearing. However, FFEL lenders do advance our mission. One of the missions of our campus is to provide educational services in every aspect of campus, not just in the classroom. The University of Maryland has thoughtfully chosen to provide Stafford and PLUS Loans through the FFEL program because of the value added services provided to our students. Our guarantee agencies provide educational information to our students on default prevention, debt management, identity theft, and financial planning, to name a few. With continual and consistent communication, students understand the impact of borrowing, and the consequences for non payment. This knowledge gives our students life skills they will utilize long after they receive their diploma. Because of our partnerships with FFEL lenders and guarantors, our default rate has dropped consistently over the last seven years. In 2000, our default rate was 2.6%; in 2006 it was 1.2%. For University of Maryland students who borrow utilizing American Student Assistance, the default rate is .6%.



Cohort Default Rate

Year	Cohort Rate
1999	2.50%
2000	2.70%
2001	2.30%
2002	2.00%
2003	1.70%
2004	1.80%
2005	1.20%

The University of Maryland could not have provided those incredible repayment percentages without the assistance and knowledge of the lending experts. Since schools may face sanctions if their cohort default rates exceed certain levels, a lender and guarantor's effectiveness in working with borrowers to ensure that loans are repaid is a viable consideration when an institution chooses a loan program. Further, last year I decided we should conduct one-on-one counseling for students who reached a specific threshold of indebtedness per grade level. Our lenders very quickly were able to run reports for us to assess the indebtedness of our students. By profiling our students and providing them with individual counseling, we are able to further advance the mission of the University in educating our students.

In summation, we need to take steps now to prevent the disruption to the FFEL student loan program. We need to assure our students and families that student loans have been, and will continue to be, a resource for them. I thank you for having me speak with you today.