Congress of the United States

Washington, DC 20515

March 17, 2008

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

We commend the Federal Reserve System for working in coordination with other G-10 central banks to inject liquidity into our capital markets at a very challenging time. In particular, the Federal Reserve System's recent decision to expand its securities lending program by creating a new Term Securities Lending Facility represents an important step toward easing the growing global credit crunch, especially in the housing sector.

In light of severe liquidity pressures in the student loan financing market and the potential for ongoing disruptions in the delivery of federal student loans during the upcoming academic year, we write to encourage you to undertake two additional actions. First, we encourage you to use the Federal Reserve's authority in "unusual and exigent circumstances" under Section 13 of the Federal Reserve Act (12 USC 343) to provide immediate assistance to non-bank lenders that issue AAA-rated Federal Family Education Loan Program (FFELP) asset-backed securities. Second, we request that you allow primary dealers and issuers to use student loan asset-backed securities as collateral to borrow from the newly created Term Securities Lending Facility. Either one or both of these actions would help to restore stability to the marketplace for financing student loans.

For more than 35 years, FFELP lenders have financed more than $350 billion in outstanding student loans without disruption. During the past three months, however, turmoil in the broader capital markets has caused severe liquidity problems for student lenders that rely on access to credit markets to raise capital. Not only are certain markets inaccessible, but spreads on AAA-rated asset-backed securities, backed by FFELP Stafford and PLUS loans that are 97 percent government guaranteed, have also widened by more than 85 basis points since mid-summer. Increasingly, FFELP loans have become uneconomical and unprofitable.

As a result of these circumstances, a number of lenders have either suspended or permanently ended participation in the FFELP. To date, 19 FFELP lenders, including 4 of our nation's top 25 originators, have either exited the FFELP or suspended lending under it. For example, the Pennsylvania Higher Education Assistance Agency, which serves 500,000 Pennsylvania students, suspended its lending in the FFELP. The College Loan Corporation, the eighth largest FFELP lender, also left the program.

Although no student has been denied a FFELP loan to date, approximately 6.7 million students and parents will apply for a FFELP loan in the coming months. If these current credit market conditions continue or if they were to deteriorate, the potential for a severe disruption of the student lending distribution system increases significantly, especially as more lenders seem likely to stop making unprofitable loans under such conditions.

While there have been reports of some depository institutions stepping in to make FFELP loans where non-bank specialty finance companies have suspended lending, the Consumer Bankers Association (CBA) has recently noted that its members will be limited in this capacity going forward. In a letter to Congress, CBA's president writes, "They (banks) cannot continue to devote ever larger amounts of capital to making loans that lose money or barely break even at the expense of other types of loans that are needed by their customers." In short, it is reasonable to believe that banks and large non-bank lenders will not be in a position to meet demand as other lenders leave the program.

In these difficult economic times, we believe that the Federal Reserve System should work to provide liquidity to all types of student loan originators in order to restore a smooth functioning of this market sector and to avoid negative economic outcomes. An educated workforce is essential to a well-functioning economy. If students—80 percent of whom rely on the Federal Family Education Loan Program—are unable to secure loans in the fall, we would not only severely impair their long-term earnings capacity, but we would also impair our nation's economic prospects. Consistent with all applicable law and regulation, we therefore respectfully urge the Federal Reserve to use its emergency authority to lend, against collateral, to student lenders and/or extend its newly announced securities lending facility to non-bank lenders participating in the Federal Family Education Loan Program.

Sincerely,

Paul E. Kanjorski
Paul E. Kanjorski
Member of Congress

Howard P. "Buck" McKeon
Howard P. "Buck" McKeon
Member of Congress

Rubén Hinojosa
Rubén Hinojosa
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John A. Yarmuth
Member of Congress

Carol Shea-Porter
Member of Congress

David Scott
Member of Congress

Solomon P. Ortiz
Member of Congress

Donald M. Payne
Member of Congress

cc: The Honorable Henry M. Paulson, Jr.
Secretary, U.S. Department of the Treasury

The Honorable Margaret Spellings
Secretary, U.S. Department of Education