

Georgetown University Law Center

The State of Student Loans

Student Loan Bottom Line

Federal student loans will continue to exist
Students may have to select from different options for their borrowing needs
The Financial Aid Office will provide as much flexibility as possible

What's Happening?:

Investors are presently not purchasing the bonds that allow lenders to loan money to you. In addition, the College Cost Reduction and Access Act bill was passed into law on October 1, 2007 which decreased lender reimbursement rates, increased lender participation fees, and decreased the amount of the federal guarantee on student loans. These changes in federal regulations governing student lending have made student loans less profitable for lenders. Therefore, the student loan market has been disrupted and is not functioning normally.

The Student Loan Market:

Normally, once students select their lenders and the school certifies the loan, the lenders arrange to borrow money in anticipation of the upcoming year's volume through a "warehouse" credit line. As the loans are disbursed to students the warehouse line decreases. The warehouse line is normally rejuvenated by selling bonds and repaying the warehouse line lender. However, investors are not purchasing the bonds that lenders normally use to make new student loans. Therefore, the lenders do not have the resources to replenish loans to students.

Recent Consequences for Current Loan Borrowing:

Any loans that are borrowed for the 2008-09 academic year will lose the 3% Grad PLUS fee rebate; Consolidation programs are loss-makers and are being discontinued; Loss of Federal "default fee" (1%) coverage by most guaranty agencies; Loss of origination fee (1.5%) coverage by lender; Loss of incentives on loans.

Back-Up Lending Options are Available:

Lenders find Georgetown Law students very attractive because we historically have a low default rate. Therefore, funding will be available to our students. Although it is usually better to stay with the same lender, some students may have to consider changing lenders depending on their financial needs.

The Federal Reserve has been asked to include AAA rated student loan bonds in its liquidity program, and several bills have been introduced including one that addresses the liquidity issue. Additionally, the federal government has some programs in place that will guarantee students funding for education such as the Federal Lender of Last Resort and the Federal Direct Loan Program.

What About My Loans?:

Any prior loans students have are unchanged unless the lender decides to sell the loans to another party. If your lender is withdrawing from the market (e.g. Student Loan Xpress), you should select another lender. Students are allowed to select any lender that offers student loans. If your lender has temporarily suspended lending but isn't exiting the market (e.g. Total Higher Education), wait for the lender chart update to determine if you wish to continue with that lender. Be sure to review our website for information before applying.

The Financial Aid Office has adjusted the deadlines so that students have the opportunity to make an educated decision regarding their lender choice. Be sure to check your Georgetown Law e-mail and the Financial Aid website for updates during the summer.

Deadlines:

Early Summer Applicants: Now May 1
Late Summer and Fall/Spring Applicants: Now May 15

Action Items for Student:

1. Complete your renewal FAFSA online
2. Ensure that your Georgetown email box is clear and/or forwards to your primary email address so that our updates are received
3. Review the lender comparison chart at www.law.georgetown.edu/finaid for some lending options (target date for this posting is April 25).
4. Once the Financial Aid Office provides the “go” signal, complete your applications online as soon as possible.

Frequently Asked Questions:

Question: What are the pros and cons of changing lenders?

Answer: Pro: Staying with the same lender allows for fewer default problems in the future. Con: If there are significant differences between lender terms then the student may want to consider changing lenders.

Question: Is Total Higher Education (T.H.E.) going out of business?

Answer: No, T.H.E. has suspended new federal lending until liquidity is restored in the bond market. Recent legislative actions will help this happen.

Question: I've already applied for a loan with T.H.E., what should I do?

Answer: Just wait for now. T.H.E is currently still holding your loan in anticipation of liquidity returning to the student lending market.

Question: What if we don't know about T.H.E. by the May 1st summer deadline?

Answer: You should go ahead and apply with another lender. If you decide to go back to T.H.E. (once they are back in the market) then we can cancel the loan with the other lender for you.

Question: What is the deadline for grant renewal?

Answer: The deadline for grant renewal will be the same as the dates listed above.

Question: What happens if we have to use a lender of last resort?

Answer: The Financial Aid Office will certify your loans and you will have to sign another promissory note.

Financial Aid Office – Summer Hours

Effective May 19th to compensate for the later deadlines our office hours will be:

Monday – Thursday 10:00 – 5:00 pm

Friday – CLOSED for processing

Evening students may schedule a later appointment, as needed