



VSAC ensures student loans

By Tim Johnson • Free Press Staff Writer • May 9, 2008

College loans will be available to Vermonters as usual this fall, the state's principal lending agency announced Thursday.

Amid reports nationwide of lenders' cutting back or shutting down, the news should come as a relief to students and parents anxious about their prospects for obtaining loans through the Vermont Student Assistance Corp., which has been receiving about 4,000 calls a week from worried Vermonters. VSAC expressed confidence this year that it would have the wherewithal to make all the expected loans this fall, with the anticipated borrower benefits, despite turmoil in credit markets that has dried up some of the customary funding sources.

The key was to come up with the capital necessary to make those loans. VSAC has found a way to do that, a way that will cost the agency more than the previous financing arrangement. Loan recipients won't be affected, however -- they'll be paying the same interest, set by the federal government, as they did before.

VSAC expects to make about 70,000 new loans to college students and their parents in the next academic year, President and CEO Donald Vickers said at a news conference attended by Gov. Jim Douglas and state Treasurer Jeb Spaulding, a member of VSAC's board. For those loans to be available, Vickers said, VSAC needed about \$390 million, of which about \$160 million would be provided from payments on existing loans. The agency's challenge was to find an additional \$230 million.

In the past, VSAC obtained much of the annual capital infusion it needed via the auction-rate securities market, a common vehicle for many nonprofit public entities. Those auctions began failing this year -- partly as an indirect result of the subprime mortgage crisis -- prompting VSAC to explore other funding sources. The solution Vickers announced Thursday is an agreement with KeyBank, which will provide a letter of credit to help VSAC raise \$113 million in variable-rate demand obligations, and a loan of \$117 million that VSAC expects to refinance after 12 months. Vickers acknowledged that this agreement will cost VSAC more to finance than the previous arrangement, but he would not say how much more. He did say VSAC expects to reduce its operating budget by \$2 million and to make do with 18 fewer employees, via attrition.

Established by the Legislature in 1965, VSAC is a nonprofit organization that provides grants and scholarships, a college savings program, and a range of outreach and career-planning services. The entire legislative appropriation for the agency -- \$19.6 million is anticipated in 2008-09 -- is used to provide need-based grants that don't have to be repaid. VSAC funds its operations through the loan program, which has grown substantially over the years as college costs have soared and debt has become a primary way for families to foot the bills. In May 2007, Vickers said, the typical debt for student and parents after four years totaled \$38,000.

Even as loans became more important as a way to pay for college, the capital necessary to provide them began drying up with the credit crisis this year. Vickers, Douglas and Spaulding all spoke favorably of VSAC's ability to find that capital, at a time when some of its peer organizations in other states are suspending programs for new loans or making those programs more restrictive. In contrast, Vickers said,

VSAC expects to continue providing borrower benefits that include reducing the interest rate 1 percentage point for those who consistently pay on time and picking up the federal origination fee. The statements by Vickers, Douglas and Spaulding had an air of celebration, but each speaker used the occasion to emphasize a familiar theme -- the importance of higher education to Vermonters and to the state as a whole. Two-thirds of the fastest-growing jobs in Vermont require post-secondary education, Vickers said.

For young people hoping to find "competitive jobs," Douglas said, "higher education is more important than ever."

Over the long run, Spaulding said, "higher education is a critical industry for the state of Vermont."

Contact Tim Johnson at 660-1808 or tjohnson@bfp.burlingtonfreepress.com