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**TESTIMONY INCLUDED

KENNEDY HOLDS U.S. SENATE FIELD HEARING IN BOSTON ON COLLEGE ACCESS AND THE IMPACT OF THE CREDIT CRUNCH ON STUDENT LOAN AVAILABILITY

"ENSURING ACCESS TO COLLEGE IN A TURBULENT ECONOMY" AT NORTHEASTERN UNIVERSITY

BOSTON, MA- Senator Edward M. Kennedy, Chairman of the U.S. Senate's Committee on Health, Education, Labor and Pensions, today chaired a Senate field hearing on the challenges of college affordability in today's economy at Northeastern University. In the wake of the turbulence in the credit markets, access to student loan financing is under increased strain while the cost of higher education continues to skyrocket.

Senator Kennedy said, “We need to be certain we’re doing everything we can to give students the strongest possible options for college loans, especially in today’s troubled economy. The ability of young Americans to pay the high cost of college should not be determined by the quarterly earnings of the banks. We urge the Secretary of Education to make sure the programs that exist to protect students from market disruptions are ready in case they need to take up the slack. We must be prepared to act to ensure students continue to have access to the assistance they need to afford a college degree.”

Senator Kennedy heard witness testimony from the Department of Education, a student and other experts in student financial aid. Witnesses discussed the importance of financial aid and ensuring that students continue to have timely and uninterrupted access to student loans to pay for college, regardless of the current disruptions in the private credit markets.

Statement of Senator Edward M. Kennedy
U.S. Senate Committee on Health, Education, Labor and Pensions Field Hearing
“Ensuring Access to College in a Turbulent Economy”

(As Prepared for Delivery)

Today, as Americans face new challenges in the volatile economy, we’re here to explore whether there are steps Congress needs to take to ensure that students and families can continue to access the assistance they need to afford college.

We know that families are increasingly anxious about their economic future. All around, they see jobs disappearing, homes being foreclosed, debt soaring, and benefits worth less and less. Now families are hearing that the loans they rely on to afford the high cost of college may also be at risk.

Every family knows the difference that a college education can make in the lives of young Americans. College degrees mean not only greater opportunity and better jobs, but they are an investment in America's future as well. Our strength as a nation tomorrow depends on our commitment today to equip our citizens to compete and win in the competitive global economy. We simply cannot allow the problems in the credit markets to prevent our young people from going to college.

We learned today that one of our nation's major financial institutions was nearing collapse. We must prevent this from happening to student loans. Just as the Federal Reserve Board stepped in over the weekend to help the banks, the federal government should step in to help students.

We see here at Northeastern University how a partnership between colleges and the federal government can assure students of the low-cost, secure loans that they need to pay for their education. Today, Northeastern announced that it will join the federal government's Direct Loan program in which students can obtain loans not from shaky banks and lenders, but from a tested and reliable program in the U.S. Department of Education. I commend Northeastern for putting students first and taking this important step.

Each of our witnesses today can speak to a different aspect of how this credit crunch could affect students, and about the options, such as the Direct Loan program that available to protect them should the credit problems continue. I look forward to hearing about their experiences and any recommendations they have for additional steps Congress can take to reassure students and families, and help them cope during these uncertain times.

We all know that student loans are indispensable for millions of students and parents struggling to pay for college. In the last twenty years, the cost of college has tripled and more and more students are forced to rely on student loans.

In 1993, less than half of all graduates had to take out loans, but in 2004, nearly two-thirds had to borrow to finance their education.

The average student now graduates with more than $19,000 of debt in student loans.

In Massachusetts, the cost of attending a 4-year public college increased 59 percent between 2001 and 2005, while family incomes increased only 20 percent.

As a result, in the 2004-05 school year, 86 percent of students here relied on federal student loans, and the average debt for Massachusetts students was over $18,000.

The best way to help students and families afford college is to increase grant aid. More aid up front means fewer loans, and less debt on graduation day. That's why the Democratic Congress delivered on our promise last year to raise the Pell Grant. The maximum grant will increase to $5,400 by 2012 – an increase of $1,350 over the level at which it had stagnated under the current Administration.

This increase in up-front aid means that students eligible for the maximum Pell grant will have to borrow $6,000 less in loans over the course of their college career. The legislation enacted last year also made federal loans less costly for students by cutting interest rates in half for undergraduates.

We also helped students manage their debt by capping monthly loan payments at 15% of their income. Those who go into public service will have their loans forgiven.

These benefits will be meaningless, however, if students can't obtain the loans to pay for the college of their choice.

As our witnesses will describe, the current crisis in the credit market is making it more difficult for some lenders to obtain capital. As a result, some lenders are pulling out of the student loan market, and lenders operating outside the federal loan program are cutting back on loans to high risk borrowers.

The Massachusetts Educational Financing Authority – a non-profit lender established by the colleges of Massachusetts to provide additional assistance to the families of the Commonwealth – has had challenges on this front, and I look forward to hearing from Mr. Graf about how the situation is affecting MEFA's ability to continue to provide loans.

So far, other lenders in the federally guaranteed loan program – the "FFEL" program have filled the gaps created by lenders leaving. Since interest rates in the federal program are capped, students are protected from exorbitant interest payments.

As the Under Secretary will explain, this program contains safeguards that ensure that federal loan options will be available to students in the case of a large disruption in the market. One of those safeguards is the Direct Loan program. Under this program, the federal government – rather than a private lender – provides the capital for the loan and contracts out for the servicing of the loans by a private lender. This insulates the program for disruptions in the credit markets.

Current law also allows the Secretary to make capital available to designated "Lenders of Last Resort," so they can step in when students have trouble obtaining loans through other banks.

Congressman George Miller, the Chairman of the House Education Committee, and I have urged the Secretary of Education to make sure that these two options are fully available to students and colleges should they be needed. I look forward to hearing from Under Secretary Tucker today about the Department's progress on those fronts.

We're also acting to ensure that students borrowing private loans have the information they need to make good decisions, and only turn to the private market after they have taken full advantage of all federal grants and low-cost loans.

According to Department of Education estimates, between 40 and 60 percent of students who turn to high-cost private loans are actually not taking full advantage of federal grants and loans first.

We need to correct that.

According to the Massachusetts Board of Higher Education, nearly two-thirds of Massachusetts community college students received federal grant aid in 2005, while 36 percent of UMass students and 33 percent of state college students received such aid. It's distressing to think that it's possible that many more of these students actually qualified for grants, and just didn't know it.

We're currently in conference negotiations with the House on the Higher Education Act, which includes provisions to require lenders to disclose that students may be eligible for federal, state and institutional aid. We also require additional counseling by financial aid experts for students on their options.

Many students, however, will have unmet need, even after exhausting federal, state, and institutional aid programs. For those students, we must consider increases in eligibility for low-interest, federally-backed student loans that students can borrow. Last week, the Senate passed an amendment I offered to the Budget that would make it easier for Congress to do this.

I look forward to hearing from the witnesses about the best way to go about increasing loan limits, as well as any other suggestions they have for strengthening the federal loan programs.

In today's uncertain economy, Congress has an obligation to maintain a steady hand, and to shore up programs on which so many students and their parents depend. Few things are more important for the nation's future than ensuring that today's students can afford a college degree.

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