S. HRG. 110–892

FULFILLING THE PROMISE OF AN AFFORDABLE COLLEGE EDUCATION

FIELD HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

EXAMINING ENSURING AFFORDABLE ACCESS TO HIGHER EDUCATION FOR ALL STUDENTS, FOCUSING ON STUDENT LOAN AVAILABILITY IN VERY DIFFICULT ECONOMIC TIMES

APRIL 21, 2008

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C O N T E N T S

STATEMENTS

MONDAY, APRIL 21, 2008

ADDITIONAL MATERIAL

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FULFILLING THE PROMISE OF AN AFFORDABLE COLLEGE EDUCATION

MONDAY, APRIL 21, 2008

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:00 a.m. at Ohio State University, Michael E. Moritz College of Law, Hon. Sherrod Brown, presiding.

Present: Senator Brown.

STATEMENT OF E. GORDON GEE, J.D., ED.D., PRESIDENT, OHIO STATE UNIVERSITY

Mr. GEE. Ladies and gentlemen, perhaps we can get started.

Thank you very much for coming and joining us and welcome to the Moritz College of Law at the Ohio State University. We're honored to have you here and most importantly, we're honored to have our Senator, Senator Sherrod Brown.

Thank you, Senator, for being here with us, thank you for coming and frequenting our campus. We deeply appreciate it and for holding this hearing at this University.

Of course, this is precisely what universities are about, places for us to be a forum for public discussion, debate, opportunity for us to understand the issues of the moment, the issues of opportunity, and the consequences of the decisions that we are making. I appreciate the Senator's outreach and assistance in issues critical to Ohio State, and I might note, all higher education, both public and private.

We now, in this State—having been here for a little over 6 months—have a powerful cohort of Ohio's elected leaders at the Federal level, at the State level, in the legislature, who recognize the central role of public higher education.

Senator, you have been one of those who has strongly recognized that role, and have done so for years, and I appreciate that.

Of course, the issue of affordability and student loan problems—as we read in the newspapers, as we experience it ourselves—are very much on everyone's mind.

But, I remind ourselves, as much as anything, Senator, that we are the State's Land Grant University, and we have a particular responsibility to create both access and opportunity for all students who will come to the Ohio State University, because this is, in many ways, the University that opens up the American Dream to so many students.

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I'm glad today that we're able to share a few resident experts, Tally Hart and Debra Van Camp. These two are stars at Ohio State, we're working hard also to assure that all of our promising students have resources to earn degrees here.

This is a very important issue for me, personally. When I came, I made the affordability pledge, which was that we were going to work and to assure that every student who comes to Ohio State is able to afford to come to this institution.

We also realize that we're doing that in a climate in which these are difficult challenges, economically, for so many people, and therefore, in my view, now it's precisely the right time for the government, for lenders, and universities to join together in creating solutions and helping our students to achieve their dreams and their higher education goals.

I welcome this partnership with you, Senator, I welcome the partnership with our colleagues in our other public institutions who are here today, and obviously, I welcome the opportunity for us to be part of the solution. Thank you again for being here, and welcome to Ohio State.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Doctor.

[Applause.]

Dr. Gee, thank you very much for always being such a good face for Ohio State, substantively, and every other way. We appreciate the work that you do so much.

Dean Nancy Rogers, thank you for welcoming us, letting us use your office and welcoming us to the law school. Thank you very, very much. I really appreciate that.

I call the committee to order. This is an official hearing of the Health, Education, Labor, and Pensions Committee. We meet, obviously, most of the time in Washington, occasionally—this is my first field hearing of this kind, in Ohio. It will not be my last, but it is the first, and we chose the largest university in the State to talk about issues that obviously are so very, very important.

I want to introduce Will Jawando, who is with our Washington office, and Will works on education and immigration and other rather complicated issues. We're glad he's here today, too.

The way this hearing will work is, I will make a relatively brief opening statement and I will introduce the four of you—and there will soon be a fifth who is coming from Cincinnati, apparently who's gotten lost on this campus, which is also easy to do. Then I want to introduce the five of you and then hear your statements and then we'll just discuss. I'll ask questions, and we'll go from there.

We're here this morning to examine two critical issues—ensuring affordable access to higher education for all students, and making sure student loans remain available in our State, and nationally during these difficult economic times.

A couple of months ago, a distraught mother from Cincinnati wrote me about the private loan her daughter had taken out to go to college. Her daughter had borrowed $21,000, but was facing a bill of $102,000 as a result. She sent me the disclosure sheet on the loan because she couldn't believe what she saw.

She wrote, “I’ve shown the statement to a loan officer at my bank, and also to my attorney. They both expressed to me they’ve never seen anything like that, and there must be a mistake.” There wasn’t, unfortunately.

In the last 15 months, I’ve held about 95 roundtables around the State—discussions with 20 or 25 people in most of the State’s counties. These roundtables are made up of a cross-section of a community. At almost every one of these roundtables, I’ve heard from parents and from students, and from employers, about the high cost of college education.

Many people who have come to me—like Ms. Van Camp and Ms. Miller—are first in their family to go to college, many are unsure about how they can afford college, or are wary of the process of applying to college that lay ahead.

That challenge was laid out to me, perhaps most poignantly at a graduation I spoke to at Sinclair Community College in Dayton. The President—before the commencement, or at the beginning of the commencement, speaking to the thousand graduates or so, asked how many of them at this community college in Dayton were the first in their family to go to college. About two-thirds of the students put their hands up.

He then asked, how many of you were told at some point in your life by someone—a relative, a neighbor, someone you had a summer job with—were told that you are not college material? And about 25 or 30 percent of the students put their hand up.

The good news from that story is that there were 7 young people in the front row—three of those students I noticed had put their hands up to both questions, including being told they didn’t have what it takes to go to college. Those students earlier that week had received their diplomas from their local high school at Dayton Public Schools, and that night were getting their diplomas from a school of higher education, which was pretty exciting.

A couple of weeks ago, I convened a college President’s summit in Washington to discuss ways we can work together to better link labor needs to the skills of the workforce. All of us know our State is changing, the manufacturing jobs that were pretty plentiful 20 or 30 years ago, some of them are gone, and the needs of business and industry have changed.

Today’s generation of students, as we know, will need new skills and a knowledge base that previous generations did not need. It’s imperative that our students, in this State and across the country, are able to attend college and get the skills they need to compete. It’s equally important that a college education is affordable, and doesn’t leave those students with crippling debt.

The average student in Ohio will graduate with roughly $20,000 in student loan debt. That, in some ways, is not the worst of it. Costs are expected to rise dramatically, forcing more and more students to turn to high-cost private loans to fill the growing gap between Federal aid and tuition costs. These loans can carry interest rates—as we’ll hear today—of as much as 15, 16, 17, 18 percent.

I’m concerned that not enough attention has been paid to the increasing prevalence of these loans, and their impact on students and families. As it stands, these loans are growing at a tremendous rate—these private loans outside of direct lending—increasing by 27 percent in the last year.

The reasons for this growth are ours to blame, in a lot of ways, and are fairly simple. The cost of college has climbed steadily in the past 5 years, while Federal aid has been nearly stagnant.

Let me talk for a moment about Federal aid. In Ohio, the median income increased 3 percent between 2000 and 2006 while tuition at 4-year public schools went up 53 percent, and tuition at 4-year private schools, starting at a higher base, of course, went up 28 percent. Federal loan limits have not kept up.

In 1972, a freshman could borrow $2,500 in a year in Federal loans, last year the number had barely moved to $2,625. Had it kept pace with inflation, loan limits would be $12,000. We can't sustain an educational system that forces students to sign away their economic future when they sign up for college.

In July, Congress took a good step forward when we passed the College Cost Reduction Act. A freshman can now borrow $3,500 in his or her freshman year, but even though the limits in the first 2 years have increased—not enough—but increased, the overall cap on borrowing remains the same at $23,000 overall for a dependent undergraduate. The College Cost Reduction Act does nothing to change the cap, because the HELP Committee decided correctly, in my view, that the bulk of savings we could achieve should be put back into Pell grants and direct student grants.

With a price tag for 4 years of college at somewhere in excess of $120,000 for private schools, in excess of $50,000 for public institutions, there's obviously a big gap remaining for far too many students. That gap gets filled in many ways—savings, work, grants, PLUS loans, you name it.

But a disturbing trend, more and more students are forced to turn to credit cards, and high-cost private loans. That brings me back, for a moment, to the private loans.

According to testimony before the Banking Committee last year, Sallie Mae reported issuing $7 billion in private loans, and $15 billion in Federal loans last year. In other words, one in every three loan dollars generated by the biggest student lender in this country was a private loan.

Though the private loan market has cooled recently, due in large part, to the credit crunch with tuition and fees continuing to rise, and Federal aid stagnant, the trend is likely to continue.

As this chart indicates, the private loan program may well outstrip the Federal program over the next decade. The Federal loans are the blue, the private loans—listed here as alternative loans—are the burgundy color.

The chart shows the growth rate of the two programs over the past several years predict how large they will grow if current trends continue. Now the Federal loans, public loans, dwarf—by a significantly less amount, each of the last few years—dwarf the private bank loans, but you can see what's happening in the years ahead.

Private loans may well be on par with the Federal loan program by the end of the 5-year reauthorization that the House and Senate are currently considering. Congress very often—too often—legislates through the rear-view mirror. We wait until a problem becomes close to unmanageable before we feel compelled to act. This hearing is an attempt to shine a light on a problem before it becomes that unmanageable problem.

I have introduced a bill to create an alternative to private loans that would create a supplemental loan program, run by the Federal Government. It would operate similarly to the direct loan program for unsubsidized Stafford and PLUS loan programs, that are saving the government money. It would set up a competition that way which we believe would keep these alternative loans' interest rates down.

I offered a floor amendment on this, we've introduced legislation to do this, we'll continue to work with Governor Strickland and Chancellor Fingerhut, who are interested in this, to make sure students aren't burdened with overwhelming, high-cost debt.

We must act, because the current marketplace for private student loans has two very serious problems: it's not always operating in the best interest of students, and the price of these loans is just too high. The problem—the tremendous cost of these loans was pointed out in a cover story, a USAToday article early last year. That story correctly noted that all of our efforts to remove conflicts of interest and backroom deals would not help with the incredible interest rates that these loans carry.

Referring to our efforts to better police the market, the authors write,

> "These efforts would do little to rein in the fastest-growing area of the market—loans that aren't federally backed, those whose rates can generally rise without limits. Bills in Congress wouldn't affect rates on these loans, often called private loans, because they're outside of any Federal system."

The story goes on to quote David Hartung, with the credit rating agency DBRS,

> "Enrollment continues to go up, tuition continues to skyrocket, while Federal loan limits remain low. That's the perfect storm for the continued growth of private loans,"

as that last chart showed.

How students weather that storm is up to us—we can decide that students in our country—like the young students that will give testimony today—should no longer face such crippling debt. We have the opportunity to act now to ensure that Ohio students are not discouraged from attending college, and are equipped with the skills to compete in the global economy, and fill our jobs of the 21st Century.

I look forward to hearing from each panelist, I will introduce the panelists starting from left to right, and then we will begin the testimony. I will introduce all of you before the testimony.

[The prepared statement of Senator Brown follows.]

Prepared Statement of Senator Brown

I call this committee to order. First, I would like to thank President Gee for his warm introduction and Dean Rogers for hosting us here at the Moritz College of Law. We are here this morning to examine two critical issues: No. 1, ensuring affordable access to higher education for all students; and No. 2, making sure student loans remain available in these tough economic times.

A couple of months ago a distraught mother from Cincinnati wrote me about the private loan her daughter had taken out to go to college. Her daughter had borrowed $21,000, but was facing a bill for over $102,000 as a result. She sent me the disclosure sheet on the loan because she couldn't believe what she saw. "I have shown the statement to a loan officer at my bank and also to my attorney," she wrote. "They both expressed to me that they have never seen anything like this and there must be a mistake."

I have held more than 90 roundtables around the State, and at almost every one, I hear stories like these from students, parents, returning veterans. Many are the first in their family to attend college and are unsure they can afford college and are wary of the process of applying to college that lay ahead.

I convened a College Presidents Summit in Washington earlier this month to discuss ways we can work together to better link labor needs to the skills of the workforce. All of us know Ohio is changing. The manufacturing jobs that were here 20 or 30 years ago are gone and the needs of business and industry have changed. Today's generation of students will need new skills and a knowledge base previous generations did not have.

It is imperative that students in Ohio and across the Nation are able to attend college and get the skills they need to compete. It is equally important that a college education is affordable and does not leave students with crippling debt. We have work to do. The average student in Ohio will graduate with roughly $20,000 in student loan debt. And that's not the worst of it. Costs are expected to rise dramatically, forcing more and more students to turn to high cost private loans to fill the growing gap between Federal aid and tuition costs. These loans can carry interest rates of more than 18 percent.

I am concerned that not enough attention has been paid to the increasing prevalence of these loans and their impact on students and families. As it stands, these loans are growing at a tremendous rate, increasing by 27 percent each year. The reasons for this growth are fairly simple. The cost of college has climbed steadily over the past 5 years, while Federal aid has been nearly stagnant.

Let me focus on Federal aid for a moment. In Ohio, the median household income increased just 3 percent between 2000 and 2006, while tuition went up 53 percent at 4-year public schools and 28 percent at 4-year private schools. Federal loan limits have not kept up. In 1972, a freshman could borrow $2,500 in Federal loans. Last year, that number had barely moved to $2,625. If it had kept pace with inflation, Federal loan limits would now be $12,000. We cannot sustain an educational system that forces students to sign away their economic future when they sign up for college.

In July, Congress took a good step forward and passed the *College Cost Reduction Act*. Now a freshman can borrow $3,500 in his or her first year. But even though the limits in the first 2 years have been increased somewhat, the overall cap on borrowing remains the same, at $23,000 for a dependent undergraduate. The *College Cost Reduction Act* does nothing to change that cap because the HELP Committee decided—correctly in my view—that the bulk of savings we could achieve should be put back into Pell grants that students do not have to pay back.

With the price tag for 4 years of college at $120,000 for private schools and $50,000 for public schools, there is obviously a big gap remaining for many students. That gap gets filled in many ways—savings, work, grants, PLUS loans, you name it. But in a disturbing trend more and more students are turning to credit cards and high-cost private loans.

And that brings me back to private loans. According to testimony before the Banking Committee in June of last year, Sallie Mae reported issuing $7 billion in private loans and $15 billion in Federal loans last year. One in every three loan dollars originated by the biggest student lender in the country was a private loan. Though the private loan market has cooled recently due in large part to the credit crunch, with tuition and fees continuing to rise and Federal aid stagnant, the trend is likely to continue.

As this chart indicates, the private loan program may well outstrip the Federal program over the next decade. This chart shows the growth rates of the two programs over the past several years to predict how large they will grow if current trends continue. As you can see, private loans may well be on a par with the Federal loan program by the end of the 5-year reauthorization Congress is currently considering.

Congress very often legislates through the rear-view mirror. We wait until a problem becomes close to unmanageable before we feel compelled to act. This hearing is an attempt to shine the light on a problem before it becomes unmanageable.

