HIGHER EDUCATION WASHINGTON INC.

STUDENT LENDING

An Independent Newsletter on Education Lending Policy and Practice

STUDENT LENDERS PULL BACK SHARPLY ON LOANS TO HIGH-RISK BORROWERS

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HEWI News Analysis

By Maria Koklanaris

Mark Kantrowitz

In the world of numbers that make up student lending, 620 has become a lot more important. Borrowers with less than that minimum credit score are usually considered "subprime," and it became clear this week that just as they will have more difficulty getting mortgages, they will also have more difficulty obtaining student loans.

Sallie Mae, the largest student lender by far, has informed companies that run proprietary or for-profit career colleges that it won't be making subprime loans and will also eliminate some riskier ventures such as opportunity lending, discount lending, and tiered lending, several for-profits announced yesterday.

Proprietary schools have traditionally served students with higher credit risks, often adults who are struggling to get back on their feet. These students and their schools have relied on non-traditional lending packages that typically have higher interest rates and are riskier for all involved parties.

Other lenders, including College Loan Corp. and Student Loan Xpress, also told for-profits they would either cut back on making loans to career college students or forgo making them entirely.

"Overall, subprime loans represent a small percentage of lenders' private student loan portfolio," Mark Kantrowitz, creator and publisher of the encyclopedic web site FinAid.org, said in an e-mail to HEWI. "However, at proprietary institutions the percentage of borrowers who are subprime is disproportionately high. It only makes sense for the education lenders to cut this source of risk, especially if actual performance shows a high default rate (for a link to a chart of default rates, see page 7).

"I would not be surprised if other private student loan lenders restrict subprime borrowing and (lending to) proprietary colleges and colleges with high default rates," Kantrowitz said.

Industry experts have speculated for some time that the crisis in the subprime mortgage market would spill over to student lending in some way, but the proof arrived yesterday in the form of a Securities and Exchange Commission filing by Corinthian Colleges, Inc. of Santa Ana, Calif.

In the filing, Corinthian said that Sallie Mae, which has previously made 90 percent of loans to its students, “would no longer make private loans available for students who present higher credit risks (i.e. subprime borrowers). We understand this change in policy applies to subprime borrowers at post-secondary institutions in general.”

Corinthian also revealed in the filing that the decision by Sallie Mae and two other lenders (College Loan Corp. and Student Loan Xpress) affected an overwhelming majority of its students -- 75 percent of its student loan portfolio for fiscal 2007 was subprime, the company said.

“Some of the more minority and blue-collar colleges are going to feel the effects,” noted Sean C. Gormley, a senior vice president at Friedman, Billings, Ramsey & Co., Inc. “Back in the old days, Sallie Mae didn’t have as much risk in the game so they would make loans to them (higher credit-risk students) because the government was on the receiving end of any defaults, which is the way it should be. The government should encourage people to seek a higher education,” Gormley said in an interview with HEWI.

“What’s happening now with this new legislation (College Cost Reduction and Access Act) is that Sallie is being more careful. They don’t want to lose money or lend money to people who are going to default so they’re dropping colleges.”

Corinthian has voiced concern that its students would have trouble accessing education in other forums as well recently. Mark Pelesh, an executive vice-president at the company, is representing for-profit colleges in the Department of Education’s student loan negotiated rulemaking sessions in Washington, D.C. At the first round of sessions this month, (they will continue in February and March), Pelesh repeatedly told fellow negotiators that he feared many students would soon not be able to obtain loans. Another negotiator called those concerns “speculative.”

Corinthian was just one of the major for-profit college companies making loan announcements yesterday. Stocks of all the companies fell yesterday on their news. Others:

- DeVry Inc. of Oakbrook Terrace, Ill. said Sallie Mae informed it that the lender would discontinue making discount loans. DeVry said the discount loan program accounted for about $2 million or less than 1 percent of its revenue for the first half of the fiscal year. It called its student loan program in general “in good standing.”
- Universal Technical Institute of Phoenix said Sallie Mae informed it that the lender would stop making tiered discount loans. UTI said those loans made up about $5.1 million or 1.4 percent of revenue. UTI said it had anticipated the “volatility of the credit markets” and had “proactively” added other lenders before Sallie’s announcement.
- ITT Educational Services of Carmel, Ind., said it had added three lenders – Bank of America, Chase Education Finance, and Citibank. The three will replace some of the loans formerly made by Sallie Mae.
- Career Education Corp. of Hoffman Estates, Ill., said Sallie Mae had ended its opportunity loan program with the company. In opportunity loans, the lender and the school share the risk of providing loans to borrowers with very low credit scores.

HEWI Editor Todd Bradley and special correspondent Wes Huffman contributed to this report.

AT A GROWING NUMBER OF COMPANIES, SPRING NOT THE SEASON FOR NEW LOANS

By Maria Koklanaris

"Obviously, I've seen some isolated newspaper articles and so forth," about the effect on student lenders of the College Cost Reduction and Access Act. *"I haven't seen any, sort of, industry-wide analysis about the state of affairs. As you know, we're in a moment in time, in our economy, that the credit markets are in a unique period. And of course that's true for the housing industry. It's true for lending generally. And so, you know, I don't know that I would draw particular conclusions from isolated newspaper accounts, but I'm sure others will."*

- Secretary of Education Margaret Spellings, Jan. 9, 2008

The accounts are becoming less isolated.

