WASHINGTON FINANCIAL AID ASSOCIATION

# THE ADVISOR

FALL 2008

## FROM THE PRESIDENT

KATHLEEN KOCH
SEATTLE UNIVERSITY SCHOOL OF LAW

A thankful message –

I would like to express my gratitude for all of you, each of the WFAA members who make up this fine organization. It is a challenging time for our profession but life (and financial aid) always seems to be about change and how we adapt. Financial aid professionals are an amazing group of dedicated and caring individuals. Please remember how important you are to each student who is following their dream by giving them access to an education they would not be able to receive otherwise. Thank you for all your hard work.

The annual October WFAA conference, *A New Landscape, A New Vintage,* held at the Marcus Whitman hotel in Walla Walla was a great success. Our overall membership has decreased and in relationship to that it was well attended, even though there were fewer participants than usual. Our total WFAA membership has dropped from 440 last year (with 220 conference attendees in Wenatchee) to 281 members this year (with 150 conference attendees in Walla Walla).

I would like to thank the magnificent conference co-chairs Ron Noborikawa and Kim Schreck and also Teri Boose who was co-chair until she had to step down. A big thank you to the conference committees – Program co-chairs Linda Shannon and Tami Johnson, Registration chair Lisa Whitehead, Fund Development chair Rick Sinclair, Facilities and Entertainment co-chairs Marilyn Ponti and Traci Stensland, Publicity chair Corinne Soltis and Electronic Services chair Jeff Lackey.

At the conference we honored several retired or soon to be retired WFAA members who have devoted many years to our organization and our profession. In honor of their service, the WFAA Executive Committee has bestowed Lifetime Membership to Linda Burkhardt (Department of Education), Varga Fox (Whitman College), Betty Gebhardt (Higher Education Coordinating Board), Buzz (James) Gorman (Lower Columbia College), Wayne Sparks (Washington State University), Karen Specht (Clover Park Technical College) and Bob Walker (Pierce College).

The conference provides networking and training opportunities imperative to our profession. WFAA thanks the presenters and sponsors who helped make the conference possible. Please plan to attend next year's conference at the Seattle Airport Marriott, October 28-30, 2009. Also mark your calendars for the WASFAA regional conference to be held in Anchorage, AK, April 26-28, 2009.

As we proceed in adapting to the newest regulations in the reauthorization of the Higher Education Act and the Higher Education Opportunity Act, our colleagues and organization become a much needed support system. To keep our organization healthy, please consider volunteering and getting more involved. You may sign up under Member Services (click on Volunteer) on the WFAA website (www.wfaa.org) contact me directly (kkoch@seattleu.edu).

Thank you for your interest and involvement in WFAA and for contributing to our profession in everything you do each day by making higher education a reality for so many students.

IN THIS ISSUE:

## 2008-09 Leadership

**Barnes, David A** - Whitworth University
Executive Committee - Treasurer
Executive Committee - 4 Year Independent Colleges & Universities Rep
Fiscal Planning - Chair

**Cantelon, Janet C** - Seattle University
Executive Committee - VP - Legislation

**Deeken, Marianna** - US Department of Education
Executive Committee - US Dept of Educ Liaison

**DeWilde, Jim** - Western Washington University - Financial Aid Office
Student Budgets - Member

**Driscoll, Karen L** - Clark College
Executive Committee - President-Elect
Executive Committee - 2 Year Public Colleges Rep

**Fernandez, Victor J** - Higher Education Coordinating Board
Student Budgets - Member

**Fortson, Lisa** - Pierce College
Executive Committee - VP - Ethnic Awareness
Ethnic Awareness - Chair

**Heidrick, Nancy I** - Clark College
Historical Archives - Chair

**Hendrickson, Darlene K** - Gonzaga University - Financial Aid Office
Executive Committee - VP - Training
Training - Chair

