California Student Aid Commission

Annual Report to the Legislature on EdFund

Federal Fiscal Year
October 1, 2007 – September 30, 2008

Report Date: April 1, 2009

Approved by the California Student Aid Commission on February 26, 2009

CALIFORNIA STUDENT AID COMMISSION

April 1, 2009

Dear Members of the Legislature:

We are submitting “The California Student Aid Commission’s 2007 - 2008 Annual Report to the Legislature on EdFund” in accordance with California Education Code § 69529.5 (a), which requires that the Commission submit a report to the Legislature annually on the operation of its auxiliary organization, EdFund. The report was adopted by the Commission on February 26, 2009.

The California Student Aid Commission (Commission) has been serving students and families for more than fifty years by providing financial aid services to support California’s students in reaching their educational goals. The Commission is the primary agency responsible for the administration of state-aid programs, key among them the Cal Grant Program. The Commission is the designated State guaranty agency responsible for the Federal Family Education Loan (FFEL) Program which it administers through its auxiliary organization, EdFund. The Commission maintains responsibility for financial aid program administration, policy leadership, program evaluation and information development and coordination.

On the same day that the Commission adopted this report, President Obama released his fiscal year 2010 Budget Proposal (Budget). This Budget includes the elimination of the Family Federal Education Loan Program and the intent to originate all new student loans beginning July 2010 through the existing William D. Ford Direct Loan Program. The Administration intends to use the annual savings from this action to increase the Pell Grant maximum award to students and to make the Pell Grant program mandatory to ensure a regular stream of grant aid to students.

There are not many details yet regarding the President’s Budget. Consequently, there are many questions as to what role, if any, the Commission as a Guaranty Agency will have under the new proposal, what revenue may still be generated from the FFEL Program, and how the value of the State’s student loan program assets (commonly referred to as the sale of EdFund) will be affected. Chapter 182, Statutes of 2007 [Senate Bill 89]) authorizes the Department of Finance to sell the State’s student loan program assets or identify an alternative financial arrangement for the administration of the FFEL Program.

At their March 24, 2009 meeting, the California Student Aid Commission's Governance & Monitoring Committee voted to support in concept President Obama's 2010 Budget proposal to originate all new federal student loans through the Direct Loan Program and to use the savings to create a stronger and more reliable Pell Grant program. This recommendation will be brought to the full Commission at its April 16-17, 2009 meeting.

If you have any questions or need additional information, please contact Diana Fuentes-Michel, Executive Director at (916) 464-8271.

In closing, we offer you our support and service to discuss the potential impact regarding the proposed Budget changes and impact on the Commission and EdFund and the students we serve.

Sincerely,

Barry Keene

Diana Fuentes-Michel

Barry Keene
Chair

Diana Fuentes-Michel
Executive Director

Mission

Making education beyond high school financially accessible to all Californians.

www.csac.ca.gov

Mission
EdFund is dedicated to maximizing benefits to borrowers by being the premier service provider in the student loan industry.

www.EdFund.org

EdFund is an auxiliary agent of the Commission. Therefore, the Commission is required to provide an annual report to the Legislature on EdFund which complies with Section 69529.5 of Article 2.5, Chapter 2, Part 42 of the California Education Code which states:

§69529.5 (a) The commission shall report the following information to the Legislature on April 1 of each year, with respect to the operation of the auxiliary organization:

(1) A description of the services provided by the auxiliary organization.
(2) The auxiliary organization's annual budget, funded activities, and personnel, including the sources of revenue available to fund its operations.
(3) Descriptions of changes made in the delivery of loans to California students and enhancements to programs and activities administered by the commission. The descriptions shall reflect all changes, both positive and negative.
(4) The level of compensation of managers and executives of the auxiliary organization.

(b) Commencing on April 1, 2005 and on April 1 of each year, ending on April 1, 2010, the commission shall specifically describe the actions taken, and report the costs incurred and the revenues realized, by the auxiliary organization in disbursement services, loan servicing and repayment, secondary markets and private lender activities that the auxiliary organization undertakes pursuant to subdivision (a) of Section 69522.

Section 69529.5 of Article 2.5, Chapter 2, Part 42 of the California Education Code, as amended, pertaining to the creation of an auxiliary organization of the California Student Aid Commission.

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EXECUTIVE SUMMARY

In 1997, legislation granted the California Student Aid Commission (Commission) the authority to create a nonprofit auxiliary, EdFund, for the purpose of providing services related to the Commission's participation in the Federal Family Education Loan (FFEL) Program under the terms of an annual Operating Agreement. EdFund manages the day to day administrative functions for the FFEL Program. The Commission is responsible for financial aid policy leadership and oversight of EdFund and the FFEL Program.

