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INDEPENDENT RECORD

Growth could slow at SAF

By JOHN HARRINGTON - IR Business Editor - 09/13/07

George Lane IR staff photographer - Janet Riis, right, financial aid director for Carroll College, talks with Amber Childers about aid options.

Recent changes by Congress in the way student loans and grants are administered may benefit Montana's college population, but they could stunt the growth of one of the Helena area's major employers.

The legislation, passed late last week, increases the amount of money availble for need-based Pell Grants and halves the interest rate on subsidized student loans.

"From the student perspective, the most important piece is the increase in the Pell Grants," said Janet Riis, director of financial aid at Carroll College. "Those grants are tied strictly to financial need."

The maximum Pell Grant, available yearly to low- and middle-income students, will climb from $4,130 to $5,400 over the next five years. Riis said 21 percent of Carroll students use Pell Grants to help pay their tuition.

To pay for the increased grants and lower interest rates, however, the government will pare the subsidies it pays to both for-profit and nonprofit lenders. One of those lenders is Helena-based Student Assistance Foundation, which employs around 250 and manages a portfolio of $3.7 billion in loans, two figures that have increased dramatically in recent years.

The cut to nonprofit lenders like SAF will be four-tenths of a percentage point off of the subsidy that the government pays to make the market viable. SAF collects interest on its loans, but also gets a subsidy from the government.

"It's a good piece of legislation for students," admitted Jim Stipcich, SAF president and CEO. "But the bottom line as we look at the lender cuts is that the level of borrower benefits we're able to provide will be reduced."

Those benefits can include reduced interest rates for borrowers who keep up with their payments, as well as principal and/or interest forgiveness or other perks.

The legislation will take effect Oct. 1 and won't impact existing loans, so SAF employees are hustling to process as many loans as possible under the old, more favorable terms.

In addition to the subsidy cut, SAF faces a cut in the reimbursement it receives when loans go into default, from 99 percent today to 95 percent by 2012. That 4 percent amounts to several hundred thousand dollars annually, Stipcich said.

He doesn't expect any job cuts at SAF, but plans for a new building on 10 acres the foundation owns east of town will remain on hold, Stipcich said, and he anticipates the foundation's growth rate may slow.

The legislation also affects the Montana Guaranteed Student Loan Program, which works closely with SAF and guarantees loans to students with the support of the federal government.

The legislation trims by nearly a third, from 23 percent to 16 percent, the amount of money MGSLP can keep that it recovers from borrowers who default.

"There's going to be a significant deduction to our gross revenue," said MGSLP director Gary Marks, who pegged the loss at around $1 million annually.

Marks said the lost revenue may hurt MGSLP's ability to offer grants to Montana college students — some $500,000 last year, he said — as well as outreach programs for students in rural communities and students who may be the first in their families to attend college.

"We are very committed to improving access (to higher education) across the state, but it will be a challenge to fund these programs without charging the state more," he said. "What we charge the state and what we spend on these programs are significantly different."

Stipcich did see one potential silver lining for business going forward: the new, less favorable terms may push some competitors from the market, creating more opportunity for SAF.

"There are lenders looking at leaving the program. We're being actively solicited to buy portfolios," he said.

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