

PHEAA suspends student loans
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HARRISBURG - College students counting on federally insured loans to pay their tuition will have to start borrowing money from banks instead of the state's student-loan agency.

James Preston, interim president and chief executive officer of the Pennsylvania Higher Education Assistance Agency, told the state House Appropriations Committee on Tuesday that a bond market rocked by the national sub-prime mortgage disaster has forced his agency to suspend lending as of March 7.

The decision affects only those seeking loans after that date, he said.

Preston told lawmakers that any eligible student who needs a new loan should be able to get one from banks at a comparable interest rate. 'We are going to try to make this as seamless as possible,' he said of the decision to turn all student-lending over to banks. 'I don't think that's going to hurt any student. Some of the banks probably are going to welcome this.' But Preston and state Rep. William Adolph stressed that Congress needs to shore up the Federal Family Education Loan Program or risk a complete collapse of the program, which would make it almost impossible for even private lenders to continue offering student loans.

The program provides federally subsidized, low-interest student loans to about 500,000 Pennsylvania students. 'We cannot fix this problem ourselves,' said Adolph, a Delaware County Republican and chairman of the PHEAA board of directors. 'This is a national crisis. Washington has to address this and the confidence level has to come back from Wall Street. It doesn't pay student loan agencies anymore to lend out money.' Suspending direct lending will cost the agency about \$116 million - or roughly one-third of its total project revenue in the 2008-2009 budget year.

Preston said after the appropriations hearing that the agency has not decided whether losing that much revenue would force the agency to lay off workers or cut grants to students. 'Everything is on the table,' he said. Preston assured lawmakers that the agency's cash flow problems are not related to its past spending on retreats at posh resorts.

The agency reportedly racked up nearly \$900,000 for massages, cigars, pedicures and other luxuries during getaways in past years and spent more than \$400,000 on legal fees trying to block media access to those spending records.

A new travel policy and other changes at the agency have trimmed expenses by about \$51 million, according to figures PHEAA provided.

Local lawmakers on the appropriations committee left Tuesday's session stunned. 'I don't think we know the total picture yet,' said Rep. Sean Ramaley, D-Beaver County. 'This is something of national significance. Every lender like PHEAA is facing challenges.' Rep. John Galloway, D-140, worried that the crisis has the potential to expand and affect every college student in the state who needs financial aid. 'We heard that the people who are in charge of this organization [PHEAA] just don't know how bad this situation is or if it's going to get worse,' Galloway said. 'It was extremely alarming to me.' Galloway represents Bristol, Morrisville, Tullytown, Falls, two districts in Bristol Township and one district in Middletown.