Student Lending giants Sallie Mae and Nelnet have made the most headlines for recent announcements (see adjoining stories) of staff cuts and restructuring, but elsewhere in student lending others have their own unhappy news.

"Unfortunately it's true," said Phil Tannenbaum, a spokesman for Phoenix-based NextStudent, responding to an inquiry from HEWI. "We're currently not in a position (to make new Stafford and PLUS loans and we're very unhappy about that. It's not financially possible."

Tannenbaum said the company would continue to fund disbursements from its fall loans, but would not make new federal loans for the spring semester. He cited the College Cost Reduction and Access Act, which cut more than $22 billion from lenders and guarantors in the Federal Family Education Loan (FFEL) program, as the reason why.

"It's because of all the changes in the value of the loans," Tannenbaum said. "Next Student certainly lobbied, as many lenders did, against the changes. We hope to get back into the business of helping students go to college as soon as it is financially possible to do so."

Tannenbaum said the "difficult decision" to make no new federal loans for spring was made over several months. He said the company became concerned as soon as CCRAA became law Oct. 1, 2007 and finally decided by the end of the year that it would not be able to make new federal loans.

"It's just the cold, hard, truth, and nobody is happy about it," he said.

He said the company will still make private non-federal loans but will have to be mindful of tightening credit markets.

"It may be that in the short term, some students may not get loans that would have gotten loans last year," he said.

Officials at San Diego-based Goal Financial did not respond to HEWI's repeated requests for comment. But the facts are there for any visitor to the company's website. At the top of the page, on the same level as the company's logo, are these words: "Goal Financial is no longer accepting applications for new loans."

On a page with more information, the company states: "Due to the recently passed College Cost Reduction and Access Act of 2007, Goal Financial, LLC is no longer accepting applications for any new loans. Students and families who have taken STAFFORD and PLUS loans from Goal Financial for the 2007/2008 school year should rest assured that we will honor those commitments and issue the second disbursement as scheduled. For those customers who are currently in repayment on a Goal Financial loan, this decision does not affect your status. Please continue to make your regularly scheduled payments. If you have additional questions, please do not hesitate to call us. … Goal Financial is proud to serve over 200,000 students and families. Over the past six years, we have provided the financial support that has helped them achieve their educational goals."

A telephone call to the company produces a recorded message containing similar wording.

Earlier this month, National Education Servicing, of Chicago, also responded to a HEWI inquiry about new federal loans. The company told HEWI on Jan. 9 that it would suspend new loan originations for Stafford and PLUS loans effective Jan. 15. According to its website, it has done so, and is offering its private loan, which it advertises as no-fee, as an alternative.

A company spokesman also told HEWI that it plans a "restructuring" and has "modified" the marketing staff, but has kept the sales force intact. The spokesman said National Education hopes to make new federal loans again in "a few weeks or maybe a few months."

NELNET CUTS 300 JOBS, SUSPENDS NEW CONSOLIDATION LOANS

By Maria Koklanaris

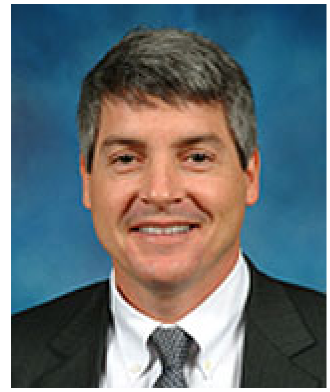
Last week Sallie Mae, today Nelnet.

The student lending giant based in Lincoln, Neb., announced today that it would have to cut 300 jobs and stop making new consolidation loans because of turmoil in the credit markets and continuing economic challenges posed by the cuts to student lenders in the College Cost Reduction and Access Act. Nelnet also said it will plan to lower operating expenses by $15 million to $20 million.

"The ongoing turmoil in the credit markets is much worse than we anticipated and the duration of the disruption is unknown," Michael S. Dunlap, chairman and chief executive officer of Nelnet, said in a statement. "We are taking action to aggressively reduce expenses and move the company forward in this challenging financial environment for our student loan businesses. Our participation in the Federal Family Education Loan Program (FFELP) is important to us, and we want to be in this program serving students and schools for a long time. However, the reduced economics of student loans created by the legislative changes and credit market disruption has forced us to make difficult decisions about our level of participation in the program."

Dunlap also said he regretted that Nelnet would have to cut jobs again. This round of cuts follows the reduction of 400 positions last September.

"Decisions to let colleagues go are always difficult," said Dunlap. "We will do all that we can to help them through the transition with severance packages, health care assistance and career counseling."



Michael Dunlap of Nelnet

In a news release issued today, Nelnet said it has liquidity for its loan origination and acquisition activity, but its reduced profitability on federal student loans, because of CCRAA, and the current problems in the credit market, spurred the decision to end new consolidation loans for now. Also Nelnet will “be more selective in all its other origination activity,” the company said.

“The company will closely monitor its student loan origination and related businesses for both FFELP and private loans while the credit markets remain volatile and will continue to make changes, if needed, to sustain them,” Nelnet said.

Dunlap said that despite today’s announcement, Nelnet remains strong. Part of the reason why, he said, is that the company has diversified. More than half of its revenue comes from fee-based businesses.

