U.S. SENATE BANKING COMMITTEE

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Statement of Senator Chris Dodd
"Turmoil in the U.S. Credit Markets: Impact on the Cost and Availability of Student Loans."

Remarks as Prepared:

This morning, the Committee examines student lending.

Approximately one year ago, in this room, I asked a Governor of the Federal Reserve a simple question: would the subprime mortgage market meltdown spread to other sectors of the credit markets. The answer was no. We on this Committee were told that the crisis was "contained."

Now we know that such a view was little more than wishful thinking. Predatory lending practices – which the Fed did little if anything to stop – poisoned the well of mortgage-backed securities. As a result, investors are by and large declining to draw from that well. And they are leery of drawing from other wells, too – like the well for student loans. The result is a serious contraction in student loan credit that could result in a contraction of families' ability to finance the education of their children.

In recent months, over 50 lenders of federally-guaranteed loans, including some of our nation's largest originators of federal Stafford and PLUS student loans, and nearly 20 additional private student loan issuers have indicated that they intend to suspend their lending activities. State loan guaranty agencies in Pennsylvania, Michigan, Montana and Texas have also effectively posted their own "closed for business" signs and indicated that they too plan to exit the student loan making business. Combined, these lenders represent nearly 15% of the federally-guaranteed loan market and make up two-thirds of the loan consolidation business – a total of $8 billion dollars now out of the market – as lenders find themselves cut off from access to traditional sources of funds in the debt markets. Some experts believe that this is just the start of an even larger exodus of lenders from the student loan market.

While I am unaware of an instance to date when a student has been unable to secure a loan, the withdrawal of these lenders, the ongoing turmoil in U.S. credit markets and the illiquidity in the student loan market have fueled concerns that a potential student loan credit crunch may be looming – one which could leave millions of students in a last-minute dash to secure the financial assistance they need to attend college this academic year.

A well-functioning, efficient post-secondary educational financing market is not only in the interest of our young people, it is also critical to our nation's future. Ensuring that students have available and affordable access to a college education should be among our highest priorities. Our world is growing more complex by the day. Never has higher education been more crucial to the success of our people and our country. Today, 60 percent of the new jobs being created by our economy require at least some post-secondary education. Compare that to a half-century ago, when only 15% of new jobs required some amount of college. If our children are to achieve their highest aspirations, and if our nation's economic backbone is to continue to remain strong, then we must ensure that the doors of higher education remain open for all who have the desire and ability to walk through them.

Yet, at a time when higher education has never been more important, in a very real sense it has never been more difficult for many families to afford. Over the past two decades, the cost of attaining a college degree has risen at approximately twice the rate of inflation. That is a staggering fact that has imposed a staggering burden on lower- and middle-income families in our nation. Today, the average cost of attending a public university is about $13,000 per year. The average cost of attending a private university is more than double that -- $30,000 per year, with some schools costing as much as $50,000 per year.

For most students, educational loans – primarily federally-guaranteed loans, and to lesser degree private loans – bridge the gap between traditional funding sources like scholarships, grants and other forms of free financial aid and skyrocketing tuition costs. According to the Department of Education, 7 million borrowers will seek close to $70 billion in federally-guaranteed loans this year. Millions more will seek out up to $20 billion in private educational loans – that's a total of nearly $90 billion dollars.

That's a staggering number, and it demonstrates how reliant students have become on loans, like the low-cost FFELP loan program, to help them meet their educational financing needs in the face of skyrocketing tuition costs. While in an ideal world no student would ever have the need for an educational loan, we should ensure that so long as the need remains we do all we can to ensure that educational loans are both available and affordable.

I look forward to today's hearing and look forward to listening to the testimony from our witnesses regarding current conditions in the student loan market and what, if any, steps can be taken to prevent today's concern from becoming tomorrow's full-blown crisis. And I stand personally ready to do whatever I, or this Committee, can to prevent a liquidity crisis from engulfing the student loan market.

To that end, I will be sending a letter to Secretary Paulson asking him to consider using the Federal Financing Bank to help prime the pump of liquidity in order to help avert a funding crisis in the student loan market. I will also be writing to Fed Chairman Bernanke, asking him to use all existing tools to avert a breakdown in the market for student loans, including allowing federally-backed and AAA-rated private student loans to be used as collateral at the Fed's temporary secured lending facility (TSLF). I invite my colleagues to join me in this effort.

Last month, the Treasury and the Fed demonstrated their willingness and ability to take strong action to preserve liquidity and order in the capital markets. Their actions were unprecedented. But so are the times in which we find ourselves. It would be a mistake, in my view, for anyone to think that the crisis has passed. If the Fed and Treasury can commit $30 billion of taxpayer dollars to enable the takeover of Bear Stearns by JP Morgan Chase, then surely they can step in to enable working families to achieve their dream of a college education for their kids. If they do not, then I stand to act legislatively to prevent a deepening of this crisis.

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