



**Testimony by James W. Schmotter, President  
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Invitational Forum on “The Effect of the Subprime Mortgage Crisis on the  
Availability of Funds for Student Loans” – September 10, 2008**

Senators Duff and Hartley, Representatives Barry and Willis, I’m pleased to share my impressions of the impact that the subprime crisis—and its resulting credit crunch—have had on the ability of WCSU students to obtain loans to fund their education.

Overall, I’m relieved to report that our students continue to secure loans; we’ve seen no instances this fall where students have been forced to leave school due to inability to find loan support. However, there are clearly worrisome trends that in the future could alter this situation for the worse. And without a doubt, the process of securing educational loans is becoming increasingly onerous for students and families.

The subprime mortgage crisis has driven investors away from purchasing bundled assets, a large source of capital for student lenders. Thus many lenders have dropped out of the federal loan and alternative loan programs. Some have done so as late as just last month. The departure of lenders from the marketplace has produced confusion and has increased stress on students and their families. Our Financial Aid Office has had to help more students than ever before scramble at the last minute to secure loans when lenders departed from the market.

As of today, lenders who have remained in the student loan market in the alternative loan programs have raised rates by a half to a full percentage point and have raised credit scores required for borrowing eligibility from 620 to 650. This means that a 20-year-old student with no credit and no cosigners will face very high rates, if he or she can even find a lender who will approve a loan. This has implications for many of our first-generation college students who come from families of modest means.

These high rates and credit score requirements have forced families to shop for loans. Since the 2008 federal requirement of self selection places the responsibility on the customer for selecting loan providers, this can present challenges. With so many lenders pulling out of the market, this self-selection has meant that families often must submit applications several times before securing a loan, which adds time and stress to the process. So does the fact that many lenders have reduced their staffing levels in student lending, which adds to delays. For all these reasons, the process of obtaining a student loan today is increasingly less customer-friendly for students and their families. Let me describe this through a reality-based scenario.

Imagine it's June and you are the parent of a student entering WCSU this fall. You attend a workshop on financial aid during our Orientation Program. You have read about the problems associated with student borrowing based on the subprime mortgage crisis and investigations into lender/school relations. Sitting there, you begin listening to financial aid professionals explain the procedures you need to follow to select a lender. You hear other nervous parents asking who the preferred lender for the school is. WCSU's financial aid officers explain that they can't assign lenders to the loans because of the federal requirements. They explain that the student needs to access a website to research and select a lender. Panic starts setting in. Some parents choose to stay for a repeat session of the workshop; others go directly to the financial aid office for personal assistance. They ask, "Who would you select as a lender if this were your son or daughter?" Federal law prohibits the financial aid counselor from responding. The day after the orientation session, there is still uncertainty about how to proceed, so parent and student make an appointment to sit again with the counselor. They return to the University and repeat the entire process. The financial aid counselor guides the student through the electronic process including selecting the lender and completing an electronic master promissory note on the lender's website. The aid officer then electronically sends the certification to the student's selected lender. The family leaves feeling comfortable that the selection process is now complete. A few days later, when the financial aid office receives the response file, they are notified that the loan was denied because the lender just dropped out of the loan program due to insufficient funding. It is now back to square one!

This scenario was the reality that a number of WCSU students and their parents faced this summer. If lenders continue to exit the student loan marketplace at the current rate, pressure on students (which a *Washington Post* article recently called "frantic") will exacerbate. We will also likely begin to see students being unable to secure loans. Since loans are such an important source of financial support (at WCSU, 60% of our fulltime students borrowed a total of \$19,912,857 in federal and alternative loans last year), we will likely also see students spending more time working off-campus, which will produce deleterious impacts on academic progress toward their degrees. Retention and graduation rates could well be affected. This gives us cause for worry.