

# **FINANCIAL AID ADMINISTRATORS' PERSPECTIVES ON THE STUDENT LOAN CRUNCH AND PREFERRED LENDER LISTS**

**Survey Results from Member Institutions of the  
National Association of Student Financial Aid Administrators**

**JULY 2008**

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## Author & Acknowledgments

## FOREWORD

Financial aid administrators are keenly aware of the difficulties students face in trying to find funds to meet their educational expenses. Rising college costs are nothing new. But years of relatively stagnant spending for federal student aid programs have left students and parents to rely more heavily on student loans. Federal student loans were never meant to be the crutch they have become, especially for low-income students who have traditionally been able to rely on need-based grants to pay for their education.

This overreliance on student loans – especially on private student loans that are outside of the federal student aid programs – underscores the importance of recommitting our nation to need-based grant programs. It also increases the danger students and parents face when there are disruptions in the capital markets.

Too many students rely on loans to pay for their education. I do not accept the premise that student loans are here to stay, especially for needy students. If the student loan crunch has shown us anything, it is that our neediest students have no place in the student loan marketplace. We should help them find as many alternatives to borrowing as possible by providing them with grants and scholarships to meet their educational costs.

For other students and families who have some resources to pay for college, we must ensure a vibrant and healthy student loan marketplace. This survey reveals what NASFAA members – i.e., financial aid administrators on college campuses – are seeing on the ground. It reveals their concerns about the loan crunch even after the passage of recent legislation to address those concerns. It also indicates their views on the decisions by some lenders to lend only to students at certain institutions.

Finally, this survey emphasizes what aid administrators and schools are doing to ensure that students are able to find the funds they need to attend college. Given the added importance of preferred lender lists in recent months, the survey also shows the uphill battle aid administrators are fighting in trying to comply with the many, and constantly changing, federal and state laws and regulations governing how they perform their job.

I have every confidence in the commitment of student aid administrators to our nation's students and parents, and urge policymakers, advocacy groups, and others with a vested interest in our nation's students to carefully examine what aid administrators are seeing on their campuses.

Dr. Philip R. Day  
NASFAA President & CEO

## EXECUTIVE SUMMARY

Financial aid administrators are concerned about the student loan crunch, although the degree to which they are concerned varies. The student loan crunch originated with problems in the subprime mortgage industry and has seeped into several different credit markets, including the student loan market. Student loan providers are having a difficult time raising enough capital to make student loans.

The effects of the student loan crunch are not being felt in the Federal Family Education Loan Program (FFELP) alone; many Direct Loan schools are concerned about the availability of private student loans for the coming academic year as well. Further, financial aid administrators feel that the recently passed legislation aimed at easing the student loan crunch – the Ensuring Continued Access to Student Loans Act (ECASLA) – has not done enough to ensure continued access to student loans.

The National Association of Student Financial Aid Administrators (NASFAA) represents more than 13,000 financial aid administrators at nearly 3,000 colleges and universities across the United States. This report provides an analysis of a survey distributed to NASFAA's member institutions from Monday, June 9, 2008, to Wednesday, June 25, 2008. The survey focused on NASFAA members' experiences, attitudes, and expectations relating to the student loan crunch and preferred lender lists (PLL).

The survey's shows that:

- Aid administrators believe that ECASLA will help ease the student loan crunch problem, but also feel that longer-term solutions are needed.
- Aid administrators are concerned about the loan crunch as well as provisions in ECASLA that would result in students having multiple servicers and multiple repayment obligations.
- Only a quarter of aid administrators have a backup plan in place to handle any disruptions in federal or private loans, but an additional 20 percent plan to have a backup plan in place before the beginning of the academic year, fall 2008.
- The financial aid community is concerned about lenders that discriminate against borrowers attending certain institutions and most believe that rules or incentives should be in place to ensure that FFELP lenders lend to all students at any institution.
- Aid administrators are using a variety of methods to help students affected by the student loan crunch.
- The majority of schools still offer PLLs to students and families, but of the schools that once offered PLLs and have since stopped, 75 percent have done so within the last year.
- The leading reason that schools have stopped offering PLLs is due to new federal or state laws or regulations making them too difficult to maintain or opening the school up to too much legal risk.
- Nearly half of all schools that offer PLLs also link to an outside Web site that offers student loan comparison tools or a list of lenders.