"Nelnet has many advantages that make us stronger, more stable, and better able to withstand the challenges in the student loan industry than many organizations," Dunlap said. "First, we have diversified into education services that are performing well and provide increased fee-based revenue. Second, we have a $26 billion portfolio of student loans originated before October 1, 2007 that will provide a revenue stream for many years to come. Third, we are well capitalized with more than $600 million in equity. Stated simply, we are a strong company with available cash and capital to invest in business opportunities that arise. "

Nelnet said it estimates that the total after-tax charge to earnings associated with the restructuring plan announced today will range between $15 million and $17 million, including about $4 million in severance costs, up to $2 million in contract termination costs, and $9 million to $11 million in non-cash charges.

SALLIE MAE LAYS OFF 350 EMPLOYEES, ANNOUCES FOURTH QUARTER LOSSES

By Todd Bradley

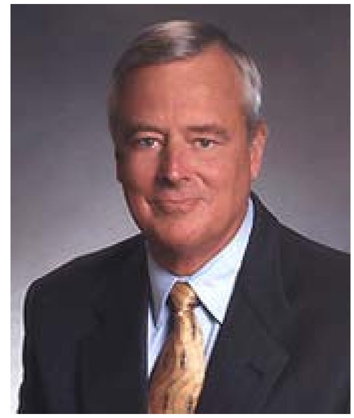
Citing rising borrowing costs and shrinking federal subsidies, Sallie Mae announced last week plans to layoff 350 employees in an attempt to cut operating costs 20 percent by 2010. The workforce reduction accounted for 3 percent of the company’s entire personnel.

“Clearly, to meet this large target, we will need to think in new ways about how we organize ourselves and deliver services to our customers," Sallie Mae President C.E. Andrews wrote in an e-mail.”

The planned layoffs will affect workers at the company's customer-service call centers in Fishers, Ind.; Wilkes-Barre, Pa.; Killeen, Texas; and 14 of 697 employees at Sallie Mae's headquarters in Reston, Va. As of Tuesday morning, shares of Sallie Mae were down $2.28, or 12 percent, to $16.74 following a quarterly earnings conference call.

"Their earnings power and model has changed," said Sean C. Gormley, Senior Vice President, Institutional Equity Sales at Friedman, Billings, Ramsey & Co., Inc. "Since the new legislation went into effect, Sallie Mae's profitability has changed. Now that there are so many defaults, not many people want to take on any credit risks. Sallie's ability to finance right now is in a standstill."

Sallie Mae reported a loss of $1.6 billion, or $3.98 a share, for the quarter, compared with earnings of $18 million, or 2 cents a share, in the same quarter last year. The results included a $1.5 billion loss on an equity-forward derivatives contract and $575 million in loan-loss provisions.



Albert Lord

"While there were some bright spots, we are obviously disappointed by our fourth-quarter results overall," said Sallie Mae CEO Albert Lord on the call. "Our cost of funds and loan loss expectations were impacted by weakening credit markets."

Lord called the last 100 days "eventful" and "painful" and apologized for using profanity on a conference call with analysts in December. However, he said he expected the second half of 2008 to be "far better than the first half." Lord also stated that the "private loan business is now our principal business."

During his first call as the new chairman, Anthony P. Terracciano outlined steps the company has taken and will continue to take, starting with no longer making loans to schools that don't produce graduates.

"We're exiting those schools within the non-profit and for-profit [markets] that don't generate graduates," Terracciano said. "We are exiting schools we have no business making loans to. If kids don't graduate, it's very hard to collect on those loans."

DEFAULT RATE AMENDMENT HOTLY CONTESTED

By Maria Koklanaris

Sources are predicting changes or even deletion of a Higher Education Act amendment that would extend the calculation of cohort default rates by one year, especially in the wake of new Department of Education data that show the calculations would increase default rates enough to put in jeopardy some schools' Title IV eligibility.

The amendment is under "negotiation" as House education committee members prepare to bring their version of the reauthorization of the Higher Education Act to the House floor next month, one source said. It would be a "surprise" if the amendment survives the process intact, another said.

The amendment, crafted by Rep. Raul Grijalva (D-Ariz.) and Rep. Timothy Bishop (D-N.Y.) would change the calculation of default rates by extending the repayment period "window" used in measuring defaults. Currently the window is two years. The Grijalva/Bishop amendment would change it to three years, a time frame they said would provide a clearer picture of true default rates.

If that is the case, then true default rates may be quite high, particularly for proprietary (career) schools and some community colleges. The Department of Education data (see chart) show three-year default rates at some schools more than doubling over the two-year rates. When fourth-year rates are calculated, the data show, default rates rise over 25 percent at some schools – a number no school wants to see. A school that has a 25 percent default for three years, or a 40 percent rate for any one year, can lose Title IV funding.

A sudden change in the calculation, with the resulting spike in default rates, could also make it seem as though servicing on loans through the Family Federal Education Loan (program) has sharply declined.

The American Council on Education, which represents many higher education associations, is on record as supporting the Grijalva/Bishop amendment, but the Career College Association, which represents proprietary schools, is on an all-out assault against it.

Last week, the Career College Association put its members on the alert, with a bold mass email called ACT NOW.

