The Not-so-fond Memories of "Remember When"

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The phrase "*remember when*" is usually associated with fond memories of years' past. Unfortunately, the memories associated with the current direction of future higher education funding are not so fond.

Remember when budget cuts focused on eliminated funding from those schools who serve the majority of low-income students? *Remember when* default rates were higher? *Remember when* lender access was so critical that many states adopted "Lender as a Last Resort (LLR) Programs"? *Remember when* we had to live with the negative repercussions of legislation and regulations because we didn't get involved? *Let's not forget that Cohort Default Rates originated during Budget Reconciliation.* We may very well be headed back to those times of not-so-fond memories.

FFELP lenders and guarantors are already struggling with budget cuts incurred during the 2007 budget and reconciliation. Many guarantors have been forced to "partner" with lenders and secondary markets to "share" the increased loss from student loan defaults. The end results are budget cuts within the lending and guarantee agency community, reduced benefits to student loan borrowers, increases in cohort default rates, and reduced access to student loan options.

Cohort default rates increased between FY 2003 and FY 2004 in every sector of higher education. The 1.5% increase at for-profit colleges was the highest. Predictions indicate that future default rates will continue to climb. With this in mind, lenders will use more discretion about the schools in their portfolios, limiting access to those institutions with higher delinquent and default rates, usually associated with institutions serving high-risk students.

Additionally, proposed cuts in interest rates seen in legislation from the House and Senate and in the President's 2008 Budget coupled with proposed increases in loan limits for 2+ year institutions further separate the affordability between lending to traditional institutions and career education institutions.

Mr. Kennedy, Chairman of the U.S. Senate Health, Education, Labor and Pensions Committee, acknowledges that 6 out of 10 jobs require some form of post-secondary training. Even so, there are several pieces of pending legislation and budgetary considerations that limit benefits to institutions offering 2+ years of education.

The newly introduced Student Debt Relief Act (S. 359) clearly defines a Student Aid Reward Program that is based upon financial incentives for schools participating in student loan programs that are "most cost effective for taxpayers" by paying a minimum of 50% of the savings back to the participating institutions. This would be a great financial benefit to colleges. The consequence that may have not been considered is that the parameters of pricing for inclusion in this program may very well price FFELP lenders right out of the market. If FFELP lenders pull out of the programs, choices and accessibility would be limited for schools and students. It could also lead to a monopoly of student loans within the government. The ultimate loss of competition could lead to a decline in quality of program integrity, servicing, and offerings.

A recently published article in the Washington Post suggests that "Banks could compete by offering the highest bid for the right to sell guaranteed student loans to designated schools or by agreeing to accept the lowest amount of subsidy." (http://www.washingtonpost.com/wp-dyn/content/article/2007/02/04/AR2007020401050.html) To this, I say, "scary!" This is not a level playing field. Students will no longer have a choice for their student loans and some higher education institutions may totally be excluded from the bidding process.

Our schools need a strong voice on Capital Hill to educate Congressional decision makers about our role in higher education and to see the big picture; we need your help. The career colleges educate about 65% of the working population and need to be included in increased financial benefits for higher education. FFELP student loans are a necessary and important part of a student's choice of higher education and financing that education. Please, make your voice heard loud and often during the HEA process – your future literally depends upon it. Your participation will help new education committee members and leaders to see that career college education is a very important part of America's Higher Education.

While the opinions and views expressed in this article may not be the same as CCA, please, join me and my fellow CCA Board Members and Staff for CCA's Hill Day on March 7, 2007. This is a critical time for our sector and your participation is needed and will be greatly appreciated.