April 17, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W., Room 3330
Washington, DC 20220

Dear Secretary Paulson:

We are writing today to ask you to use Treasury's existing authority to ensure that there is capital available to meet the demand for federal student loans for this upcoming academic year. We believe that by using the Federal Financing Bank (FFB), the Administration can inject liquidity into the student loan market in order to proactively avoid a much larger and disruptive access problem for our nation's college students this coming fall.

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, that 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."

We believe it is vitally important that the Administration be prepared to take decisive action to prevent today's concern from worsening into tomorrow's crisis.

In our view, any proposal that seeks to provide a pipeline of liquidity to the student loan market should be one that can be implemented quickly, efficiently, and with a minimum of disruption to existing financial aid delivery systems. In our view, the utilization of the Federal Financing Bank as a source of liquidity seems the most immediate, most cost-effective, and most manageable proposal to provide liquidity for federally guaranteed loans in a way that is timely, temporary, and targeted.

Thank you for your prompt attention to this issue.