No Threat to Federal Student Loan Availability

By 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

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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.

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