



# U.S. Senate Committee on Banking, Housing, and Urban Affairs

U.S. SENATOR RICHARD C. SHELBY, AL, RANKING MEMBER

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EMBARGOED UNTIL BEGINNING OF HEARING

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## OPENING STATEMENT OF SENATOR RICHARD C. SHELBY

*The Impact of the Credit Crunch on the Student Loan Market*

4-15-08

“Thank you, Mr. Chairman.”

“With the bulk of student loan origination occurring between May and early July, many students will be seeking loans to help pay for college. The turmoil in the credit markets has impacted almost every aspect of consumer lending, including student lending. In order to obtain a complete understanding of the problems in the student loan market, we must examine both federal and private lending.”

“There are two main problem areas with federal educational loans. First, non-depository institutions such as Sallie Mae and Nelnet are having difficulty obtaining funding because the auction rate securities market and the securitization process have slowed considerably. The second problem is that depository institutions are no longer allocating resources to student lending because it is not profitable. With liquidity problems rising and profitability diminishing, there are fewer resources available to fund student loans.”

“The situation in the private loan market is less complex because institutions are able to pass the cost of funds onto individual borrowers. That said, because credit has become tighter, underwriting has also become tighter. Borrowers at community colleges, for-profit institutions, and those who lack a co-borrower will be hardest hit in the private student loan market as loans become less available and more costly.”

“What does all of this mean for students? Some students will not be able to obtain loans, while other students will seek the efficiency of the private student lending market and will miss the opportunity to obtain federal funding. Many other students will not be able to refinance and take advantage of the favorable interest rate environment.”

“Some have advocated that the Direct Loan Program should be used as a way to bridge the gap both for loan originations for the upcoming academic year, as well as a way to help students consolidate their obligations. This program, however, has historically only achieved about 20 percent market share. Therefore, even assuming the Direct Loan Program could double their current market share, there is still a large gap that must be addressed.”

“Many of our witnesses have put forth solutions. I am concerned, however, that nearly all of the solutions require some degree of government intervention in the market. What will all of this really cost the taxpayer? How will this affect innovation in the marketplace? At some point, we must also ask the institutions of higher learning to be part of the solution by stabilizing or even decreasing the cost of tuition where possible. Finally, we must ensure that short term solutions continue to work when the markets stabilize.”

“Thank you, Mr. Chairman.”