I have introduced a bill that would create an alternative to private loans. It would create a supplemental loan program that would be run by the Federal Government and would operate similarly to the Direct Loan program for unsubsidized Stafford and PLUS loan programs that are saving the government money. I intend to pursue this option and continue to work with Governor Strickland and Chancellor Fingerhut to make sure students are not burdened with overwhelming, high cost debt.

We must act because the current marketplace for private student loans has two very serious problems. It is not always operating in the best interest of students, and the price of these loans is just too high. The problem—the tremendous cost of these loans—was pointed out in a cover story in a USA Today article early last year. That story, reproduced on this chart, correctly noted that all of our efforts to remove conflicts of interest and back room deals would not help with the incredible interest rates that these loans carry. Referring to our efforts to better police the market, the authors write that: "These efforts would do little to rein in the fastest-growing area of the market: loans that aren't federally backed, whose rates can generally rise without limit." The story goes on to quote David Hartung, with the credit rating agency DBRS: "Enrollment continues to go up, and tuition continues to skyrocket while federal loan limits remain low. That's the perfect storm for the continued growth of private loans."

How students weather that storm is up to us. We can decide that students in our country, like the young students that will give testimony today, should no longer face such crippling debt. We have the opportunity to act now to ensure that Ohio's students are not discouraged from attending college and are equipped with the skills to compete in the global economy and fill the jobs of the 21st Century. I look forward to the panels' testimony and commit to working with all of you to make college accessible and affordable for all students.

Senator BROWN. Barmak Nassirian is Associate Executive Director of External Relations of the American Association of Collegiate Registrars and Admissions Officers (AACRAO). Barmak Nassirian has served as Associate Executive Director of the American Association since 1998. AACRAO is a nonprofit association of more than 2,300 institutions of higher education, and over 9,000 campus enrollment services officials. Barmak has been active in higher education policy for more than a decade, focusing on higher education finance, privacy issues and Federal regulations.

Mr. Nassirian came from Washington, thank you for coming out here.

Donald Kohne is a Managing Director of Student Lending Works from Westchester, OH, in the Cincinnati area.

Thank you for coming up from Cincinnati, Mr. Kohne.

Mr. KOHNE. No problem.

Senator BROWN. He has over 31 years of business experience, he's the managing director, currently, of Student Lending Works, Inc. and Knowledge Funding of Ohio. In these capacities, he has day-to-day responsibilities for the overall management of the two companies, he's also a partner in the financial advisory and consulting firm of Liscarnin Solutions, Inc. Prior to his assuming his current responsibilities, he was the Senior Vice President of the Student Loan Funding Corporation, the Pennsylvania Higher Education Assistance Agency over a 10-year period. Prior to earning the education in financing and business, he was employed by Coopers and Lybrand, now PricewaterhouseCoopers, for 11 years. He's a CPA and has an MBA and a BA from the University of Cincinnati.

Tally Hart has served students seeking access to higher education throughout her career. Welcome. Her current position is Senior Advisor for Economic Access at Ohio State, and she focuses on projects in research to encourage more needy students in fourth to tenth grade, to take the right steps to go to college, and to help more needy undergraduates to go to graduate or professional programs.

I would just interrupt myself for a moment and say the more I talk to community colleges, 4-year schools, private/public, anybody in this business, the more they emphasize what you're doing, and how important that is that we go into the lower grades. We teach them how to apply to college, but we don't teach them how to succeed in college, and thank you for that.

She currently serves on the Student Access and Success Coordinating Council of Ohio, the National College Access Board of Advisors, and the Advisory Panel, the Center for Student opportunity. She was co-founder of College Goal Sunday that now provides support to families in more than 30 States. She's led research on student aid's role in retention, and developed financial literacy programs for OSU students that have served as a model for other colleges and universities, as well. Something, obviously, very important.

Debra Van Camp, OSU student from Lancaster, OH. Debra was appointed as a student trustee by Governor Strickland for a 2-year term beginning May 31, 2007. Debra is currently pursuing a B.S. in Food Science and Nutrition, with a minor in Agricultural Business at Ohio State University. She serves on the Academic and Student Affairs Committee, and the Ag Affairs Committee.

Since enrolling 3 years ago, Debra's become involved in undergraduate research, and participated in a 5-week study abroad in Beijing. As part of her work with the Access Initiative, she's created a Student Board of Directors to serve as the student voice of the Office. She was elected as a Senator to represent students living off-campus during her junior year.

Melissa Miller, Melissa, welcome.

Ms. MILLER. Thank you.

Senator BROWN. She is a Cincinnati, OH native, former student who attended OU, and the Brooks Institute of Photography in Santa Barbara, CA. Prior to attending school, Melissa worked as a travel photographer from 1999 to 2003, and taught a class in winter outdoor sports in Portland, OR. She's currently working as a freelance photographer, and resides in Cincinnati with her family.

Welcome to this hearing, and welcome back to Ohio.

Ms. MILLER. Thank you.

Senator BROWN. So, Mr. Nassirian, why don't you begin? Or, should I start with the—OK, reverse the order?

Go ahead, why don't you start, Ms. Miller?

Are you ready to go?

Ms. MILLER. Where do I start?

Senator BROWN. Just read your testimony. All five of you will do your testimony and then I will begin the questions of all of you.

STATEMENT OF MELISSA MILLER, FORMER STUDENT, CINCINNATI, OH

Ms. MILLER. OK. My situation was, I was the only individual in my family to go to college, and I basically funded all of my own education, with the assistance of loans—both Federal subsidized and unsubsidized.

I went to OU for 2 years, but the problems actually started when I took out what I thought were Federal loans at Brooks Institute, which is a private school in southern California.

When you go to sign up for these loans, like any student, who needs assistance, you pretty much kind of grab at whatever you can get, but there's a lot of manipulation, I think, for students when they go in for a loan, not really knowing what they're signing.

I was told that most of my loans, I could marry them with my Federal loans, but Sallie Mae basically is a private corporation whereby, they give loans to people under the pretense that they're educational loans, but they're actually private loans, so the interest rates are not capped, and they're not mandated by pretty much anyone.

The sad thing about situations like that is when you get out of school and your repayments start, instead of your interest rates being 2, 3, 4 percent, mine is at 18.

Roughly a year of school at Brooks Institute is about $30,000—and mind you, this is a photography school, this is not, you know, a school where you're going to be a neurologist, it's basically an art. Whatever you're going to do with your skill, you're going to have to basically do it on your own.

Brooks placement—they tend to say that they have a placement rate in the job force of 98 percent, which is completely a lie. Everything about the school, and Sallie Mae, is a lie, and I think I've come all this way to just basically help represent students who don't have a lot of access to either moneys from the family, or on their own access, to just help bring attention to what Sallie Mae does, and students who go under the pretense that these are Federal loans, they actually are not.

It can be horrifying—I could give you a list of friends and coworkers who actually have gone through the Brooks Institute, and I mean, these kids are coming out $100,000 in debt, and in all, owing $350,000 on a $100,000 loan, because they didn't understand that these can really vary, anywhere from 18 to 25 percent, on an educational loan.

It's devastating for students to come to a situation under the pretense that you're thinking these are Federal loans, because the repayment is obviously going to be devastating on any financial circumstance, at that point.

With my circumstance, I'm a freelance photographer, so the financial stresses on that are absurd. Plus, Sallie Mae will not work with you, when it comes down to—it's awfully convenient, for 2 years, I kept getting consolidation things in the mail, and you can't really consolidate them. I kept trying to call Sallie Mae, I said, "I don't understand, you know, how do I consolidate these?" Well, when you start talking to them it's, "Oh, no, this is a private loan, you can't consolidate it."

It gets very complicated, and Sallie Mae, and themselves, they will harass you—endlessly calling you or—most people forebear their loans for basically as long as they possibly can, because they can't afford to pay them back, so—I could probably go on for hours about Sallie Mae, but I won't bore you with it.

I just wanted to bring some attention to the fact that students loans are completely out of hand.

[The prepared statement of Ms. Miller follows:]

PREPARED STATEMENT OF MELISSA MILLER

Basically it started when I decided to go to Brooks Institute of Photography in Santa Barbara, California in the fall of 2003. I was admitted into the school for that school year. Needing financial assistance I approached the financial aid office for applications for loans. I applied for assistance through Sallie Mae. It was the only option I was given. I asked if I could marry the loans to my other existing Federal loans when I got out of school (I also attended Ohio University from 1997–99) and I was told that I could. Only to find out that is untrue. Sallie Mae loans are private loans—which I was not informed of—and not only are they private loans, my interest rate is 18 percent.

I could only afford less then 1 year of school at Brooks. Now that I'm out of school I have attempted to contact Sallie Mae consistently in order to obtain information on my loans regarding refinancing—working out a lower payment (they want almost $700 a month on a $21,000 loan) or simply someone to discuss my options with. Aw-

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fully convenient that Sallie Mae is nearly impossible to contact but somehow the day my school loans went into repayment, the harassment started. Rude phone calls from Sallie Mae and it's workers. I am willing to repay my debt. I understand my financial obligation but, Sallie Mae WILL NOT help me find a solution.

I guess my situation now is what do I do? I am the only child in my family to go to college, or attempt to go to college, and I am left with no options with painstaking consequences for a higher education. Rumor has it that Sallie Mae can garnish your wageses, so what am I going to do from here? Over 30 years of paying off a $21,000.00 loan through Sallie Mae at 18 percent comes out to be almost $110,000.00 according to Sallie Mae calculations. How can that be? For less than a half year of education. It's absurd and a disgrace that women and men alike are dealing with these types of issues when merely attempting to better themselves in a system that is obviously failing us.

Senator BROWN. Thank you. Thanks, Ms. Miller, and I will come back to you with questions.

Ms. Van Camp.

STATEMENT OF DEBRA VAN CAMP, STUDENT, OHIO STATE UNIVERSITY, COLUMBUS, OH

Ms. VAN CAMP. My name is Debra Van Camp.

Senator BROWN. Bring the microphone closer?

Ms. VAN CAMP. Sure.

I'm a junior at Ohio State, and I'm pursuing a dual degree, my minor has actually turned into a double major—I'm in Food Science and Nutrition, Agri Business, and Applied Economics. I thank you, Senator, for hosting this hearing today.

I just want to comment that I think it's very appropriate that you've chosen to host it at Ohio State, because I think that this University truly epitomizes the values of the 1862 Morrill Act under which it was founded, which is to establish—it was established to provide quality postsecondary education that would be "accessible to all."

I believe it's also extremely timely that we're meeting at this critical point in higher education and our country's history. When the Morrill Act was passed in 1862, the United States was engaged—as I'm sure most of you know—in a civil war. Our country's leaders chose to make higher education a priority, because they knew it would move the country forward.

Today, we find ourselves, again, engaged in a very divisive war, and operating as you said, Senator Brown, in a very competitive global environment. Now, once again, the Nation's leaders have a choice of what priority to give higher education.

This morning, I'd like to illustrate how Federal support of higher education can truly make a difference in our economic future by just sharing some of my own personal experiences.

In the Spring of 2005, I was the first-ever Fairfield Land-Grant Scholarship recipient. The Land-Grant Scholarship is a scholarship through Ohio State University that gives one full-ride scholarship to at least one resident in each of Ohio's 88 counties, on the basis of academic merit and high financial need.

I'll never forget the day that I opened my award letter from Ohio State, and felt as though an enormous burden had been lifted off my shoulders. You have to understand, at that time, I was living with my high school Agricultural Education teachers—Rich and Cindy Brill—who are, coincidentally, both Ohio State graduates, and they had become incredible mentors to me after my family went through a very complicated divorce my junior year.

I knew when I was awarded the Land-Grant Scholarship, I had been given a tremendous opportunity which I would not take for granted.

During my first year of college, I took advantage of every chance to get involved. I started working as the Student Assistant in the Food Science Lab through the Land-Grant Work Study Program, I became very active in undergraduate student government, and as time went by, I found myself worrying less and less about money, and beginning to consider opportunities that I never would have dreamed would be possible when I applied at Ohio State University.

By winter quarter my freshman year, I made the most adventurous decision of my life, and applied to a study-abroad program to China. I'm sure many of you in this room are very extensively traveled, but I'd never been outside of the country, so this was huge for me.

It was truly a life-changing experience, and I remember when I came home that summer I felt as though there were no opportunities beyond reach.

The next fall, I became involved in undergraduate research and began a new job as a student assistant in the newly created Economic Access Initiative, working with Tally Hart and Laurie Crass, who I believe is in the audience.

I'll never forget the first time I met with Tally, and she told me about the research which has shown that the most qualified students from the lowest income quartile attend college at a much lesser rate than the least qualified students from the highest income quartile. I was, and continue to be, outraged by this fact.

I worked with Tally and Laurie to establish a Student Advisory Group to identify more than 400 first-generation college graduates among the faculty at Ohio State, and to begin spreading the college access message.

I'm still very much involved with the Access Initiative, although not as a student worker. I continue to serve as a strong advocate for educational access. Former OSU football coach Woody Hayes—I'm sure, Senator Brown, you've heard this quote before—said, "You can never really give back, but you can always pay forward."

I've found my own way to pay forward the opportunities I've been given by serving other disadvantaged students. This fall, with the support of a dedicated group of students across campus, I founded a new student organization called Students for Equal Access. Our mission is to serve as informed advocates for equal access to higher education, and to create a society that allows all qualified students an equal opportunity to pursue higher education, regardless of income level or background.

We serve two primary functions. First, we promote and present information about college access to other student organizations and groups in the community, and second, we facilitate college visit programs for grade-school students. We know from research that students can be powerful influences in convincing younger students that they can, in fact, attend college, and we are working diligently to amplify this message.

As I reflect back on the many opportunities I have been able to take advantage of during my undergraduate career—including studying abroad, conducting research, serving on the Board of Trustees, creating a new student organization—I realize that none of these opportunities would have been possible without the support of the Land-Grant Scholarship.

Ultimately, my story illustrates, I think, two fundamental and important outcomes of financial aid. When you open the door for students to education, first you're helping that individual student to achieve success. Second, and more importantly, you're empowering that student to be able to pay forward in society.

Additionally, I believe my story amplifies two critical issues of critical importance, which I would request this committee would support in the future. First, is the idea to, please, insist on educational quality. It is critical that qualified students from all backgrounds have access to a quality educational experience. This includes access to opportunities such as research, study abroad, and student involvement. I'm sure many students would share that some of their most defining educational experiences occurred outside of the classroom—perhaps in the lab, in a student organization, or in another country. Your assurance that students have access to funds that they need for college—whether it be through Pell grants, as you mentioned, or through affordable loan options—is critical to ensuring that students have the experiences they need.

I would just like to add that, for me, personally, having those experiences greatly impacted my decision to go into a career in public service, which I'm now pursuing. I know that's an option that I never would have considered, if I had been worrying about money.

Additionally, your support of national research foundations, such as the National Institutes of Health, the National Science Foundation, are critical to ensuring quality access opportunities for all students. These Federal grant moneys that faculty receive do not only fund cutting-edge research, but also create many valuable opportunities for graduate, and undergraduate students.