"The amendment would extend the calculation of the cohort default rate by one year. ED estimates that schools in our sector will have a 94 percent increase in their cohort default rate, much higher than any previous estimates. Many schools could quickly find themselves in danger of losing Title IV eligibility," CCA warned.

"Contact your Congressman now by calling and e-mailing their offices. We need for your Congressman to contact the Chairman of the Education and Labor Committee, Rep. George Miller, and ask him to remove this provision from the bill."


Rep. Raul Grijalva

CCA also urged as many members as possible to attend an upcoming meeting (Jan. 29) in Washington, D.C. to lobby members of Congress.

Grijalva has said in a statement that the amendment will "more accurately inform us about how well colleges and lenders are supporting our students both during college and after graduation."

But Mary Lyn Hammer, president of Champion College Solutions, a private firm that specializes in helping students avoid default, said she disagrees and is siding with the CCA. Hammer has done her own analysis showing high default rates similar to rates in the Department of Education chart.

"I don't think (the amendment) does what they want it to do," Hammer said in an interview with HEWI. "It has nothing to do with the quality of education. It's very bad policy."

To see a chart of default rates, click here: http://www.hewi.net/3YR-4YR_CDR_Model.xls

Fore more information on default rates, click here:
http://www.hewi.net/20080115_Department_of_Education_CDR_Impact_Report.pdf

Student Lending's Interview With . . .

Interview with Michael Taiano, Analyst, Sandler O'Neill

Michael Taiano is an associate director in the research department of Sandler O'Neill + Partners, L.P. He joined Sandler O'Neill in 2007 from UBS, where he served as an analyst focusing on specialty finance companies. Taiano, a Certified Public Accountant in the state of New York, began his career at KPMG as an auditor in its financial services practice. Taiano recently spoke with HEWI about student loan financing, especially asset-backed securities.

The fate of both federal and non-federal student loans, in today's tough credit market, is on the mind of many lenders and investors these days. We'd like to talk more about the market later, but for now, we'd like to talk about how student loans are financed. We understand that the majority of student loan financing is done through asset-backed securities. Could you describe the basic structure of a student loan asset-backed security?

Typically what happens is the lenders will have what they call credit facilities that are set up. These are essentially temporary parking spots for the loans until they get securitized into term asset-backed securities (ABS). And that happens once the facilities get up to a certain level, where it becomes large enough to efficiently do a deal. The typical structure for student loan ABS are called senior subordinated structures. So you'll have multiple tranches (*editor's note: from the French word meaning slice, or portion, a tranche to investors is a security that can be split up into smaller pieces. Each piece may have its own risks, rewards and maturities*). Usually a big component, or the vast majority of the tranches are AAA rated, then depending on the type of loans, you could go down to as low as BBB. So they are all investment grade tranches. BBB is as low as you can go for investment grade; below that is not considered investment grade.

So when they do these securitizations, there are different levels of interest rates or spreads assigned to the different tranches, and the lower ones, that have lower ratings on them, pay a higher level of interest. The ones that are higher up, pay a lower level of interest. Essentially, the lenders that are issuing these ABS typically keep what they call a retained interest in the pool of loans that they're securitizing. Effectively, it's like a first-loss piece. It's more relevant with private student loans, because there's more credit risk there. The lender is taking the first-loss risk should the cash flows on those loans be insufficient to pay all those bondholders. That's typically how the structures work.

How widespread is the use of asset-backed securitization to finance student loans in the Federal Family Education Loan (FFEL) program?

It's very common in FFEL. It varies from year to year. This past year, 2007, was a bit light in terms of issuance, mainly because of the fact that the biggest issuer in the market was in the midst of a deal, so they didn't do too much until the end of the year. But I would say anywhere from 70 to 80 percent of the originations are financed through the ABS market, and that's been a growing number.

Do you see this as a continuing trend?

I think so. I think it's still the preferred method of financing these loans. Depending on the market, the economics of the loan to the lenders will change, depending on what happens in the capital markets and the aversion to risk. But I think that ABS has been a pretty efficient mechanism for financing these loans and I think that will continue.

What about the role of ABS in financing non-federal loans?

Non federal or private student loans have largely been financed in the ABS market as well. The issue with them right now is that while there have been FFELP deals done in the last couple of months, there really haven't been any private student loans done, I believe, since First Marblehead did theirs in September. They were planning on doing one in December, but decided not to.

And when a major player like First Marblehead decides not to securitize, does that create a ripple effect?

Not really. It's not that they're having an impact on the market, the market is having an impact on the issuer. It's just a function of, there's just not demand at an economical price to get a deal done. And especially toward the end of the year, from my understanding, it wasn't even a price issue. It was that the markets were largely closed for those deals. And First Marblehead also had a company-specific issue, I believe in early December, when Moody's put a number of their tranches under review for possible downgrade. That's still under review.

Can you explain what makes ABS an attractive method of financing?

It is probably the most efficient in terms of cost of funding. Essentially it's secured financing, so the bond investors that are putting money into these deals, are backed by the student loans themselves. Especially in the case of FFELP loans, they are pretty high quality. It's just cheaper financing.

