



Impact of the Credit Crisis on Student Loan Cost and Availability

Mark Kantrowitz

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Director of Advanced Projects, FastWeb

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Loan Program Suspensions

- 176 lenders suspensions (106 Stafford and PLUS, 168 Consolidation, 37 Private) and 3 resumptions
 - 71 banks, 56 non-bank lenders, 28 state loan agencies, 18 credit unions, 4 non-profits, 3 SAL (+ 44 more)
 - 12.0% of FY07 Stafford and PLUS:
\$6.8 billion to 730,000 borrowers
25 of Top 100
 - 92.2% of FY07 Consolidation:
\$43.7 billion to 1.5 million borrowers
68 of Top 100 and 10 of Top 10
- 6,206+ layoffs industry-wide (JPM hired 125)





Recent Suspensions

- Slowing rate of suspension of federal loan programs, mostly smaller lenders
- Accelerating rate of suspension of private loan programs since mid-August 2008
 - Education Finance Partners
 - College Loan Corporation
 - My Rich Uncle
 - ScholarPoint Financial
 - Campus Door (and Axiom Student Loans, EdAssure, National Education)
 - Wachovia Education Finance
 - Key Bank
 - South Carolina Student Loan Corporation
 - The Educated Borrower
- Further tightening of credit underwriting criteria
- More evaporation of private student loans due to limited liquidity





Why are the Lenders Leaving?

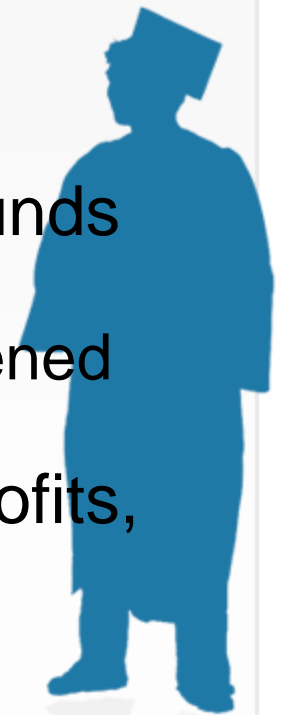
- Lack of liquidity to make new loans
 - Irrational investor pullback from capital markets
 - Credit warehousing facilities short-term only
 - Secondary markets have evaporated
- Thin margins (up to 458 bp spread compression)
 - Top: Lender subsidy cuts (67 to 72 bp) on post-10/1/07 loans
 - Bottom: Increased cost of funds (148 bp increase)
 - Middle: Index rate mismatch between CP and LIBOR (up to 239 bp)
- Supply exceeds demand for securitizations
 - Contagion from the subprime mortgage credit crisis
 - Decreased investor demand → increases in lender cost of capital
 - Crisis of confidence / self-fulfilling prophecy (investors not investing so investors not investing)





College Cost Reduction and Access Act of 2007

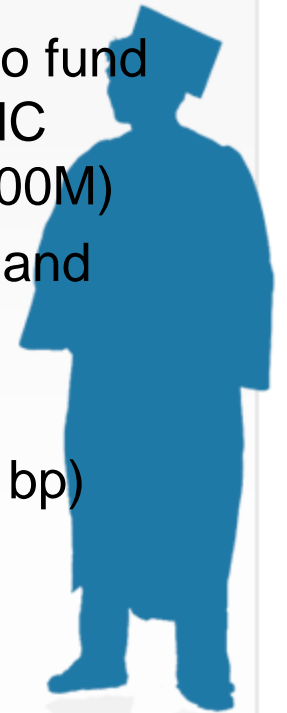
- Lender subsidy cuts
 - 65 bp to 72 bp on post-10/1/07 loans for for-profit lenders (15 bp less for non-profit lenders)
 - Insufficient credit enhancement to securitize post-10/1/07 loans
- But lenders experienced increased cost of funds even on pre-10/1/07 loans
 - Student loan credit crunch would have happened anyway
- Joke: Congress took away half the lender profits, and the credit crisis took away the other half





