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CAMPUSDOOR REVIVED AS STUDENT-LOAN TECHNOLOGY COMPANY

Analyst: Private loan market will be highly competitive

Carlisle-based CampusDoor, a lender of private student loans that closed in 2009, is making a revival under the company's founder, who sold the business in 2007 to financial giant Lehman Bros., which failed in 2008. Still, CampusDoor will never the same after the financial collapse of 2008, said Damien Elias, the company's chairman and CEO. "Now, because of illiquidity in the financial markets, we're actually unable to make loans ourselves," he said.

Instead, CampusDoor is selling its Web-based software to banks and other lending institutions making private student loans. The company has become a facilitator for loans, even if the goal is someday to be the lender again, Elias said. CampusDoor's technology will go live this week for First National Bank based in Altavista, VA., he said. "It was a different perception that we had to adopt in the company – that we had to do for others," he said.

Lehman Bros. Bank bought CampusDoor three years ago. In 2008, CampusDoor became a casualty of the financial collapse when Lehman Bros. filed for bankruptcy protection under the weight of its dealings in mortgage-backed securities. The incident sent shockwaves through the world economy and set up the conditions for the Great Recession. CampusDoor stopped lending in the wake of the crisis but continued to service existing loans. The company laid off 300 people following Lehman's announcement that it was closing the business.

The company's abrupt end in 2008 was in stark contrast to its successes since Elias started the company in 1995. By 2006, CampusDoor had loan requests worth more than $2 billion, was building a $1.5 million addition to its headquarters and hired more than 70 employees.

Elias repurchased the company in late 2009 after a year of negotiations with the Lehman Bros. estate. He declined to release the purchase price. Campus Door Holdings Inc., the company's parent entity, received a $3 million mortgage in May from M & T Bank on its office property at 1415 Ritner Highway, according to Cumberland County records. The money was used for operational capital, Elias said. The company also racked up 10 private investors, he said. CampusDoor sold $750,000 worth of equity to the investors, closing the sale June 11, Elias said.

Financial aid offices at area colleges said CampusDoor contacted them about lending to students for the upcoming school year. The company called Dickinson College in Carlisle to ask about the school's loan period dates, said Carolyn Thompson, the college's loan coordinator. Several months ago, CampusDoor also contacted Messiah College in Upper Allen Township, Cumberland County, said Greg Gearhart, the director of financial aid.

CampusDoor's re-emergence is following a trend around the country, said Mark Kantrowitz, the publisher of FinAid.org, a resource for students who need college financing. Some lending companies are coming back, ad banks are broadening their private loan offerings because of new federal regulations, he said.

In March, President Barack Obama signed a law that ends the practice of private banks lending federally subsidized Stafford Loans, which could save the government more than 60 billion over 10 years. The law takes effect July 1. "A lot of the private lenders that were making federal student loans are looking to replace those with private loan programs," Kantrowitz said.

The increasing number of lenders and products will make the student loans market much more competitive, eventually bringing down interest rates, he said. Increased lending ahead of fall enrollments should accelerate the trend, he said. The changes will be good for business, Elias said. "It is going to be a good move in the long run," he said. "Banks now need a new product to attract customers. And let's be honest, there's still a huge need for private student loans to fill the gaps."

Although banks continued lending to students, 2008's scale-back of loan securitization nearly killed non-bank lenders, Kantrowitz said. Securitization is grouping loans together in a security similar to stocks and selling them to investors. When companies did that with subprime mortgages, recurring defaults made most of the securities worthless. Some firms, including Lehman Bros., were heavily invested in that market.

Lending companies used a similar mechanism in the student loan market, Kantrowitz said. Companies borrowed money to make the loans, securitized them, and sold the securities, he said. "Education loans are less risky than mortgages, but the market just got gun-shy of anything that involved securitization," Kantrowitz said. Lending companies moved to credit to continue student loans, but that only lasted until the credit was maxed out, he said. "Around the time CampusDoor went out of business, there were a lot of private lenders that went out of business," Messiah's Gearhart said.

Sales representatives from lending companies stopped visiting colleges when the financial crisis hit, he said. Some companies closed, while others cut staff and stopped lending. Many of those companies won't return to the student-loan arena, and if they do, the companies could be a lot smaller, Elias said. Even the market for new loans is smaller. It was worth $20 billion in 2008, and today its worth about $8 billion, Elias said. That could grow to $14 billion in two years. "I think there's a substantial growth potential over the next two or three years," Elias said. "I wouldn't have decided to buy the company back if there wasn't an opportunity."