The other form of debt that could be used is unsecured term debt. That's going to be more expensive, generally, because as an unsecured debt holder, you don't have the direct ability to access those assets in a liquidation. So if you're going to lend money to a student loan company on an unsecured basis, you don't have that same collateral directly backing (the loan). When these loans are securitized, they're put in a bankruptcy-remote trust, which means that if an issuer were to have problems and eventually declare bankruptcy, that has virtually no impact on your ABS. They are exclusively backed by the specific loans that are put in that pool. The issuer can not reach in to that trust and pull those loans out in order to pay their other debt holders. This is true for all ABS, not just student loans. It's historically been a very efficient way to fund some of these assets.

Where things have gotten into trouble is when the ultimate lender doesn't have enough skin in the game. Let's say that student lenders were to just securitize those loans and not keep an retained interest, what's their incentive to underwrite? You don't have the credit exposure. That's not as relevant in FFELP, it's more relevant with other types of assets that have more credit risk.

Student loans themselves are not differentiated, they have very similar characteristics. That makes it even easier to securitize them. And the fact that there's a credit guaranty from the federal government (for FFELP loans) definitely aids that. It requires less in the way of equity capital for the actual lender. By being able to securitize those loans, you get money from the bond holders back in, therefore you can make additional loans. It's a very efficient structure, particularly for student loans.

Do you see any market conditions that undermine the viability of ABS at this time? If so, what?

The conditions as they stand today, definitely make it tougher to securitize, to be reliant on the capital markets. But what's the other option? The only real stable source of funding right now would be retail deposits. ABS may be looked at as somewhat riskier because that is where some of the biggest problems have occurred in the mortgage market. So I think ABS has a negative connotation to it right now. But I don't know that there's any better option right now. Instead of securitizing in a term structure, you could use bank lines or bank facilities, which as I said, they use to temporarily house the loans. But what if the bank runs into problems? What if they pull in that line or they don't renew that line? You're stuck without any financing. The market is very challenged right now, but I don't know that there are better alternatives in financing options. It would be nice to fund some of these loans using deposits but I don't know if it would be, from an economic standpoint, viable to do that.

Let's talk more broadly about the market now. How are things at the moment?

The general feeling in the capital markets is risk aversion, especially credit risk. The spreads on FFELP loans ABS have widened, but you're still able to do them because you still have the 97 percent guaranty on new originations, 99 percent prior to October 1. But I think there's concern on the FFELP side because of the new economics. New deals are going to require what I would call more subordination -- meaning that the lender is going to have to leave more capital in these deals, because the economics aren't as great. So there's less of a buffer to prevent losses for some of the senior bondholders in these securitizations. Obviously the economics of the business have declined considerably, from both the legislative changes and now from the funding of the loans. The structures are being reevaluated. I don't think pricing will return to the levels that you saw in late 2006, early 2007. It was probably overly rich, in retrospect, particularly on the private student loan side. Some of the widening out is temporary and some of it's permanent, and it's hard to say right now which is which. Some of it is general fear in the market, investors being leery about putting new money to work, given all the risks that are out there.

Do you see any improvement from the end of 2007?

A couple things that have happened, that were impacting the lenders (are better). LIBOR has sort of come back. The spread between LIBOR (the world's most widely used benchmark for short-term interest rates) and Fed Funds (the federal funds rate) -- that spread I think got as high as 80 or 90 basis points in early December. That has narrowed considerably, and was down to a more normal range of 10 to 20 basis points.

In FFELP, you get paid also based on the Commercial Paper index. There was a dislocation in this spread as well. It's always been a relatively tight range, and LIBOR actually widened out more than the Commercial Paper index. I think that got as wide as 50 basis points in December. That was down to about 20. So things have gotten a little better. You did have that year-end issue where a lot of bond investors at the end of the year didn't want to put any new money out there, and wanted to wait and see what happened in the early part of 2008. But the markets have been, both the equity and the debt markets, extremely volatile in the last couple of weeks. I think FFELP is in a better position, because of the strength of the credit of the federal guaranty, than private loans would be. But I think it's going to be a very touch-and-go market, a lot of challenges ahead for the credit markets, the equity markets. Student loans don't operate in a vacuum, so there's an impact on those. It will also be interesting to see if the issues on the funding side will ultimately have an impact on Direct Lending vs. FFELP. But right now, first things first, they have to get their funding in order.

Disclosures: Sandler O'Neill expects to receive or intends to seek compensation from First Marblehead Corp. for investment banking services in the next three months.

COLLEGES, UNIVERSITIES BEGIN TO ELIMINATE STUDENT LOANS

By Todd Bradley

Over the past few weeks, a number of prominent colleges and universities have announced initiatives to make access to higher education more obtainable. Some schools have eliminated loans altogether while others have taken steps to cut costs. Yale University, for example, reduced student costs by 50 percent.

According to last week's announcement by Yale president Richard C. Levin, family incomes of less than $120,000 can expect to pay half of their current contributions next school year, while most families with incomes between $120,000 and $200,000 will see reductions of more than 33 percent. Families with annual incomes of less than $60,000 will not pay for their child's Yale education.

Yale has also committed to increasing the number of families qualifying for aid, giving additional aid to families with multiple college students, and exempting the first $200,000 of assets from need assessments. Average student contributions will also decrease from $4,400 to $2,500 annually, payable by working on campus for seven hours per week.

