USAFunds®

Supporting access to education®

Testimony of Terry L. Muilenburg
Senior Vice President, Government and Industry Relations
United Student Aid Funds, Inc.
March 14, 2008 House Committee on Education and Labor
"Ensuring the Availability of Federal Student Loans"

Chairman Miller, Ranking Member McKeon, Members of the Committee, I am pleased to have the opportunity to testify this morning. All of us here today share a strong commitment to ensuring that every eligible student seeking federal student loans will have an uninterrupted source of loan capital to pursue postsecondary education.

I am here today on behalf of United Student Aid Funds, a 48-year old nonprofit organization that works to enhance postsecondary-education preparedness, access and success. Last year, USA Funds guaranteed $25.8 billion in Stafford, PLUS and Consolidation loans, or about one-fourth of all Federal Family Education Loans issued in fiscal year 2007.

USA Funds and the other 34 guarantors, all of whom are either state agencies or nonprofit organizations, perform a critical role in the delivery of student financial aid. Together, we administer every student loan made under the Federal Family Education Loan Program, with an outstanding loan portfolio of over $400 billion. Through our efforts, we protect the Federal Government's investment in our students through delinquency prevention, default aversion and debt management programs. We also work with students, families, colleges, universities, career schools, secondary schools and higher education finance colleagues to provide information on educational opportunities and financial literacy programs that help students realize their higher education dreams.

As you will note in this testimony, guarantors are involved with students over the long term: Our work with students begins as early as elementary school, through early awareness and outreach programs, and does not end until they have repaid their loans. Many guarantors, including USA Funds, provide early awareness, financial literacy and debt management materials in Spanish, as well as English, to ensure that Hispanic students and families, the fastest growing demographic segment of the population, are able to fully benefit from these services.

Guarantors are also committed to accountability. In addition to serving students, families and schools, we are resolute in fulfilling our responsibilities to the Congress, the Department of Education and the American taxpayer.

Promoting College Access

Consistent with our public service mission, guarantors provide an extensive range of services and programs to increase awareness of the importance of higher education, the opportunities available and the financial support offered. The College Access Initiative, established by the Deficit Reduction Act of 2005, formalized a fundamental role for student loan guarantors in promoting access to postsecondary education. We appreciate your recognition of this work by codifying our responsibility to do so.

Through our college access efforts, guarantors are filling a local need that often cannot be met by the secondary school counselor. According to a survey by the National Association for College Admission Counseling, the national student-to-counselor ratio for public high schools is 315-to-1. Thus, despite diligent efforts on the part of school personnel, too many students still struggle to understand their options for postsecondary education and how to obtain financial aid. Throughout the country, guarantors step in to help prevent students from falling through the cracks. For example, last year guarantors:

- Distributed millions of college awareness, financial aid and financial literacy brochures, guides and toolkits to schools, students and families. USA Funds alone distributed over 4 million publications to help families plan and pay for college. These materials provide in-depth information on: saving and paying for college, planning for a career, money management, applying for financial aid, and available scholarships and grants.
- Organized and participated in more than 8,400 financial aid workshops and events that reached more than 900,000 students and families and more than 7,800 school guidance counselors. These workshops provide hands-on training for completing the Free Application for Federal Student Aid, and understanding the types of financial aid available, as well as the college application process.

Improving Financial Literacy and Preserving Low Default Rates

Guarantors focus significant efforts on improving the financial literacy of students and families. For example, USA Funds' financial literacy program, Life Skills, is in use at over 500 postsecondary institutions nationwide. We believe that the more borrowers know about personal finance, money management, and borrowing wisely, the better prepared and more likely they are to meet their financial obligations. To accomplish that goal, guarantors provide detailed financial literacy materials, training sessions and interactive tools to assist all students and schools in understanding prudent borrowing and repayment and successful money management. Guarantors, including USA Funds, emphasize the need for students to exhaust all eligibility for "free" money in grants and scholarships before turning to federal loans, and advise against turning to more expensive private loans unless absolutely necessary, and then only to cover essential educational costs. Below are examples of financial literacy activities:

- Developing Web sites and distributing materials designed for students and families to understand how to handle their finances as they prepare for college and beyond
- Working with local education centers to implement early financial literacy programs with area high schools
- Developing financial-literacy materials for graduate and professional students and adult learners to teach students about time- and money-management practices that will permit them

to graduate on time, with minimal education debt, and prepared to repay the student loans that financed their education.

In addition to improving financial literacy, intensive efforts are involved in counseling borrowers on their repayment obligations and options to prevent defaults. These efforts include:

- Creating comprehensive, state-of-the-art default aversion programs, including tools schools can use to contact their former students;
- Counseling the delinquent borrower on the consequences of default and the options available to avoid default; and
- Assisting the borrower in obtaining the most reasonable repayment terms possible, a deferment, or a forbearance.

In USA Funds' case, we successfully resolve more than nine out of ten past-due accounts, and as a result, last year we prevented $16.7 billion in potential loan defaults.

