

NEWSLETTER

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NO THREAT TO FEDERAL STUDENT LOAN AVAILABILITY

- CARINA ZARAGOZA

On March 17, 2008, witnesses testified before the Senate Education Committee regarding the availability of federal student loans. The committee met at Northeastern University in Boston and was called by Senator Edward M. Kennedy (D-MA), chairman of the Health, Education, Labor, and Pensions (HELP) Committee. Recent reports of possibly reduced or no funds for the fall semester have prompted Congress to take action.

"We simply cannot allow the problems in the credit markets to prevent our young people from going to college," Kennedy said in his opening statement.

Kennedy has long been an advocate for the U.S. Department of Education's Direct Loan Program. Northeastern University recently announced it will move its loan activities to the Direct Loan Program, a decision Kennedy commended.

A major benefit the Direct Loan Program offers students and schools is its dependability, or so claimed Kennedy, calling the program "a tested and reliable program in the U.S. Department of Education." On the other hand, lenders operating under the Federal Family Education Loan (FFEL) Program are vulnerable to market conditions, or as Kennedy described them, "shaky banks."

Among the witnesses who testified were Sara Martinez Tucker, undersecretary of education; Eileen O'Leary, assistant vice president and director of student financial services at Stonehill College in Easton, Massachusetts; Thomas M. Graf, executive director of the Massachusetts Educational Financing Authority; and Deanne Loonin, director of the Student Loan Borrower Assistance Project, a National Consumer Law Center initiative. Also present was Eliaquin Gonell, a student attending Salem State College, who

offered his experience paying for school and advocated for more colleges and universities to transition to the Direct Loan Program.

Undersecretary of Education Tucker assured the committee, as well as students and families, that "federal student aid will continue to be available."

O'Leary pointed out that it is primarily the non-federal lending sector that is feeling the squeeze due to the current credit crisis. She anticipates that "students with bad credit will be unable to obtain alternative loans" but actually sees this as positive because alternative loans for the most part carry "high interest [rates] and exorbitant fees" and are "not dischargeable, even in bankruptcy or death."

The representative of the private lending sector, Graf, assured the committee that the Massachusetts Educational Financing Authority (MEFA) is working hard to ensure funds will be available for students but did concede that "MEFA's ability to provide families with affordable financing programs to achieve and maintain access to higher education" may be at stake in today's economy.

Senators present at the hearing also voiced concerns over whether students will face interrupted access to loans, in particular those made by FFEL lenders.

Meanwhile, the House and Senate approved their 2009 budget resolutions, but funding may be difficult due to partisan voting.

On the Net

Higher Education Washington Inc.
www.hewi.net

Committee Hearing Full Text and Audio
help.senate.gov/Hearings/2008_03_17/2007_03_17.html

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REPORT RELEASED ON FEDERAL LOAN BORROWING TRENDS

- CARINA ZARAGOZA

The National Center for Education Statistics released a report entitled *Trends in Undergraduate Borrowing II: Federal Student Loans in 1995-96, 1999-2000, and 2003-04*. The report tracks and examines the changes in student borrowing over several academic years. Christina Chang Wei and Lutz Berkner authored the report. Among the key findings:

1. More Students Are Borrowing.

The number of undergraduate students who borrowed federal student loans rose from 25% in the 1995-1996 academic year to 33% in the 2003-2004 academic year.

2. More Students Are Borrowing Unsubsidized Loans.

The rate of undergraduate students who borrowed subsidized federal student loans increased from 22% in the 1995-1996 academic year to 26% in the 2003-2004 academic year; the rate more than doubled with respect to unsubsidized federal student loans. In the 1995-1996 academic year, 10% of undergraduate students borrowed unsubsidized federal student loans, but that rate jumped in the 2003-2004 academic year to 21%.

Unsubsidized federal student loans are more expensive for students to borrow as the interest is not paid by the government while the student is attending school and during qualified grace and deferment periods. Interest is only paid for by the government on subsidized federal student loans.

3. Middle-Income Students Are Borrowing More.

Students from middle-income families are borrowing the most, and the rate of students borrowing from this economic bracket has increased. The number of undergraduates who borrowed both subsidized and unsubsidized federal student loans grew from the 1995-1996 academic year to the 2003-

2004 academic year by eight points, compared to only two points for low-income students.

4. Students Attending For-Profit or Career Colleges Are Most Likely to Borrow.

The study shows students attending for-profit colleges borrow the most out of all students attending two-year, public, or private colleges. In the 2003-2004 academic year, 72% of undergraduates attending career colleges borrowed federal student loans, compared to 11% of students attending two-year schools, 42% attending four-year public schools, and 53% attending four-year private schools.

This report is an update to an earlier report released by NCES that only included data from the 1989-1990, 1992-1993, and 1995-1996 academic years. The updated report also includes borrowing trends by income level, institution type, dependency status, attendance pattern, tuition level, and amount of loans borrowed. The report only takes into consideration borrowing trends of Federal Stafford Loans.

The National Center for Education Statistics was created by a congressional mandate requiring the U.S. Department of Education to "collect, collate, analyze, and report full and complete statistics on the condition of education in the United States." The NCES is charged with the responsibility to provide reports and information on education statuses and trends in the U.S.

On the Net

Inside Higher Ed
www.insidehighered.com/news/2008/03/19/loans

NCES Report
nces.ed.gov/pubs2008/2008179.pdf

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NEWS IN BRIEF

STAFFORD LOAN LIMITS MAY BE RAISED FOR HEALTH PROFESSION STUDENTS

Reports indicate that the U.S. Department of Education has decided to raise the Stafford Loan limits for medical and other health profession students. Currently, the cumulative amount medical students can borrow is \$189,125, but that may be raised to \$224,000. The higher loan limit applies only to unsubsidized Stafford Loans. It has not yet been determined whether the new loan limit will be effective July 1, 2008, or July 1, 2009. Secretary of Education Margaret Spellings plans to release a Dear Colleague letter with details shortly.

FORMER HEAD OF STUDENT FINANCE CORPORATION SENTENCED

Andrew Yao, former head of Student Finance Corporation out of Newark, Delaware, was sentenced to one year and one day in prison. Yao was found guilty of lying to

creditors about the nearly \$1 million in wire transfers he made before the student loan company collapsed. Yao claimed the monies were used for aircraft maintenance. It was later discovered the money was given to a mistress and used for entertainment. Student Finance Corporation collapsed in 2002.

SEX OFFENDERS RECEIVE PELL GRANTS

Convicted sexual predators taking higher education classes have been receiving Federal Pell Grants. Federal Pell Grants provide financial aid to low-income students. Current prisoners and students convicted on some drug offenses are not eligible for Federal Pell Grants. However, convicted sex offenders are eligible to receive aid once they have been transferred from prisons to treatment centers. Representative Ric Keller (R-FL) has called the loophole "insane," "a national embarrassment," and "a waste of taxpayer dollars" and has called for a stop to the practice.