The second critical issue that I would like to share with you, is it's vital to value diverse educational programs. As I've shared in my story, it was my high school Agricultural Education program that had a huge impact on my decision to attend college. However, I know from some of my peers, it was an art or music program that kept them in school, and encouraged them to go on to college. I cannot tell you how valuable these co-curricular programs are for reaching urban and rural students who are attending college at much lesser rates than their suburban peers.

Unfortunately, in struggling school districts, these are often the programs to first be cut, compounding the barriers to educational access. I've seen this firsthand, as I just found out—last Friday, actually—my three-teacher Agricultural Education Program that I graduated from has been reduced to just one teacher.

It's important to recognize and support creativity and diversity in education, and realize that a standardized, cookie-cutter approach, is not the best way to increase educational access.

I believe many students at Ohio State and across the country—including myself—would share the sentiments of Abraham Lincoln, who said, "I view education as the most important subject that we, as a people, can be engaged in." I believe there's no investment that the Federal Government can make that will have a higher rate of return than education. Providing the equal access to quality education is the most fundamental key in solving many—if not all—of the problems facing our society, including job loss, poverty, and building a more prosperous economic future, just as you mentioned.

Senator, I thank you and the committee for your service and dedication to students, and our country's future. I'd be glad to respond to any questions you may have.

[The prepared statement of Ms. Van Camp follows:]

PREPARED STATEMENT OF DEBRA VAN CAMP

My name is Debra Van Camp, and I am a junior at Ohio State pursuing a dual degree in Food Science and Nutrition and Agribusiness and Applied Economics. I thank you for the opportunity to offer a student perspective at this hearing. I think it is appropriate that you have chosen to host a hearing on the topic of educational access at Ohio State, because this University truly epitomizes the values of the 1862 Morrill Act under which it was established to provide quality postsecondary education that would be "accessible to all." I also believe our meeting is extremely timely as we are at a critical point in higher education and our country's history. When the Morrill Act passed in 1862 the United States was engaged in a divisive civil war, but our leaders chose to make higher education a priority because they knew it was an essential step to moving the country forward. Today, as a country, we find ourselves again engaged in a divisive war and operating in a very competitive global economy. Now once again the Nation's leaders have the choice of what priority to give higher education. This morning I would like to illustrate that Federal support of education is the most fundamental key to our economic future by sharing my own personal experiences.

In the spring of 2005, I became the first-ever Fairfield County Land Grant Scholarship recipient. The Ohio State Land Grant Scholarship Program provides a full scholarship to at least one student in each of Ohio's 88 counties on the basis of academic merit and high financial need. I will never forget the day I opened my award letter from Ohio State and felt an enormous burden being lifted from my shoulders as I read that all of my college expenses would be covered. At the time I was living with my high school agriculture education teachers, Rich and Cyndi Brill, who are coincidentally both Ohio State graduates. They had become incredible mentors to me after my family went through a very complicated divorce my junior year. I knew when I was awarded the Land Grant Scholarship I had been given a tremendous opportunity, which I would not take for granted.

During my first year of college I took advantage of every chance to get involved. I started working as a student assistant in the Food Science Lab through the Land Grant Work-Study Program, and I became very active in Undergraduate Student Government. As time went by I found myself worrying less and less about money and beginning to consider opportunities that I *never* would have dreamed were feasible when I applied to Ohio State. By winter quarter my freshman year I made the most adventurous decision of my life thus far when I applied to study abroad in China during the upcoming summer! It was truly a life-changing experience, and after I came home that summer I felt as though there was no **opportunity beyond reach**.

The next fall I became involved in undergraduate research and began a new job as a student assistant in the newly created Economic Access Initiative, working with Tally Hart and Laura Kraus. I will never forget the first time I met with Tally and she told me about the research which had shown that the most qualified students in the lowest income quartile attend college at a much lesser rate than the least qualified students in the highest income quartile. I was, and continue to be, outraged by this fact! I worked with Tally and Laura to establish a student advisory group and to identify more than 400 first-generation college graduates among the faculty at Ohio State to begin spreading the college access message.

I am still very much involved with the Economic Access Initiative, although not as a student worker. I continue to serve as a strong advocate of educational access. Former OSU football coach Woody Hayes said, "You can never really give back, but you can always pay forward," and I have found my own way to "pay forward" the opportunities I have been given by serving other disadvantaged students. This fall, with the support of a dedicated group of students from across campus, I founded a new student organization called Students for Equal Access. Our mission is to serve as informed advocates for equal access to higher education and to create a society that allows all qualified students an equal opportunity to pursue higher education regardless of income level or background. We serve two primary functions. First, we present and promote information about college access to both student groups and the community, and second, we facilitate college visit programs for grade school students. We know from research that college students can be powerful influences in convincing younger students that they *can* attend college, and we are working diligently to amplify this message.

As I reflect back on all the many opportunities I have been able to take advantage of during my undergraduate career, including studying abroad, conducting research, serving on the Board of Trustees, and creating a new student organization, I realize that all of these opportunities would not have been possible without the support of the Land Grant Scholarship. Ultimately my story illustrates two fundamental and important outcomes of financial aid: when you open the door of education first, you are helping the individual student to achieve success. Secondly, and more importantly, you are empowering that student to pay forward in society.

Additionally, I believe my story exemplifies two issues of critical importance, which I request this committee support in the future. First, it is important to insist on quality. It is critical that qualified students from all backgrounds have access to a *quality* educational experience. This includes access to opportunities such as research, study abroad, and student involvement. I am sure many students would share that some of their most defining educational experiences occurred outside the classroom—perhaps in the lab, in a student organization, or in another country. Your assurance that students have access to the funds they need for college, as well as your support of national research foundations, such as the National Institutes of Health and the National Science Foundation, is critical to providing these opportunities. The Federal grant monies that faculty receive not only fund cutting edge research, but also create many valuable opportunities for graduate and undergraduate students.

Secondly, it is vital to value diverse educational programs. As I have shared in my story, it was my high school agricultural education program that had a huge impact on my decision to attend college. I know for some of my peers it was an art or music program that kept them in school and encouraged them to go on to college. I cannot tell you how valuable these co-curricular programs are for reaching urban and rural students who are attending college at much lesser rates than their suburban peers. Unfortunately, in struggling school districts these are often the first programs to be cut, compounding the barriers to educational access. I have seen this first hand as the three teacher agricultural education program at my former high school has been reduced to just one teacher. It is important to recognize and support creativity and diversity in education and realize that a standardized, cookie-cutter approach is not the best way to increase educational access.

I believe many students at Ohio State and across the country, including myself, share the sentiments of Abraham Lincoln, who said, "I view education as the most important subject which we as a people can be engaged in." I believe that there is no other investment that the Federal Government can make that will have a higher rate of return than education. Providing equal access to *quality* education is the most fundamental key in solving many, if not all, of the problems facing our society including issues such as job loss, poverty, and building a more prosperous economic future.

Senator, I thank you and the committee for your service and dedication to students and our country's future. I would be glad to respond to questions about these comments or any other issues of interest to you and the committee.

Senator BROWN. Thank you for that.

The Woody Hayes quote, my daughter used that exact quote when she spoke to her high school graduation class many years ago.

Ms. VAN CAMP. It's a great quote.

Senator BROWN. Ms. Hart. Thank you for joining us.

STATEMENT OF NATALA K. HART, SENIOR ADVISOR FOR ECONOMIC ACCESS, OHIO STATE UNIVERSITY, COLUMBUS, OH

Ms. HART. Senator and members of the HELP Committee, my name is Tally Hart, I am the Senior Advisor for Economic Access, here at Ohio State University.

I applaud your effort to hold this hearing at a time that action is needed to assure our citizens of the Federal commitment to post-secondary education, especially to access into even an institution as large as Ohio State.

We're committed, as Debra has already said, to our Land-Grant tradition of educating students of all income levels. We'll continue to devote significant institutional resources to secure the education of needy students. A strong and clear Federal commitment is also urgently needed, particularly to support continued availability of student loans.

Student loans are crucial to the foundation of our country's economic success. I ask your action in three ways to assure that that educational opportunity continues.

First, to encourage legislation that will provide a certainty that financial aid will continue, and student loans will continue, despite the challenges in the banking industry.

Second, to increase loan limits and funding for Perkins Loans, so that needy students may be assured of adequate financing, without relying on higher interest private loans, and credit cards.

And third, to provide support for growth in direct lending, so that increased participation in that program does not reduce service to students who are already part of the program.

To my first point, there's historic evidence that when student aid reductions are even discussed, students believe that aid is not available, and opt out of college. This occurred in 1982, following the proposal by President Reagan to totally dismantle Federal student financial aid. It occurred again in 1986, when limits were placed on student loans.

Students said then, as they say now, "A student aid cut never heals." I provided some charts to your staff that show that over those years, even though Congress continued to support student financial aid, students stopped going to college. As you would suspect, it was not high-income students who stopped going to college, but rather, middle- and low-income students.

I find it very paradoxical that information about the availability of student aid is difficult to disseminate to needy students, but even the possibility of lack of student aid has such a powerful impact in decreasing participation.

My second point is, we need to increase the Federal student loan limits and Perkins Loan funding, so students can have sufficient funding without higher loan costs and credit card use.

Included in my testimony is a study funded by the Lumina Foundation by Dr. Shoumi Mustafa, who's here with us today, that shows improved retention and completion of Pell-eligible students when they have sufficient funds, largely through low-interest loans.

[Editor's Note: The above referenced study was not available for inclusion at time of print.]

This improvement was accomplished by increased Perkins Loans, here at Ohio State, but could have been equally accomplished by higher limits on Stafford Loans. Simply put, without adequate funding, needy students can not remain to pursue their degree at rates comparable to their more affluent counterparts.

Third, we ask your support of the administration of direct lending at a level concomitant with the growth in the program. Ohio State has long held the view that both FFELP and direct-lending programs provide what is the best option by producing a kind of competition, giving better terms for students in institutions, and as you know, Ohio State is the Nation's largest direct lending institution, both in terms of number of students, and dollars of loan volume.

This program has been especially important to our talented professional students, here at the Moritz College of Law. Our law students begin each year earlier than other programs, and would be especially hard-hit if administrative support of direct lending delayed their student loans. We encourage your increase to USED to provide the administrative support for these critical loans.

Another aspect of Ohio State's extraordinary commitment to access for low-income and first-generation students, is reflected in the formation of the office where I serve. It helps assure that Ohioans have information and research in programs to guide the steps to go to college.

Over the past decade, Ohio State has achieved what may be the gold standard in closing college gaps in the rate of enrollment, and rate of graduation between low-income and high-income students. Having closed the gap between those rates was not sufficient to achieve the goals as a land-grant institution, and as you heard President Gee describe us, the institution of the American Dream.

Our office was created to increase the rate of low-income students going onto college in Ohio, anywhere, and then to increase the rate of first-generation Ohio students who go onto graduate and professional programs.

I'd like to tell you, rather than about the programs, about some of the students who are products of those efforts. You've already heard from Deb Van Camp, who is an outstanding example of those efforts. A student we work with, Katie Newman, is both a Mount Leadership Scholarship Student, and another Land-Grant Opportunity Scholar. Coming from a small southern farm, Katie represents our outreach to rural, as well as urban and suburban students, to identify the best and brightest, and assure them an Ohio State education.

Semaki Corfias is also a first-generation college student, and a Land-Grant Scholar. He's been a leader in creating a student-based vision for access at Ohio State. You may recognize him from the recent Ohio State Alumni magazine, that includes a number of our 450 faculty members who serve as role models, because they, too, were the first in their family to graduate from college.

I know she's in the audience, I'll ask Sanja Shaw to stand up, if she would. Sanja was admitted to undergraduate study that will lead directly onto medical school, arguably our most competitive entering program. Along the way, Sanja participated in an honors Social Justice emerging program, studying and doing community service related to access. Sanja has voluntarily extended that commitment, and is now working on an access program designed to work through pediatricians that serve low-income areas, and reach low-income students.

We have a number of other students who have continued in similar programs, already paying forward, to use Debra's term. We have a major goal at Ohio State that all—this is a big goal—that all OSU students who engage in any kind of community service, go out to their community service prepared to learn about access, and carry messages of college access to the children and families they encounter while they're doing that community service.

You know we're a big campus. You may not know that nearly 10,000 students engage in community service while attending Ohio State, and we've recently been recognized on the national level for an honor roll for community service. Imagine the power of those students, not only doing their community service, but also assuring students and children that they reach to have someone to talk to them about college and college being possible.

We're working with our partnerships in various professionals, the trio programs, financial aid professionals, and the College Access Network, represented here today with Dr. Reginald Wilkinson. This will be a major effort within the entire Ohio State community, by our students, providing that kind of access message.

Information from efforts like the Economic Access Initiative is essential, but would be one hand clapping without student financial aid.

Senator, we appreciate the support you've provided to students, through student financial aid, and again, thank you for being here on campus not only to hear about, but to also see our students, and understand the enormous positive impact investment in them will have on our Nation's future.

I'd be glad to respond to questions later, thank you.

[The prepared statement of Ms. Hart follows:]

PREPARED STATEMENT OF NATALA K. HART

Senator Brown and Members of the U.S. Senate Committee on Health, Education, Labor, and Pensions, my name is Natala K. (Tally) Hart. I am the Senior Advisor for Economic Access at The Ohio State University. I applaud your effort to hold this hearing at a time action is needed to assure our citizens of the Federal commitment to postsecondary access and at the Nation's largest institution. We, at Ohio State, stand committed to our Land Grant tradition of educating students of all income levels. We will continue to devote significant institutional resources to secure the education of needy students, a strong and clear Federal commitment is also urgently needed, particularly to support the continued availability of student loans.

Student loans are crucial to educational opportunity that is the foundation of our country's future economic success. I ask your action in three ways to assure that educational opportunity continues:

1. Encourage legislation that will provide a certainty that financial aid will continue despite the challenges in banking and student loans.
2. Increase loan limits and funding for Perkins Loans so needy students may be assured of adequate financing without relying on higher interest loans and credit cards.
3. Provide support for the growth in Direct Lending so that increased participation in that program does not reduce service to students.

To my first point: There is historic evidence that when student aid reductions are even discussed, students believe that aid is not available and opt out of college. This occurred in 1982 following the proposal by President Reagan to totally dismantle Federal student financial aid. As students said then, a student aid cut never heals.

The charts show that it heals, but over years and at the loss of many talented students required by the national economy. It is paradoxical that information about the availability of student aid is so difficult to convey, but lack of student aid—even as a possibility—causes dramatic decreases in participation.

Second, increase loan limits and Perkins Loan funding so students can have sufficient funding without higher interest loans and/or credit card use. Also included in my testimony is a study funded by the Lumina Foundation, by Dr. Shoumi Mustafa, also here today, that shows improved retention and completion of Pell eligible students when they have sufficient funds. This improvement was accomplished through use of increased Perkins Loans but could also be accomplished with higher loan limits on Stafford Loans. Simply put, without adequate funding, needy students cannot remain to pursue their degrees at rates comparable to their more affluent counterparts.