**Henning, Joan** - Gonzaga University - Law School
Student Budgets - Member

**Ishimoto, Lester** - Bellingham Technical College
Calendar - Chair

**Johnson, Tami** - Evergreen State College (The)
Executive Committee - 4 Year Public Sector Rep
Student Budgets - Chair

**Koch, Kathleen D** - Seattle University School of Law
Executive Committee - President

**Lackey, Jeff** - Sallie Mae
Electronic Services - Chair

**Moye, Carol** - University of Washington - Seattle
Early Awareness - Co-Chair

**Naccarato, Julie** - Northwest Education Loan Association ( NELA)
Executive Committee - NW Educ Loan Assoc Liaison

**Nelson, Valarie** - Pierce College
Executive Committee - Fiscal Members Rep

**Noborikawa, Ron** - Pacific Lutheran University
Student Budgets - Member
Conference - Co-Chair

**Odom, Lorraine M** - Highline Community College
Student Budgets - Member

**Ponti, Marilyn** - Whitman College
Executive Committee - Past President
Nominations - Chair

**Rynning, Marie** - University of Washington - Seattle
Early Awareness - Co-Chair

**Sharpe, Rachelle** - Higher Education Coordinating Board
Executive Committee - High Educ Coord Board Liaison

**Silva, Kathreen A** - Washington State University - Pullman
Publications/Newsletter - Chair

**Sinclair, Rick** - Interface College
Executive Committee - Private/Career Sector Rep
Fund Development - Chair

**Smothers, Tracy** - Centralia Community College
Executive Committee - Secretary

**Thompson, Becky M** - EDFUND - Tacoma
Executive Committee - EdFund Liaison

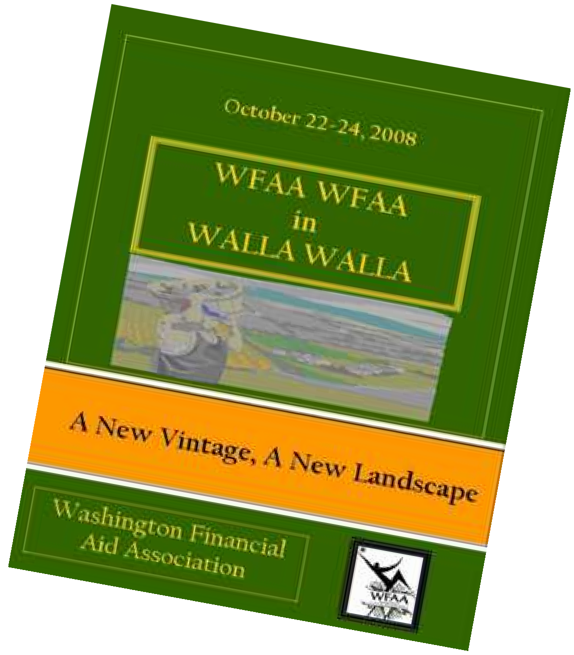
**Thorsen, MiChelle M** - Edmonds Community College
Student Budgets - Member

**Whitehead, Lisa A** - University of Washington - Seattle
Membership - Chair

**Wonderly, Rebecca** - Seattle University
Executive Committee - WCHSCR Liaison

# 2008 FALL CONFERENCE HIGHLIGHTS

Linda Burkhardt, U.S. Department of Education, and WFAA President Kathleen Koch. Linda received WFAA's Distinguished Service Award for her many years of guidance and training. She said that she was " . . . honored, and touched."




# WFAA RECOGNIZED ITS RETIREES

Linda Burkhardt (Department of Education), Varga Fox (Whitman College), Karen Specht (Clover Park Technical College) ,Wayne Sparks (Washington State University). Retirees who were not able to attend the conference were Betty Gebhardt (Higher Education Coordinating Board), Buzz (James) Gorman (Lower Columbia College), and Bob Walker (Pierce College). WFAA recognized the retirees with Lifetime Membership to the association.