Capital Markets have Stalled

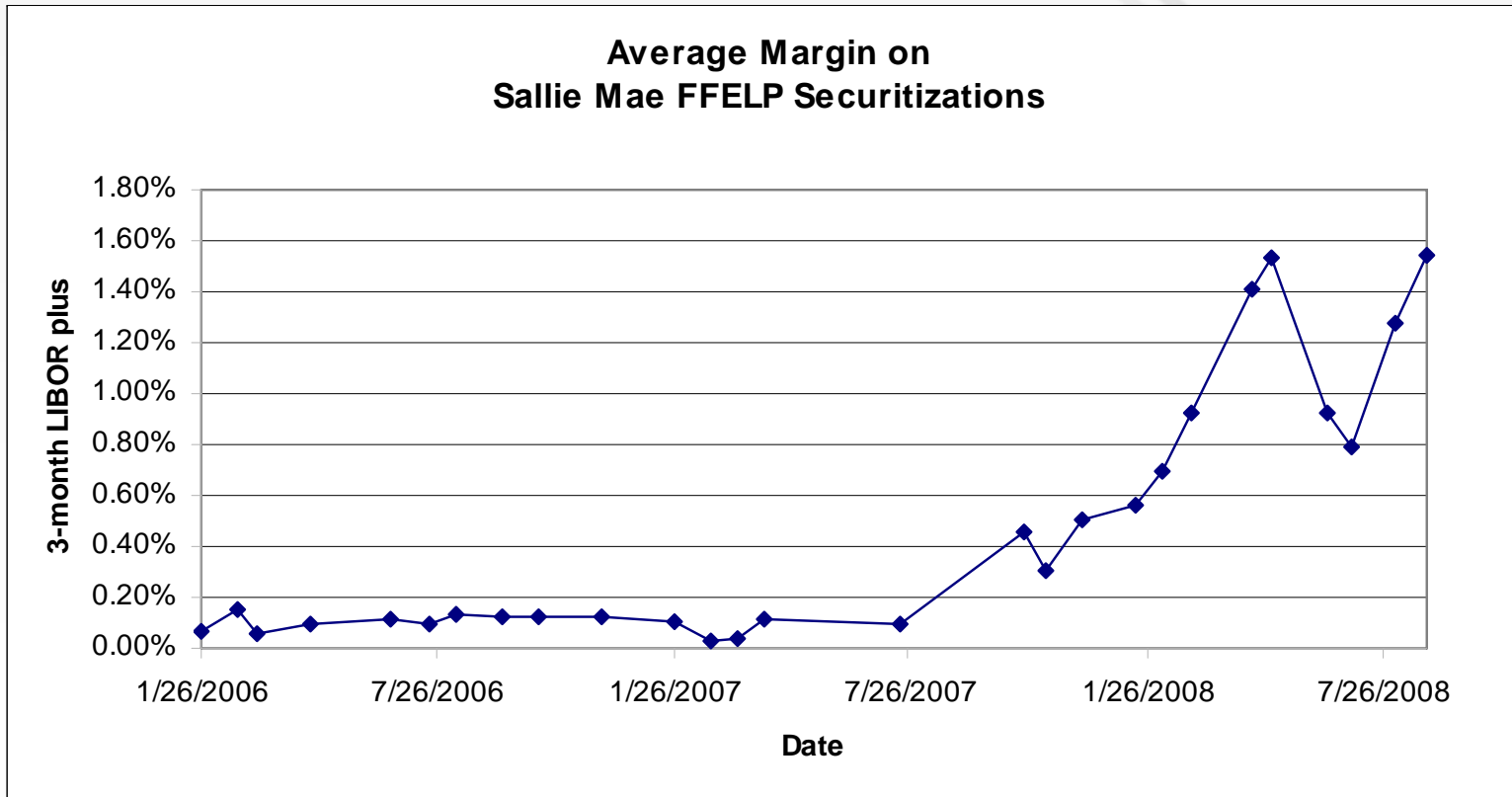
- No securitizations of private student loans since September 2007 (except for MRU \$124 million 7/10/08 with AAA tranche at LIBOR + 400 bp and SLM \$1.5 billion 1/8/09)
- Only nine successful bond issues by state loan agencies to fund new loans since 2007 (RI \$64M, VT \$230M, SC \$600M, NC \$1.1B, NJ \$350M, KY \$50M, NM \$50M, IL \$101M, MA \$400M)
- Auction-rate securitization market failed in February 2008 and has not revived
- No securitizations of post-10/1/07 FFELP loans
- Increased cost of funds on pre-10/1/07 FFELP loans (148 bp)