Third, we ask that you provide support to the administration of the Direct Lending Program at a level at least concomitant to the growth in that program. We have long held the view that both FFELP and Direct Lending provide what is needed for the best options for students and institutions. As you know, Ohio State is the Nation's largest Direct Lending school both by number of students and dollar loan volume. This program has been especially important to our talented professional students here at the Moritz College of Law. Our law students begin each year earlier than programs and would be especially hard hit if the administrative support of Direct Lending delays their student loans.

Another aspect of Ohio State's extraordinary commitment to access for low income and first generation students is reflected in the formation of our Economic Access Initiative to assure that Ohioans have information, research, and programs to guide the way to the steps to college. Over the past decade, Ohio State has achieved what may be the gold standard in closing gaps in the rate of enrollment and rate of graduation between low and high income students. Having closed the gap between rates for low-income students was not sufficient for Ohio State's goals as the Land Grant institution and, as President Gee describes us, the institution of the American Dream. The Economic Access Initiative was created to increase the rate of low-income students going to college in Ohio and to increase the rate that first generation Ohio State students going on to graduate or professional programs.

Rather than describe the programs, I'd like to tell you about the students who are products of Ohio State's efforts. You'll also hear from Deb Van Camp, another outstanding example of these efforts.

Katie Newman is both a Mount Leadership student and a Land Grant Opportunity Scholar. Coming from a small southern farm, Katie represents our outreach to rural as well as urban areas to identify the best and brightest and assure them an Ohio State education.

Semaki Corfias is also a first generation college student and also a Land Grant scholar from a farm background; he has been a leader in creating a student-based vision for access at Ohio State. You may recognize him as the cover person on the most recent edition of Alumni Magazine that includes a few of our more than 450 faculty members who serve as role models since they, too, were the first in their families to graduate from college.

Sanjna Shah is a MedPath Scholar, admitted to undergraduate study going directly on to Ohio State's College of Medicine. Along the way, Sanjna participated in an Honors Social Justice Immersion Program studying and doing community service related to access. Sanjna has voluntarily extended that commitment and is working on an access program for pediatricians serving low-income children.

Amy Wade, both a colleague and Ph.D. candidate, has just begun Blueprint College, a 6-week program for 4th and 5th graders' parents from five Columbus City Schools with highest rates of free lunch recipients. The program will teach parents about college going and help us research what they need to know. Amy Baumgartner is part of the student corps in Blueprint College and will provide similar interactive lessons to 4th and 5th graders of those parents.

Patty Cunningham is working with us in her leadership class for African-American males, studying, among other issues, what helped them come to college and what deterred their friends who did not go to college. Our partnership includes the Todd Bell Center for the Study of the African-American Male.

We are also working on a major goal: having all OSU students who engage in community service prepared to learn about and carry messages of college access to the children and families they encounter while doing community service. You know we are a big campus; you may not know that nearly 10,000 students engage in community service while attending Ohio State. We've been recognized at the Federal level on the Honor Role for Community Service. Imagine the power of those students not only doing their community service, but also assuring children with no one to talk about college that college is possible for them. We're working with partnerships with the TRIO professionals, financial aid professionals, and the Ohio College Access Network, represented here with us today by Dr. Reginald Wilkinson.

Information from efforts such as the Economic Access Initiative is essential, but would be one hand clapping without student financial aid.

Senator, we sincerely appreciate the support you have provided to students through student financial aid. Thank you for being here on campus to not only hear about but, also see our students and understand the enormous positive impact an investment in them will have on our Nation's future.

I would of course be glad to respond to questions about these suggestions and any other issues of interest to you and the committee.

Senator BROWN. Thank you very much, Ms. Hart.

I like the statement you made—how did you say it? A student aid cut never heals?

Mr. Kohne, thank you for joining us.

STATEMENT OF DON KOHNE, MANAGING DIRECTOR, STUDENT LENDING WORKS, CINCINNATI, OH

Mr. KOHNE. Good morning, Senator, and thank you for having me here today.

As you said, I am Donald Kohne, Managing Director of Student Lending Works, based in Cincinnati, OH. We are the State of Ohio's designated nonprofit student loan lender. Our public purposes mission is to help Ohioans afford a higher education. By utilizing our partnership with the State, our nonprofit status, and our access to tax-exempt funding, we offer the lowest cost loans of any lender in Ohio.

We are a subsidiary of Knowledge Works Foundation, Ohio's leading philanthropic education foundation, which has invested more than $100 million into transforming Ohio's education system.

In my over 20 years in working in the FFELP, I have never seen a more challenging time for the program. The primary challenge facing most FFELP lenders is our current inability to obtain the financing necessary to make student loans in the upcoming academic year.

Most student loans are financed with debt, either at origination or at a later time. The collateral damage caused by the sub-prime mortgage crisis has significantly impacted those securities backed by federally guaranteed student loans, and the capital markets for student loan-backed securities is virtually shut down.

In the first quarter of 2008, and for the first time in 40 years, no financings for student loans were completed. The current State of the student loan capital markets presents a crisis on a large scale for students and their families, a point made quite clearly by witnesses at a Senate Banking Committee hearing last week.

There are some who claim the crisis does not exist. Let me be very clear—this crisis does exist, its effects will be felt very soon on college campuses throughout the Nation, as we're already seeing lenders exit the market, and/or suspend their programs without warning.

Already, to date, 61 FFELP lenders, representing 14 percent of last year's volume, and 21 private lenders have left the program or suspended lending for the coming academic year. Action must be taken before it's too late.

The many consequences of this crisis is that many students may not have enough funding to pay for school this autumn. As a result, colleges will see a drop in attendance, especially among those students from lower and middle-income households, many of whom are dependent on student loans to cover the cost of attendance.

One could hope that students and parents could turn to other sources of funding to fill the tremendous gap opened by a lack of FFELP funding, but the truth is that other sources of financial aid, namely the Pell grant, other grants and scholarships, a feasible expansion of the direct loan program, and a reasonable use of private loans, cannot fill this gap.

What is the solution? All of the ideas you are currently reviewing have some merit, and as is often the case, this crisis will be solved through an application of multiple solutions. We believe the key to any solution is to understand that we must focus on the FFELP program, because it is the existing channel, and like other options, it does not need to be created from scratch, or doubled or tripled in size.

FFELP is the single-largest source of financial aid for students attending college, having provided $57 billion of the total $70 billion in Federal student loans made in academic year 2006–2007. Making FFELP work is the most critical component of an effective solution.

We need to examine most closely proposals that will immediately make the financial markets operational again, for the purpose of funding new student loans this autumn.

Both Chairman Kennedy in the Senate, and Chairman Miller in the House, have proposed bills that would expand the Federal Direct Loan Program, clarify the authority of the Secretary of the Department of Education—considered a funder of last resort program—and authorize the Secretary of Education to purchase student loans from lenders.

While all of these ideas have merit, for reasons stated in my written testimony, and in our opinion, these options will not individually, or collectively, generate the amount of capital needed to fund the student loan demand this fall.

There is, however, a proposal on the table that would provide an immediate solution to the funding of new student loans for the autumn with little risk to—and no financial outlay—by the Federal Government. If the Department of Education were provided with temporary authority to enter into what we call "standby loan purchase" agreements with lender, whereby lenders would have the right, and option, to sell to the Department a specific amount of loans, at a specific price, lenders—armed with this authority—could go to the capital markets, and raise the funds necessary to meet the student loan needs for the upcoming academic year.

What's attractive about this proposal is, that it is difficult to conceive a set of circumstances where the option to sell would actually be exercised. The mere existence of this backstop provided by the Department of Education would put a floor on the value of the loans, and give investors confidence to again purchase student loan securities, and the benefit to the Federal Government is that it could charge a reasonable fee for providing this service to lenders.

Standby loan purchase agreement concept is the only option proposed so far that we believe has a serious chance of injecting enough new capital into the student loan system this coming fall.

We are pleased that the concept was added to H.R. 5715, and we encourage the Senate to add this provision to S. 2815.

As the State of Ohio's nonprofit student loan lender, our primary purposes is to help Ohioans pay for college. We are confident that the standby loan purchase agreement concept will permit us to fulfill this purpose in the academic year.

Thank you, and I'm happy to answer any questions.

[The prepared statement of Mr. Kohne follows:]

PREPARED STATEMENT OF DONALD J. KOHNE

Good Morning, Mr. Chairman, I am Donald Kohne, Managing Director of Student Lending Works based in West Chester, OH. We are the State of Ohio's designated nonprofit student loan lender. Our public purpose mission is to help Ohioans access and afford a higher education. We serve as an eligible lender of Federal student loans under the Federal Family Education Loan Program (FFELP). By utilizing our partnership with the State, our non-profit status, and our access to tax-exempt funds, we offer the lowest-cost loans of any lender in Ohio. We are a subsidiary of KnowledgeWorks Foundation, Ohio's leading philanthropic education foundation, which has invested more than $100 million directly into transforming Ohio's education system. We were very pleased last summer to welcome Mr. William Jawando, your education aide, to our offices and trust he can attest to the much-needed service we are providing Ohio's students and families.

I have been in the nonprofit student loan industry for more than 20 years and, quite frankly, have never seen so many challenges facing the FFELP program at one time. This program serves almost 80 percent of the students and parents who need to take out a Federal student loan for the purpose of investing in a college education. Together with guarantee agencies and the U.S. Department of Education, this program is operated by private-sector lenders, many of whom are nonprofit agencies like us who are focused on promoting college access and affordability in their particular States.

THE CRISIS

The primary challenge facing Student Lending Works and many other FFELP lenders concerns our ability to secure the financing necessary to make student loans in the upcoming academic year. The subprime mortgage crisis is causing collateral damage and significantly impacting those securities backed by federally guaranteed student loans. Student loan securities have historically been viewed by investors as assets of the highest credit quality because the loans supporting the securities are 97 percent guaranteed by the Federal Government and have low default rates. Now, student loan securities are suffering much the same fate as other classes of asset-backed securities of much lower credit quality. As a result of the sub-prime crisis, the market for student loan-backed securities has virtually shut down. In the first quarter of 2008, no financings for new student loans were completed. A lack of financing at this level hasn't occurred in 40 years and will force many families to forgo school or tap into their home equity or retirement plans to pay for college.

I have seen a few financial crises in my career, such as the interest rate spikes of the early 1980s, the S&L crisis, and the collapse of the junk bond market. This is the first time the student loan program and higher education have been so directly impacted. The current state of the student loan capital market presents a crisis on a large scale for students and their families—a point made quite clearly by witnesses at a Senate Banking Committee hearing last week.

There are some who claim that no crisis exists. Let me be very clear. This crisis does exist! Its effects will be felt very soon on college campuses throughout the Nation, as we are already seeing lenders exit the market and/or suspend their programs without warning. Action must be taken before it's too late.

The main consequence of this crisis is that many students will not have enough funding to pay for school this autumn. As a result, colleges will see a drop in attendance, especially among those students from lower and middle income households, many of whom are dependent on student loans to cover the cost of attendance. We all know that taking a leave from college drastically increases a student's likelihood of not completing their degree.

Consider this scenario . . . John Smith, a second-year college student who worked hard his freshman year to establish a good grade point average, has received his financial aid letter and is told he has a shortfall of $11,000 between the aid he is receiving and the cost of attending his college for the next school year. He had planned to make up the difference through Stafford and PLUS loans. The lender he used last year is no longer offering loans. He is now forced to find a new lender who has funds available. At this point, John and his parents may find that there are no lenders available to them because most lenders with available funding have already gone through their processes and have disbursed their available funds.

The alternative is that John Smith and many other students may turn to private loans to fund their education. The problem is that the capital markets for these loans are in far worse shape than the market for Federal loans. Many lenders are also leaving the private loan market. For those remaining in the market, many parents and students will be unable to qualify for their private loans, as many lenders are requiring higher credit scores than last year due to the current credit crunch. What makes this situation worse is that many students and their families depend on the *combination* of Federal student loans and private loans to fund their college education.

As for other sources of funding, for those borrowers who qualify for Pell grants, the recent Pell funding increases are unfortunately not nearly enough to allow them to attend school this autumn without any borrowing. There simply will not be enough other grant and scholarship funding available to help students cover the shortfall that will arise from an inability to access student loans. The problem will be especially acute on private school campuses where the tuition is typically much greater than available grant support.

The long-term consequences of these funding shortfalls will impact State unemployment, hinder the cause of Ohio higher education, and damage for years to come the vision of the State to develop a highly skilled workforce. Those most impacted will be at-risk and first generation college students.

OPTIONS UNDER CONSIDERATION

So, what is the solution? All of the ideas you are currently reviewing have some merit. As is so often the case, this crisis will be solved through the application of multiple solutions. Key to any solution is the understanding that we must focus on the FFELP program because it is the existing channel—and unlike other options, does not need to be created from scratch or doubled or tripled in size. FFELP is the single largest source of financial aid for students attending college. Making FFELP work is the most critical component of an effective solution. We need to examine most closely proposals that will immediately make the financial markets operational again for the purpose of funding new student loans this autumn.

Both Chairman Kennedy in the Senate and Chairman Miller in the House have proposed bills that would expand the Federal Direct Loan Program, clarify the authority of the Secretary of the U.S. Department of Education concerning the Lender of Last Resort program, and authorize the Secretary of Education to purchase student loans from lenders—a process being referred to as the Secondary Market of Last Resort. The House last week passed the Miller bill.

As for the Federal Direct Loan Program, it is not realistic to think that this program can be expanded to the degree needed to meet the funding shortfall facing FFELP or to meet the service needs of students and institutions.

The Lender of Last Resort Program is a provision of the Higher Education Act that has previously existed only on paper. The program is untested and would be difficult to plan, develop and make operational in time to make a significant dent in the shortfall of student loan funding needs for the coming academic year.

The Secondary Market of Last Resort Program, as described in S. 2815, calls for the Secretary to purchase student loans from lenders. Based on the current language of S. 2815, the program would end up being effective only as a mechanism for lenders to sell off their portfolios and exit student loan lending. We do not believe this is the intent of the bill. Lenders remaining in the program would be expected to sell higher yielding loans originated prior to October 1, 2007 (the date of enactment for the College Cost Reduction Act), and in turn use such monies to originate post-October 1, 2007 loans which are lower yielding. We do not believe that lenders will act in this fashion. In addition, most student loans are housed in financing structures which require that when loans are sold, the proceeds from the sale are used to pay bondholders.

A PROPOSED SOLUTION

There is, however, a proposal on the table that would provide an immediate solution to funding new student loans for the autumn with little risk to and no financial outlay by the Federal Government. It is a proposal that has been incorporated to some extent into H.R. 5715 passed last week in the House.

If lenders were permitted to enter into "Standby Loan Purchase Agreements" with the Federal Government, whereby lenders would have the right and option to sell to the Federal Government a specific amount of loans at specific times, the lenders could go to the short-term money markets, as distinguished from the long-term securitization markets, and raise the funds necessary to meet the student loan needs for the upcoming academic year.