Schools like Bowdoin College, Colby College and Tufts University decided to eliminate student loans from their programs completely. Bowdoin announced that it will eliminate loans for all new and current students receiving financial aid, replacing those loans with grants beginning with the 2008-09 academic year. Students at Colby College will begin graduating debt-free in 2009.

College President William D. Adams announced that loans will be replaced with grants that do not have to be paid back for students qualifying for need-based aid. Tuition at the private Maine college is currently set at $46,100. The new policy was approved by Colby's board of trustees January 19 and the school has committed over $1 million to the change.

Tufts University announced a new financial aid plan last month which will allow students from low-income families to receive exclusively grants instead of loans. All undergraduates with family incomes under $40,000 a year are eligible.

"The $40,000 income level ... is not a function of 'affordability,' but rather a reflection of this philosophy of access," said Dean of Undergraduate Admissions Lee Coffin. "Many of these low-income students are first-generation college-bound without the financial safety net enjoyed by their more affluent peers."

The elimination of loans is part of Beyond Boundaries, the university's $1.2 billion capital campaign. The new policy is an attempt to expand the school's financial aid programs. More than seven percent of freshmen enrolled, beginning with the Class of 2011, have already qualified for loan replacements.

FIRST SESSION OF NEGOTIATED RULEMAKING BEGINS

On January 14 and 15, the Department of Education convened the first session of the latest negotiated rulemaking process for student loan related changes to the Higher Education Act made via the College Cost Reduction and Access Act (CCRAA), PL 110-84, and other legislation.

The Department has separated the negotiations into two “packages” and a third package was brought to the table by a negotiator, Mark Pelesh of Corinthian Colleges, who is representing proprietary schools. Package One consists of regulations pertaining to the CCRAA and the HEROES Act, Package Two will address federal preemption of state laws, and Package Three consists of issues affecting student access to credit.

The first round of negotiations allowed negotiators to establish ground rules and provide the Department with its views on certain issues. The first package will include the definition of a non-profit lender as well as the rules on administering the complex new income-based repayment program.

On package two, the lenders—with the notable exceptions of Walter Balmas of MyRichUncle, the for profit lender alternate—were in favor of federal preemption to avoid complexity, while the student and consumer advocates were in favor of the using the federal anti-inducement laws as a floor, not a ceiling. Additionally, the two association negotiators, Anne Gross of NACUBO and Larry Zaglaniczny of NASFAA, were strong supporters of preemption.

Balmas joined Deanne Loonin of the National Consumer Law Center, representing legal aid groups, Luke Swarthout of US PIRG, representing students, and Eileen O’Leary, a former president of the National Direct Student Loan Coalition representing private colleges and universities, in taking an anti preemption stance. Allison Jones and George Chin, the two public university representatives, remained non-committal on the issue.

A final set of issues which were initially not on the agenda were discussed by the committee as Package Three. On multiple occasions during this initial round of negotiations, Pelesh brought up proprietary schools’ concerns with student access to credit.

Pelesh said that many in the for-profit sector of higher education had seen lenders “exiting or strongly considering exiting” the FFEL program. Pelesh said the first “logical” choice was to revisit the lender of last resort regulations put forward by the Department in the early nineties.

However, O’Leary said that the Department should not revisit the lender of last resort regulations as one already exists for federal student loans in the form of the Direct Loan program. Loonin was dismissive of Pelesh’s concerns with restricted student access to credit as “speculative.”

Madzelan and Siegel asked Pelesh to provide them with a firm proposal while the Department was drafting draft regulatory language. Siegel seemed opposed to revisiting the lender of last resort regulations, but the committee may continue discussions on this issue at future meetings.

The next meeting of the committee is scheduled for February 4-6 in Washington. By the next session, the Department will have circulated its draft language, and the committee will begin to negotiate specific regulations.

STUDENT PERSPECTIVE: THE REALITY OF STUDENT LOANS

By Megan McCormick

It was the letter I had dreamed of opening for years. For some, the acceptance letter into college is just another document. For me, it was a ticket to freedom. A quick scan through the first paragraph was all I needed and after spotting the word "congratulations," I never looked at it again. The application process was finally over and I was a free woman.

One short trip from the mailbox to the front door, however, was all it took to bring me back to earth. With abundant joy I leaped up the driveway and delivered the liberating news to my mother that she would be rid of me in the fall. "That's great," she said, and with a sobering tone that only mothers can convey added, "What about financial aid?"

What *about* financial aid? Growing up in Midwestern public schools I was told I could be anything I wanted to be. I learned that America is a land of opportunity, and that where there's a will there's a way. What it really came down to, for me, was that my parents would figure it out. I had heard of something called student loans and figured I'd sign something and let the government take it from there.

In a way, I guess that's what happened. I vaguely remember filling out something called a FAFSA, and the next thing I knew I was enrolled at school and receiving monthly financial statements. To be honest, I still don't understand what they mean.

For students, college is a stepping stone to adulthood. A time to separate from—without severing—ties to family, familiarity, and financial security at a comfortable pace. My conception of college as a freeing experience was confirmed in the realization that I may still choose what concerns me. While worries about making curfew have been replaced by frets about meeting deadlines, I have managed to push financial aid qualms to a far-away place: my future. As the semesters fly by, however, I am beginning to realize that the future isn't quite as far as I would like it to be.

