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Why I'm Sticking With FFELP

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By **Bill Spiers**

President Obama's proposal to end the Federal Family Education Loan Program and make all federal student loans through the Direct Loan Program has gotten a lot of media attention. But for all the talk about budget numbers and politics, the views of college financial aid administrators have been largely lost in the shuffle. All FAOs have their own, differing reasons for choosing a particular federal student loan program for their institutions, but I'd like to explain why I favor the FFEL program and why my college will stick with it.

It comes down to this: FFELP provides outstanding service to students and our college and helps our students avoid defaulting on their loans, and competition -- between FFEL lenders and between FFEL and direct lending -- has provided for choice and, ultimately, excellence.

In the '90s, when direct lending was authorized, many of my friends moved to direct lending, for reasons I understood. Their decisions were based on solid logic and were in the best interest of their institutions. I supported their decision, and continue to support an institution's right to select the program that is in the best interest of the students they serve. Processing issues were abundant in the FFEL program at that time; today, however, the processing concerns are gone. Banks are responsive to students and schools. If needed, I can intervene and get things done for my students. The automation we pushed for in earlier years is now in place, and the infrastructure used in the program is solid.

Students are the primary beneficiaries of the simplicity and strong service of the FFEL program. Providing them with options to submit paper applications or to e-sign their promissory note without having to visit the financial aid office makes their life easier. In addition, the automation and verification of eligibility for FFEL funds expedites the delivery of funds to students. Students are confident the funds they receive are accurate and that their promissory notes are securely maintained.

As a community college, we have the responsibility to ensure that our students understand the potential impact borrowing will have after graduation. With the help of our guarantor partners we have implemented financial literacy seminars for all student borrowers. Each new borrower must attend a seminar before their loan funds are released. The materials for this program are provided by guarantors, who are there in person to help make the presentations to our students. The support we receive helps us educate our students about loans and ultimately makes them better consumers of financial products of all kinds. Current budget cuts and reduced manpower would make it impossible to continue a program like this without the support of our partners. In addition to financial literacy, we also receive information on exit interviews and repayment options that are vital to keeping students in repayment and out of default.

For many years lenders, guarantors and servicers have been active participants in financial aid awareness activities. These organizations devoted considerable financial resources and man hours to help financial aid professionals educate families about federal financial aid programs. From creating publications to high school financial aid nights and community-wide events, students throughout my state and nationwide have benefited from this support. When they apply for financial aid early because of this advice, needy students often receive more grant assistance and reduce or even eliminate their need for loans. In addition to financial aid awareness activities, lenders, servicers and guarantors also offer substantial training opportunities to financial aid staff. The loss of training opportunities could be detrimental to my staff and ultimately to the students we serve.

Default prevention and aversion are critical issues in the community college sector. At the institution I serve, our selection of lenders, guarantors and servicers is based on their company default rates and their default rate at our school. The basic due diligence requirements of the Federal Government in default prevention and aversion simply are not good enough to prevent defaults with the community college sector. Our lending partners must offer exceptional customer service and go well beyond the basic federal requirements for our students. We conduct a thorough review to ensure that our students are well served. We are confident that the people serving our borrowers understand the issues that young, inexperienced student borrowers face. Competition between lenders, guarantors and servicers has pushed them well beyond the basic measures to reach and assist these young borrowers

With the loss of competition that would come from the Obama proposal, we must ask ourselves if this level of commitment to default prevention and aversion will continue. If we are forced to move to direct lending and find ourselves dissatisfied with the default prevention and aversion efforts, what are our choices? Who will help us reach our borrowers? Will our schools have to pay for an outside company to do what our guarantors, lenders and servicers have done free all these many years?

For our students, customer service is vital. They must receive correct information that they can understand the first time they call. Students need help -- someone to hold their hands because they are in a learning curve. They don't want to wait on the phone for 30 minutes for help and they won't. By selecting lenders committed to creating long term relationships with student borrowers, we have found that they go the extra mile, and sometimes two, to ensure students are treated well and receive the information they need. The clarity of the information provided from the first day the loan is issued until the student finishes repaying their loans can make a difference for a population that is naïve in their approach to borrowing, credit and responsibility. Notice I didn't say ignorant because that isn't true. They do, however, need guidance as they move through this pilgrimage of learning about financial responsibility.

One of the great benefits of FFELP is the ability of the student, and where it is appropriate, their parent to decide with whom they want to do business. Students in direct lending are not given this choice, a clear distinction between the two programs. While we provide a list of lenders that have acknowledged they work with community colleges, a student is free to select any lender willing to issue their loan. The student – not the school or the government -- controls the choice of lender and has the opportunity to evaluate benefits offered by that lender. If a student has a solid relationship with a bank, he or she will often pick that bank as the lender for the student loan.

Competition has fostered excellence in FFELP and DL. The innovations were a direct result of the push to stay viable and technologically advanced so that schools would select or continue to use that program Until recently When lenders also competed for borrowers which led to lower loan costs for our students The default prevention and aversion efforts we enjoy in the FFELP program represent efforts on the part of business partners to meet our demands and compete for marketability. Technology improvements in borrower interface are the result of competition between FFELP and DL. Our students have certainly benefited from that competition.

While the media has focused on the profitability in the FFELP program, little has been said about the fact that the federal government must fund Federal Pell Grant Program increases off the backs of student borrowers. The government borrows money at very low rates, much lower than those available to lenders, yet the government would continue to charge the same interest rates as FFEL lenders. Under the current proposal the federal government isn't providing any breaks to the students and is actually making more off the program than lenders ever could. Wouldn't it be appropriate for the USDOE to set interest rates based on the student's expected family contribution? Or offer borrower benefits that help students during repayment based on their income? Or perhaps set an interest rate that is more in tune with financial markets and allow lenders to compete?

I support FFELP because of the benefits it provides students, parents and institutions. My institution and our students have been well served by this program. Times are changing. I can only hope that the Congress will find a way to maintain a worthy program that has benefited students for decades. And maybe, just maybe, financial aid administrators at over 4100 institutions that currently use FFEL will have an opportunity to be heard.

We are on the front lines every day. And we care about our students.

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