Continuing Trouble for Student Lenders

By Carina Zaragoza

The student loan industry is undergoing more turmoil as another lender ends its student loan program. Key lenders are also taking hits.

In recent weeks key lenders in the student loan industry have exited the Federal Family Education Loan (FFEL) Program or significantly reduced their business within the program. As reported by Law School Loans last week, College Loan Corporation will completely withdraw from the FFEL Program on March 1, 2008. In January Nelnet announced it will no longer issue new federal consolidation loans. Plus, many lenders have eliminated loan programs for several career colleges.

This problematic trend within the student loan industry shows no signs of abating as lenders continue to endure further blows.

The Independent Bankers Bank (TIB) has succumbed to the widespread uncertainty in the student loan industry. TIB announced last week that it will be exiting the student loan business. TIB explained that "final funding of new loan disbursements will be February 15, 2008." TIB's current portfolio will be sold to Sallie Mae and Nelnet, who will provide service to borrowers.

Based in Texas, TIB has been in business for 25 years. In addition to student loans, TIB also provides credit, mortgage, and investment products. There is no indication that these services will be eliminated.

Sallie Mae, which recently reduced staff and is among the lenders that discontinued new loans for students attending career colleges, took another hit last week. Standard & Poor's has downgraded the credit rating of the largest FFELP lender to one step above junk bond status. The credit rating company lowered Sallie Mae from BBB+ to BBB-.

Standard & Poor's cited a "high degree of financial risk" as the key reason behind the new, lower rating. "Increased funding pressures, reduced profitability, and the impact of a weakening economy" were all factors in the decision to downgrade Sallie Mae's rating.

Sallie Mae responded by saying it was "disappointed" by its new rating. However, the lender reaffirmed its commitment to "strengthen and improve" its investment rating. Part of the plan is raising more than $3 billion in equity capital.

And the Pennsylvania Higher Education Assistance Agency (PHEAA) continues to take hits in court. Judge Doris Smith-Ribner of the Pennsylvania Commonwealth Court has ordered PHEAA to pay $48,000 in legal fees incurred by three news organizations that attempted to obtain records from PHEAA. Judge Smith-

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Ribner determined the records to be public and found PHEAA had acted in disregard of the Pennsylvania "Right to Know" statute in its refusal to relinquish said records.

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