Cost of Funds has Increased

Average Margin on
Sallie Mae FFELP Securitizations





Impact on Schools

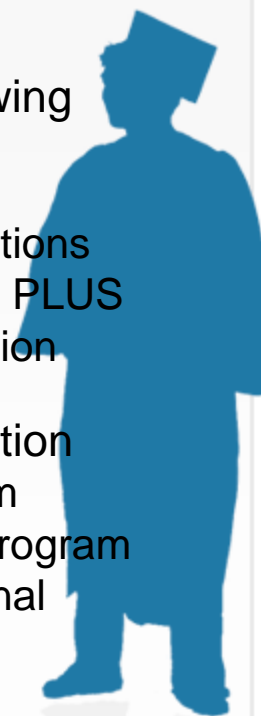
- Increased burden helping students find lenders and counseling students on smart borrowing
- More students will drop out or transfer to less expensive colleges for financial reasons
- Lack of loan availability at colleges
 - US students at foreign medical schools unable to obtain private student loans
 - For-profit and community colleges will be hurt first
 - Short 1- and 2-year programs (due to low aggregate loan balances per borrower)
 - High default rates and low graduation rates
- Greatest impact on schools that serve at-risk populations (low/no credit score)
 - Low and moderate income students
 - First-generation, minority and nontraditional college students





Student Loan Survey

- Survey (10/23/08-11/13/08) included in four FastWeb newsletters sent to 6,079,974 college students and 1,007,853 parents of college students
- 1,202 respondents, yielding a confidence interval of +/- 2.83% at the 95% confidence level
- Percentage Applying
 - 17.6% Private Student Loan
 - 11.8% Parent PLUS Loan
 - 6.5% Home Equity Loan
- Of Applicants, Percentage Denied
 - 44.7% Private Student Loan
 - 55.6% Parent PLUS Loan
 - 53.8% Home Equity Loan
- Of Stafford Loan Borrowers, Percentage Borrowing Maximum
 - 44.9% Yes
 - 34.2% No
 - 20.8% Not Sure
- Primary reasons for borrowing private student loans
 - Maxed out Stafford
 - Unaware of federal loan options
 - Parents unwilling to borrow PLUS
 - Ineligible for federal education loans
- Type of Educational Institution
 - 20.9% 1- or 2-year Program
 - 68.9% 4-year Undergrad Program
 - 10.2% Graduate/Professional



Impact on Students

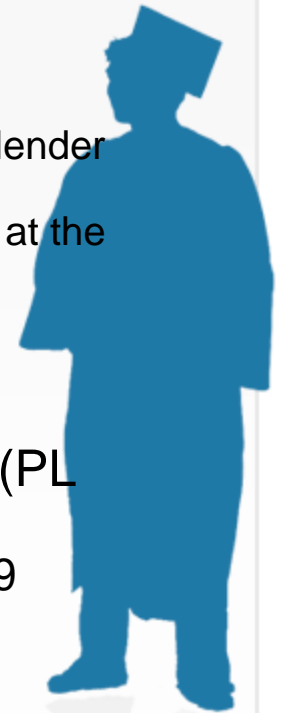
	Federal	Private
Availability	<p>168 suspensions</p> <p>ECASLA loan purchase authority</p> <p>Bridge Funding</p> <p>Delayed Disbursements</p> <p>loanconsolidation.ed.gov</p>	<p>39 suspensions</p> <p>ECASLA shift undergraduate volume to federal through federal loan limit increases and PLUS deferment (in-school + 6)</p>
Eligibility	<p>Stafford OK</p> <p>PLUS adverse credit history (foreclosures, repossessions, delinquencies, etc.) → 2% to 3%</p>	<p>Higher FICO floors</p> <p>620 → 650, 680, 700 ...</p> <p>SLM: DTC → 730, SC → 670</p> <p>More cosigners required</p>
Cost	<p>Cutting loan discounts except 0.25% rate reduction for auto-debit</p> <p>Subsidized Stafford for Undergrads 6.8% → 5.6%</p> <p>No benefits for graduate students</p>	<p>Passing on increased cost of funds to borrowers</p> <p>LIBOR index spike increasing interest rates</p>





Solutions: ECASLA

- Ensuring Continued Access to Student Loans Act of 2008 (PL 110-227, 5/7/08)
 - Increases annual and aggregate unsubsidized Stafford loan limits for undergraduate students
 - Allows in-school deferment + 6 months for Parent PLUS loans
 - Provides liquidity through the US Department of Education
 - Sell 2008-09 Stafford and PLUS loans at par plus refund of 100 bp lender paid origination fee plus \$75 per loan
 - Pledge 2008-09 Stafford and PLUS loans as collateral for financing at the three-month Commercial Paper Rate plus 0.50% (CP + 50)
 - Proceeds to be used to make new loans
 - Servicing transferred to US Department of Education's contractor
 - No life-of-loan financing
- Ensuring Continued Access to Student Loans Act Extension (PL 110-350, 10/7/08)
 - Extends ECASLA to include 2009-2010 in addition to 2008-2009