In September 2007, the Governor and Legislature agreed to legislation (Chapter 182, Statutes of 2007 [Senate Bill 89]) that authorized the Department of Finance (DOF) to sell EdFund or identify an alternative financial arrangement for the administration of the FFEL Program. In proposing the sale of EdFund, Governor Schwarzenegger stated that the student loan guarantee business is not a core mission or competency of State government. Senate Bill 89 provides the Administration the authority to conduct this process. The legislation expires January 10, 2011. At the time of this report, a sale advisor has been identified but a contract with the sale advisor has not been executed. As a result of federal changes that made the student loan guarantee program less financially attractive, the Administration's original estimate of generating approximately $1 billion was reduced to $500 million and, because the value and timing of the EdFund sale are very uncertain, the Administration has not at this time included any revenue in its 2009-10 budget forecasts from the sale of EdFund.

In anticipation of the sale and to preserve the assets in the student loan program, the Commission's administrative budget and funding for California Student Opportunity and Access Program (Cal-SOAP) was shifted from the Student Loan Operating Fund (SLOF) back to the State General Fund in State Fiscal Year 2007-08. Since then, the only SLOF appropriation has been $24 million for the Cal Grant program in 2008-09. The preservation of the SLOF comes at a cost. As in the past, the SLOF could be utilized to support the Cal Grant Programs and the Commission's operating budget. While the SLOF is being preserved:

- The Commission's 2008-09 operations budget was reduced 10 percent and 17 EdFund civil service employees were re-assigned to the Commission, resulting in layoffs and the loss of 39 experienced Commission employees (26 percent of the workforce);
- EdFund moved to a new facility which originally included space for the Commission, commonly referred to as Building B. However, with the proposed sale of EdFund, the Commission pursued other facility options. To date, Building B remains vacant even though the Commission reconsidered moving into it to avoid costs associated with the vacancy, and to increase the value of the State's student loan program assets by establishing a long-term sub-lease for Building B. However, DOF determined that the Commission moving into Building B was not the most cost effective alternative to preserve the value of EdFund.
- The Commission's Operating Agreement with EdFund remains in effect until a sale or alternative arrangement is reached. The Operating Agreement includes provisions for grant administration support such as core business and technology services that EdFund has provided to the Commission.

Results in Brief
Through EdFund, the Commission has provided enhanced services and options to students in California and across the United States. As required by statute, this report provides information on the background of the Commission and the creation of EdFund, as well as information on the services provided by EdFund nationally, changes in the delivery of loans, program enhancements, the operational budget, and the level of compensation for managers and executives of EdFund.

Services Provided
EdFund provides the following guaranty agency services consisting of: guarantee services, default aversion assistance, payment of insurance claims, collections, loan portfolio management, and program oversight. Service functions which are central to EdFund's competitiveness and success include: personal customer service; loan management solutions for schools and lenders; information technology support; and outreach and communications.

Prior to 1999, the Commission's loan program activities were limited to the in-state or California market. Legislation enacted in 1999 authorized the Commission to expand its loan operations out-of-state. In 2007-08, 60 percent of the Commission's loan guarantee volume was for borrowers attending out-of-state institutions.

In 2007-08, 50 percent of loan guarantee volume, excluding consolidations, was for borrowers at for-profit and proprietary institutions, resulting in a higher than industry average loan default rate and associated claims payments. During 2007-08, the Commission/EdFund paid $1.02 billion in claims on defaulted loans guaranteed by the Commission, an increase of $314 million or 45 percent over the $703 million in claims paid in 2006-07, reflecting both the overall growth of the loan portfolio as well as its composition. The Commission's cohort default rate for 2006 was 10.6 percent versus the national average of 5.2 percent.

EdFund continued to enhance its technology, training and materials to better serve borrowers, schools and lenders.

Changes in Loan Delivery
As a result of the Higher Education Reconciliation Act (HERA) and the College Cost Reduction and Access Act (CCRAA), lenders have experienced two consecutive years of significant reductions in FFEL Program subsidies received from the federal government. National economic conditions and the associated credit crisis have drastically impacted the willingness and ability of lenders to participate in FFEL Program loans. Lenders exiting the FFEL Program, the liquidity crisis, and the reduced profitability of the FFEL loans have caused some lenders to no longer participate in the rehabilitation of defaulted FFEL Program loans. The loss of rehabilitated loans as a collection technique has resulted in a significant revenue loss for many guarantors.

