INSIDE HIGHER ED
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July 29

More Uncertainty in Student Loan Programs

In May, after the U.S. Education and Treasury Departments outlined a plan to offer government support to bolster providers of student loans, Brazos Higher Education Services Corp., the 23rd largest originator of federal student loans, reversed its decision of a few months earlier to stop making such loans. The government's plan, Brazos officials said, seemed to offer enough reassurance to investors to make it possible for Brazos to raise the money it needed to originate loans.

And last month, following the Massachusetts Educational Financing Authority's announcement in April that it would not make federal loans because of the "unprecedented disruption" in the capital markets, the state agency said that it nonetheless expected to unveil this month a program to make fixed-rate private loans to student borrowers.

Monday, both abandoned those plans, suggesting continued turmoil in the student loan market.

Brazos posted a notice on its Web site saying that "with deep regret" it had once again "found it necessary to suspend its participation in the Federal Student Loan program." In an interview Monday, Ellis Tredway, executive vice president of planning and government affairs at Brazos, which is an affiliated group of nonprofit lending organizations, said that its officials "ran out of time to get everything in place" to make loans this fall, given how recently Congress and the Education Department completed work on the terms of the government-provided support for lenders. Brazos officials on Friday began alerting college financial aid officers and students and parents who had received loans in the past about the change in plans, so that "they can find other loans," Tredway said.

He said that Brazos was in discussions with two "warehouse" lenders that want to provide loan funds to Brazos to lend to students, and that he was hopeful that the company would be able to make federal loans next spring or next fall.

Economic uncertainty similarly altered the plans announced by the Massachusetts loan agency just a month ago. At that time, its executive director, Tom Graf, said in a statement that "MEFA anticipates announcing the offering of a fixed interest rate loan program for undergraduate and graduate students in late July. MEFA's anticipated education loan availability is the result of a series of financial transactions to raise education loan funds for the 2008-2009 academic year."

But raising that money has been harder than anticipated, Graf said in a statement Monday. “[A]t this time we have been unable to secure funding for 2008-2009 academic year education loans. While we continue to pursue every possible option, raising the necessary funds to offer fixed interest rate private education loans is taking longer than originally projected and has become even more challenging.” In total, the agency made more than half a billion dollars in federal and private loans in 2007-8, according to *The Boston Globe*.

The reversals by the two lenders comes as crunch time for colleges and lenders approaches. To date, many campus officials have continued to say that in general, their students are not encountering major difficulties in finding loans for college. But it is also true that at most traditional colleges, the point at which students or the institutions themselves would see a true drying up of loan funds is a few weeks off.

Signs like those that came Monday are likely to raise the jitters level just a bit. “An economy that is in such a tailspin that it affects a critical agency like MEFA is an economy that scares me,” Kathryn A. Osmond, executive director of student financial services at Wellesley College, wrote in an e-mail message Monday.

— Doug Lederman

The original story and user comments can be viewed online at http://insidehighered.com/news/2008/07/29/loans.