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**Written Testimony Before the Banks and Higher Education Committees  
By Judith B. Greiman, President  
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**Forum on "The Effect of the Subprime Mortgage Crisis on the Availability of Funds  
for Student Loans"**

On behalf of the member institutions of the Connecticut Conference of Independent Colleges (CCIC), I am submitting comments regarding our concerns about and experience with how the student lending market has been impacted by the mortgage crisis and changes in the lending statutes.

***General issues of concern based on current market issues:***

1. Possible late disbursements on student loans. This will particularly impact those students borrowing from the Federal Family Education Loan Programs (FFELP). Many students may be dependent on this cash to pay, not only direct education expenses, but also ancillary expenses such as books, supplies, rent, and living expenses. Therefore, there may be a need to examine the campus' ability to offer bridge loans, lines of credit, or other types of short-term financial support.
2. Increased credit assessments on PLUS loans and other alternative loan products. The current financial situation has caused the Federal Government and banks to increase the credit assessments on borrowers utilizing credit-based qualifying loan products. Consequently, many families who were once eligible for the Federal PLUS loans or alternative loans may not be any longer. This will be a direct loss in funds for families to pay their college expenses. It has been estimated that 10 – 15% of families who previously utilized these loans may lose their eligibility under this new criteria.
3. Loss of home equity lines of credit. An indirect impact of the home mortgage crisis is the loss of home equity lines of credit. Home equity loans have traditionally had lower interest rates than the Federal PLUS programs and offer personal tax deduction benefits, thus making them an attractive alternative to the Federal loan program and private education loans. With the possible loss of home equity lines, many families will move into the Federal PLUS loans and/or alternative private loans market. As discussed in point two, these alternative options may not be available either.
4. Loss of alternative private loans. The portion of the student loan market that has been most volatile is the private/alternative loans. It seems that almost daily lenders are backing away from, or highly restricting, these products. Additionally, as mentioned above, credit assessments on these loans are increasing significantly to reduce lender risk. As a result, many who qualified in the past may not qualify in the future.

***Possible consequences of these changes:***

1. Undergraduate students. Delayed loan disbursements may cause stress on ability to pay direct and indirect expenses as will the loss of parent support through mortgage lines of credit, credit based PLUS loans and alternative loan products. This may result in an increase in student debt and challenge their ability to stay in college. Independent students are much more sensitive to cash-flow problems due to childcare, rent, and other living expense issues. Any delay in disbursements or loss of credit-based loans may have a direct and immediate impact on the student's ability to continue in college.

2. Graduate students. Graduate students are independent students without State or Federal grant aid assistance. Consequently, any delay in loan disbursements or loss of credit based loan support may have a direct impact on the student's ability to continue in college. This population is particularly vulnerable.

CCIC members have been constantly monitoring and assessing the impact of these changes on their students and expect more tumult in the second semester of this year and in the beginning of the 2009-10 academic year. Some examples:

**Sacred Heart University-**

Has seen increased financial need. Drivers of the increased need of students include home foreclosures, bankruptcy, lay-offs, high medical expenses, single income households and multiple students in college.

One of the greatest concerns this year is the processing of educational loans. Applications for these loans have more than doubled due to:

- Changes and withdrawal of lenders from the student loan business causing students to have to complete new master promissory notes with another lender
- The changes in legislation allowing students to borrow an additional \$2000 unsubsidized loan
- More stringent credit requirements for alternative loans, resulting in multiple applications for an individual student

The increase in loan applications is causing a processing problem. Additionally, changes in lending standards are expected to delay disbursements and increase application denials. These include stricter credit requirements for co-signers, the need to consider the student's credit in addition to their co-signer's credit, and consideration of cumulative loan debt such that families who borrowed in the first few years of college will find it harder to get loans for the final year or two.

**Quinnipiac University-**

While loans are still available, many lenders have had to drop their borrower benefits, restructure their interest rates and fees, change guarantors and servicers and overhaul their electronic processes. Due to massive lender reorganization, approximately 75% of our students had to select another lender this summer and complete a new master promissory note in order to secure their student loans. Unfortunately this reassignment of lenders, guarantors and servicers has created a split-servicing arrangement for many students who are now forced to pay multiple entities upon graduation for the same loan. Additionally, Sallie Mae recently announced that it is the first lender in the country to contract with the government in securing \$20 billion in additional capital to back their loans which may result in split servicing arrangements for a preponderance of student loan borrowers across the country.

One big concern is what happens next year? The credit crunch is far from over, banks continue to lose money and the new PLUS loan auctions scheduled for 2009 will likely leave 98% of banks without 30% of their loan portfolios. Winning bidders in the PLUS loan auctions will likely bid their profit margins down to the bone and the emergency legislation that was enacted earlier this summer salvaging the loan industry is due to expire on June 30, 2009. Many schools are also considering activating their participation in the Federal Direct Loan Program due to the volatility of the student loan markets, which will leave even fewer loans available for banks to process. All

things considered, lenders will need to take a long, hard look at the long-term viability of participating in the FFEL program next year.

**Saint Joseph College-**

It has been a difficult year for returning students and parents applying for the Parent PLUS loan and other credit based loans since lenders have been canceling alternative loan programs, narrowing the options for students to acquire additional funds to cover balances. Additionally, parents with a medium risk credit scores have been denied PLUS loans or have seen higher interest rates than in previous years.

***Ways to counteract the trends:***

- Connecticut's own loan program offered by the Connecticut Higher Education Supplemental Loan Authority (CHESLA) offers credit-worthy families of students from or attending college in Connecticut a good fixed rate product. The State Special Capital Reserve Fund backs CHESLA bonds and CHESLA currently has available funds and will be issuing bonds in November to add to the pool of ready capital.
- Make sure that all state and federal need-based grant programs, like Connecticut's CICS and CAPCS, are fully funded so that needy students have access to as much grant aid as possible to allow them to reduce their dependency on loans.