What is attractive about this proposal is that it is difficult to conceive of a set of circumstances in which the option to sell to the Department would actually be exercised, and lenders would end up actually selling loans to the Department. The mere existence of this backstop will put a floor on the value of the loans and give confidence to investors to again purchase student loan securities. The benefit for the Federal Government is that it can charge a reasonable fee to the lenders in return for providing this backstop.

The "Standby Loan Purchase Agreement" concept is the only option proposed so far that has any serious chance of injecting enough new capital into the student loan system to ensure that all Ohio parents and students will be able to pay their college bills come July through October.

We are pleased that the concept was added to H.R. 5715 and would encourage the Senate to add this provision to S. 2815.

As the State of Ohio's nonprofit student loan lender, our primary purpose is to ensure that Ohioans can pay for college. We are confident that the "Standby Loan Purchase Agreement" concept will permit us to fulfill this purpose in the upcoming academic year. Without it, this purpose will be severely compromised—and it is Ohio students, parents, and citizens who will pay the price.

Thank you! I am happy to answer any questions.

Senator BROWN. Thank you very, very much.

Just to clarify—you only do FFELP loans? You obviously do direct loans, you don't do private loans, either?

Mr. KOHNE. Recently we started a program to offer private loans through another party—National City Bank and another private lender. A couple of weeks ago, we had to stop the program, and we don't know what direction we're going to go in, in the future.

Senator BROWN. OK.

Mr. KOHNE. To answer your question, we only offer FFELP loans, right now.

Senator BROWN. Mr. Nassirian. Thank you.

STATEMENT OF BARMAK NASSIRIAN, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF COLLEGIATE REGISTRARS AND ADMISSIONS OFFICERS, WASHINGTON, DC

Mr. NASSIRIAN. Yes, sir.

Good morning, Senator, thank you for this opportunity to appear at the hearing and share our views with the committee.

I am Associate Executive Director with the American Association of Collegiate Registrars and Admissions Officers, we are very concerned about the very issues you raised in your comments, and the issues that my colleagues have addressed in their remarks, namely the question of access, particularly for low- and middle-income Americans who depend on the availability of student aid, and on sound Federal policy, to participate in higher education.

I'm not going to belabor the written testimony, other than to simply highlight the points you, yourself, made, namely that we really face a crisis in terms of the family resources, available aid, and college costs.

To just recast the statistic you just cited, if you look at the decade from academic year 1996–1997 to academic year 2006–2007, median family income, adjusted for inflation, actually fell by 1 percent in the United States. College costs, however, escalated during that same period. Public higher education tuition and fees went up by 52 percent, adjusted for inflation, private institutions went up by 34 percent. Now, that ought to be alarming. That, in itself, sort of tells the story. Families are simply not accumulating assets to pay for college costs. What we've done—the Federal Government has attempted mightily, through the provision of gift aid, and the creation of various loan aid programs, to fill the gap, but the fact is, an abyss has opened up, and that abyss is being filled with borrowing.

It matters enormously for us, collectively, to think about how the three pieces of this puzzle are going to come together.

Now, this committee is chiefly charged with the design of the aid programs, and I dare say the success of this committee in facilitating access to college is what's going to determine whether American families can look to future income growth. It's a critical national issue that you're addressing.

With regard to the aid programs, I'm going to quickly highlight some of the points I belabored in my testimony. I think they've been amply demonstrated by Ms. Miller's comments, as well as Ms. Van Camp's comment.

With regard to the design of the loan programs, we really confront issues of program integrity. These issues have inflationary consequences. I don't know anything about the particular institution that Ms. Miller was referencing, but the fact of the matter is that we have a number of institutions that participate in these programs without adequate safeguard for students. It shouldn't surprise anybody that costs escalate through the roof at these institutions, and that they tend to collaborate with lenders in packaging very expensive, unconscionably high-rate loans, which most students don't quite understand at the time that they obligate themselves.

There is much to be done with regard to program integrity, there are two provisions, in particular, that I want to bring to your attention.

One is the so-called "90/10 rule," which guarantees that institutions do not rely disproportionately on Federal programs in terms of their revenues. If a program has to derive more than 90 cents on the dollar for its revenues from these programs, that's another way of, essentially, understanding it to be unable to sell to anybody except the neediest students, and that ought to be of concern to the committee.

I'm sorry to say that the committee's moving in the wrong direction on the 90/10 provision, and is actually weakening it. Strengthening 90/10 is one of the first steps the committee could take in both controlling costs and improving program integrity, so Ms. Miller's story doesn't repeat itself.

Second provision which would be well worth examining would be an extension of the default rate window for purposes of calculating the official cohort default rate. It is an anomaly, to say the least, that when a default occurs, certainly the student is ruined for life, because we hound them, into the grave, literally, until we attempt to recover as much of the loan as possible. The Federal taxpayer tends to be on the hook for the cost, but ironically, the school where the loans were taken out is only held liable for a very narrow window of 2 years. It is only those defaults that occur within 2 years that count against the school.

Now, I don't know of any other arrangement where a vendor could actually manufacture so many defaults, by pushing them outside of that artificial window—make arrangements not to have them count against the vendor.

The extension of the cohort default window would be an additional remedy that would improve program integrity, and efficiency of the programs.

There is clearly an issue on the collegiate front with costs, and the challenge that the committee faces is that the multilateralism of the financing system—with the States and the institutions and the Federal Government and families, and the students themselves being stakeholders who together pay for college—that that challenge makes it very complicated for the committee to attempt to bring price discipline to college costs.

One of the first and most constructive steps that the committee could take, would be to at the very least, remove those provisions of Federal law that serve as cost-drivers. We have too many programs, the regulations for those programs do not tend to mesh together particularly well. There is an enormous amount of reporting, that institutions have to actually hire people to generate, and improvements there could bring quite a reduction in college pricing.

That's another area that the committee could examine.

I'm going to quickly segue to the topic near and dear to your heart, namely, private label lending, and propose two steps that Congress could take that would significantly improve the situation on that front.

One, the fact that private label loans are nondischargeable in bankruptcy has been a very foundational reason for their explosive growth. We have essentially rendered lots of these loans economical by the fact that they really are no longer loans properly understood, but indentured instruments. Lenders become indifferent to the fact that the borrower shouldn't be taking that loan out—and I suspect Ms. Miller will testify to this—because they're not really tremendously concerned about repayment of the loan obligation, they understand that because Federal law privileges the instrument as nondischargeable in bankruptcy, they essentially own a portion of the individual's income for life. The nondischargeability provision is one that Congress should re-examine and address, because in some ways it has driven the growth of the private label loan program.

There is a subsidiary step that Congress could take, that this committee could examine, and that is—now, I have to point out that the nondischargeability issue is not under the committee's jurisdiction. That's a jurisdictional issue, but I certainly believe that you could—as a member of this committee—play a constructive part in promoting that student loans ought to be dischargeable, like any other consumer debt.

The committee does have jurisdiction over packaging practices, which have also led to the explosive growth of private label loan programs. It is unconscionable that institutions are allowed to put private label loans that actually provide revenue to the institution on the student's aid package. The private label loan, that is actually a money-maker for the school, should not be misrepresented to students as financial aid. Any more than a car loan you take, at market rates, that generates revenues for the car dealership, could be portrayed as financial aid.

These are two steps with respect to private label loans. I will very quickly address the issue of Federal lending, and some of our concerns, I candidly couldn't disagree more with my colleague Mr. Kohne, in terms of his recommendation on Federal intervention in the student loan market. We have been monitoring this situation, I am certainly aware that the capital markets are in turmoil, there certainly is a credit crunch, it is a global credit crunch, it afflicts everybody—not just student loans—and if there is to be a taxpayer bail out, I strongly encourage the committee, very carefully, to exert its jurisdiction.

We think the committee has taken a number of very constructive steps already. My testimony outlines our support for your LLR provisions—I candidly doubt that Lender of Last Resort delivered through guarantee agencies is ever going to work, because guarantors don't have the infrastructure in place to originate loans.

I do think one of the easier ways in which the committee could ensure availability of FFELP loans, would be to allow the Secretary to serve as a lender and a guarantor under part B of title IV. If you were to do that, the Secretary could use any delivery mechanism that proves to work, to make sure there is funding available for students.

In any case, the LLR approach, the Lender of Last Resort approach, is promising, the authority of the Secretary to purchase existing loan assets is certainly agreeable and would bring liquidity to the market. The notion of allowing advanced purchases or any form of public financing of private portfolios is extremely disturbing, and it represents a multi-billion dollar bailout with very little guarantee of accountability, one, and second—with a kind of distortive effect on the market that Congress ought to be very careful about.

Finally, I want to join the comments of my colleagues in terms of the attention that ought to be paid to the direct loan program. Direct loan program suffers one major disadvantage, it's a legacy of the 109th Congress, which played, you know, what can only be described as a budget gimmick, and it's an extraordinarily irresponsible budget gimmick. We have billions of dollars of loan revenues going out, taxpayers are on the hook to the tune of almost $100 billion of new loan originations per year, and yet Congress decided in order to record the one-time savings to take the Admin Account that is supposed to oversee the proper disbursement and operation of the loan programs, and poured it over from the mandatory side of the budget to the discretionary side of the budget, which means the taxpayers have no assurance, year by year by year, that proper oversight is going to be financed.

Moving section 258 back into the mandatory side of the budget would be a tremendous step in the right direction, both to assist the Department with scaling up direct lending, if needed, and with regard to any kind of oversight of the FFELP program, that I think is called for.

I will stop there, and would be happy to answer any questions, thank you.

[The prepared statement of Mr. Nassirian follows:]

PREPARED STATEMENT OF BARMAK NASSIRIAN

Mr. Chairman and members of the committee, my name is Barmak Nassirian and I am Associate Executive Director with the American Association of Collegiate Registrars and Admissions Officers (AACRAO). I am honored to have this opportunity to participate in today's hearing and address the important topic of your deliberations.

AACRAO is a nonprofit association of more than 2,500 institutions of higher education and more than 10,000 campus enrollment services officials. The campus administrative officials that comprise our membership range from front-line administrative staff to senior administrators with primary responsibility for enrollment planning, admission, financial aid, records management, advising, programming, and other important operations central to the success of students and the efficient administration of colleges and universities.

The public and private benefits of higher education are well-documented. Not only does participation in higher education correlate with higher earnings and lower unemployment, it is also associated with a wide range of additional social benefits that extend from better health to greater civic engagement. Clearly, it is in the Nation's interest to enable as many of our citizens to participate in higher education as possible.

Today's hearing examines the Nation's decades-long efforts to ensure broad access to higher education for all Americans. The conditions of access generally divide into the two categories of academic preparation and affordability. While the latter is the specific topic of today's hearing, it is important to acknowledge the importance of proper academic preparation as well. Continued improvements to elementary and secondary education should thus be viewed as a critical component of a national strategy for greater access to college. Beyond academic preparation, however, students and families confront the challenge of college costs and the question of affordability.

In brief outline, affordability can be viewed as the interplay of three distinct factors: family incomes, college costs, and available financial aid. I will briefly address all three, but focus my comments on Federal policy options on financial aid, particularly with regard to the more immediate issue of student loans.

It is important at the outset of any discussion of affordability to emphasize that much of the public discourse and most of the media coverage of the issue have focused on institutions with exceptionally high nominal prices. Of course, nominal prices and actual out-of-pocket expenses tend to be markedly different figures, particularly at institutions with high nominal tuition prices. Misperceptions about affordability are rampant and have emerged as a real concern for their deleterious impact on low-income behavior. Higher education advocates are generally alarmed at how the public typically overstates college prices, and worry that families and students may base their decisions about college on incorrect or incomplete information about actual costs. Nominal tuition and fees at public 2-year institutions for 2007–2008 stood at $2,361, while the figures for public 4-year and private 4-year institutions were $6,185 and $23,712 respectively. On average, full-time students receive about $2,040 in combined aid at public 2-year institutions, $3,600 at public 4-year institutions and $9,300 at private 4-year colleges. It is important to note that these are average figures, and that the amount of aid is generally higher for lower-income students.

These figures should be somewhat reassuring in that they paint a better overall picture of access than the one based solely on nominal tuition trends at a handful of institutions. Yet the gap between the actual costs of higher education and family incomes has been widening. Between 1996–1997 and 2006–2007, while real median family income declined by 1 percent, inflation-adjusted tuition and fees increased at public 4-year institutions by 52 percent and at private 4-year institutions by 34 percent. The decline in real incomes of many families represents the greatest nationwide barrier to college. Reversing this alarming trend requires a strategy to promote greater participation in higher education, particularly for lower-income Americans, a responsibility that has historically been assigned to this committee.

As the committee deliberates about policy options to broaden access, it should pay attention to the interaction of postsecondary pricing issues and Federal aid programs. On the pricing front, a central challenge facing Federal policy is the creation of incentives for all stakeholders in the financing system to contribute their fair share in support of higher education. This requires better coordination with the States and the institutions to control costs. It also requires a candid review of the extent to which Federal regulations create added- and at least in some cases, unnecessary-costs for institutions.

In its design of Federal aid policies, the committee should examine simple improvements to program integrity that could simultaneously control costs and improve access. The Federal financial aid programs are supplying a disproportionate amount of Federal subsidies to the for-profit participants in the system. In the academic year 2005–2006, for example, while the for-profit sector's share of total enrollments was only 6 percent, it accounted for more than 19 percent of Pell grant funds and for about 37 percent of officially recorded defaults. While for-profit providers can play a constructive role in postsecondary education, it is clear that they are becoming increasingly dependent on the Federal Government as their primary source of revenues and profits. The committee can improve accountability and program effectiveness in this sector by limiting the percentage of revenues it derives from aid programs to a reasonable amount. Unfortunately, the sector has successfully argued against meaningful restrictions on its receipt of Federal dollars. The concern here is not solely that dependency on Federal dollars is highly inflationary, which it is. The committee should also be wary of the quality of programs that find no paying customers but student aid programs.

Beyond its leadership in advocating for better funding of existing student aid programs, the committee should also examine the improvements it can make to the basic design and configuration of these programs. To its credit, the committee has made great strides in this connection over the course of the past year. The higher education community stands ready to work with the committee in making further improvements to aid programs, particularly in connection with the Academic Competitiveness and the SMART Grants, to remedy their current shortcomings.

Any discussion of affordability would be incomplete without recognizing the growing role of student loans as an instrument of access. It is important to note that responsible borrowing can indeed be viewed as an investment in education. Regrettably, there is evidence that some students may be so culturally averse to borrowing that they give up on or postpone higher education in order to avoid debt. Students and families should clearly understand that borrowing can in fact pay dividends if undertaken carefully and responsibly.

Having made the positive point about borrowing, we should also note some of the more alarming trends in student loans. First, borrowing has grown significantly. Federal loans grew 51 percent in inflation-adjusted dollars in the decade from 1996–2007 to 2006–2007. Second, over this same period, the more affordable Subsidized Stafford loans dropped from 54 percent of total educational loans to 32 percent, while much more expensive private loans grew by 12 percent. This committee deserves special recognition for its efforts to reverse this worrisome trend and for the significant improvements it has made to the terms and conditions of Federal student loans since 2007. These improvements include reductions in interest rates and important new repayment options that will make student loans far more affordable and more manageable for borrowers.