This survey is intended to help policymakers, advocacy groups, and others with an interest in higher education understand the perceptions of the aid administrators who work most closely with our nation's students and parents to help them meet their educational expenses.

## SURVEY METHODOLOGY

This report contains detailed statistical analysis of the results to the Student Loan Crunch & Lender List Survey. The analysis of the survey results includes answers from all respondents who took the survey in the 16-day period from Monday, June 9, 2008, to Wednesday, June 25, 2008. During that time, surveys were sent to 2,626 member institutions and 1,078 surveys were completed with a well-balanced representation from each of NASFAA's six regions. Respondents represent all types of institutions, including 4-year public and private schools, 2-year public and private schools, vocational schools, and graduate and professional schools. A summary of survey respondents is found in Appendix B. Institution-by-institution responses are not available for public use, but aggregate information and statistics are available upon request.

## BACKGROUND

The student loan crunch originated with problems in the subprime mortgage industry. For decades, mortgage companies have bundled various types of assets together (called securitization) and sold them on the free market in order to raise capital. Securitization allows lenders to make additional loans when the demand for new loans outpaces the amount being repaid by current borrowers. Securitization also allows lenders to keep less cash on hand and turn their assets into cash (i.e., liquefy their assets) so they can make additional loans.

The mortgage industry was one of the first industries that securitized assets. Other industries followed suit, including the student loan industry, where providers sometimes bundled private loans with federal loans and sold the two types of loans together. Over time, mortgage companies began making loans at below market value (i.e., at subprime rates). As interest rates increased, some mortgage borrowers began having trouble repaying their loans. Despite the risk, these loans were still bundled and sold to investors. Many of these investors lost their money because borrowers defaulted on their loans.

This made investors extremely wary of all asset-backed securities, even extremely safe investments like student loans, which are backed by the federal government. It became exceedingly difficult for lenders to auction bundles of loans because no one wanted to purchase them. Eventually, some student loan companies had to suspend lending because they were unable to raise capital to make new loans. The inability to auction bundled loans hit non-bank student loan providers especially hard because they cannot borrow money from the Federal Reserve to make new loans. Over the past six months, dozens of for-profit and nonprofit student loan providers suspended their student loan programs or tightened loan eligibility requirements, limiting who can borrow from them.

In order to continue lending, many nonprofit and for-profit non-bank student lenders (e.g., Sallie Mae, Nelnet, and nonprofit state agencies) were forced to increase the attractiveness of their securities and bonds (bundled loans) to attract investors. Many made loans for a short-term loss because it cost them more to raise capital than they received through loan revenues.

### Actions Taken to Prevent Loan Shortages

Members of Congress, working closely with NASFAA and a number of other higher education groups, introduced several bills to prevent any disruption in student loan availability. The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA, originally H.R. 5715) was approved by the House and Senate and was signed into law (Pub. L. No. 110-227) less than 30 days after being introduced in Congress.

Among other things, ECASLA:

- Increases the amount of federal loans students can borrow, decreasing students' reliance on private student loans
- Allows parents to defer payments on PLUS loans until six months after the date the student ceases to be enrolled at least half time
- Strengthens lender of last resort (LLR) provisions
- Allows the U.S. Department of Education to act as a secondary market for loan providers that are having difficulty raising enough money to make loans

The Department of Education also prepared the Federal Direct Loan (DL) Program for an influx of loan volume from schools that had participated in the Federal Family Education Loan (FFEL) Program, but now wished to move to the Direct Loan program rather than risk a disruption of loan availability to their students. The DL Program was unaffected by the credit crunch because capital for these loans is provided directly from the federal government.

Representatives from the Department have said that they could easily double the current DL volume in the immediate future, and plans are now in place to expand that capacity even further. The Department, in cooperation with other higher education associations, has also provided several training sessions and Web resources to financial aid and college aid administrators on how to switch from the Federal Family Education Loan Program (FFELP) to the DL program.

## Effectiveness of ECASLA and Other Efforts

Given the short time that these solutions have existed (ECASLA was signed into law on May 7, 2008) and because the height of the lending season has not arrived, it is impossible to know if these efforts will ensure continued loan access. However, early indicators suggest the efforts are having a positive effect.

