April 17, 2008

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Dear Chairman Bernanke:

We are writing today to ask you to consider using the Federal Reserve's existing authority to ensure that there is capital available to meet the demand for federal student loans for the upcoming academic year. We appreciate the Fed's recent decision to expand its lending operation through the creation of the new Term Securities Lending Facility ("TSLF"). We ask you to consider similar bold action in order to head off a potential crisis in the student loan market by allowing primary dealers to pledge federally-guaranteed and AAA-rated private student loans as collateral at the TSLF.

As you know, Federal student loans are vitally important to our nation's students in order to allow them to achieve a higher education. Generally, students and their families have two financing options designed to fund their educational expenses: the Federal Stafford Loan Program and private student loans. 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. Combined, these lenders represent nearly 15% of the federally-guaranteed loan market and make up two-thirds of the loan consolidation business. In all, nearly $8 billion dollars of financing is 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 development is just the start of an even larger exodus of lenders from the student loan market. At a hearing this week in the Senate Banking, Housing and Urban Affairs Committee, the Committee heard from higher education experts who testified that should liquidity restraints remain and lender withdrawals continue to grow, we could conceivably reach a point where the demand for student loans will exceed the supply. As student loan expert Mark Kantrowitz testified: "These are signs of a very serious threat to our nation's education financing system and cause for concern. Without loans, some students may be forced to drop out of college."

In a recent speech, Federal Reserve Governor Kevin Warsh referred to the breakdown in one area that has been a traditional source of liquidity for student loan funding, stating, "credit quality concerns alone do not appear, even now, sufficiently widespread to ensure the depth of problems witnessed in financial markets during the past several months. Some auction rate securities that failed, for example, funded pools of federally guaranteed student loans." Governor Warsh's comments are important because they recognize that the problem is not with the fundamental credit quality of Stafford loans, or AAA-rated, private loan assets, but rather due to a breakdown in the markets which have been the primary funding sources for student loans – the auction-rate-securities market and the market for student loan backed securities. As you know, the auction rate market is largely paralyzed and there has been little, if any, funding of student loans through securitizations. In fact, no originator of private student loans has been able to access traditional securitization markets since September, 2007.

We believe it is vitally important that the Federal Reserve be prepared to take immediate, decisive action to prevent today's concern from worsening into tomorrow's crisis and to do all it can to prevent the contagion in our nation's credit markets, brought about by the collapse of the subprime lending market, from engulfing the student loan market. In our view, that may be most readily accomplished by allowing primary dealers to pledge both government backed and AAA-rated private student loans as collateral at the Federal Reserve's TSLF, consistent with the Fed's existing standards and measures that appropriately safeguard the interest of the American taxpayer.

Thank you for your prompt attention to this issue.