

**U.S. Senator Elizabeth Dole**  
**Committee on Banking, Housing and Urban Affairs**  
**Hearing on: "Turmoil in U.S. Credit Markets: Impact on the Cost and Availability**  
**of Student Loans."**  
**Tuesday, April 15, 2008**  
**Opening Statement**

Thank you Chairman Dodd and Ranking Member Shelby for holding this very important hearing today. Parents and students need options when it comes to student loans, and they need to know that they can meet the expenses of a college education. That said, according to a recent *New York Times*/CBS News poll, 70 percent of parents surveyed were "very concerned" about how they would pay for college, and only 6 percent were not concerned.

Mr. Chairman, with this hearing we are recognizing that the downturn occurring in the financial and housing sectors will impact student loans. We have already seen nearly two dozen lenders that have been unable to raise money to issue new loans and have dropped out of the federally-backed student loan program. Other lenders have been able to step in to cover the loans, but what happens if more lenders drop out and there are too many loans for the remaining lenders to cover? When considering how interconnected our markets are, it is not too farfetched to presume the problems could extend to student loans.

Colleges and universities are not taking any risks, and there has been a substantial increase in the number of institutions that have applied to participate in the direct loan program. According to Secretary Spellings, the Department of Education can meet this demand. If necessary, the direct loan program could double the number of new loans it issues

The greatest potential for problems exists with parents and students who are forced to seek private loans as a means to afford college because the future accessibility of these loans could be in jeopardy. According to a GAO report, between the 1995-1996 and 2006-2007 school years, overall enrollment in U.S. higher education institutions increased by about 19 percent, or more than 2.2 million students. With rising college costs, families are increasingly relying on private loans to cover the gap between tuition and the federal loan options that are available to them. According to the Congressional Research Service, in 2005-2006, the average price

charged for tuition, fees, room and board at four-year public and private institutions was \$17,447 — a 577 percent increase from 30 years ago.

In the face of the current credit crisis, it is becoming more and more difficult for students to procure the loans that make it possible to attend college. Banks are tightening their standards and raising rates on other types of borrowing—a trend that will most likely extend to student loans. The credit crunch also has made it more difficult for lenders to raise the capital necessary to issue new loans.

In addition, many families have traditionally relied on their most valuable asset, their home, by taking out a home equity loan to help send their children to college. With the current housing situation, however, this option is becoming less accessible, as home values all over the country are plummeting, and millions of families now owe more on their mortgages than their homes are worth. The housing crisis also affects parents' ability to take out a Parent Loan for Undergraduate Students, or PLUS loan. These loans allow parents to borrow the cost of their child's college education, less any other financial aid already being received. According to one of our distinguished witnesses here today, Mark Kantrowitz of FinAid, parents with a foreclosure on their record will not be able to qualify for PLUS loans. So as the number of foreclosures increases, there will be a significant uptick in the number of denials of PLUS loans.

We are seeing evidence of systemic problems in our economy. If the recent financial crisis in the housing sector has taught us anything, it is that we must be proactive, rather than reactive, in taking the necessary steps to ensure that students and families have sufficient and uninterrupted access to student loans.

Thank you to the witnesses for being here today. I look forward to hearing from you and hope this committee will work on consensus proposals to address these timely and critical issues.