

**FOR IMMEDIATE RELEASE:**  
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**KENNEDY ON LENDERS LIMITING STUDENT LOAN AVAILABILITY**

WASHINGTON, DC— Today, Senator Edward M. Kennedy, Chairman of the Health, Education, Labor and Pensions Committee, released the following statement in response to the announcements by Citibank and Chase to not provide student loans to community colleges or proprietary schools.

“The Citibank and Chase announcements highlight the need for Congress to take action to ensure that a student’s access to college loans is not driven by the quarterly earnings of banks. The Direct Loan program provides a stable and efficient way for all students – regardless of the institution they attend – to receive federally guaranteed student loans. I’ve urged institutions to explore this option. But Congress also should enact legislation ensuring that the problems in the credit markets caused by the mortgage crisis do not cause a dramatic shift in the availability of loans offered through private lenders. I have introduced legislation to do just that and I am pleased that Chairman Miller has moved that legislation in the House this week. I look forward to swift action in the Senate.”

\*\*Text of letter sent to the American Council on Education and summary of legislation included below

**Letter to David Ward, President of the American Council on Education:**

April 15, 2008

David Ward  
President  
American Council on Education  
One Dupont Circle NW  
Washington, DC 20036

Dear Mr. Ward,

As you know, families around the country have been affected on many fronts by the recent turbulence in the economy. Now some families are becoming concerned that the loans they rely on to afford college may be at risk. We have not yet heard of students having problems obtaining federal loans at this point, but we cannot allow problems in the credit markets to prevent students from going to college. We in Congress are doing all we can to strengthen the federal loan programs to make sure that students and families continue to have timely, uninterrupted access to student aid. I’m writing to thank you for all you are doing to help institutions, students and families at this challenging time and to recommend two additional steps that institutions may want to consider. I hope you will

call on my office if we can be of any assistance, and that you will encourage college and university presidents and financial aid officers to do the same if we can provide help to them or their students.

In recent weeks, I've been in contact with the Secretary of Education to urge her to take all steps within her authority to guarantee that the backstops in current law are in place and operational in order to protect students from current problems in the markets.

I've urged Secretary Spellings to make it as easy as possible for colleges and families to participate in the Direct Loan Program. I've also urged her to strengthen the FFEL program, by putting in place a plan to activate the "Lender-of-Last-Resort" program, which enables her to advance capital to designated lenders and guaranty agencies, to help students having trouble finding loans through other banks.

But there is more we can do. Recently, I was joined by five of my Senate colleagues in introducing legislation to provide additional protections and assistance for students and families. The Strengthening Student Aid for All Act (S. 2815) will reduce the need to rely on higher cost private loans by increasing grant aid for the neediest students, expanding federal loan limits, and making low cost federally-subsidized loans to parents more attractive. The bill also ensures that the federal government shores up the FFEL program so that it can continue to operate if the problems in the capital markets unexpectedly worsen. Chairman Miller has introduced similar legislation in the House. Attached is a summary of the legislation, we welcome any thoughts and suggestions you or your institutions may have.

I also urge you to encourage colleges and universities to register to participate in the Direct Loan program. Registration does not commit them to use the program. Even if they do decide to participate in the program, it does not preclude their participation in the FFEL program at the same time or at a later date. The Direct Loan Program provides a stable, reliable source of resources for students and families. It relies on funds from the U.S. Treasury and is completely insulated from the volatility in the credit markets. Currently, over 1,150 schools participate in the Direct Loan Program, and over 800 more have signed up so that they can choose to use the program if their students begin to have problems obtaining federal loans through private lenders. I've encouraged the Secretary of Education to develop an expedited process to assist institutions in enrolling in the program, and she's assured me that the Department has streamlined the process significantly. The Direct Loan program can be an effective safety net for students, and assure stable access to federally-subsidized student loans.