# 2008 Fall Conference Highlights, cont...

Left: Keynote Speaker Swil Kanim

Right: WASFAA President Pat Peppin (Mesa Community College ), Conference Attendee, WFAA President Kathleen Koch, and Keynote Speaker Swil Kanim


Left: Vendors

Bottom: Luncheon

# THE STUDENT LOAN CREDIT CRUNCH: HOW DID WE GET HERE AND WHERE DO WE GO?

MARY ANNE KELLY, EDFUND
AVP COMMUNICATIONS

There is no doubt you've heard lots of stories in the mainstream and industry press about problems in the credit markets and the impact that it's having on student loans. It's a lot to take in and confusing to many of us that don't watch what happens on Wall Street on a daily basis. We thought we'd try to sort out some of the details to explain how we got here and give you some insight into what's being done to deal with the situation.

**Background**

For more than a year now we've heard about problems in the sub-prime mortgage industry and how a number of factors, including higher interest rates and price correction in an inflated housing market, contributed to the situation. As interest rates on adjustable rate mortgages increased and housing prices dropped, a large number of recent home buyers could no longer afford their mortgage payment nor could they sell their homes for what they owe on their mortgage. This has led to a large number of defaults and foreclosures.

Many of the institutions that granted sub-prime mortgages would bundle the loans they made into a securitized asset and would then sell that asset in auctions on the financial markets in order to achieve liquidity (a process to get more money they could then use to make more loans). When defaults started to occur more frequently, investors no longer saw these bundled assets as good investments and stopped purchasing them on the auction markets, or if they did they demanded higher rates of return on their investments.

While there is generally no direct connection between mortgages and student loans, many non-profit, private and state-based lenders in the student loan program use similar financing models in order to raise capital to make these loans. Because investors had become fearful of purchasing these types of securitized asset investments (resulting from diminished returns in the mortgage market) they also became resistant to purchasing student loan assets and demanded higher rates of return from the student loan companies trying to sell the investments.

At the same time, these same lenders were dealing with two back-to-back years of significant cuts in the subsidies they receive from the federal government resulting from the Higher Education Reconciliation Act (HERA) and the College Cost Reduction and Access Act (CCRAA). The combination of the increased costs of securing capital in the credit markets (or an inability to secure capital at all) and the cuts in federal subsidies have made operating in the student loan market not only less profitable but in some cases even a losing proposition for lenders.

While most students have only felt the impact of these problems in the form of fewer borrower benefits and discounts, it is anticipated that the impacts of continued problems in the credit markets could eventually touch students in all sectors. For students attending higher priced institutions, lenders have already begun to tighten credit requirements and raise interest rates on private label (non federal) loans. Students who attend schools with lower graduation rates and/or higher cohort default rates could face problems finding lenders that are willing to make even federal loans available.

**Legislative Action**

As news of the problems in the credit market began to reach Washington, Congressional leaders began to take notice. From the education policy perspective, House Education and Labor Committee Chairman, George Miller (D-CA), and Senate Health, Education, Labor and Pensions Chairman, Ted Kennedy (D-MA), held hearings in early spring to hear from the education community and the Department of Education on the extent of the problem. The series of hearings resulted in both Chairmen introducing legislation that would provide some band aid provisions for borrowers who may have problems finding willing lenders in the upcoming peak loan cycle.

President Bush signed H.R. 5715 into law on May 7. The law seeks to stave off potential student loan access problems created by recent disruptions in the credit markets. It also creates significant changes to the ACG and SMART Grant programs and increases annual and aggregate Stafford Loan Limits.

**Department of Education and Industry Actions**

While lawmakers look at legislative measures, the Department of Education is also working hard and fast within its scope of authority. As part of her testimony before the House Education

*(Continued on page 6)*

and Labor Committee, Education Secretary Margaret Spellings assured Members that she is in talks with Treasury Secretary Paulson and will continue to explore possibilities of working together. She also informed the Committee that the Department had additional immediate capacity in the Direct Loan program. Finally, she discussed the Department's efforts on preparing the Lender of Last Resort (LLR) program for large-scale implementation, should it become necessary.

Guarantors are well positioned to help financial aid staff to support the implementation of LLR, should an institution need such a program. Schools across the country remain confident that the LLR program will address the availability of federal loans for all students and demonstrate that the FFEL program, with its flexibility and service benefits, remains the right choice for their institution's financial aid programs.

