

## Legislative and Market Update: Private Loans

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## Economic Situation

**The credit crisis has had dramatic effects outside the federal student loan program that directly and indirectly impact families' ability to pay for college.**

- Home Equity
- Endowments and Scholarships
- Employment
- Private Education Loans



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## What has happened?

- Credit markets seized
- ABS and ARS capital that made private student loans become locked up
- No new ABS investors to invest in student loans in the open market
- Lenders forced to turn to their diversity of capital resources if they had them
- Today lenders are using alternate forms of financing, but those remain highly constrained and expensive



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**What is being done to increase liquidity?**

- Lenders are building alternate funding solutions
- States and schools are creating alternate funding vehicles
- TARP
- TALF
- And the one thing that makes everything better...time.

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**Private Loan Product Changes**

- Loans are changing to be more easily funded
- Shorter terms, higher FICOs
- Risk of delinquency and default are going to be better managed
- Borrowing levels will now be monitored very closely
- Cosigners rates to increase

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**HEOA and Private Loans**

In the HEOA, Congress made changes to disclosure in private student loans and made other changes designed to ensure that students are fully utilizing less expensive and heavily subsidized federal options first.

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### HEOA and Private Loans – Highlights

1. New additional disclosure process
2. Maximizing federal options
3. Think “unsecured credit”
4. Borrower self-certification
5. Interaction with NegReg

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### What schools need to consider...

- The process will not mirror federal loans as closely
- Borrower self-certification is different from school certification
- May drive new kinds of credit products
- Credit crisis to refocus narrative on debt balance

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### What's Next?

- Private credit regulation changes become effective
- The principal is the thing
- Defaults likely to rise – managing these will matter.
- More economic choices
- Focus on underlying and systemic problems like costs

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Discussion



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