As the committee is quite aware, the student loan industry and its supporters have for a number of months issued stern warnings about the impact of the global credit crunch on student loans. We have been carefully monitoring the availability of student loans, and have yet to document a single case of an eligible student being unable to obtain a Federal student loan. The situation is quite different with private-label loans, particularly at low-quality, high-cost, for-profit institutions. This latter category is quite analogous to subprime mortgages that are at the very root of the global crisis of structured finance. These tend to be predatory loans that were actively marketed by loan companies to students who were unlikely to be able to ever repay them. The probable disappearance of these loans, far from constituting a "crisis" as some have argued, is a positive development.

We do acknowledge that significantly increased funding costs for a subset of lenders—i.e., those that rely on securitization or auction-rate securities to fund their student loan portfolios—may drive them out of the student loan market temporarily. This does not, in itself, justify a Federal bailout of troubled companies as some have proposed. These companies reaped unconscionable profits over the course of the past decade, and should be allowed to deal with the vicissitudes of the capital markets on their own.

While Congress should rightly remain indifferent to the financial difficulties of particular companies, it does have a legitimate interest in ensuring that systemic difficulties do not frustrate Federal policy goals. There is every reason to believe that bank-based Federal student loans will continue to be widely available through balance-sheet lenders over the short-term and that any liquidity problems will be ultimately resolved through concerted global action on the credit crunch. But to avoid the slightest possibility of a disruption, the committee has decided to take a number of preemptive steps, which we applaud. We would also like to provide additional policy options for you to consider.

First, we support the immediate creation of an operational Lender-of-Last-Resort (LLR). In our view, however, relying on the existing network of guaranty agencies is unlikely to work if a real crisis were to materialize by the beginning of the next academic year. Guaranty agencies simply do not have the infrastructure in place to originate loans, and would only slow down the loan origination and disbursement processes. A far more effective delivery option would be for the committee to authorize the Secretary of Education to serve as a lender and guarantor under Part B, Title IV of the Higher Education Act. With this authority in place, the Secretary would be able to contract with any entity, including guaranty agencies where appropriate, that are deemed to be capable of serving as a safety net in the event of a real crisis.

In addition, we encourage the committee to take steps to ensure that any LLR program it authorizes does not inadvertently become yet another stand-alone loan program alongside "regular" guaranteed student loans and direct loans. An LLR program that can be activated by schools, and operated by guaranty agencies with Federal funding and 100 percent Federal guaranties, would almost certainly become an instrument of self-dealing by schools and guaranty agencies. We hope the committee imposes meaningful criteria for activation of any LLR programs it puts in place.

Second, we support the committee's authorization of Federal purchases of federally guaranteed student loans to address any liquidity problems, but doubt that this policy can be implemented in time to be of use in addressing short-term liquidity problems. We specifically urge the committee to be wary of creating a Federal secondary market without adequate protections for the taxpayers. We also believe that the Secretary of Treasury should approve the expenditure of Federal funds for purchases of guaranteed student loan assets. Furthermore, we strongly advise against authorizing advance Federal purchases of future loan assets because this would effectively create a new futures market in which Wall Street would be allowed to bet on interest rates against the Secretary of Education, or worse yet, against this committee.

Third, we are very concerned about allowing student loan companies to access Federal funding, for example, through borrowing from the Federal Financing Bank. While a large-scale experiment of Federal funding may provide the Federal Government with a market mechanism to price the correct subsidy rate for bank-originated loans, it is unlikely that this could be done in time to serve as a safety net for the coming academic term. A more likely outcome, therefore, would be a Federal bailout of inefficient lenders at the expense of balance-sheet lenders that have already indicated they plan to continue and grow their federally guaranteed student loan products.

Fourth, we strongly support the committee's proposed enhancements to the Federal PLUS program. We believe that these improvements will make PLUS significantly more attractive to parents, who will be able to use it as an excellent alternative to expensive private-label loans.

Finally, we believe the committee should also use the Direct Loan program as an additional delivery option. Specifically, the Secretary should be instructed to take the necessary steps to allow that program to serve as a safety net for borrowers. In connection with direct lending, which has fallen into some measure of disrepair under this Administration's stewardship, an important step the committee should consider is the restoration of mandatory administrative funding to Section 458 of the Higher Education Act. One of the most irresponsible one-time budget savings of the 109th Congress was its decision to move funding for oversight and administration of the billions of mandatory dollars flowing through the loan programs to the discretionary side of the budget. Restoring Section 458 funding would provide the Secretary with the resources needed for a coordinated Federal response should a crisis actually materialize.

I thank the committee and its membership for their distinguished record of leadership on these important issues, and appreciate the opportunity to share these comments with you. We stand ready to assist you with our shared goal of fulfilling the Nation's promise of educational access for all Americans.

Senator BROWN. Mr. Nassirian, one brief comment, and then I want to start the questioning with you, Ms. Miller.

The bankruptcy provisions you talked about, Senator Kennedy, and Senator Dodd, the Chair of the Banking Committee, and I and a handful of others are working on legislation that creates a prohibition on private loans for 5 years if someone goes into foreclosure. They've already obviously had enough problems with their credit and we want to try to remove that provision.

Mr. NASSIRIAN. I appreciate that, we're very grateful.

Senator BROWN. First of all, all of your statements will be entered into the official Health, Education, Labor, and Pensions Committee record, and all of the discussion we have now will also be included. When I ask questions, I want to ask questions of each of you individually, but as I do that, if any of you want to comment on something, just speak up and we'll do that.

Ms. Miller, run through for me what exactly happened with you—take me through the process, from when you got your financial aid for Brooks Institute. What kind of information did you receive from their financial aid office? Were there multiple lenders you considered? Walk me through that process, what you were told, and what you weren't told?

Ms. MILLER. When I initially got involved, I specifically wanted just Federal loans, because that's all I was really used to—I wasn't aware of private lenders at that time.

Senator BROWN. At OU, you had only done——

Ms. MILLER. Federal subsidized and unsubsidized, and I think I had the Pell grant, and I had a couple of other smaller grants to help me get through.

With Brooks, in particular, the only lender that they offered at the time was Sallie Mae, so I wasn't aware of any other lenders at the time, and there was very little information.

They actually didn't have anyone from Sallie Mae there, to help you go over the paperwork, to kind of understand what you're getting into. The only person that was actually there was one person in the financial aid office who couldn't really even answer the questions that I had at that point.

Basically, Sallie Mae was the only thing offered, and you basically signed the promissory note right there without really being walked through it. Had I known these were at 18 percent, there is absolutely no way I probably would have gotten involved, even though the desire to be educated in photography was—obviously, it's a passion of mine, so I probably would have done it at any cost. I think even then, knowing that when you add up the education over those years, that you know that your repayment is going to be probably unfeasible, so I kind of wish I had been more informed about private loans, and how they work with students, at the time.

Even so, Sallie Mae is completely uncooperative. With a $21,000 loan, my payments from which they have rescheduled—these figures are absolutely astronomical. For a $21,000 loan, which is less than a year of education, mind you, that it's 9 months—they have me at 18.276 percent, and their figures and calculations, for the repayment schedule which an average student would be one, which is anywhere from, I guess, 25 to 30 years—mine is extended as long as you can probably get it. My numbers, for the total of payments for a $21,000 loan over 30 years is $102,443.38.

You're talking almost $70,000 worth of interest, on a $21,000 initial educational loan. When I first started getting these letters, I literally thought that they were printed wrong. I thought, there is absolutely no way this is correct. I actually went to a bank, and I talked to them, and I said, "Can I refinance this? Or, how does this work? How do I do this?" And, literally, the people at the bank, the lenders literally cracked up in hysterical laughter. They said, "You need to call Sallie Mae, there's no way these numbers can be right."

Sure enough, I go back to Sallie Mae, I go back to the lender, and so basically a monthly payment would be anywhere from about $630 to almost $700 a month—which I'm completely——

Senator BROWN. For 30 years.

Ms. MILLER. Over 30 years, yes. I explained to them, I said, you know, "I'm willing to pay"—you have to realize when students get into debt, these are, for the most part, responsible individuals who want to better themselves and their communities, they're not out to gouge and run away from financial responsibility—that's not the point. Because, when you get into these situations, and you have to start looking at, as you're getting older, and a lot of kids, they end up having families and they're looking at their school loans, and it's basically probably the largest hindrance, I'd say, even to most mortgages.

I mean, I see kids coming out of Brooks, and they have, literally, $2,000 and $3,000 a month expectancy in repayment, right off the bat. The sad thing is that Sallie Mae won't cooperate. Because when I spoke with them—once I actually did get a hold of them, which mind you took about 6 months for them to return a phone call, I said, "Look, most repayments, anywhere from $200 to $400, I'd be happy to send that, if there's any way we can re-route this interest rate, or if you could just cooperate on any level," and the answer is, "Absolutely not."

Even if you send money to show that you're not—because most people don't want to default on educational loans, because it's obviously going to catch up with you in the long run, so even when I was sending anywhere from $200 to $400 a month, or anything in general, even if you send $50 a month, they don't really count that off of what your educational loan is. They basically look at that as you are just refusing to cooperate and pay.

Even if you do send the money, if it's not exactly what you're basically signed up for, they're still going to call you and harass you and the harassment calls are absolutely rude. We're talking name-calling, I mean, it's gotten pretty dirty with Sallie Mae on the phone, so usually I just have to hang up. Because it's nearly impossible to figure out how you're going to cooperate with them, or them to cooperate with you.

The whole situation's been stressful, not only for myself, but for a lot of my friends who are also in the field. Like I was saying, a student's going to come out in debt, in the average of $100,000 in debt in their repayments.

I have a friend named Joey Kenalty, he's one of my colleagues that I actually work with in the field, and I would love to speak on his behalf—I saw his numbers and he's literally expected to pay $350,000 on $100,000 educational loan. Through Sallie Mae, through Brooks, I think his interest rates are probably anywhere from 17 to 20 percent, I'm not exactly sure.

It's these types of situations that are deterring students from going to get educational loans, because when these things start to surface, I don't think people understand the severity of repayment, and just the havoc it can cause on any student, or any individual who just wants a higher education, and it's obviously a system that's completely failing students, just because of lack of informing a student when they go to get loans.

Senator BROWN. When did you first realize that your loan repayment was 18 percent, that you were paying 18 percent?

Ms. MILLER. Probably when I started getting these payment schedules and disclosure statements from Sallie Mae, which was probably about 6 months after I left Brooks, maybe 3 months—I'm not really sure.

Senator BROWN. So, more than a year after you signed up.

Ms. MILLER. Oh, yes. Yes.

Senator BROWN. Did you not know of the availability of the Federal program? You knew about it at OU?

Ms. MILLER. Right.

Senator BROWN. But you didn't know at Brooks you could use some of that?

Ms. MILLER. Well, actually, that was actually very confusing because apparently Brooks Institute is a private school, so they have very little funding from Federal, through certain Federal programs, which I didn't really know. Because I don't think I actually have any Federal loans through Brooks.

Senator BROWN. Mr. Nassirian, could she have gotten some through Brooks? She was eligible for some funding from FFELP, right?

Mr. NASSIRIAN. She would have been eligible. We are very concerned, because the Bush administration early on weakened a number of protections that students were entitled to under the Higher Education Act. We are concerned that some institutions—and I'm not speaking specifically about the one that Ms. Miller attended—we are concerned that students are not—that proper disclosures are not provided to students, so that students are essentially, sometimes steered toward the more expensive loan program, even though better options exist.

My suspicion is that she would have been eligible for significantly better borrowing——

Senator BROWN. Is Brooks still not telling? Do you know of people who are entering now that are signing up for student loans at Brooks, do you have friends there that sort of keep you in touch?

Ms. MILLER. Right.

Senator BROWN. Do they still not know of any Federal program they—partly because of the Bush administration's actions, but partly because the school doesn't step up?

Ms. MILLER. Actually, I think there may—if there is Federal funding, it's very minimal. Because, for an institution like Brooks that's private, the tuition fees for 1 year—even when I was at OU, I never had to take out a private loan that wasn't Federal. If they do have them through Brooks, it was probably very minimal, probably a couple of thousand dollars at that. You can't really—they weren't willing to take out that many nonprivate loans for a school like Brooks.

It's kind of complicated, because Brooks is a school that was bought out by a company called CEC, and a lot of things turned around. Because from what I understand, Brooks Institute is not even an accredited college at this point. They were under litigation in the State of California for being even questionable as an accredited college. There are a lot of questions—even, concerning the school—which stands today. I think a lot of people are kind of confused on how that all works.

Senator BROWN. OK. Thank you for joining us, and certainly chime in on anybody else's questions.

Ms. Van Camp, when you began the process, because of your achievements and other things, you got some grants and assistance that way. What was your experience, you went to Cal Winchester, is that right?

Ms. VAN CAMP. Yes.

Senator BROWN. What was your experience when you first saw what you needed to do? Nobody in your family had gone to college before, right?

Ms. VAN CAMP. Right. Well, some extended family, but, yes.

Senator BROWN. My wife was the first in her family to go to college, she went to Kent State, and she tells stories. She graduated almost 30 years ago—and she graduated with about $2,500 in student loans, because the Federal Government then provided way more and all of the differences today—but she said she would call home while she was in school and her parents didn't have answers, because they didn't have that sort of college knowledge that is passed onto the next generation. She would just hang the phone up sometimes and cry, because she couldn't get the information or the advice from her family that they would have loved to have given her, if they could have. Walk through that process—when you first started figuring out how you were going to finance your education, in addition to all of the help you got—

Ms. VAN CAMP. Right.

Senator BROWN. But to fill that in—how complicated was it, and how do we make that a little bit simpler?

One more thing, I'm sorry to interrupt——

Ms. VAN CAMP. That's all right.

Senator BROWN. And draw upon your leadership now at this school, and what you're hearing from other students?

Ms. VAN CAMP. First, I would like to say, looking back at it retrospectively, the only reason I'm not telling the same story that Ms. Miller is telling is because I found incredible mentors in my agricultural educators and people at that school—not necessarily my Guidance Counselor, let's be clear.

I remember really worrying—before I started worrying about how I would pay for college, I thought, "Well, if I'm thinking about going to college, what am I going to major in?" And I remember asking my family what I should major in, and them not even being able to give me any advice whatsoever. I think one of the most difficult parts for me was filling out the FAFSA form, the Free—I always get this acronym wrong—Free Application for Federal Aid, Student Aid, right. My mom—well, the first time it was kind of really hard to figure it out, and I actually remember having to order my mom's PIN number for her, I mean, that's how clueless— my mom had no idea how to fill out this form.

Really, I got support through my agricultural education teachers, I understand not everyone in school has that kind of support system, though.

It is a daunting process. I can't even imagine—I think back, I was extremely naive, and I can't even imagine, had I not received this scholarship and the financial aid, where I would be now. It's very daunting.

