

*The Honorable Thomas J. Ridge*

March 25, 2008

The Honorable Henry M. Paulson  
Secretary  
U.S. Department of Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable Margaret Spellings  
Secretary  
U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

The Honorable Ben Bernanke  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Dear Secretary Paulson, Secretary Spellings, and Chairman Bernanke:

As a former Governor of Pennsylvania, I am thoroughly familiar with the importance of higher education to the Commonwealth of Pennsylvania. More importantly, as an individual who grew up in public housing and who had to depend upon scholarships, GI benefits, and government student aid programs to pursue higher education, I know how important timely access to federal student loans are in our society.

This is why I was so dismayed by the report that the Pennsylvania Higher Education Assistance Agency (PHEAA) has been forced to suspend its federal student loan originations and purchase activities. I understand, as well, that a number of other not-for-profits and for-profit lenders have taken similar steps and that more similar announcements are on the horizon. Just this week, a major non-profit lender in Texas and two major commercial banks were forced to make the same decision as PHEAA and, it is becoming clearer, that this is just the tip of the iceberg.

For more than 40 years, students, families, and schools have relied upon federally guaranteed student loans to help pay for college. The availability and reliability of this source of funding has fueled the nation's higher education system and made college and training available to tens of millions of students. This system has been so successful, in fact, that we have taken it for granted and taken for granted the complex financial underpinnings and markets that today generate \$60 billion in guaranteed student loans and billions more in non-federal student loans. Today, as those markets endure unimagined and unprecedented stress, we run the risk of seeing this entire system collapse.

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Pennsylvania's families expect that \$4 billion in federally guaranteed loans will be ready and waiting for them this fall. Those loans will ensure that 475,000 students have the financial means to begin or continue their postsecondary education. Nationally, more than seven million students and families are in the same situation. Without federally guaranteed loans or even the fear that they may not be available, I fear that families will choose not to send their children to college and that sophomores and juniors will make the unfortunate decision not to continue their education. The Commonwealth's economy and the nation's economy cannot afford to risk such a shock.

We all know that the students and families most likely to feel the brunt of the economic fallout from a disruption in the availability of student loans will be those who can least afford it. Disadvantaged students do not have additional financial resources to replace the loss of loan access. These students disproportionately attend community colleges, state colleges, and small private colleges that do not have huge endowments that they can dip into to provide additional funding for these students. They simply will have nowhere else to turn.

It is with a great sense of urgency that I request your immediate attention to the looming crisis in federal student loans. Bold action is needed to revive the auction rate markets that provide the financial foundation for the program and ensure that there are sufficient sources of capital to meet the needs of students and families for federally guaranteed loans. Providing capital at reasonable costs, purchasing securities backed by student loans, or purchasing student loans directly are among the options that should be considered by the Treasury Department and Federal Reserve. If we wait to act until thousands of students are denied these loans, it will be too late. We must act now and provide the assurance that these loans will be available and that families will be able to send their children to college this fall and beyond.

I thank you for your attention to this matter and look forward to hearing from you regarding your plans to address this crucial issue.

Sincerely,



Thomas J. Ridge  
First Secretary, U.S. Department  
of Homeland Security  
Former Governor of Pennsylvania

cc: The Honorable Edward Rendell  
Pennsylvania Congressional Delegation  
PHEAA Board

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