

June 19, 2007

The Honorable Edward M. Kennedy
Chairman
Committee on Health, Education, Labor
and Pensions
317 Russell Senate Office Building
Washington, DC 20510

The Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education, Labor
and Pensions
379A Russell Senate Office Building
Washington, DC 20510

Dear Chairman Kennedy and Ranking Member Enzi,

As the Committee prepares to mark-up The Higher Education Access Reconciliation Act and the Higher Education Amendments Act of 2007, we write to express our concerns over several proposed changes to the Federal Family Education Loan Program (FFELP). On behalf of the American Securitization Forum (ASF)¹ and the Securities Industry and Financial Markets Association (SIFMA)², we believe that proposals to increase origination fees, reduce yields, and reduce loan guarantees could substantially alter benefits, services, and access to credit for the very borrowers that the proposals attempt to assist.

Given the growing demand for and costs of higher education in America, we applaud your leadership to expand the resources available for students. For these reasons, we support efforts to increase loan limits on FFELP loans and higher maximum Pell Grant levels. FFELP, a highly successful public-private partnership, has leveraged federal guarantees to make available almost \$100 billion each year from the private global capital markets to young Americans in need of financial resources to pay for the costs of higher education. Since 1965, the program has helped more than 60 million Americans attend college.

¹ ASF is a broad-based professional forum of over 350 organizations that are active participants in the U.S. securitization market. Among other roles, ASF members include issuers, investors, financial intermediaries, professional advisers and rating agencies working on securitization transactions backed by all types of assets. ASF's mission includes building consensus, pursuing advocacy and delivering education on behalf of the securitization markets and its participants. This letter was developed with input from ASF's Student Loan Reform Working Group and other ASF members and committees. Additional information about the ASF, its members and activities may be found at ASF's internet website: www.americansecuritization.com.

² SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

The U.S. securitization industry provides an efficient and cost-effective funding mechanism for originators of consumer and business receivables in nearly every sector of the economy including student loans, residential and commercial mortgages, automobile loans, other types of consumer credit, as well as the commercial loan and corporate bond market. Last year, overall securitization issuance topped \$3.1 trillion dollars in the U.S. Institutional investors, such as pension funds, mutual funds and insurance companies, who purchase these securities as well as the credit rating agencies who assess them obviously take great care to understand the performance of the securities and the credit quality of the underlying loans that back them. Institutional investors purchase both student loan asset-backed securities (ABS) secured by private lender FFELP loans as well as tax-exempt and taxable repackagings of municipal, state agency and not-for-profit FFELP loans (Repackagings).

Specifically, student loan ABS and Repackagings have been an integral part of the success of the FFELP program, serving as the primary financing source for student loan lenders to raise funds in the global capital markets. These funds are used by lenders to make additional low cost FFELP loans. Just last year, more than \$67 billion dollars of securities backed by FFELP loans were issued in the United States.

Three pillars supporting the success of FFELP are 1) robust market competition among student loan lenders that keep lender rates low and their services to borrowers high, 2) the universal availability of FFELP loans to all potential students, and 3) the appeal of the current U.S. government guarantee rates.

We believe it is imperative to the success of any FFELP reform proposals to evaluate the effects of those proposals on the ability of student loan lenders to continue to efficiently raise funds in the capital markets. RBC Capital Markets conducted a study, the results of which have been confirmed by the other major underwriters of student loan ABS and Repackagings. The primary aspects that they considered as part of their analysis were: 1) the doubling of the origination fee to 1% for most lenders; 2) reduction in yields by 0.55% per annum on Stafford and Consolidation loans and by 0.85% per annum on PLUS loans; and 3) reduction in loan guarantees to 95%.

Their analysis concludes that the combined effect of these changes will eliminate the incentive for private capital to flow into the program for most lenders with industry-average administrative, operating and financing costs. Without these incentives many lenders will likely exit the business. In addition to their analysis, a reduction in loan guarantees would make it appreciably more expensive for issuers to fund student loans in the capital markets since institutional investors exposed to larger potential principal losses on collateral containing these lower guarantee rates will discount the values of student loan ABS and Repackagings.

At the same time as the number of lenders shrink, thereby reducing the total supply of loans available, borrower demand will grow due to loan limit increases, resulting in the

following outcomes: 1) borrower benefits such as on-time payment discounts will significantly decline or disappear; 2) borrower services will decline; and 3) loans may not be available to some students.

The costs of higher education have significantly escalated over the last decade as colleges and universities have raised tuitions well beyond the pace of inflation. And we know that young Americans will continue to need the federal government's assistance in meeting these costs. FFELP has been an extremely successful program, providing hundreds of billions of dollars of financing at a remarkably low cost and high service to 80% of American student loan borrowers. We ask you to consider the impact of significant reductions in the program on future student loan borrowers as these reductions taken together will likely have unintended consequences for the very borrowers you seek to aid.

If you have any questions or would like to discuss any of our comments further, please feel free to contact Richard Hunt and Scott DeFife at 202.216.2000, Tom Deutsch at 646.637.9235, or Leslie Norwood at 646.637.9230.

Sincerely,



Tom Deutsch
Associate Director
American Securitization Forum



Leslie M. Norwood
Managing Director and
Assistant General Counsel
Securities Industry and
Financial Markets Association