

Ensuring Access to College in a Turbulent Economy

March 17, 2008

Committee on Health, Education, Labor, and Pensions
Senator Edward M. Kennedy, Chairman

Testimony of Thomas M. Graf, Executive Director, Massachusetts Educational Financing Authority

Good Morning Senator Kennedy and Distinguished Members of the Panel,

Thank you for the opportunity to appear before you today to discuss access to college in a turbulent economy. My name is Thomas M. Graf, and I serve as the Executive Director of MEFA, The Massachusetts Educational Financing Authority. I'm honored to provide testimony on behalf of MEFA, the Commonwealth's self-financing, not-for-profit state authority dedicated to assisting parents, students, colleges, and universities in meeting the challenges of financing higher education. For nearly thirty years, MEFA has served the Commonwealth well by providing hundreds of thousands of families with over \$2.6 billion in low-cost student loans, the greatest percentage of which have been private alternative loans designed to augment those offered through the federal government's Stafford and Direct Lending Programs. Just this academic year alone, MEFA provided over 42,000 students and families with affordable loan proceeds in excess of \$500 million.

The Massachusetts Educational Financing Authority was created by the state legislature in the early eighties at the request of colleges and universities to provide families with a stable source of capital to fund higher education costs. There is little doubt over this extended period that families and colleges and universities have come to depend on MEFA as a trusted education financing partner. Indeed, MEFA has sought to make a college education more accessible and affordable for Massachusetts students and families, as well as those from across the nation pursuing the outstanding higher education opportunities here in the Commonwealth.

MEFA has created industry-leading education financing programs and has established a reputation for providing cost-saving programs combined with quality service. Underlying MEFA's programs has been a far reaching education campaign to provide families with guidance at every step throughout the financing process, beginning with the Commonwealth's innovative college savings plans for parents of young children preparing for future education expenses. Providing college planning and financing information to assist families has been central to MEFA's message and has emerged as a critical component during these unsettling economic times. And while MEFA counsels families that every dollar saved for college is a dollar less in debt service, a growing number of families have come to depend on MEFA's low cost private loan programs, once they have exhausted federal loan eligibility.

It is important to note that all MEFA loans are school channel loans, certified by the financial aid office, and as such, MEFA works closely with colleges and universities. Moreover, working in tandem with colleges and universities has contributed to MEFA's historically low cumulative gross default rate that remains well below one percent.

At this time, I'd like to turn my remarks to the challenges facing not-for-profit student loan entities across the country. There is little doubt that the unprecedented disruption in the capital markets, which began with the sub prime mortgage crisis, has impacted student loan lenders. Market instability continues as investor confidence has been strained, creating a broad and far reaching liquidity crisis. Today, liquidity necessary to fund student loans has nearly evaporated. Thus, as has been widely reported in the press, a number of education lenders have experienced difficulty in obtaining capital to fund student loans for the remainder of the 2008 spring semester, along with difficulty in raising capital to fund loans for the upcoming academic year. I remain concerned that parents may have fewer loan choices at a higher cost.

I want to assure you today, MEFA continues to offer students and families low-cost loans for the 2008 spring semester, and most importantly is working diligently to raise capital to fund loans for the 2008-2009 academic term. Indeed, today's challenges are the most daunting MEFA has ever faced. At stake is MEFA's ability to provide families with affordable financing programs to achieve and maintain access to higher education.

While MEFA continues to closely monitor the widespread dislocation in the capital markets in pursuit of funding opportunities, how much capital MEFA is able to secure remains an open question, even though MEFA has one of the strongest and most well-regarded programs in the country. Indeed, MEFA has distinguished itself as a premier education financing authority on Wall Street, and over the years developed nationally recognized programs promoting college access and affordability. Notwithstanding, I must underscore these are challenging economic times and access to the capital markets has been difficult, if not impossible for not-for-profit lenders.

It is important to understand in the face of continued economic instability, that MEFA will steadfastly maintain its commitment to working with Massachusetts colleges and universities and most importantly families in need of private student loans for the upcoming academic season. MEFA remains hopeful and diligent in its efforts that it will raise the necessary capital to assist families in meeting next year's education costs.

MEFA has and will continue to encourage families needing 2008-2009 financing beyond federal loan eligibility to regularly visit MEFA's website. In addition, MEFA provides toll-free telephone services and email communications offering college financing advice. Again, MEFA remains hopeful that private education loan funds will be available to meet college costs in the fall and to that end, anticipates announcing 2008-2009 loan availability later this spring, well in advance of the fall semester.

In closing, let me assure you that MEFA is unwavering in its commitment to make higher education accessible and affordable through community education programs, college savings plans, and low cost financing options. MEFA has the courage to pursue every possible funding solution that enables families to access MEFA loans for decades to come. We will do so with vigor in the coming days and weeks ahead to help families achieve the dream of a college education.

Thank you for the opportunity to appear before you today. On behalf of the MEFA Team, we look forward to working with you and Members of your staff to promote access to higher education through affordable financing programs.