

No disruption in student loans, PHEAA says
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With state agency halting lending, college students must look elsewhere Thursday, February 28, 2008 By Bill Schackner, Pittsburgh Post-Gazette Colleges across Pennsylvania yesterday began notifying thousands of their students that they must find a lender other than the Pennsylvania Higher Education Assistance Agency to finance their federally guaranteed student loans.

The notifications came a day after James Preston, PHEAA's acting president, told a legislative hearing in Harrisburg that, due to bond market turmoil, his agency as of March 7 would temporarily cease activity as a lender in the Federal Family Education Loan Program, called FFELP, which includes Stafford Loans.

The announcement was yet another manifestation of the cascading U.S. credit crunch that began last year with housing woes and sub-prime mortgage defaults. The news sent ripples of concern across Pennsylvania's higher education community and heaped new attention on the state's guarantor of federal student loans.

PHEAA officials, including its chairman, state Rep. William F. Adolph Jr., R-Delaware, sought yesterday to assure the public that students would see no disruption in their ability to get loans.

"This announcement means that PHEAA will no longer issue loans from its own funds, but will continue to provide the federal guarantee, origination and servicing for FFELP loans, essentially providing the system and process for loan delivery and repayment," the agency said in a statement.

PHEAA noted that it is just one of 400 or so lenders participating in the low cost Keystone Best student loan program. It said PHEAA would continue with other student aid programs and help "with the transition to other lenders who are prepared to pick up the additional loan volume."

The agency said it acted because of recent failed securities auctions, a problem forcing student aid providers around the nation to suspend or curtail lending.

"These types of failed auctions were unimaginable before the sub-prime mortgage meltdown," Mr. Preston said in remarks released by the agency. "Widespread lack of confidence in the capital market has spilled over into other asset classes, driving up our cost of borrowing and denying us the capital needed to fund new student loans."

PHEAA said it expects to resume issuing student loans "if the capital markets stabilize to the point of making new loans financially feasible."

Mr. Adolph said PHEAA would work with colleges and lenders "to ensure that there will be no interruption in access to low-cost loans for Pennsylvania residents."

About 80 percent of college students use the FFELP program to cover campus costs, PHEAA said. Even late yesterday, estimates of how many students across the state would be affected varied sharply as colleges sought to interpret the agency's statements.

Some school officials said their financial aid staff received a briefing on potential problems during an emergency aid

summit a week ago but received no notification of the actual decision beyond news media reports of Mr. Preston's comments on Tuesday.

Keith New, a PHEAA spokesman, could not be reached for comment.

Mark Kantrowitz, publisher of a Cranberry-based information Web site, , said students "may have to hunt around a bit more" for a private lender that will probably not be as likely to offer discounted rates given the market. But he and others said they did not envision students being unable to get loans as a result of PHEAA's move.

Early yesterday, Penn State University estimated that roughly 41,000 students -- nearly half its systemwide enrollment -- could be affected. But spokeswoman Lisa Powers said later in the day that the figure might be revised if PHEAA has suspended involvement only in the loans it actually funds but not those it services.

"There are plenty of other options out there that are at the same interest rates," said Kenn Marshall, spokesman for the State System of Higher Education.

Last evening, Mr. Marshall predicted the problem could affect 16,000 of the state system's 110,000 students who attend its 14 universities including California, Clarion, Edinboro, Indiana and Slippery Rock in Western Pennsylvania.

Even so, he said, system officials believe the brunt of the problems will be faced by students elsewhere who need private loans to cover debt beyond the four-year Stafford maximum of \$37,000. The average debt faced by state system students is well below that maximum, at \$6,100 a year, he said.

University of Pittsburgh spokesman John Fedele said about 5,400 students there could be affected.

Chuck Ardo, a Rendell administration spokesman, said the governor is deeply concerned about the potential impact on affordability.

Of PHEAA, Mr. Ardo said, "Their mission is to help make college more affordable."