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Joint Informational Hearing of the Assembly Committee on Banking & Finance and the Assembly Higher Education Committee

June 9, 2008

Good afternoon. My name is Barbara Bickett and I am the President-Elect of the California Association of Student Financial Aid Administrators. CASFAA, the largest state financial aid association in the country, represents over 1600 financial aid administrators from over 600 postsecondary institutions and all segments of higher education in California. As the campus administrators responsible for the delivery of federal and private loans to our students, we appreciate the opportunity to comment on the current status of FFELP (Federal Family Educational Loan Program) and how it may impact our schools and students.

Impact on Institutions:

Financial aid offices were taken by surprise this spring when some of our largest lenders began contacting community colleges, proprietary schools and some small colleges and graduate schools to inform them that they would no longer process federal student loans for their students. A variety of reasons was cited for terminating these business relationships. Generally, lenders notified proprietary institutions that they could no longer lend to their high risk student population, community colleges that their students are not in school long enough for the lender to receive a sufficient federal subsidy and small colleges that their loan volume is too low to be profitable. In some cases, no reason is given. Generally, as little as two weeks or less notice is being given to schools. In fact, colleges may not know if a lender will work with them until they request an RFI or submit a student's loan application. Students and colleges are uncertain which lenders will be available to them by the time the Fall semester starts.

We would like to emphasize that we do not know of any schools that are currently unable to find any lenders for their students. However, the loss of Citibank, Key Bank, EFSI and other major lenders has impacted many institutions and some schools may be having more difficulty compiling lists of available lenders for their students. We do know that many colleges are considering using the Federal Direct Loan Program as their sole lender or as a backup program in the event that they are unable to find commercial lenders. We are in the process of surveying our member schools to get more definitive information on the impact of the reduction of available lenders. We are also partnering with the California Lenders For Education (CLFE) association to survey lenders and, if possible, obtain information about their business plans for the upcoming school year so that we can better advise institutions and students about their lending options.



Impact on Students:

While we understand the business impact of the declining liquidity markets and the reduced profit margins brought about by recent legislation, FFELP remains the largest source of student aid and the focus must be put on how a reduced number of lenders will impact California students and families. For example, most lenders have notified institutions that they will no longer be able to cover the origination and guarantee fees for students. In addition, repayment benefit programs that had been offered to students have been reduced or completely cancelled, so students will be faced with higher fees this Fall, in addition to a smaller lender selection. We are also concerned that some students who are told their lender will no longer process loans for their school may lose confidence in the system or become so confused or discouraged that they decide to forego higher education altogether. Although the financial aid community has always strongly advised students to borrow from just one lender to simplify their repayments and reduce the confusion that led to high default rates in the past, more students will now have loans from two or more lenders and multiple repayment obligations. Consolidation loans are an option for students with multiple lenders, but those loans are becoming scarcer and the terms are not as favorable as they have been in the past.

Impact on State:

This is a national problem concerning a federal student aid program and, therefore, requires a federal solution. However, given the number of California students that might be affected, there will be an impact on the state if a significant number of major lenders continue to withdraw from the FFELP program. It cannot be overstated that much of the problem is due to the decline of federal grant programs over the years and a reliance on the federal student loan programs to finance higher education.

We are very fortunate that California has made concerted efforts to keep higher education costs at reasonable levels. We also thank the legislature for the investment it has made in the Cal Grant program. The state can best address the student loan issues by continuing to increase the scope of the Cal Grant program so that needy students do not have to depend on loans to finance their education.

Therefore, we recommend the following:

1. Expand the Competitive Cal Grant program. We are appreciative that the Legislature appears to oppose the Governor's proposal to cut this program. The institutions being terminated by lenders are those enrolling the low-income students this program was intended to serve: re-entry students, first generation college students and students supporting families while attending school. This description applies to a majority of California students, but there are very few awards available. Given the current economic problems and the need to train or retrain adults, there is a greater need than ever for this program.
2. Provide legislation, such as, SB 1355, requiring that students applying for a private student loan first be informed of the benefits of the federal student aid programs.
3. Consider consumer protection provisions that would require lenders to provide institutions and current borrowers sufficient notification of termination of an institution's participation in their student loan programs.
4. Ensure that EdFund has the full support of the state in its role as Lender of Last Resort.

We appreciate your concern over the current student loan crisis and would be pleased to assist you in any way we can. Thank you for this opportunity to comment on this important issue.

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