In anticipation of liquidity issues in the FFEL Program, U.S. Department of Education (ED) working with guaranty agencies took steps to ensure students had access to loans through the Lender-of-Last Resort program. California statute was amended in September 2008 to allow loan origination or capitalization activities authorized pursuant to an agreement with the United States Secretary of Education for the Lender-of-Last-Resort program.

Annual Budget

In Federal Fiscal Year (FFY) 2007-08, revenues collected by EdFund totaled $166 million against total expenses of almost $145 million, with $97 million of these expenses from standard loan program activity. The remaining expenses were predominantly related to the federal default fee subsidy of nearly $45 million and the Commission's administration of non-loan program activities, including outreach, of nearly $3 million. These expenses resulted in an operating surplus of approximately $21 million.

Level of Compensation for Managers and Executives

Executive management salaries are set by the EdFund Board of Directors based on market surveys and individual qualifications; all other salaries are set by the EdFund Human Resources Division based on market surveys and in consultation with hiring managers. EdFund's executive management may receive incentive compensation as set forth in the Operating Agreement pursuant to the Commission's "Policy Statement and Guidelines Memo for EdFund Incentive Compensation Plans."

The Commission approved 2007-08 incentive compensation for EdFund rank-and-file, based in part on EdFund staff's explanation that the incentive compensation for EdFund rank-and-file is required as part of the employees' expected compensation for the year and is considered a contractual item. For 2007-08, EdFund rank-and-file received incentive compensation of $3.7 million.

For 2007-08, the Commission did not approve incentive compensation for EdFund's executive management. Chapter 182, Statutes of 2007 (Senate Bill 89) requires that increases in compensation or benefits for EdFund officers, including discretionary bonuses and retention bonuses, be approved by DOF. For FFY 2007-08, DOF agreed with the Commission.

BACKGROUND

The Commission is the State's principal provider of intersegmental statewide grant aid to postsecondary students. Founded in 1955 as the California State Scholarship Commission, the 15-member Commission's primary programmatic responsibilities include operation of the State-funded Cal Grant Program. The Commission will distribute approximately $950 million to California's college students during the 2009-10 academic year through its Cal Grant, targeted grant, scholarships and loan forgiveness programs. The Commission also administers financial aid awareness and outreach programs, such as Cal-SOAP and Cash for College, in collaboration with business, private industry and community-based organizations. The Commission administers the FFEL Program through its nonprofit auxiliary, EdFund.

Federal Stafford loans are the largest source of federal student aid for eligible undergraduate, graduate, and professional students. There are two types of Stafford loans: subsidized, for which the government pays the interest while students are in school and during grace and deferment periods; and unsubsidized, for which students pay all the interest on the loans. Students may receive both types of loans at the same time.

Under the FFEL Program, qualified students can receive Stafford and/or Graduate/Professional PLUS loans, and their parents can receive PLUS loans (loans for parents) for the college costs of their dependent student. The FFEL Program also provides Consolidation loans which allow students to combine existing loans to make repayment more manageable. These loans are backed by the federal government and guaranteed by guaranty agencies, like the Commission.

There are currently 35 FFEL Program guaranty agencies in the United States. The Commission, through EdFund, is the nation's second largest provider of student loan guarantee services under the FFEL Program. EdFund offers students a wide range of financial aid and debt management information, while supporting schools with advanced loan processing solutions and default prevention techniques. EdFund is headquartered in Rancho Cordova.

Development of the EdFund Model
Since 1978, the Commission has worked with three different loan program administration models. From 1978 to 1993, the Commission's loan program activities were outsourced to an external contractor. In 1985, following a comprehensive review of both grant and loan program operations, the Commission decided that it could operate the guaranty program most effectively by removing outside contractors and managing both operations and technology directly within the State system.

This decision was a result of an assessment that external contracting did not always guarantee superior service and its administrative costs were higher than desired by the Commission. Additionally, the Commission wanted to expand services to schools, make system operations more efficient, and save costs by merging the grant and loan administrative systems onto the same technology platform.

Following years of planning and system programming, the grant system became operational in 1991 and the loan system became operational in early 1993. From 1993 to 1996, the Commission administered all of the primary student loan program activities, except for mainframe support of the central database that was provided by the State's data center. The Commission continued to outsource some data programming through Electronic Data Systems (EDS), and also contracted with external collection agencies.