## NEW ADDITION TO OFFICE

KATHLEEN KOCH, WASFAA PRESIDENT

I am pleased to announce that Natasha Murphy joined Seattle University School of Law in September as our Student Financial Services Program Assistant and the first point of contact for our students and prospective students.

Natasha comes to us with ten years of higher education experience. She worked in Admissions and Housing at The Art Institute of Seattle, was the Patient Coordinator in the dental program at Boston University and most recently she held the position of Visiting Student and International Student Coordinator at MIT. She is highly respected and admired in the higher education community and is a wonderful addition to our team.

# BIG WILD 40
# 2009 WASFAA CONFERENCE

TED MALONE ,UNIVERSITY OF ALASKA - ANCHORAGE
COLLEEN MACDONALD, EDFUND
2009 WASFAA CONFERENCE REGISTRATION CO-CHAIRS

We invite you to the **"BIG Wild 40" WASFAA Conference in Anchorage, Alaska on April 26-28, 2009.** The WASFAA Conference is the premier training event of the association that provides essential training through relevant sessions to enhance participants' professional development. By attending training with other aid administrators from a broad range of states and types of institutions, the conference creates an environment in which participants can increase their professional growth by networking and collaborating with fellow participants. We are planning range of training topics, including the latest federal update, financial literacy options, and technical Title IV instruction. Check out the WASFAA Conference website to review the agenda.

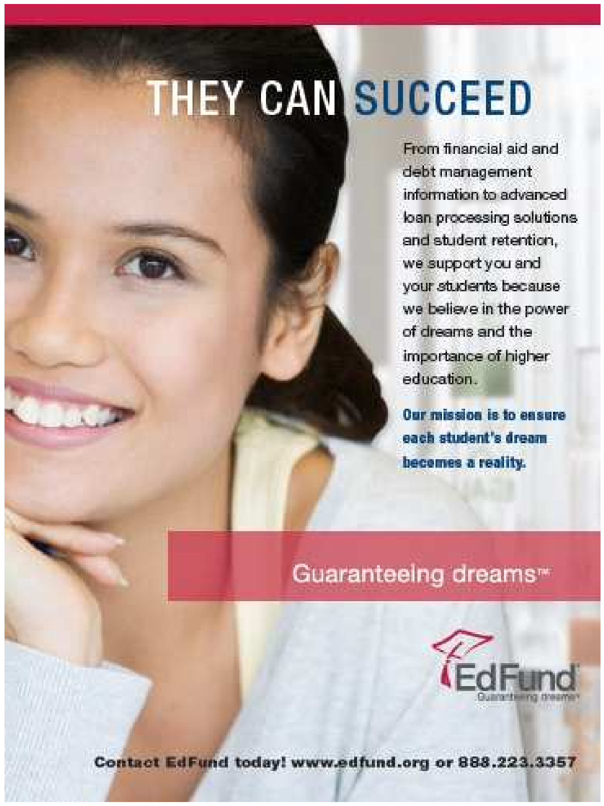
The $300 registration fee applies to anyone who registers by 5:00 p.m. PST on February 13, 2009. If you register after that, the conference fee is $375.

In order to give conference attendees a sense of the diversity of Alaska, several of the keynote speakers and entertainment will include a local flavor. Mr. Whitekeys, a humorist, author, and entertainer based in Anchorage, will open the conference with his brand of Alaskan commentary and native lingo. Also, Father Michael Oleska, a Russian Orthodox priest, distinguished scholar, and storyteller based on Alaska, will speak about diversity in order to foster greater understanding across boundaries of race and culture. In addition, the conference will include demonstrations of some traditional Alaskan Native Games, which teach balance, cooperation, strength, agility, concentration, endurance, and speed. In addition, each state association in the region will have a team to compete in modified Alaskan Native Games.

