Major Lender Exits FFEL Program

By Carina Zaragoza

College Loan Corporation, the eighth-largest Federal Family Education Loan Program (FFELP) lender in the country, will exit the FFELP business on March 1, 2008.

The announcement came Thursday, January 31, 2008, in a statement made by the company's CEO, Cary Katz. He stated that "recent Congressional action has decimated the Federal Family Education Loan Program, essentially making it impossible for midsized companies like College Loan Corporation to participate in the federal loan marketplace. In addition, continuing disruptions in the credit markets have compounded the impact of the legislation."

College Loan Corporation will no longer issue new loans under the FFEL Program, including the popular Federal Stafford Loan and Federal Consolidation Loan. College Loan Corporation will now focus on the private loan sector.

College Loan Corporation is not the first lender to withdraw its business from the FFEL Program. Just one week prior, Nelnet announced it would no longer issue new consolidation loans. Michael S. Dunlap, Nelnet's chairman and chief executive officer, described the impetus for the decision: "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." Nelnet withdrew from the federal consolidation business on January 23, 2008.

Both companies have been impacted by the College Cost Reduction and Access Act of 2007, which eliminated $21 billion in federal subsidies to FFELP lenders. Coupled with the ongoing credit crisis in the country, many lenders have found it difficult to maintain profits and operations. Nelnet has been forced to cut jobs by 700 in the past few months alone.

College Loan Corporation, based in San Diego, CA, has been originating and consolidating loans since its founding in 1999 and was one of the most profitable lenders in the business, a remarkable feat for such a young company. However, in 2007, amidst the student loan probe spearheaded by New York Attorney General Andrew Cuomo, practices were made public that may have led to the company's profitability. College Loan Corporation settled on allegations that it misused financial aid counseling sessions to market its loans to students. It agreed to pay $500,000 to the National Education Fund. In a similar settlement, Nelnet, based in Lincoln, NE, agreed to pay $2 million to the fund.

Another San Diego-based company, Goal Financial, is no longer accepting applications for new loans.

On the Net

Higher Education Washington Inc.

Inside Higher Ed