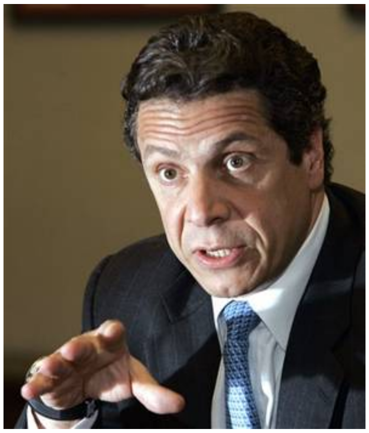
It wasn't until actually getting to campus that I learned the difference between grants and loans. For anyone who doesn't know, the government expects loans to be *paid back*. It was my older sister who unveiled the harsh reality that student loans linger long after graduation.

I have interned for Higher Education Washington, Inc. for about a week, and as higher education masterminds casually ask me which loans I receive, questions in my head begin to surface. I have never known the importance of student lending. I have never fully realized that without my loans I would not be in college. Who is Sallie Mae? What about this Perkins character? If they go under, will I go down with them? What frightens me most about higher education funding is that while thousands of my peers and I completely depend on it, it's something we know nothing about.

When my mother asked me about financial aid, perhaps I should have finished the letter myself instead of handing it over to her. College students are often characterized by their devotion to awareness. Today's college crowd ought to know who really pays for school, because, in the end, we'll be paying them.

Megan McCormick is a student at Luther College and an intern with HEWI.

STUDY ABROAD INVESTIGATION EXPANDED



The New York Attorney General's office has expanded its investigation of college study abroad programs to include 15 colleges and universities.

Attorney General Andrew Cuomo's investigators are inquiring about several aspects of study abroad programs including who approves contracts, how institutions select providers, how students are billed for studying abroad and whether schools are rewarded for their business with providers. The issue was brought into focus by a New York Times article last summer which revealed that some program providers offer incentives for colleges such as rebates, free and subsidized travel and help with back-office services. According to a Jan. 21 New York Times article, the benefits can lead to increased costs and decreased options for study abroad students.

The dynamics between colleges and study abroad providers resemble those of student loan companies and institutions. The result of the investigation could embody a code of conduct for colleges and study abroad providers. Cuomo's office created a similar code between colleges and lenders after investigations last spring.

Several of the 15 colleges have complied with the investigations while the holiday weekend and time for closer review have delayed answers from others. Among the 15 are Harvard, Columbia, Fordham, American University and Northwestern University. The schools were selected for the investigation because affiliation agreements or other unique relationships were suspected between them and study abroad providers.

NEWS IN BRIEF

ELM RESOURCES ADDS MORE THAN 400 NEW SCHOOLS

ELM Resources said it has implemented 426 schools on ELMNet, its lender-neutral data exchange, in 2007. It is the largest number of schools ELM has ever added in a single year since it was founded 14 years ago, the company said. ELMNet allows schools to work with any lender or guarantor. The addition of the 426 schools represents a 40 percent increase in new schools over 2006, raising the total number of implemented schools to over 2,100. Additionally, ELM added over 400 new schools to ELM NDN, ELM's student loan disbursement product, and disbursed more than $18 billion in loan funds.

ED POSTS FY07 FFEL LOAN VOLUME FIGURES

The information includes loan volume by type of loan, by fiscal quarter, by state, and by guaranty agency commitments in MS Excel format. $60.5 billion in FFELP loans was administered through 12.7 million loans during FY 2007. For more information, visit:

http://www.ed.gov/finaid/prof/resources/data/opeloanvol.html

Upcoming Events

March 10 – 12, 2008
EFC Annual Membership Meeting
Henderson, NV

April 11, 2008
HEWI's International Student Lending Conference
Arlington, VA

April 28 – 30, 2008
PESC / CBA / EFC / NCHELP
Conference on Technology & Standards
Washington, DC

June 3 – 4, 2008
NCHELP Spring Convention
Tucson, AZ

July 6 – 9, 2008
NASFAA Conference
Orlando, FL

DEPARTMENT PUBLISHES NEW INFORMATION ON PELL GRANTS, FFELP

The Department of Education has published guidelines for paying and disbursing Pell Grants for the 2008-09 academic year. The letter outlines significant changes to the process, caused in part by the increase in the maximum grant provided for in the College Cost Reduction and Access Act (CCRAA). The Department has also reported changes in terms and conditions of federal consolidation loans caused by the CCRAA and has published fourth-quarter 2007 information on special allowance rates for the Federal Family Education Loan (FFEL) program. To compute special allowance rates, the Department used 3.59 percent, the average rate for 91-day Treasury bills auctioned in the fourth quarter of 2007, and 4.92 percent, the average rate for commercial paper in the same period.

PROFIT LOSSES FOR CIT COULD MEAN SELLING STUDENT LENDER

CIT Group Inc. reported a fourth-quarter loss due to the decreasing value of its student loan business and the dire home mortgages. CIT is the largest U.S. independent commercial finance company and is valued at about $4.4 billion. According to Bloomberg.com, CEO Jeffrey Peek said CIT could earn $5.50 a share in 2007. The annual loss totals $81 million compared with 2006 profits. CIT was already forced to give up on the home mortgage business due to rising defaults, and the student loan unit could be sold.