Lenders reacted very positively to plans announced by the Department in May to use the authority provided by ECASLA to provide liquidity to loan providers. Several non-bank lenders have indicated that they will be able to continue offering FFELP loans. Sallie Mae, the nation's largest FFELP provider, announced that based on the Department's plan it would lend to all students at all schools for the 2008-09 academic year. Other lenders that had suspended their FFELP operations have also re-entered the program. Brazos, the nation's largest nonprofit student loan provider, announced in June that it would re-enter FFELP. Several other loan providers have followed their lead.

In addition, the Department has stepped up its efforts to absorb additional schools into the DL program, and now assures schools applying for DL that they will receive approval in less than five days.

## SURVEY ANALYSIS

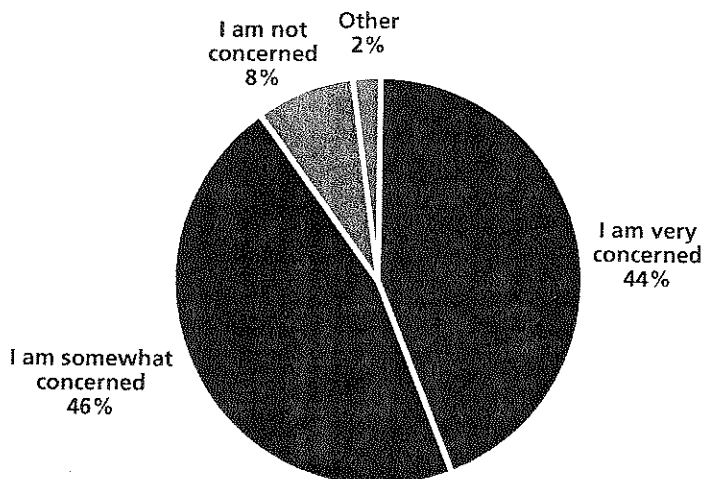
### Perceived Effectiveness of ECASLA

Despite positive signs from the student loan industry, more than half of the survey respondents (52 percent) felt that ECASLA has not solved the student loan crunch. Several commented that the legislation will help ease the problem, but will not solve the issue completely. Many aid administrators believe that ECASLA offers a short-term fix, but lacks long-term solutions. Some aid administrators pointed out that ECASLA does not address the crunch occurring in the private student loan market.

### More to be Done

Aid administrators cited several steps that should be taken to ensure a vibrant and robust federal student loan program. Some of the steps most cited by respondents include:

- Ensure equal attention and commitment to both the FFEL and DL programs
- Move all schools into the Direct Loan program
- Focus on need-based programs and "stop using 'odd-ball' programs like ACG, SMART, and TEACH Grants" that divert funds away from traditional programs like the Federal Pell Grant
- Require lenders to commit to offering loans for a full academic year
- Relax LLR provisions to allow easier institutional-wide LLR designation
- Bring private loans under the Title IV umbrella with accompanying rules and regulations
- Reauthorize the Higher Education Act and bring spending on all federal student aid programs up to appropriate levels
- Roll back the College Cost Reduction and Access Act (CCRAA) lender subsidy cuts, as described in a recent letter from Federal Reserve Chairman Ben Bernanke to lawmakers on the issue



#### ***Are you concerned about the current student loan crunch?***

In recent weeks, the second, third, fourth, and fifth largest originating FFELP lenders have indicated that they will no longer be lending to some community colleges, career schools, or other private schools that have higher default rates or students with lower than average loan amounts.

More than 60 percent of respondents believe Congress should enact rules or incentives to ensure that lenders provide federal loans to all students, irrespective of their institution.

"Lenders should be either IN or OUT," said one respondent. Other respondents said that if lenders were going to rely on federal subsidies and reimbursements for loan defaults to make loans, they should be required to offer loans to all students.

On June 17, Senators Patty Murray (D-WA) and Chris Dodd (D-CT) introduced the Preventing Student Loan Discrimination Act, which would prohibit lenders from denying FFELP loans to eligible students solely based on the institution where they attend, the length of their college program, or their income level. NASFAA strongly supports this legislation.

