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September 7, 2005



The Honorable Michael B. Enzi
Chairman
Committee on Health, Education, Labor
and Pensions
United States Senate
Washington, DC 20510

The Honorable Edward M. Kennedy
Ranking Member
Committee on Health, Education, Labor
and Pensions
United States Senate
Washington, DC 20510

Dear Chairman Enzi and Ranking Member Kennedy:

As the Health, Education, Labor and Pensions Committee considers reauthorization of the Higher Education Act, I urge you to maintain the ability of student loan providers to recycle certain loans until the bonds they back reach maturity. The Association represents underwriters and dealers of all fixed-income securities.

The ability of non-profit organizations to use the repayments on pre-1993 Federal Family Education Loans (FFEL) that carry a lender yield of 9.5 percent is critical to the holders of billions of dollars of bonds. Some of these bonds were bought at prices greater than face value in anticipation of receiving interest rates based on above-market, 9.5 percent loans underlying the bonds. We support a phase-out of the 9.5 percent lender yield. Immediately eliminating the ability to recycle these loans, however, would have a negative effect on certain student loan bondholders. Without recycling, loan providers would buy back bonds at their face value, resulting in losses for the bondholders who paid a premium for the securities. While the government would realize a savings by ending the 9.5 percent lender yield, it would come at the expense of innocent investors who—in good faith—purchased bonds backed by these loans. By contrast, leaving recycling in place for the estimated five years it will take the majority of the affected bonds to reach maturity protects investors at no additional cost to taxpayers relative to current law.

The U.S. capital markets are universally viewed as the strongest in the world largely because of unmatched legal certainty and transparency. Effectively changing the terms of a bond after it is issued undermines these values. Unless Congress acts to preserve recycling, the holders of student loan bonds will almost certainly face a financial loss for reasons unrelated to the risk associated with the credit quality of a bond or the level of market interest rates.

Again, I urge you to approve a reauthorization of the Higher Education Act that maintains recycling for FFEL program loans.

Sincerely,

John R. Vogt
Executive Vice President