Can Increase Loan Limits at No Cost to Government

Subsidy Rate	FFELP	Direct Loans	Weighted Average
Subsidized Stafford	16.67%	10.80%	15.46%
Unsubsidized Stafford	-3.07%	-9.97%	-4.34%
PLUS	-5.94%	-11.75%	-7.24%

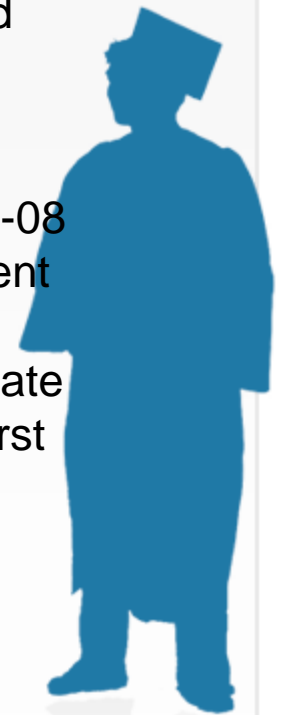
- Shift from private loans to unsubsidized Stafford loans saves government money
- But shift from PLUS loans to unsubsidized Stafford loans costs government money





Solutions to Bridge Funding and Delayed Disbursements

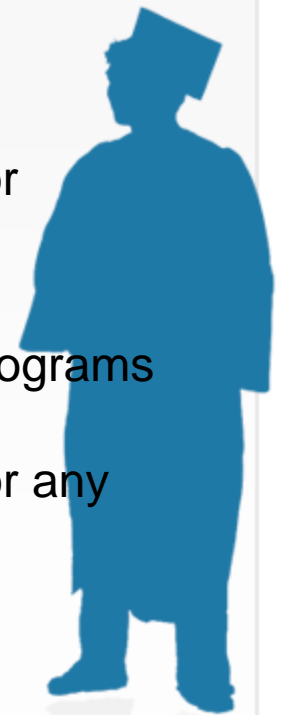
- Asset Backed Commercial Paper (ABCP) Conduits (11/7/08)
 - Private funding of loans originated since 10/1/2003
 - Form of Standby Loan Purchase Authority
 - Addresses bridge funding and delayed disbursement issues and refinances SLARS without increasing national debt
- Short-term Loan Purchase Program (11/20/08)
 - Limited to unencumbered Stafford and PLUS originated in 2007-08
 - Excludes defaulted loans and loans that are 210+ days delinquent
 - Priced at 97% of principal plus accrued but unpaid interest
 - Purchase up to \$500 million per week and \$6.5 billion in aggregate
 - Ends when ABCP Conduits operational or 2/28/09, whichever first





Solutions for Foreign Medical Schools

- Higher Education Opportunity Act (PL 110-315, 8/14/08)
 - Foreign medical and nursing schools may offer unsubsidized Stafford and Grad PLUS loans to their students
 - Foreign medical schools
 - Must have 75% pass rate (previously 60%)
 - Must agree to reimburse US Department of Education for defaults
 - Foreign nursing programs
 - Must have agreements with US hospitals and nursing programs (where students complete training in the US)
 - Must agree to reimburse US Department of Education for any defaults if default rate exceeds 5%





Term Asset-Backed Securities Loan Facility (TALF)

- Emergency Economic Stabilization Act of 2008 (HR 1424, 10/3/08)
 - Gives Secretary of the Treasury to purchase or guarantee troubled assets including federal and private student loans
 - But Treasury is not an “eligible lender” for federal loans
 - TARP can be used with private student loans → TALF
 - Federal Reserve Bank of New York will lend up to \$200 billion to investors in AAA-rated ABS for student loans, credit cards, auto loans and small business loans
 - ABS must be backed by newly and recently originated loans
 - Does not solve liquidity issues, since lenders must already have liquidity to make new loans and to hold non-AAA-rated loans
 - Focus on AAA-rated loans means lenders will not loosen tighter credit underwriting criteria
 - But may prevent further deterioration and may yield reduced cost of funds for larger lenders