Thanks in part to these comprehensive efforts, the national student loan default rate is 4.6 percent, one of the lowest rates in the history of the program, with USA Funds below the national average at 4.0 percent. I would like to thank the Committee for specifically recognizing these financial literacy, delinquency and default prevention activities as essential roles for guarantors in the College Opportunity and Affordability Act (H.R. 4137) and encourage you to include these provisions in the final conference agreement on the Higher Education Act reauthorization bill.

Lender of Last Resort Programs

Turning to the topic of today's hearing, guarantors are statutorily required under the Higher Education Act to serve as, or arrange for, a backstop Lender of Last Resort (LLR) to address situations where eligible students and parents are unable to obtain Federal Family Education Loans. The statute requires guarantors to provide, or arrange with an eligible lender to provide, LLR loans in each state where it serves as the designated guarantor. Guarantors are required to have policies and operating procedures in place to address LLR situations. USA Funds has such procedures and, to my knowledge, so do all other guarantors.

Lenders of last resort programs are just that: a safety net to assure uninterrupted access to needed loan funds. The Act has provided this authority for decades, but lender of last resort loans have been made in only limited situations. Using nonfederal monies, these narrowly-focused programs were not intended to address broad scale disruption in the lending market. They have largely relied on the capacity of lenders to step up and make loans, which carry 100 percent insurance to encourage lenders to participate.

In the event of a more serious or widespread loan access problem, the Higher Education Act authorizes the Secretary of Education to advance funds to guarantors to make LLR loans. The availability of federal capital assures that loan funds will be available. The Department last considered using this authority in 1998 when, due to an impending change in the interest rate formula, there was concern that lenders might not make loans. The Department then asked three guarantors, USA Funds, Great Lakes Higher Education Corporation, and the Pennsylvania Higher Education Assistance Agency, to be prepared to administer lender of last resort programs using federal funds, based on an agreement developed by the guarantors and the Department. It is my understanding that the same arrangements would have been offered to other guarantors desiring to participate and willing to abide by the terms and conditions included in these agreements.

These agreements, which were never implemented due to Congressional action to modify the interest rate formula and ensure continued FFELP participation by lenders—well before a crisis could have occurred—provided for:

- Authority for the Department to make advances to guarantors for the purpose of making LLR loans;
- A determination by the Secretary as to where each guarantor could issue LLR loans;
- A school-based, rather than a borrower-based LLR process so that borrowers would not individually have to prove that they were turned down by two lenders;
- Insurance on LLR loans at 100 percent;
- Fees to guarantors making LLR loans with federal advances, intended to cover the costs of issuing and maintaining the loans, in lieu of the special allowance payments normally paid to lenders;
- Guarantor repayment of advances upon request of the Department, with the Department able to require assignment of LLR loans to the Secretary, and upon assignment, the portion of any advances represented by the loans would be considered repaid; and
- Eligibility for interest benefits and special allowance payments for a purchasing lender in the event an LLR loan was sold.

The Lender of Last Resort provisions in the HEA are truly a last resort to ensure student access to loans for higher education. Given the current situation with the credit markets, it is essential that all parties be prepared to step in to address a situation where students are unable to obtain federal student loans. It is critical that all stakeholders are prepared to act quickly and effectively, so that every student at every Title IV eligible institution has access to Federal student loan funds. For this reason, USA Funds strongly encourages the Department to promptly work with guarantors to develop specific plans that could be quickly implemented should it become necessary to activate an LLR program.

I offer a few suggestions regarding how the Department might proceed as it considers the need for lenders of last resort.

- First, USA Funds and our guarantor colleagues believe eligibility for lender of last resort loans should be school-based, rather than borrower-based. That is, the Department, upon request from a school, should determine whether students attending the school are able to secure loans. The school should check with its existing lenders before making such a request. Once the Department is satisfied as to the need for last resort lending, all students at the school should be eligible for the program. Students should not have to qualify individually. A school-based determination of eligibility would both simplify and expedite the process. From a borrower perspective, the application process would be the same as it normally would be, consistent with the school's loan application process flow. When the loan reaches USA Funds for guarantee, the loan would be "flagged" in our guarantee and servicing system as an LLR loan and tracked throughout its lifecycle as such.
- Second, I would also recommend that the Department work with guarantors to ensure that the operational processes involved in funding and making LLR loans reflect an electronic loan processing environment.

- Third, as in the 1998 agreements, guarantors should be permitted to sell LLR loans made with federal advances, with the proceeds used to repay such advances.

At the same time, we urge the Administration, with support from Congress, to examine all available alternatives to address the liquidity issues in the credit markets as a preferred means of addressing the challenges many education lenders are currently facing.

These are challenging times in the student loan marketplace, but with foresight and prudent planning, we can ensure uninterrupted access to student loans. We stand ready to work with the Department, Congress, lenders and our school colleagues to ensure that every eligible student and parent receives the federal student loans to which they are entitled.

Thank you.