WASFAA 2009 Conference attendees have the opportunity to travel to Alaska - a state with 586,000 square miles of beautiful scenery. While you are in Alaska, we hope you take advantage of the numerous possibilities. Choose from wildlife viewing, sea kayaking, and guided glacier hikes. Relax aboard a one-day cruise, pan for gold, bait a rod for Alaska's world famous King salmon fishing.
Spring begins in late April and early May, when days are warm and sunny, nights are cool, and precipitation amounts are exceedingly small. In late April, expect over 15 hours of daylight brighten your days while in Anchorage.

In the heart of downtown Anchorage, the conference hotel, the Hilton Anchorage**,** stands out for its convenience and comfort. The Anchorage Airport Hotel is a 10 minute drive from Ted Stevens International Airport and a block from the Alaska Railroad Depot. This hotel is two blocks from Ship Creek fishing opportunities, flight-seeing businesses, tour companies, the Alaska Museum of History and Art, Nordstrom, The Ulu Factory, 5th Avenue Mall and many unique Alaska-themed boutiques. The conference hotel rate per room is $145 for single or double occupancy with absolutely no city, county, or state tax. Remember that the conference room rate is valid from April 21 through May 1, 2009.

To register for the conference and make hotel reservations, go to http://www.wasfaa.org, and click on Conferences for the appropriate links.


THEY CAN SUCCEED
From financial aid and debt management information to advanced loan processing solutions and student retention, we support you and your students because we believe in the power of dreams and the importance of higher education.
Our mission is to ensure each student's dream becomes a reality.
Guaranteeing dreams™
EdFund
Contact EdFund today! www.edfund.org or 888.223.3357


A guarantor partner with your needs in mind ... that's empowering!
Educational Credit Management Corporation (ECMC) is a nonprofit national FFELP guarantor committed to providing benefits, services, and products that make a difference for students, schools, and lenders.
0% Default Fee
We pay the Federal Default Fee for all borrowers regardless of lender/servicer relationship, loan type, or school through June 30, 2009.
Financial Literacy
Our Financial Awareness Basics (FAB) program uses a variety of formats and an interactive, informative Web site (www.ecmc.org/fab) to guide students in smart money management practices.
Default Prevention
With one of the industry-leading cure rates, we offer communications and strategies that can be customized to best serve your default prevention goals.
Custom School Web Pages
Together, we design custom Web pages based on your financial aid process. Your students will appreciate a Web-based process that provides helpful information and instructions, leading them through your required steps in the financial aid process.
Personalized Products & Services
Our flexible tools, products, and services can be tailored to meet your requirements.
To learn more about how ECMC can help you, contact Ruthie Lusha, your regional ECMC Client Relations representative.
Ruthie Lusha
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# THE METEOR NETWORK: HOW IT CAN HELP YOU

TIM CAMERON, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS

The Meteor Network, a service of the National Council of Higher Education Loan Programs Inc. (NCHELP), assists students and schools by providing aggregated, timely and accurate financial aid information. The Meteor Network is a free tool that allows schools, students and other users to access financial aid award data from multiple sources in real time. The software that powers the network is the result of a collaborative effort of the Federal Family Education Loan Program community to provide financial aid professionals and borrowers with secure, online access to loan information.

Meteor continues to grow in importance as student aid volume increases and access to accurate and timely information becomes mandatory. As a result of recent regulatory, legislative and program changes, the percentage of students with multiple loan servicers is expected to increase.

Because the Meteor Network can aggregate data directly from the data source, schools have a real-time tool to complete the loan certification and counseling processes. Using the Meteor Network provides education loan borrowers with an excellent way to track and manage their debt from federal and private loan providers — in a single view.

Meteor is unique in its capability to deliver borrower information from multiple sources, which can then used as a value-add to existing web services by customizing and incorporating that data with the data provided by the other web services.

At a time when many schools and student borrowers will likely need to manage debt with multiple lenders and/or servicers, the Meteor technology provides a way for them to gather their loan information in real-time from multiple providers. Meteor technology also powers several other tools that are currently offered to schools and students are powered by this technology:

Mapping Your Future.