NY POLICE UNION AIMS TO SHUT DOWN COLLEGE REIMBURSEMENT PROGRAM

A college-reimbursement program for new officers may be halted due to efforts by the NYC police union. The union, the Patrolmen's Benevolent Association, claims that the program helping officers pay back college loans and another one which helps with uniform costs were not negotiated under collective bargaining and should therefore be shut down, according to a brief obtained by the New York Sun. The reimbursement program for college loans began in October as a recruiting tool for new officers who could receive up to $15,000 for loan pay-back. The New York City Police Foundation and one of its benefactors, Richard Fields, funded the program with $1.5 million. The PBA believes the program distracts from what they consider to be the real issue of low police wages. The program benefits new officers only, meaning not all union members are eligible for the help.

SALLIE MAE FUND SCHOLARSHIP PROGRAMS OPEN FOR APPLICATIONS

The Sallie Mae Fund announced that its scholarship application season is now open and invites students attending college in the fall to apply for scholarships it will award for the 2008-09 school year. This year, The Sallie Mae Fund will award more than $2 million to college-bound students across the nation. Additional details, applications, eligibility, a two-page flyer, and other information are available online at http://www.SallieMaeFund.org.

STUFUND ANNOUNCES NEW PRIVATE LOAN PRODUCTS

Student Funding Group, LLC, or StuFund, will be offering new private student loans. Students needing to finance their education or consolidate existing private loan debt could utilize the new loans, as some of them feature no fees and offer competitive rates. StuFund will also offer non-certified private loans paid directly to the borrower, continuing education loans, and private consolidation loans. StuFund's new private loans add to a list of other loan products provided by the company including Federal Stafford, PLUS and consolidation loans.

PEOPLE

MOLLY CORBETT BROAD NAMED TWELFTH PRESIDENT OF ACE

Former University of North Carolina (UNC) President Molly Corbett Broad has been named president of the American Council on Education (ACE), the nation's principal higher education association. Her appointment, effective May 1, 2008, was announced Tuesday in Washington following a unanimous vote of the ACE Board of Directors. Broad, currently a professor in the School of Government at the University of North Carolina at Chapel Hill, will become the twelfth president of ACE and the first woman to lead the organization since its founding in 1918. She succeeds David Ward, who last year announced plans to resign following six years as ACE president.

POSNER ADVERTISING HIRES GRAHAM STOREY AS VP, INTERACTIVE SERVICES

Posner Advertising, a full-service agency with expertise in the real estate industry, announced the hire of Graham Storey as its vice president of interactive services. Graham will lead the interactive team in employing interactive and electronic media to develop and grow services that contribute to the success of Posner's real estate clients. "Posner enthusiastically welcomes Graham as the new vice president of interactive services," said Bob Posner, principal, Posner Advertising. "As our real estate clients continue to understand the benefits of interactive marketing, Graham's stellar background in online media and creative marketing will play an important role as we continue to build and deploy effective new media services that provide a competitive advantage." Most recently, Graham was vice president/creative director at G2, where he was responsible for all digital creative, brand building and campaign design for the M&Ms, Milky Way, Skittles, Starburst, and 3 Musketeers brands of Mars, Inc.

PHILLIP DAY, INCOMING PRESIDENT OF NASFAA, ON IMAGE

"The organization needs to address the image of the profession, which in light of the on-going publicity associated with Student Loan issues, has taken a bit of a hit.... We need to 'put a face' on Student Financial Aid by working at the national, regional and state levels to ensure that the public understands, appreciates and values the real impact the profession has on students and their families."

KATHY HARRIS TO LEAD DEVELOPMENT FOR COLOGY, INC.

Cology Inc. announced the addition of **Kathy Harris** to its executive leadership team Tuesday. Harris will serve as **Chief Development Officer,** and be responsible for product, market and growth initiatives of the organization. Harris brings more than 20 years of sales and business development expertise primarily in the banking and financial service industry to Cology. The company is focused on providing integrated student loan origination and technology services to its lender clients, as well as a diverse distribution network through which it can deliver a variety of partner product offerings. Prior to joining Cology, Ms. Harris served as Executive Vice President, Business Development for *FinanSure Student Loans* where she was responsible for the sales and marketing initiatives of the company.

INTERNATIONAL NEWS

AUSTRALIA: U.S. STYLE PROGRAMMING SUCCESS AT MELBOURNE

Melbourne University reported success for its move to a U.S.-style programming this week, claiming a high demand for its new generalist arts degree. The increase in popularity runs against a general decline. Undergraduate applications fell by almost 4 percent last year in Victoria, according to the state's tertiary admissions center. The center also said it released 57,771 places in universities, TAFE and independent colleges, and 58,879 applications came in for universities. Applications for undergraduate courses fell by 3.9 percent from last year and offers received fell by 5.5 percent. The job market could be to blame for the declining figures, according to Monash University demographer Bob Birrell.

HIGHER EDUCATION WASHINGTON INC.

Published bi-weekly by **Higher Education Washington, Inc.** (ISSN 1091-8272), P.O. Box 34371, Washington, D.C. 20005. HEWI Web site, www.hewi.net. Phone 202-842-4989. Fax 202-842-2647. E-mail: hewi@hewi.net.

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Annual Subscription Rate $819; Single Issue Rate $45.