

Optimizing Collaboration in the Financial Aid Community

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Introduction

Although a fluctuating regulatory environment is not uncommon for financial aid professionals, in the last two years the financial aid community confronted particularly significant changes in higher education policy. More than ever, an increase in communication and collaboration between all sectors of the financial aid community proved critical. Consequently, the Council for the Management of Educational Finance established as one of its annual objectives an initiative to facilitate discussions between postsecondary institutions, lending organizations, and servicing institutions in the financial aid community. Established in 1997, the Council provides leadership in innovative efforts to include default prevention and debt management throughout the higher education community. Eighteen professionals representing postsecondary institutions and the lending community serve on the Council. The Council's efforts reflect a commitment to helping students and families achieve their educational goals and make informed decisions regarding education finance. In keeping with this commitment, the Council believed that the dialogues described in this article would enable participants to best prepare for the challenges and issues resulting from changes in federal higher education policy and regulations.

Background

Two pieces of legislation that passed during 2007 and 2008 illustrate the dramatic changes that have impacted lenders and servicers participating in the Family Federal Education Loan Program. These pieces of legislation are described briefly below.

College Cost Reduction and Access Act 2007 (CCRAA)

Significant financial reductions impacting support for the Federal Family Education Loan Program (FFELP) resulted from the passage of the College Cost Reduction and Access Act of 2007. In addition to providing increases to the Federal Pell Grant Program, the FFELP, which is the largest Title IV Program, saw many of its participating lenders forced to withdraw from or reduce lending activity. Further worsening the circumstances for lenders was the subsequent collapse of the capital markets. While many lenders had to discontinue their participation in the FFELP, some, but not all, loan providers adjusted their lending policies and restricted their capital to serve only those student borrowers attending institutions where the economics and margins made sense (e.g., large four-year institutions vs. career schools and community colleges, or favoring schools with lower default rate histories).

Ensuring Continued Access to Student Loans Act 2008 (ECASLA)

Realizing how cost reductions to the FFELP could significantly impact access to higher education funding for many college students, the Ensuring Continued Access to Student Loans Act was enacted in 2008. This new Act provided temporary liquidity to FFELP lenders and secondary markets. Also, for guarantors, the underwriters of student loans, the Act strengthened its Lender of Last Resort Program, which enables guarantors to serve as a back-up loan provider in the event that traditional lenders are not available to provide capital for student loans. Most notably, under this Act, the Department of Education becomes nationally responsible for providing liquidity to originating lenders. Timeliness of implementation of these new provisions was critical to resolving the liquidity crisis for lenders in order to ensure the continued flow of education loan funds to students and parents.