Remaining Problem: CP-LIBOR Dislocation

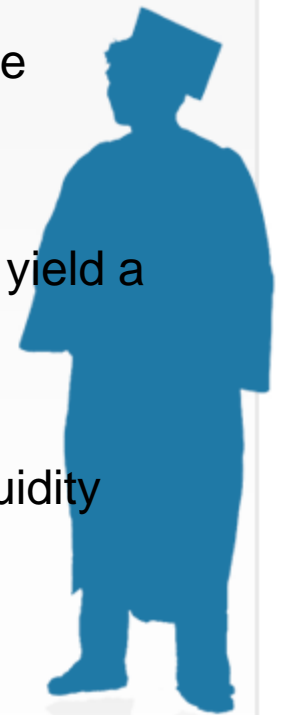
- FFEL program lenders income pegged to the 3-month Commercial Paper Index (CP) and cost of funds to the 3-month LIBOR index
- Historical CP-LIBOR spread ~ 10 bp
- Federal Reserve created Commercial Paper Funding Facility on October 7, 2008 for purchase of CP from 10/27/08 to 4/30/09
 - Distorted marketplace for CP
 - Peak CP-LIBOR spread of 239 bp on 10/20/08
- Impact on \$300 billion in securitized older loans
 - Eliminates lender residual income → affects lender stability
 - May eliminate payments to lower tranches and even AAA-rated tranches → widespread downgrades
 - Prevents future securitizations → permanent ECASLA?
- Solution: Replace CP with LIBOR – 10 bp
 - Cost neutral for historical spreads prior to government intervention





Advice for Colleges

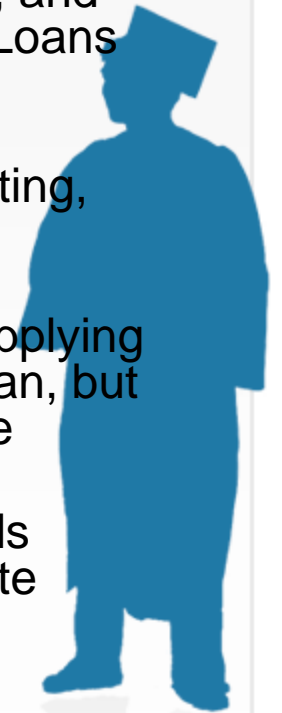
- Join the Direct Loan Program to provide a safety net
 - There is no requirement that a school certified for Direct Loans actually originate any loans through the Direct Loan program
 - 36% of Direct Loan schools are also originating in FFELP
- Schools with large balance sheets or endowments could increase institutional loan programs
 - Negative impact on cash flow, but
 - Consider selling the loans a year or two after the borrower graduates, when their credit scores have improved. This will yield a shorter pipeline.
- Peer-to-peer lending by alumni
- Guarantee private student loans against default
- Acquire and fund a profitable private student loan lender with liquidity problems (CLC, EFP)





Advice for Students: Borrow Smart

- Minimize Debt. Do not borrow more than your expected starting salary. Live like a student while you are in school so you don't have to live like a student after you graduate.
- Borrow Federal First. Federal loans are cheaper, more available, and have better repayment terms. Unsubsidized Stafford and PLUS Loans do not depend on financial need. Consider public service loan forgiveness.
- Shop Around for a Lender. There are still many lenders participating, but many are eliminating or reducing loan discounts (federal) or increasing interest rates (private).
- Apply for Private Student Loans with a Creditworthy Cosigner. Applying with a cosigner not only increases your chances of getting the loan, but also results in a lower cost loan as the interest rates and fees are based on the higher of the two credit scores.
- Pay At Least the Interest During the In-School Period. This avoids capitalization and may yield a lower interest rate or fees on private student loans.





Advice for Students: Apply for Student Aid

- Submit the FAFSA. It's free and is the first step toward money from the government and many colleges.
- Search for Scholarships and Fellowships. The more money you get in scholarships, fellowships and grants, the less you need to borrow. FastWeb.com offers a free scholarship and fellowship matching service.





Advice for Students: Ask for Help

- Talk to the Financial Aid Office.
 - If undergraduate student's parents are denied a PLUS loan, the financial aid office can increase the unsubsidized Stafford Loan limits.
 - The college's preferred lender list is a good starting point.
 - Let the school know if you are having difficulty finding a lender. The college can help you find a loan through the Lender of Last Resort Program or switch to the Direct Loan Program.
- Ask the Bursar about Tuition Installment Plans.
 - Spread out college bills over 9-12 months for a one-time fee of \$50 to \$100.





Thank You

For more information, visit:

- finaid.org/creditcrisis

To see which lenders have left, visit:

- finaid.org/loans/lenderlayoffs.phtml

For technical background white paper, visit:

- www.finaid.org/educators/2008-03-10studentloancreditcrisis.pdf