Online Student Loan Counseling — Students can access their federal and private loan information during their exit counseling sessions. This access provides students with much more meaningful exit counseling sessions.

School Access Provider — Mapping Your Future schools can access data on the Meteor Network directly from Mapping Your Future's secure web site. They simply enter their user IDs and passwords. This process provides schools with a program- and participant-neutral site to access all data available to the Meteor Network.

The National Student Clearinghouse.

LoanLocator — This tool provides colleges and students with access to 100 percent of outstanding FFELP loans and Federal Direct loans, in addition to billions of dollars in private student loans at no charge. LoanLocator with Meteor enables colleges and students to track and manage their federal and private student loan debt and to receive detailed information in real time.

Campus Based Authentication — Institutions enrolled in the Clearinghouse's free online Student Self-Service program also can provide their students with access to Meteor data. The Clearinghouse uses campus-based authentication to provide access to Meteor and its other Student Self-Service offerings from a school's web site.

Campus-based authentication provides greater access to valuable debt management, default aversion and other tools and services by using a school's authentication process to gain access to the Meteor Network and Clearinghouse services.

Additionally, several Meteor participants have incorporated data from that network into other customized applications, to provide students and

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financial aid professionals with information about the location of their loans, detailed contact information for their providers, and aggregated details of outstanding debt — including interest rates detailed repayment information and more.

Meteor Network traffic continues to increase as more and more organizations provide access for students through standard Meteor implementations and through integrating customized applications into current online services. Already this year, Meteor usage has more than doubled as compared to the same time period last year. By early 2007, Meteor had realized a usage increase of more than 600 percent in the year since students first gained access to the service.

Currently 14 Web sites provide access to the Meteor Network — and that number continues to grow. Schools even have the option of installing the software on their systems to provide direct access to their students.

"Meteor continues to lead the way in provision of open access to a borrower's data for schools and borrowers. Especially now, at a time when many borrowers are obtaining federal and private loans with multiple lenders or servicers, Meteor provides a way to access all of that information within a single view. Through its unique abilities, Meteor has demonstrated its value as a default aversion tool, and is an excellent example of how the student loan industry has worked together for the benefit of schools and borrowers," said Dick George, Chairman of the Meteor CEO Steering Committee.

Meteor is a prime example of a successful collaboration to implement a leading-edge solution for the benefit of schools, and for the benefit and protection of borrowers.

For more information about the Meteor Project, please visit www.MeteorNetwork.org. Or, for information about membership and implementation, please contact Tim Cameron by e-mail at meteor@nchelp.org

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**Meteor** is a collaborative effort within the student aid industry to simplify and consolidate access to student financial aid information. Sponsored by FFELP providers, and coordinated by the National Council of Higher Education Loan Programs, the Meteor software provides open, non-proprietary, real time access to all available aid information for a student, and aggregates it for display to students and Financial Aid Professionals. For additional information visit www.nchelp.org/meteor.htm or contact Tim Cameron at meteor@nchelp.org

**NCHELP** represents a nationwide network of guaranty agencies, secondary markets, lenders, loan servicers, collection agencies, schools and other organizations involved in the administration of the Federal Family Education Loan Program (FFELP). NCHELP members promote student access and choice for post-secondary education and training. Over the past 35 years, FFELP lenders have provided more than $300 billion in student loans. More information is available at www.nchelp.org.

# BREAKING THE DEADLOCK: UNIFYING OUR FEDERAL STUDENT LOAN PROGRAMS

PAUL COMBE, AMERICAN STUDENT ASSISTANCE PRESIDENT AND CEO
STEVE BIKLEN, FORMER PRESIDENT AND CEO OF CITIBANK'S STUDENT LOAN CORPORATION

The recent credit crunch that destabilized the mortgage market and leaked to student loans, along with a heightened public awareness of the impacts of student debt, has brought to light the very real need for student loan reform. As we watched the events of the past few months unfold, the higher education community has been forced to face the fact that the dislocation in the credit markets could pose a real threat to the delivery of student aid. While Congress, the Department of Education and the student loan industry have worked together to ensure the continued availability of federal student loans in the immediate future, we must examine ways to improve our student loan system in the future for students and taxpayers alike.