Senator BROWN. You had mentioned something I thought was pretty interesting, the lowest achievers in the high-income quartile versus the highest achievers in the lowest quartile, what do we do? What can the Federal Government do about that? You're working on things here, what can we do about that?

Ms. VAN CAMP. Well, the biggest thing—supporting affordable loan options, and I'll be the first to admit, I don't understand everything about these loans, so I can't give you specifics like some of these experts can, but I think that, as I mentioned in my testimony—supporting—I would encourage you, when you think about an affordable education, to think about it holistically. I talked a lot about my experience on the Board, for example, as you mentioned. If I were working, like some of my colleagues, and in fact, my roommate works all the time, is constantly working at Bob Evans, as many hours as she can—I would not be able to have that time to volunteer on the Board of Trustees, which has been an invaluable opportunity, or to participate in the study abroad.

When we're thinking about opening up opportunities for students, I encourage you to think about the entire educational experience. Some people might think, "Well, they can scrape by and get tuition with this loan and that loan," but is that really equal access, in the end?

Also, I would really encourage you to support diverse programs, as I mentioned, like Agricultural Education—education is not a one-size-fits-all type of thing. If we're going to get the low-income bracket, and students from rural communities, and from inner-city and urban communities, we have to protect educational diversity, I think. I think that through funding programs like Agricultural education, or music programs, and things like that, you're providing those opportunities.

Senator BROWN. Go on.

Ms. VAN CAMP. One other thing—I mentioned the National Institutes of Health, and I really think that it might seem kind of indirect, but that funding really does help provide opportunities for undergraduates. My research—one of my advisors actually has an NIH grant, and that money is helping—written into those grants is often the opportunity to hire graduate and undergraduate students, and those are truly invaluable opportunities that add to the quality of that experience.

Senator BROWN. What kind of NIH grants are they, exactly? Do you know? Can you describe them?

Ms. VAN CAMP. It's, I think RO1. I don't know a lot about it, it's a co-grant, she's a COPI, she's in Food Science, Dr. Yael Vodovotz——

Senator BROWN. So, is she doing research—she's being paid to do some NIH research? Is that what the grant is?

Ms. VAN CAMP. Right, right, right. We're developing—well, she works with soy bread, and also with these chocolate candies—how lucky am I? That have cancer-preventative properties.

Senator BROWN. It's the old "chocolate prevents cancer" racket that's going on?

[Laughter.]

Ms. VAN CAMP. It's the new story.

Senator BROWN. Could you share with our committee some more information on that. Could you find out, could you get from her more about NIH?

Ms. VAN CAMP. Yes, I could get you the specifics about her grant, yes.

[The information previously referred to follows:]

MAY 1, 2008.

Hon. SHERROD BROWN,
455 Russell Senate Building,
Washington, DC. 20510.

DEAR SENATOR BROWN: As you will recall, I am the undergraduate student from The Ohio State University who had the privilege of sharing testimony with you last week at the field hearing of the Senate Committee on Health, Education, Labor, and Pensions titled *Fulfilling the Promise of an Affordable College Education*. I am writing to respond to your question regarding how the support of grant money from the National Institutes of Health (NIH) has provided students access to a high quality educational experience. You also mentioned that you were particularly interested in how Ohio might be able to increase its success in securing NIH funding. As I mentioned at the hearing, I am a third-year undergraduate student in the Department of Food Science and Technology and I have worked as a student assistant in Dr. Yael Vodovotz's lab since my first quarter at Ohio State. I hope my story of how the multidisciplinary nature of funding in my lab has greatly benefited students, faculty, and the university will provide you with some valuable information that will help you to move forward on this issue.

First, I would like to give you a little background on our lab and its funding sources. We currently have two undergraduates and five graduate students working on various research projects. Our wages are paid through a variety of funding sources. My wages are paid by the university's Land Grant Work Study Program, while some of the other students in our lab receive money from industry-funded research grants or fellowships. However, it is the larger grants from the U.S. Department of Agriculture (USDA) and the National Institutes of Health (NIH), which provide the funding necessary to ensure that we have access to the best facilities and equipment. Due to this important funding, I have learned to use sophisticated analysis equipment, and I have had the opportunity to be exposed to cutting edge research as a second- and third-year undergraduate. These experiences have proven to be truly invaluable and have greatly influenced my decision to attend graduate school.

The NIH grant, which was awarded to Dr. Vodovotz last year, is an R21 grant from the National Center of Complementary and Alternative Medicine (NCCAM) and National Cancer Institute (NCI). The purpose of the grant is to perform phase II clinical trials to examine if soy bread formulated by Dr. Vodovotz and former graduate student Cory Ballard, which is now the basis of a spin-off company, can help to reduce the risk of prostate cancer (Attachment 1), Dr. Vodovotz is one of the co-principal investigators (PIs), along with Dr. Steven Clinton, a medical oncologist and physician scientist, and Dr. Steven Schwartz, a professor of food science and technology (Attachment 2).

This multidisciplinary collaboration between the Department of Food Science and Technology in the College of Food, Agricultural and Environmental Sciences and the Division of Hematology and Oncology in the College of Medicine is a truly unique partnership that has greatly benefited the students and faculty in both departments. This research has allowed all of the students in our lab to gain a better understanding of the true meaning of interdisciplinary research, and under Dr. Vodovotz's leadership we have created strong relationships with several other departments across the university, including the departments of Human Nutrition. Crop Science, Material Science and Engineering, and Agricultural, Environmental, and Development Economics. We do not think of Food Science, or any science for that matter, as an isolated discipline. Rather, we have gained the perspective that many disciplines across campus are related and offer unique opportunities to form synergistic partnerships.

It is uncommon for a faculty member outside of the College of Medicine to be named as a PI on an NIH grant. However, with the support of Dr. Clinton in the College of Medicine, my adviser was able to achieve this feat. Earlier this year. Dr. Vodovotz applied for a USDA grant under the Improving Food Quality and Values Program, which if approved, will provide funding to investigate the release and adsorption of bioactive compounds in pomegranate candies to treat oral maladies (Attachment 3). If this research proves successful, Dr. Vodovotz believes it will build a strong case for a POI NIH grant, which is a comprehensive program grant and the highest level of funding NIH awards.

My lab experiences at Ohio State illustrate two critical impacts of NIH funding that make a strong case for increased Federal support in his area. The first is that these funds provide undergraduate and graduate students access to a high quality educational experience, NIH grants offer invaluable opportunities for students to work in state-of-the-art research facilities with distinguished faculty on cutting-edge research initiatives. According to the University's latest research report, the NIH awarded more than $162 million in research funding to Ohio State in 2006, which undoubtedly benefited thousands of students across campus. (Attachment 4). This funding provided students with unparalleled educational experiences that are essential to training the next generation of scientists who will address the most critical issues facing our society.

The second important impact of NIH funding is that it encourages and supports interdisciplinary partnerships, such as the collaboration between the Department of Food Science and the James Cancer Center. These relationships are intellectually stimulating for students and faculty, and they provide invaluable opportunities for innovative and synergistic ideas. Under the leadership of President Gordon Gee's six strategic goals for Ohio State and Chancellor Eric Fingerhut's vision for the University System of Ohio, I believe, that we have enormous potential to increase Ohio's competitiveness for NIH funding. Ohio State has an incredible advantage in the breadth and depth of its programs, and President Gee's goals to "forge one university" and to "recast our research agenda" will help us to capitalize on these strengths. Additionally, Chancellor Fingerhut's vision to create a comprehensive university system will increase Ohio's effectiveness and competitiveness in higher education. In the strategic plan for the University System of Ohio, which the Chancellor released a month ago, he stated,

> "Indeed, research and academic excellence constitute Ohio State's major contributions to the State and to the University System of Ohio and continuing advancement along these dimensions must be paramount for the university, the system, and the State of Ohio,"

and

> "research, academic excellence, and the quality of the student body are appropriate measures for assessing the performance [of Ohio State]."

These comments illustrate the clear link between our university's ability to secure major research funding from sources such as the NIH and our ability to build a prosperous future for the State.

I hope my perspectives will prove helpful to the efforts of you and the committee. I thank you for your dedication to providing all qualified students access to a high quality educational experience. Please let me know if I can provide you any additional information on this subject.

Best regards,

DEBRA VAN CAMP,
Undergraduate Student, Ohio State University.

Senator BROWN. I've actually talked to President Gee and some others about this—Ohio ranks pretty low in per capita NIH funding. I don't know that we have a statewide program, or a strategy to attract funds. We rank in the bottom 10 on ERSA health money, on CDC money, and NIH we rank in the middle, and we should be doing better on that.

Ms. VAN CAMP. Every year it gets harder and harder. It's more competitive and more competitive because the funding——

Senator BROWN. It's just as competitive if you live in other States as it is here, and we ought to be doing better.

Ms. VAN CAMP. Right, right.

Senator BROWN. OK. Thank you very much.

Ms. VAN CAMP. Thank you.

Senator BROWN. Ms. Miller, one other question—how old were you when you started to go and apply at Brooks? You had been at OU for a couple of years?

Ms. MILLER. That was 1997 through 1999, but I figured I wanted to be a photographer, so I started to travel, I worked like any other person, and basically formed my own education, and I traveled the world by working from one place to the next.

I started at Brooks. I lived in northern California for about 3 years, and then I went south because I heard of Brooks, and that was 2003, and that was about 5 years ago, so I was 25 at the time.

Senator BROWN. Twenty-five. And you had already attended the OU.

Ms. MILLER. Yes, I was in OU when I was younger, it was around 1997 through 1999, I was probably 17, 18.

Senator BROWN. Ms. Hart, you mentioned the banking industry challenges, and what that means to FFELP, what that means to private loans. Ohio State, as you mentioned, is the largest exclusively direct loan program in the country. I know some schools have both direct loans and FFELPS, some have just one or the other—and I know you'll probably get some disagreement from Mr. Kohne on this—but is your recommendation that we do all we can to move more and more students and more and more schools into direct loan?

Ms. HART. I think it really needs to be an institution decision. We've examined both here, regularly and periodically at Ohio State——

Senator BROWN. So, this isn't a permanent decision? This is revisited every couple, 3 years?

Ms. HART. It can be, under the provisions. We're always looking for what is best for our students. We feel that the competition between the two programs has really helped keep both of them more viable for all students—both in terms of interest rates—because those as you know, are set by the law—it's more the added provisions that come as the result of that competition, that we think have been a very viable exchange in the programs.

We've been extremely happy as direct lending has provided capital with the kind of assured basis that has really been valuable to our students. It's one thing to have the funding. Another is its reliability. I mentioned our students here at Moritz College of Law who happen to be the leading edge of the timing of our academic programs. It's having that secured financing—it's not just enough today, especially for students who are really reliant on student loans, as most of the borrowers are—to have their tuition paid.

It's a matter of having books, being secure and able to focus in that first series of classes that you know how you're going to finance that term, and that you can really think about the subject matter, rather than, where is the money coming from that's going to keep me in school? And I think that's the primary goal of any of these programs.

I worry very seriously about the message being sent to students today, that student loans are uncertain, that that creates the kind of fear about that security and it hits hardest on low- and middle-income students, as our data analysis shows.

Senator BROWN. When we had the 46 or so college presidents in Washington 2 weeks ago for the 1-day conference that we put together, there were some very small private schools that were talking, kind of among themselves about the same question that you deal with at Ohio State and the issues that Mr. Kohne works on. Do we do FFELP, do we do direct loan? Do we do a mix, do we make them both available? And some schools, I don't know if this was a majority, I don't know enough to know that, but some schools talked about at least looking to go to direct loan. Then they said they thought it might be administratively too difficult, because of their size.

Chancellor Fingerhut and I began to talk about building some kind of a consortium of—not that the State would run it, but to help some sort of a consortium, or a co-op, of some sense, and in some sense to get the small schools that could apply together with each other's help. Does the size of the school kind of undercut their ability to change, or to do what they need to do to apply, to go to direct loan if that's what they choose?

Ms. HART. I don't think that the size of the school, in terms of maintenance is an issue. The administrative switch from one form to the other can be a fairly complicated and costly administrative front-end cost.

Senator BROWN. In either direction? From FFELP to direct——

Ms. HART. Either way.

Senator BROWN [continuing]. Or direct to FFELP?

Ms. HART. Either way. That's simply because dependent upon the functionality of your loan programs, you have to pull in from data processing systems—it's not just the financial aid office, it's registration, it's admissions, it's across the institutions—and that kind of conversion can be really costly, and I suspect that was probably the administrative process.

Once it's going, I don't think there's a demonstrable difference between the two programs, but that change could be burdensome and costly for institutions, and the smaller you were, the higher proportion of costs——

Senator BROWN. Tell me again what the costs entail?

Not the dollar amounts, but just the——

Ms. HART. Administrative data processing, to pull in the data that you would need, and to configure it in a different form for direct lending could be costly for an institution.

Senator BROWN. Is it difficult? If I'm a FFELPS school of 800 students, 4-year school of 800 or 1,000 students—and I switch to direct loan, most of my students there, still have FFELP loans.

Ms. HART. Right.

Senator BROWN. I assume.

Ms. HART. Right.

Senator BROWN. And then they switch, is that a problem? That their new loans—if I'm a sophomore at that school, my new loans will be direct loans, my older loans will be FFELP—does that cause a problem?

Ms. HART. That is a problem, because most institutions in thinking constructively for their students, would probably try to hold the loans under the same program. In theory, that would mean running two different loan systems for at least a few years, to grandfather your students under their previous existing loan. I was jumping from the actual conversion to long-term maintenance, but you very ably talk about that, also, transition, that happens, at least when we've considered it, we felt the right thing to do for students, if we ever switched, would be to maintain both systems for a period of time—longer for us, because we have graduate and professional students. The more advanced your degrees, the longer that window.

Senator BROWN. OK, thank you.

Mr. Kohne, is the place we want to get to with the whole student loan system, an expansion both of FFELP and an expansion of direct loans, squeezing out private loans totally, if we could get to that? So that there is, in some sense, more business for you and more business for direct lending—is that the ideal place to be on this?

Mr. KOHNE. Well, Senator, as almost a career-long FFELP person, when the direct loan program was introduced by President Clinton, and passed by the Congress, you know, we opposed it vigorously, we were all afraid of it, and looking back 15 years, I think I would agree with Tally, I would echo what Tally said, is that it's been good for both programs.

I don't think the service that we provide to students and schools and the technology we use, just across the board, today cannot compare to what we were doing in the 1980s and early 1990s.

Senator BROWN. Give me examples of why the service is better?

Mr. KOHNE. Well, I think the introduction of competition just woke us up and caused us to be much more customer-service oriented. In those days, we were more compliant-oriented—worried about compliance with regs, and making sure the guarantee was preserved, and so forth. I think the introduction of a competitive program made us all very, more oriented toward school and borrower service.

Senator BROWN. And I assume, then, that you'd argue that if one had everything—FFELP or direct loan, that service would falter?

Mr. KOHNE. I believe so. I think it's been good for FFELP to have competition, yes.

Ms. HART. May I take you up on your invitation to answer another testifier's question?

Senator BROWN. Sure, sure, of course.