Some aid administrators said that private loan companies have fiscal responsibilities to shareholders that must be upheld in every business decision, but still believed lenders should be more forthcoming with their criteria. Several suggested that lenders should continue to lend to students who already have loans with that lender. Others suggested that loan providers publicly define their criteria, such as definitions for "low volume" or "high default," so schools have a clearer picture about which lenders will offer loans to their students.

Since the Preventing Student Loan Discrimination Act was introduced, one lender, Citizens Bank, has announced that they will once again be offering loans to students at community colleges.

#### **Private Student Loans**

Some respondents voiced concern about the availability of private loans. Private student loans have become a necessary evil for many students and parents who lack enough savings or financial aid to cover the full costs of an education. NASFAA supports a provision being considered in the HEA Reauthorization bill that would require private student loan certification in the financial aid office. That would ensure that borrowers are aware of other, less costly financing options and ensure that private loans not exceed students' costs of attendance.

Private loan lenders have been hit hard by the credit crunch, and private student loans will be costlier and more difficult to get for students and parents this year as lenders change their lending practices to reduce risks and maximize profits.

More than half of all respondents said that it will be more difficult for their students to obtain a private loan for the coming academic year. When asked if they believe the private student loan market will get better or worse, however, 50 percent said they believe the private student loan market has stabilized and it will not get any worse for students or parents who need private student loans.

#### **Other Concerns**

Financial aid administrators expressed other concerns about the student loan crunch, including:

- Inaccurate media reports that tend to scare families rather than to inform or help them
- Loss of borrower benefit programs in the FFEL program
- The combined effects of the student loan crunch, last year's investigation into financial aid office/lender relationships, and additional regulations on students for the coming academic year.

#### **Extent of the Student Loan Crunch**

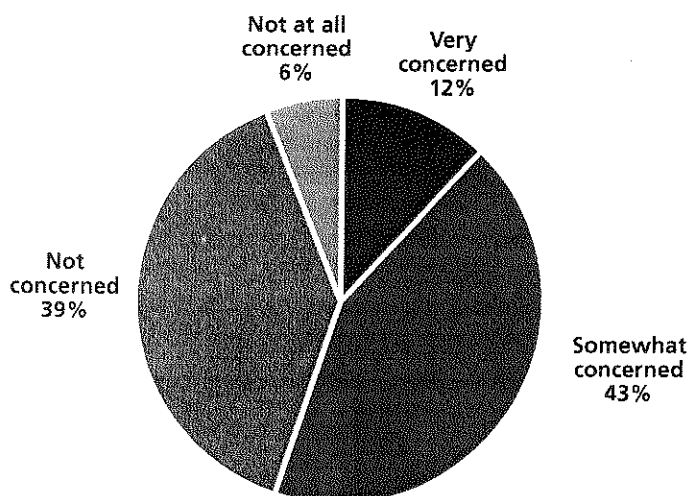
More than 90 percent of financial aid administrators who responded to the survey said they were concerned about the student loan crunch, with 44 percent indicating they were very concerned. Aid administrators' concerns focused on the following issues.

#### **Discriminatory Practices**

Several respondents said they were specifically concerned about loan providers that no longer lend to students attending community colleges or career schools. Fifty-six percent said an FFELP lender notified them that the company will no longer offer loans to students at their institution even though they continue to lend to students at other institutions.

### How Schools Are Adjusting to Students' Needs

Media reports on the student loan crunch began in late January 2008 and financial aid administrators indicated that the students and parents remain concerned about the issue. More than 55 percent of respondents said that students and parents are somewhat to very concerned about the student loan crunch.



*How concerned do you think your students and their families are about the student loan crunch?*

### Responding to Students' Concerns

Schools are handling students' and parent's questions in a variety of ways. Most said they are trying to keep students as informed as possible about the availability of loans. Some aid administrators passed along reassurances from the Department of Education while others passed along information about LLR to ensure that students continue through the registration and enrollment processes.

Many encouraged students to apply for loans earlier this year to ensure their loan funds are secured for the upcoming academic year. Others said they were telling families not to panic – even in instances where their lender has dropped out of FFELP – reassuring them that they still have other loan options. Some aid administrators reported reservations about reassuring families, given that they remain unsure about stability of the student loan market. Other aid administrators encouraged their students to contact their congressional representatives with concerns.