The drumbeat for student loan reform has been building slowly, but steadily, for several years now. Starting in 2006, the Secretary of Education's Commission on the Future of Higher Education called for the simplification of the entire federal aid process. In 2007, regulators and policymakers questioned relationships between student loan lenders and the college financial aid professionals who recommend them to students. Then in 2008, more than 100 lenders stopped or curtailed making federal student loans due to slashed subsidies and market conditions that resulted in shrinking profit margins. Finally, newspaper headlines across the country are now reflecting the warning signs that students' capacity for managing debt is reaching a breaking point.

With a growing appetite for change among the public, policymakers and aid administrators alike, now is the time to examine a new proposal for a single, robust, neutral student loan program. A program that uses both private lenders and the federal government as sources of capital should be the cornerstone of that reform, harnessing efficient standardization, competitive borrower benefits, taxpayer-cost effectiveness and true consumer choice.

To understand where our federal student loan program is headed, we must first understand where it's been. For over 15 years, the Congress, college financial aid officers, and the higher education financing industry have been locked in a polarizing struggle between two competing federal student loan programs: the Federal Family Education Loan Program (FFELP) and the Direct Loan Program (DL). The major focus of the debate is which program scores less in the federal budget. Unfortunately, for both sides, FFELP vs. DL is a death match where only one can survive. Rhetoric has smothered rationality and real dialogue on how to make the two programs actually work together has been impossible.

Objective observers all agree that the competition and interplay between the two programs have been beneficial to schools and borrowers, each program forcing the other to improve service, systems, and even pricing. The efficiency and standardization of DL's single delivery system, the consumer choice and service competition of the "market" of multiple lenders, and the debt management/default prevention activities of the guarantors in FFELP have all been major competitive drivers improving both programs. In spite of the obvious advantages and synergies of the two programs, and the advantages of the competition to the consumer and schools, the programs are still being operated by Congress and the U.S. Department of Education (ED) as, at best, separate. Each program is now affiliated with a political party, further polarizing the issue.

To return the federal loan program to its primary mission, it is time to move from FFELP vs. DL to FFEL and DL. A much-needed reform program should focus on:

- The consumers and their rights and needs
- The delivery system

The pricing for private capital

**They are consumers**: While the student loan debate has raged, education debt levels have more than doubled.

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Borrowers have an obligation, but society does as well, to help the borrower manage that debt over the life of the loan. Education loans create a 10 to 25-year relationship between the borrower, the lender/servicer, and the federal government. Unlike grant aid, the long term nature of the loans, and the obligations and relationships created by it over the life of the loan, make the education borrower, in every sense, a "consumer" rather than just a recipient. The borrowers' consumer needs for access to information, timely and responsive advice and service, and mediation of issues are real and critical to the program's success.

THE DRUMBEAT FOR STUDENT LOAN REFORM HAS BEEN BUILDING SLOWLY, BUT STEADILY, FOR SEVERAL YEARS NOW.

One of the basic rights of a consumer is choice. The education loan consumer should have the right to pick who they want to deal with over the next 10 to 25 years, whether it is the federal government, a guarantor, or a private lender. So far the dialogue has been just about federal cost. There needs to be a balance between taxpayer costs and consumer rights.

Thus, one of our goals should be to squeeze unnecessary costs, whether public or private sector costs, from the student loan programs, and use some of those savings to better assist borrowers in successfully completing their education financing by assuring that they have the information they need to manage and pay off their loans. Debt management and default prevention is something that should be measured and for which guarantors, as neutral third parties, should be held accountable.

