

PHEEA suspends federal student loans

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HARRISBURG, Pa. (AP) - Pennsylvania's student-loan agency will temporarily stop making new loans through a federal program in response to a credit crunch that has created turmoil in the bond markets, the agency's acting chief executive said Tuesday.

The Pennsylvania Higher Education Assistance Agency decided two weeks ago to suspend loans made outside the state through the Federal Family Education Loan Program. The agency will soon send out notices to colleges and universities that it will suspend in-state loans effective March 7, acting president and chief executive officer James Preston said.

The program provides federally subsidized, low-cost student loans to about 500,000 Pennsylvania students.

'Right now, it's not profitable for us at all to finance (FFELP) loans,' Preston told a House committee during a hearing on the agency's budget.

Instead, the agency will steer prospective borrowers to banks that are still participating in the \$50 billion program, which should assure a 'seamless transition,' Preston said. At the same time, it will continue to originate, guarantee and service loans, Preston said.

The student loan agency is caught up in a national student-lending squeeze linked to the \$330 billion market for auction-rate securities, about \$80 billion of which is made up of bundles of student loans. Since some of these investments are backed by troubled bond insurers, investors have been particularly reluctant to buy these securities, straining the student lenders that sell them to raise cash.