### Helping Students When a Loan Provider Drops Out

Several schools expressed concern about the administrative burden associated with finding new lenders when one or more lenders with whom their students had worked previously discontinue lending. These schools may need to certify new loans and ensure that students fill out a new master promissory note to receive their loan funds.

One school went as far as to develop a "Lost Your Lender? We Can Help!" Web page to help students and parents who need to find another loan provider.

Some schools are promoting in-school payment plans as alternatives to student loans while others are trying to come up with their own in-house loan programs that would be funded by alumni groups, school donors, or institutional reserve funds.

### Concerns about Split-Servicing

Several financial aid administrators expressed concern about split-servicing resulting from the student loan crunch. Schools that switch from FFELP to DL will have students with two different servicers. Students with lenders that dropped out of the FFEL program or that will no longer offer loans to students at their institution will most likely use other lenders with different servicers. Similarly, students with lenders that use the Department of Education as a secondary market will have two different servicers, even though the loans will remain FFELP loans.

Multiple servicers could be an additional burden for students who will need to make payments to each of their servicers. These students will be able to consolidate all of their loans with one loan provider or with the Department of Education after graduation, but aid administrators expressed concern that adding even more complexity to the loan programs will lead to more students falling through the administrative cracks and defaulting on their loans.





*Does your institution have a backup plan if federal and private loans are not readily available?*

#### **Making Back-up Plans**

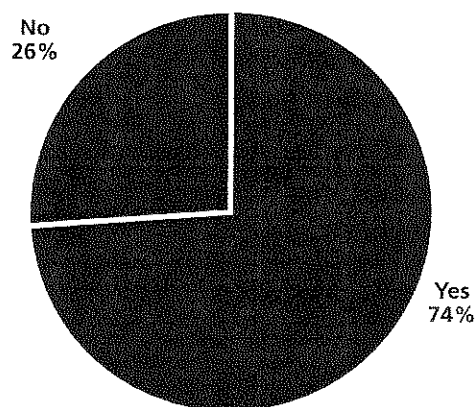
More than half of all respondents said that they do not have a back-up plan in place in case there are disruptions in the availability of federal student loans, nor do they believe one will be necessary. Nearly 20 percent of respondents indicated that they currently have a back-up plan; another 26 percent indicated that they intend to prepare one. Most aid administrators indicated that they would likely to turn to the Direct Loan program if there are any disruptions in FFELP. Others said they would turn to their guarantor to utilize lender of last resort provisions.

#### **Preferred Lender Lists**

Preferred lender lists (PLL) are generally developed to save students and parents money and time. These lists are designed to be a starting point for families trying to navigate the maze of potential student loan lenders. Nearly 75 percent of all respondents said they offer some sort of PLL to students and parents. One of the most common reasons they offer a PLL is because students and parents ask for it.

Financial aid administrators responded that students lack the time and inclination to research which lender to use. This is particularly true for "late deciders" who are often high risk students and may be the most deterred by added complexities. Others said that students and parents find themselves "confused and lost" without "a framework or starting point." Some financial aid administrators have found that offering a PLL can protect students from taking out costlier private loans that are marketed outside of the financial aid office before exhausting federal loan options.

Last year, media reports suggested that the preferred lender list were the result of an "unholy union" between financial aid officers and student loan companies, designed to pick the pockets of students and their parents. That tone has changed significantly this year, as PLLs have taken on increased importance in helping students and parents figure out which lenders are offering loans to which students at which schools. Nearly half of all respondents said that the number of lenders on their PLL has decreased since 2007. It is encouraging to note that Congressional leaders also understand the importance of preferred lender lists. In a recently distributed a letter to other members of Congress encouraging them to tell their constituents to contact their college financial aid office if they have concerns about finding a student loan.