Indeed, the role and financing of the "guarantor" community should be refocused away from the origination process to early awareness and information, debt management and default prevention, and loan rehabilitation for all borrowers, including those with Direct Loans. Essentially, guarantors would no longer insure the lenders, but instead help guarantee the borrowers' success. Since loans may be securitized or sold to any party, including ED, the guarantor provides the borrower a stable, neutral third-party relationship over the life of the loan. Guarantor fees and incentives should be focused on the relative success of the borrowers in their portfolio as measured by Loans in Good Standing and these results should be published and available to the consumer. The consumer should be allowed to select the guarantor that they believe would best provide those services over the life of the loan.

**The System**: In the late '80s, it was the inefficiency of the multiple loan delivery processes developed by individual lenders and guarantors, and the lack of standardization between those systems, that was a primary impetus for the creation of DL, a single, efficient delivery system solution for schools. As the competition between the programs grew and the private sector began improving their systems, standards were developed that excluded DL. Within FFELP vs. DL, and in FFEL itself, the delivery systems became a market tool that can be used to restrict the range of consumer choice.

The process of programmatic convergence should first focus on developing a single, robust, lender/capital neutral, origination platform. This system should be developed by ED, lenders, schools (FFELP and DL), guarantors and school financial aid management system (FAMS) providers. The system may be a federal system or a mutual benefit corporation and should accommodate and communicate data and disburse loans for multiple lenders, including ED, and should be the required process for all federal loans. This development eliminates the loan distribution process as a possible point of market control.

Had there been a single, federal loan delivery system already in place, the recent dislocation in the credit markets would have posed very little threat to the delivery of loan funds to the students. Also, a single system would lower the cost of entry into the student loan markets, opening the market to more lenders and capital sources. With one delivery system, capital becomes fungible, allowing small lenders to compete, side by side, with large lenders. Also, with a single system in place, Congress should require all schools to place ED, with its Direct Loan brand, and at least two other lenders on their preferred lender list. Effectively, the consumer could pick any lender (including ED) on any campus and be assured that the funds would be delivered efficiently and on time. This is ultimate consumer choice.

**Capital costs**: The last priority is the setting of the interest rate provided to the private lenders/capital in the FFEL program. Congress sets the rate charged to the student, which is the same for both DL and FFEL. Historically, Congress has periodically set the subsidy rate (special allowance payment), but this has always politicized the process. If it is the private-public partnership that allowed the student loan program to develop into a viable student loan market, a mechanism has to be developed that provides a reasonable, risk-rated return. The question is how. The answer should be provided by the private sector. Auctions have been suggested but these would be operationally cumbersome and ignore completely consumer rights. Most recently, Ben Bernanke, the Federal Reserve Chairman, has suggested a mechanism that would track the spread between two relevant measures of the cost of funds to lenders and use those as a mechanism to determine the appropriate lender return. Ultimately, capital markets in conjunction with Congress, ED and loan providers should develop a proposal that uses the cost of the DL program as a benchmark; satisfies the needs of the federal government and the consumer; is market based; and provides an appropriate role for private capital and market competition.

**Building a Model for the Future: Getting to Unity**

2008 has turned into a watershed year for the student loan industry. The recent threat of an unprecedented disruption to student loan access has brought forth not only a rapid response from lawmakers, the administration and the industry, but also a rallying cry for a broad and thorough review of the entire federal student aid system. The time is right to convene "Clean Slate" working groups to tackle reform.

Working Group activities should include:

• Creating a structure and laying the groundwork for regulation or legislation to unify our federal loan programs into one

• Integrating an R&D approach to setting student loan policy

• Researching and publishing position papers on key issues

• Providing a Web-based clearinghouse of information

In a bid to retain America's competitiveness in an increasingly global economy, it is imperative that our nation invest in the proper education, training and support for its citizens. We must develop a unified student loan program with an eye toward efficiency, affordability, accountability, and sustainability. It's time to break the deadlock and restore America's higher education finance system as the true support mechanism for college access.

*What do you think of a single unified federal loan program? Join the conversation on ASA's* Policy Perspectives *blog at* http://www.amsa.com/blogs/policyperspectives/blog_detail.cfm?bid=8.

# Volunteer at

http://www.wfaa.org/docs/forms/memVolunteer.html