Ms. HART. I think the real question is less for me, personally, between direct and FFELP, than either of those programs with high-interest private loans, and credit cards. Because the real issue—and I understand, we have to address both—that's the responsibility of your committee, but I think it's really critical that we figure out a way to increase the low-interest borrowing for students. Because all of our evidence shows that absent that, it's the neediest student who suffers the most, who's most likely getting into high-interest private loans—and we haven't even touched on the growing evidence that absent sufficient financing, students rely on credit cards, which some may argue is the worst of all worlds.

I hope that we can—whatever the structure of the programs, that a very important point for needy students, is to increase those loan limits. I mentioned—and I just wanted to underscore—put more funding into Perkins Loans, there's a number of different avenues that could help increase the aggregate loan limits for an individual student to secure adequate financing to keep them in school.

Senator BROWN. Ms. Miller, and Ms. Van Camp, do you know students who put all of this stuff on their credit cards?

Ms. VAN CAMP. Not all of it, but I know some that have put some of it.

Ms. MILLER. I think that, with Brooks, in particular, a lot of their expenses are so costly, tuition is so costly, that kids feel like they have no other choice but to basically put a lot of things—because I mean, a photography school, you have to remember, there's not just books, you're talking a lot of equipment. I mean, you're going to shoot everything from a 35mm camera to an 8x10 film, to the newest digital, to printing to print labs—and you have to buy—they provide absolutely minimal, to say the least, when you first get involved. We were expected to provide our own chemicals for dark rooms. I worked through college—I was actually a radio personality, I bartended, and went to school at the same time—and my credit card debt wasn't nearly as substantial as some of my friends. I have friends who actually went the whole 3 years, but I have friends who are a good $20,000, $30,000 in credit card debt, just for trying to keep up with buying all of the equipment that you're expected to learn how to use.

It gets tricky, and especially in a trade school, because a lot of that stuff—I mean, from what I understand, a certain percentage of things are provided, but a lot of it is not. Especially if you shoot for yourself, you have to have your own gear, you're not really—they're not going to provide that for you, so——

Senator BROWN. So, you're hearing about warnings——

Mr. KOHNE. We're not hearing much at all. We don't think they're very well informed about what could happen, I mean, it's starting to happen, but we think a lot of the schools are really not very well informed about the issue that could happen. We're starting to outreach to schools and college presidents and financial aid officers about this.

Senator BROWN. Ms. Hart, a minute ago, said that students already—if not the campuses themselves—students are beginning to fear some of the rumors they hear about this. What do we do to inform students, or to reassure students that they'll have access this fall? Any of you?

Ms. HART. I would love to see a headline that says that Congress assures that student aid will be available this fall, even if it is—the byline is "details to follow," but that kind of assurance that there will be funding, because in every instance that I've been able to come up with, ultimately the solutions are provided, but it's the difference between the dialogue, the message of "it might not be there," and students acting on that, at the same time, Congress has actually remedied the circumstance, historically. That would be my dream headline.

Senator BROWN. You know, we don't even write the articles, let alone the headlines. You're aware of that, OK.

Ms. HART. Citing your good action.

Senator BROWN. I appreciate that.

Mr. Nassirian, I have a lot of questions I want to ask you.

Explain to me again, the 90/10 rule. You said we're going in the wrong direction—could you shed some light on that for me?

Mr. NASSIRIAN. Sure, this dates back to, believe it or not, the Korean conflict, when the Veterans Administration noticed that lots of returning veterans were falling victim to unscrupulous providers who were simply capitalizing on the availability of VA benefits, of GI benefits.

The Veterans Administration instituted a policy that no more than, at that time, 85 percent of enrollments at any institution could be returning veterans. The idea was not to create separate venues where nobody except beneficiaries seemed to be enrolling.

In 1992, as a result of the scandals of the 1980s and the early 1990s, Congress incorporated a version of that into the Higher Education Act, then called the 80/5/15 rule. Back then it simply—it was supposed to be a self-executing provision that said, a condition of eligibility for participation in title IV programs is that 15 percent of your revenues come from non-title IV sources. The idea is, we don't want to have a system in which every student in the classroom is completely packaged from financial aid—completely packaged—meaning there's not a dollar of non-Federal aid involved in the revenues of the institution.

This was very sound, it still allows for 100 percent of your students receiving aid. It's just that they can't all be paying the entirety of their tuition with Federal assistance.

The provision was weakened in 1994, I believe, to be now 10 percent of your revenues, and the for-profit lobby has been working very actively to essentially sabotage it. They keep it on the books in the reauthorization bill that's pending now in conference—keeps the rule on the books, but it eviscerates it by engaging in what I describe as, sort of a series of bookkeeping tricks as to what counts and what doesn't. It should be a self-executing financial revenue—it should be a cash-flow analysis. It should simply assure that 10 cents on the dollar of an institution's revenues comes from sources other than these programs. The logic behind it is simple—if 100 percent of the revenues are coming from the program, there is no real money—it's all Federal money. It's analogous to the scandals of the 1980s when the Defense Department was buying $600 toilet seats—why? Because only Defense dollars pay that kind of cash. That's the concept.

What is happening is the regulation is being internally sabotaged by a series of revisions as to what counts and what doesn't and it's not necessary—it should be a cash-flow analysis.

Senator BROWN. Thank you for that. We are working on that issue in conference committee and welcome your involvement.

Mr. NASSIRIAN. Very kind, thank you.

Senator BROWN. One last question for you and then I want to ask a couple of general questions to the panel in the last 15 minutes or so.

Mr. Nassirian, you said the private loan system is a money maker for schools—how is the private loan system a money maker for schools?

Mr. NASSIRIAN. We have run into all kinds of varieties of how private loans have been negotiated. There are school recourse loans where the school essentially steps in and does credit enhancement on behalf of its students. The challenge is particularly in the case of the for-profit sector.

I'll give you one example without naming names—a while ago I was going through SEC filings of a very well-known student loan company, and I realized that they were making enormous private label loans to some pretty high risk students, at some very high default, for-profit institutions. The transaction didn't make any sense on its face—I mean, I couldn't wrap my head around, why would a lender step forward and make loans to a school that has a lifetime default rate of 50 percent without the Federal guarantee, how is this an economically feasible activity?

Well, as you drill down, the financial statements, you realize that the reason the lender is making the loan, is because the school is essentially negotiating in advance an agreement with the lender as to what the likely default costs will be, and they're putting an amount equal to the total default projections in escrow with the lender.

Which brings up the next question, now, how is this advantageous to the school, if the school is putting, let's say 50 cents on every dollar of revenues back in escrow, how is this economical for the school? It's at that point that you realize, in some ways, what we used to see in the 1980s and the early 1990s and the for-profit education sector in those outrageous cases where obviously fraud was going on, the label you would put on it, is consumer fraud. The idea was to pull students in and take them for the amount of Federal aid that was available.

Increasingly, in recent years—particularly with the advent of publicly traded corporations entering this space—it turns out that whether, that if fraud is alleged, it's not really consumer fraud—consumer fraud is a kind of a gateway to a bigger-scale activity, and that is investor fraud. In some ways, the school doesn't really care whether they make money or lose money on every student—even if what it takes is putting 50 cents on the dollar in escrow with the lender—what they're interested in is ramping up their enrollments, because the enrollment numbers drive share value, and share value drives the options that executives can exercise.

That's what we see very frequently, is arrangements in which the school is more than a little bit interested in ensuring that private label loans are made available, and actually actively marketed to their students.

Ms. MILLER. Can I just ask something real quick, to that? So, if you have students who are coming in for loans, and their probability and rate of default is high—who's really benefiting, then? I mean, obviously the financial institution's not making any money off of that, and obviously the student—do you know what I mean? It seems like a loss-loss situation. How would the financial institution benefit if they're going to default on their loans anyway? Do you know what I'm saying?

Mr. NASSIRIAN. Oh, I understand very well what you're asking.

The way it works, to just give you an analogy—what we have seen over the course of the last 20 years, I mean, the world has turned upside down, I mean, look at the sub-prime mortgage crisis—the banks used to look over the shoulders of purchasers, because it was their money that was going into the purchase, so you could naturally assume that the system had checks and balances, that it wasn't just little you, but the giant institution had its money on the table along with you, and that really, uneconomical transactions wouldn't be consummated, because it wouldn't be, not only not in your interest, it wouldn't be in the banks' interest.

What we have learned, much to our chagrin, as of the past year, is that the bank was, frankly, not only indifferent, but it was actually incentivized to make even uneconomic transactions occur, because of the advent of securitization means that it wasn't lending its money, it was simply acting as an agent, and it was selling securities to investors, most of whom were generally clueless as to what they were buying.

The meltdown that my colleague refers to, quite accurately, in the securitization market, and the asset rates securities market, is attributable to the investors not getting spooked.

With regard to your question, when you say, how is it in the school's interest, the management of many for-profit institutions may well be sort of in that same situation. That, you know, because who's the school? Arguably the investors in the school is the school, but the fact is, they don't exist as any substantial control.

The management, however, because they are vested, because they have options, because they are fairly knowledgeable about what's going on, could in fact benefit from otherwise uneconomic transactions that ultimately bring the whole thing down, but over the short haul, result in fortunes changing hands—often out of your pocket, in the form of $600 monthly payments for 30 years——

Ms. MILLER. Right.

Mr. NASSIRIAN [continuing]. Into 18-hole private golf courses on the Eastern Shore of the State of Maryland, and other——

Senator BROWN. And, Ms. Miller, as Mr. Nassirian pointed out, in the banking and the foreclosure crisis—a lot of people made a lot of money off of that—rating agencies, brokers, people that slice and dice the derivatives, all that—and in the end homeowners lose, and look what's happening to banks around our State—one in Cleveland and all over the place, so—in the last, we have about——

Oh, I'm sorry, did somebody else want to add to—? I'm sorry, Mr. Kohne.

Mr. KOHNE. Senator, if I could respond to something my colleague Barmak said in his opening statements where he described what I was asking for in my comments as a "bail out," we don't see it as that way at all. In fact, we see it as less of a bail out as what's been given in the mortgage industry, and what's currently in the Miller and Kennedy bills is a secondary market.

What we're asking for is just a—use the power of the Federal Government to restore investor confidence—to go to the markets, to raise money to make student loans this fall. We're not asking the government to fix the problems with our existing finances—we'll fix those ourselves. We're just looking for a way to raise money to make student loans this fall. That's the first point, it's not retroactive, it's just forward-looking.

The second thing is, we see this sort of like a government-sponsored enterprise things—like Fannie Mae, Freddie Mac, Sallie Mae—who effectively used the Federal Government's credit, but paid a fee for it. We're willing to pay a fee for this service. We don't see it as any kind of a bail out at all. We see it as a way for the Federal Government to help us solve a problem that's beyond—that's totally beyond our control, that was not our fault, on a temporary basis, so that we can make student loans this fall. It's all about access.

Senator BROWN. OK. Thank you.

I have one question I want to close with, and I'd like each to answer, if you can, just in literally a minute.

The Department of Education's estimated as many as 40 to 60 percent of students who take out private loans do not use all of their Federal grants and loans available to them first. Do any of you have recommendations about what we can do, or what you're doing now to make sure that students know to take advantage of much more economical loans, for them, from the Federal programs?

I'll start with—try to keep it to 1 minute, if you can—Mr. Nassirian, and I'll just go down the line, and I'll close with you, Ms. Miller.

Mr. NASSIRIAN. Proper disclosures would be first and foremost. I think the committee also has jurisdiction on—at the very least—on title IV participating institutions to make it a requirement, that before they can package any other form of aid, that they ought to ensure that the least expensive aid is packaged first. That would be a very constructive step that the committee does have jurisdiction to take.

Beyond that, Congress as a whole, needs to act on ensuring that private loans are not frivolously and indifferently over-marketed.

Senator BROWN. Thank you, and we are trying to do some of that in the Higher Ed bill, but good suggestions.

Mr. Kohne.

Mr. KOHNE. I agree with Barmak, disclosure and counseling of parents and family, students, is key. My brother has a son who is a freshman at a large State University here in Ohio—it's not Ohio State—but it's a direct loan school. After he filled up his FFELP eligibility, they were immediately directed toward a very high-cost private loan. They weren't even told he could take out a PLUS loan, for example, and I just thought that was incredibly bad service on the part of the school.

As Barmak said, full disclosure, and counseling of these people so that they understand their options, at least, is first and foremost.

Senator BROWN. Fortunately, your nephew has an uncle that knows a lot about this.

Mr. KOHNE. Right.

Senator BROWN. Ms. Hart. Your thoughts.

Ms. HART. We think that the—in addition to agreeing with my fellow testifiers about disclosure—that having the financial aid process available earlier to students, we're very aggressively pursuing with the Department of Education use of FAFSA Forecaster—and I'm well aware and appreciate the FAFSA simplification. The reality is, some of these extreme circumstances happen because the time window is so narrow for very needy students in the standard FAFSA process. By using the FAFSA Forecaster, we think needy students can get into the process earlier, having much more widely spread advice about financing options through groups like the Ohio College Access Network, and get information more generally—not just pressed to sign the bottom line on that only loan that they're offered. We're very enthusiastic about that facility, and then the ability to move that data to your FAFSA your senior year, or renewals being a very important component of access and better information to our students.

Senator BROWN. Thank you.

Ms. Van Camp.

Ms. VAN CAMP. I would agree with that, with the disclosure. I think it should be—I do research in food science, and so I'm sure you've heard about the trans fat labeling, and how it's revealing what's actually in the food, I think that's exactly what needs to happen in this process—it needs to be clear what all of the options are and we need to support programs like Tally just mentioned, that educate—not only the students, but also their families. Especially for first-generation students that are trying to break this cycle—education is the problem. They're not educated about what their options are, and so the cycle continues.

Any programs that you can support that help overcome those obstacles would be phenomenal.

Senator BROWN. Thank you, Ms. Miller. Any thought?

Ms. MILLER. Yes, definitely, because I remember hearing about the PLUS loans, but I was completely on my own, so I know that other—when you're pretty much looking at all of your options to fund your education, anything—any grant—looks absolutely delicious. Anything to open opportunities for even grants, on various levels, for all types of students from different incomes and different backgrounds.

Another thing is, entrance and exit counseling for loans is very skim. I think when you first sign up they say, you know, "You need to watch this video," and it's a very vague outline of what, really, your responsibilities are, and how loans—even down to their disbursement, like when you receive them—it can be very confusing when you first get involved with taking out a loan, if you've never had that experience.

I would definitely say disclosure, entrance and exit counseling for loans, and more grants, definitely.

Senator BROWN. Good.

Thank you all. Thank you very much for your insight and your candor. All of this will be in the congressional hearing record and the committee testimony which you gave today, which will be a public document.

Thank you, again, Dean Rodgers, for hosting this, and all of you that are here today. If you have follow-up comments or anybody watching has thoughts they want to share with the committee or with me, be in touch with Will Jawando, sitting behind me. He is based in Washington, but will be here for a while today, and then back in Washington, get in touch with any of us.

I thank you all for joining us, and the committee is adjourned.
[Whereupon, at 11:46 a.m. the hearing was adjourned.]

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