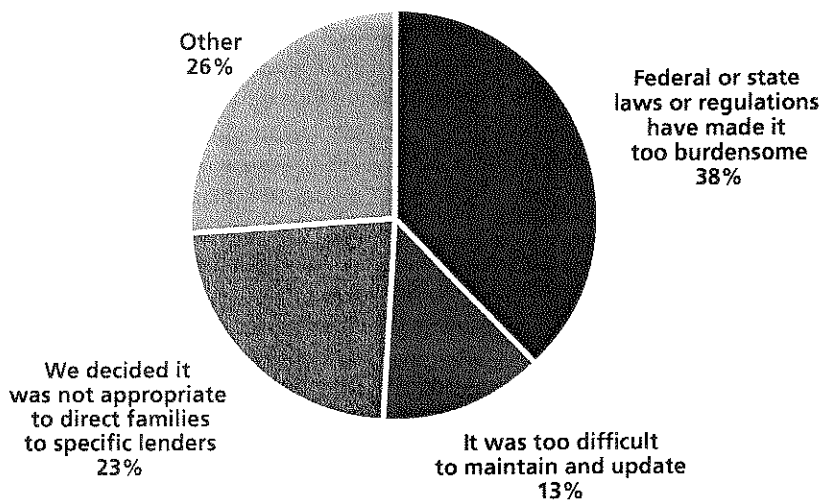
*Does your institution currently offer families any kind of preferred or selected lender list that is compiled and maintained by your office?*

#### **Outlook on Preferred Lender Lists**

More than half of all respondents said they have between three and five lenders on their PLL, while 36 percent said they list six to 10 lenders. More than half of all respondents said they offer separate PLLs for federal and private loans.

At the same time, many schools have stopped offering PLLs. Seventy-five percent of those who have stopped offering a PLL have done so in 2007. The leading reason aid administrators cited for discontinuing PLLs was new federal or state laws or regulations that have been created since last year to govern these lists.

Within the last year, the Department of Education has issued final rules on how schools construct and offer PLLs, more than 13 states have issued state level codes of conduct and regulations on PLLs, and Congress is currently considering additional legislation to regulate PLLs. Some schools said that constructing a preferred lender list was not worth the liability risk the school takes on by offering it. One respondent said that the school's legal counsel had put an end to the practice in light of all of the requirements and future uncertainties.



Other aid administrators have stopped offering PLLs because of the difficulty in maintaining the lists, especially given the turbulence in the student loan marketplace. Another 23 percent felt that it was no longer appropriate to offer students a PLL given the investigations between schools and lenders last year.

## Why did you stop offering a lender list?

### Lender List Web Sites

Forty-two percent of respondents said that their Web site points students to another Web site that compares or lists lenders. Some of those Web sites include:

- SimpleTuition
- BorrowSmart
- Their state-designated guaranty agency's site
- ELM Select
- The Greentree Gazette ([studentloanlistings.com](http://studentloanlistings.com))
- Finaid.org
- U.S. Department of Education

### CONCLUSION

Higher education advocates and policy makers generally talk in aggregates about the billions of dollars spent on the millions of students attending college. This information is useful, but the actual experiences of students and families provide the true stories behind the numbers.

Aid administrators meet with these students and parents individually, they know their names, know their faces, and know the difficulties that they face when trying to pay for college.

Because financial aid administrators are on the "front lines" of the financial aid process, they are the first to see the impact of public policy decisions and regulations, the unintended consequences of ineffective or overly complicated financial aid programs, and the effects that disruptions (real or perceived) in student aid funds can have on students and families. When aid programs fail to meet the needs of students, aid administrators are left to do the explaining.

For example, a survey respondent described how the school was left scrambling to inform its students that a popular lender had stopped providing loans.

"We are actively trying to contact students since we were told by one of the lenders that they did not have to notify students of their decision not to lend if they were still a student at our college," wrote the aid administrator.

Financial aid administrators are the barometer of the nation's college access initiatives, and this report on their experiences shows that more must be done – in the short-term and the long-term – to help students attain their educational goals. Low-income and underrepresented students have enough to battle in their quest for higher education. An unstable marketplace and the availability of federal student loans should not be among the uncertainties they have to deal with before they enroll.

NASFAA members work where the proverbial financial aid rubber hits the college access road. The student aid programs are complex, and even small changes in the student aid system can have major consequences for families. Policy makers, college presidents, and other higher education advocates seeking to identify and tear down financial barriers to higher education will only achieve a full understanding of the effects of the financial aid process on college access and success by consulting with the financial aid administrators who work with the students every day.