

## Protecting Student Access and Affordability in Higher Education The Secretary's Plan for Ensuring Access to Federal Student Loans for the 2008-09 School Year

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*"Recently, some lenders have dropped out of the Federal program that provides college loans to students who have often little or no credit. Without an adequate response, this means that many students may approach the upcoming school year uncertain of when they will be able to get their loans or where they will come from. A slowdown in the economy shouldn't mean a downturn in educational opportunities."*

-- President George W. Bush, April 26, 2008

### Today, the U.S. Department of Education is announcing a four-part plan to make sure students will be able to access federal student loans in the 2008-09 academic year.

The Administration is committed to ensuring continued and timely access to federal student loans for all eligible student and parent borrowers. Currently, some lenders do not have access to funds at a cost that justifies originating new loans. Our plan is designed to provide viability in the marketplace for those lenders who step up and make loans in this difficult environment. The plan includes the following four components:

- ✓ **Short-term relief for lenders will help open up funds for students.** The Department is providing lenders with a loan purchase commitment and access to immediate short-term liquidity for all new loans originated for the 2008-09 academic year, as recently authorized by the Ensuring Continued Access to Student Loans Act of 2008. These offers of temporary federal support ensure lenders have the incentives, and, if necessary, the liquidity needed to continue serving students and families. The Administration is continuing to refine the pricing and terms of these options to ensure they meet the legal requirement that they result in no net cost to the Federal government. Final terms and conditions will be published in the Federal Register, along with the methodology for determining cost neutrality.

#### *Loan Purchase Commitment*

- The Department will offer to purchase new loans from lenders participating in the Federal Family Education Loan Program at a price designed to ensure that lenders will be able to recoup their investments.
- Lenders will be able to hold and service loans and, by July 1, 2009, may enter into agreements to sell loans to the Department. Lenders will then have the option to complete the sale by September 30, 2009.
- The price for the loan will be equal to the sum of (i) par value, (ii) accrued interest (net of Special Allowance Payments), (iii) the 1% origination fee paid to the Department, and (iv) a fixed amount of \$75 per loan (used to defray the lender's estimated administrative costs).
- This short-term program provides an opportunity for lenders to finance and keep loans in the event that capital markets improve.

#### *Access to Short-term Liquidity*

- The Department will purchase participation interests in pools of loans made by lenders for the 2008-09 academic year. The Department will hold these participation interests up to September 30, 2009. All loans are originated and serviced as Federal Family Education Loan Program loans. These participation interests will be priced to yield the Department the commercial paper rate plus 50 basis points.
- Upon expiration, a trust may refinance the loans in the private financial market and pay off the Department's participation interest or sell the loans to the Department as described above.

- ✓ **A commitment to continue working with the lending community aims to reengage capital markets.**
  - The above programs have been designed to ensure capital is available for loans this year, but they are only a temporary remedy.
  - The Administration remains committed to maintaining a strong, competitive Federal Family Education Loan Program, and will continue to work with the student lending community to ensure that this and other student aid programs serve the best interest of students and taxpayers.
  
- ✓ **A strengthened lender-of-last-resort program helps insure students against shifting market forces.**
  - If federal loans are not otherwise available at every qualified school for every qualified student, the Department of Education, in conjunction with guaranty agencies, is prepared to utilize the lender-of-last-resort program.
  - If necessary, the Department will provide federal advances to guaranty agencies so that they can make lender-of-last-resort loans to students who are otherwise unable to obtain conventional loans.
  - Although our goal is to keep the use of the lender-of-last-resort program at an absolute minimum, the Department has taken the prudent steps necessary to ensure that the program can accommodate a larger volume of loans if needed.
  
- ✓ **Increased Direct Loan capacity serves as an extra cushion for students.**
  - To offer students and families greater choices and to support consumer-friendly competition within the lending sector, the Department offers Stafford Loans through both the Federal Family Education Loan and Direct Loan Programs.
  - In addition to strengthening the Federal Family Education Loan Program through the above measures, the Department is increasing our ability to originate and service Direct Loans.
  - If needed, the Department has the capacity to double our Direct Loan origination volume from \$15 billion to \$30 billion.