For students who rely on more expensive private loans, I recommend that you urge schools to see that students and parents are taking full advantage of the assistance available to them under the federal grant and loan programs, before turning to higher-cost private loans. According to the Department of Education, as many as 40 to 60 percent of students who borrow private loans have not fully exhausted their eligibility for federal assistance. In addition, as parents begin to face difficulties in obtaining home equity lines of credit and other sources of financing that may have been available in a more stable

economy, I hope institutions will remind them that they are eligible to borrow parent PLUS loans up to the cost of attendance, and that the federal government does not require them to fill out a Free Application for Federal Student Aid to do so. We are taking steps in the reauthorization of the Higher Education Act to ensure that private lenders act in good faith to make students aware of their federal options first, and hope you will encourage schools to assist in these efforts.

I thank you and your institutions for all you do to assist students and families in meeting the costs of college. In today's knowledge economy, few things are more important. I encourage you and the colleges and universities you work with to contact [my office](#) if students begin to have problems obtaining student loans, and I very much hope that you will share any suggestions you have about additional steps that Congress should take to protect students and families in today's uncertain economy.

With respect and appreciation,

Sincerely,

Edward M. Kennedy

**Summary of the Strengthening Student Aid Act of 2008**  
**Senator Edward M. Kennedy**  
**S.2815**

**Reduce the need for students to depend on non-Federal, higher-interest private loans by—**

- Increasing annual limits on unsubsidized Federal student loans for dependent undergraduate students by \$1,000 each year, with a new aggregate limit of \$29,500 (up from \$23,000). Loan limits will increase as follows:
  - First-year students: \$4500, up from \$3500;
  - Second-year students: \$5500, up from \$4500;
  - Third-year and beyond: \$6500, up from \$5500.
- Increasing annual limits on unsubsidized Federal student loans for independent undergraduate students and dependent undergraduates whose parents can't obtain parent PLUS loans by \$2,000 each year with a new aggregate limit of \$57,500 (up from \$46,000). Loan limits will increase as follows:
  - First-year students: \$9500, up from \$7500;
  - Second-year students: \$10,500, up from \$8500;
  - Third-year and beyond: \$12,500, up from \$10,500.

**Improve federal Parent (PLUS) loans so they are more attractive than private educational loans and home equity lines of credit by—**

- Allowing for deferral of repayments on parent PLUS loans while the student for whom the loan was taken out remains in school (currently, parents are required to

begin repayment of PLUS loans within 60 days of loan disbursement, even if the student for whom the loan is taken out is still in school).

**Reduce low income students' dependency on student loan borrowing by—**

- Increasing Pell Grants for the lowest-income students by authorizing a “negative Expected Family Contribution,” which would allow the maximum Pell Grant (\$4731 for the 2008-09 academic year) to be increased by up to \$750 for students whose expected family contribution is calculated under federal needs analysis to be a negative number, and for those students whose expected family contribution is automatically determined to be zero.

**Ensure the availability of Federal student loans by—**

- Requiring the Secretary of Education to designate guaranty agencies to be a Lender of Last Resort (LLR) on a school-wide level at the institution's request. Currently, LLRs are provided to individual students who are unable to obtain a loan through the Federal Family Education Loan Program. At many colleges, large shares of students have Federal education loans with the same lender. Colleges whose primary lender stops making new loans should have the assurance that a LLR will be ready to step in to offer loans to all of their students; and
- Clarifying the Secretary's authority to advance funds directly from the Treasury to LLRs, without needing a new appropriation by Congress.

**Provide additional options for lenders to access capital to make new loans, should the credit market situation continue, by—**

- Allowing the Department of Education to serve as the secondary market of last resort for loans originated in the FFEL program. Under this provision, the Secretary of Education would be required to buy FFEL loans that lenders want to sell, and would pay a price equal to par (100% of the outstanding principal and any accrued, unpaid interest on the loans) plus a premium equivalent to the cost of originating such loans in the federal Direct Loan program. The terms and conditions on the loans would remain the same as they were when the borrower took out the loan, and the Secretary could contract with the same servicers who previously serviced the loans to ensure a seamless transition for borrowers.

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