Since 1997, the Commission has administered the loan program through Edfund. The Commission originally pursued the creation of EdFund as a result of competitive pressures that threatened to force the Commission out of the FFEL Program. Prior to the creation of EdFund, the Commission found the administration of the loan program difficult under State-agency constraints specifically due to inflexible data processing and technology system limitations and unresolved federal and state regulatory compliance issues. During this time, relations between guarantors and ED were tense because of ED's desire to implement the William D. Ford Federal Direct Loan (Direct Loan) Program.

Competitors who sensed that the Commission was in a vulnerable position because of its technology and service deficiencies entered the California market aggressively beginning in 1993. At the same time, about 30 percent of schools, including some of the largest public universities, changed to the new federal Direct Loan Program, which began its operations nationwide in 1994-95. In California, the share of Commission-guaranteed loans dropped from nearly 90 percent prior to 1993 to close to 50 percent by 1995.

The Commission and EdFund have Saved California Money
Loan program revenue has been appropriated during State Fiscal Years 2003-04 through 2006-07 to fund the Commission's administration and program budgets as noted below. Use of the loan program revenue represented State General Fund savings.

- $11 - $15 million annually for the Commission's administrative budget [2003-04 thru 2006-07];
- $8.5 million annually for the California Student Opportunity and Access Program (Cal-SOAP)[2002-03 thru 2006-07];
- $197.5 million total for the grant awards provided by the Cal Grant Program in 2004-05 and 2005-06. (An additional $24 million was appropriated in 2008-09 for the Cal Grant Program)

The Commission also approved the use of loan program funding for its annual Cal Grant Public Awareness Campaign and Cash for College Program from 2003-04 thru 2007-08 to build student awareness of the opportunities afforded to them through the Cal Grant program and various other State and federal financial aid programs. These funds were allocated as provided by federal law and in total represented approximately $31 million in student loan operating funds.

EdFund has also provided administrative services to the Commission such as mailings, printing, and technology support, which saves the Commission staff time and money. The Commission and EdFund continued their collaboration on the Free Application for Federal Student Aid (FAFSA) for Student/Parents Video and Fund Your Future publications. These products are used by students, parents and schools to help students fill out the FAFSA and provide information on state and federal financial aid programs. These products are essential tools in informing California students about the financial aid application process.

Sale of EdFund
In May of 2007, the Governor proposed the sale of the student loan program assets, commonly referred to as the “Sale of EdFund”, indicating that the student loan guarantee business is not a core mission or competency of State government. Chapter 182, Statutes of 2007 (Senate Bill 89) established the parameters for this sale and authorized the Director of DOF to act as an agent for the sale or alternative financial arrangement. In September 2008, Chapter 757, Statutes of 2008 (Assembly Bill 519) extended the authority for the “Sale of EdFund” from January 2009 to January 2011.

Senate Bill 89 prohibits the Commission from utilizing with EdFund to perform any new or additional services, except those services authorized by DOF as necessary or convenient for either the operation of EdFund or to accomplish the goal of maximizing the value of the State student loan guarantee program assets and liabilities. The bill requires the Commission and EdFund to obtain approval from DOF on all actions, approvals, and directions of the Commission until the consummation of the sale or the alternative transaction.

DOF originally worked with The Bear Stearns Companies, Inc., as an advisor for the “Sale of EdFund”. However, during the process Bear Stearns was acquired by JP Morgan Chase & Co., who subsequently declined to enter into a contract with DOF. In December 2008, DOF selected FBR Capital Markets as the advisor to the Director of the DOF for the sale or alternative transaction to achieve the maximum value for the State’s student loan guarantee program and related assets.

The bill requires DOF to notify the Chairperson of the Joint Legislative Budget Committee and the Senate and Assembly Budget Committees of DOF’s determination to proceed with a transaction other than a sale within 30 days prior to the consummation of the transaction or a later date that DOF determines to be most beneficial to the transaction. Upon the consummation of the sale or other transaction, DOF shall notify the Secretary of State and the Chairperson of the Joint Legislative Budget Committee.

In addition, the bill requires DOF to deposit all proceeds on any sale or any funds achieved through any other arrangement into the General Fund. If neither a sale nor any other transaction is anticipated, DOF must stop all activities authorized upon the earlier of either 30 days following written notice to the Joint Legislative Budget Committee that no sale or transaction will be pursued, or January 10, 2011.

As a result of federal changes that made the student loan guarantee program less financially attractive, the original estimate of generating approximately $1 billion was reduced to $500 million. Because the value and timing of the EdFund sale are very uncertain, the Administration has not at this time included any revenue in its budget forecasts from the sale of EdFund.

The Governor also signed Chapter 184, Statutes 2007 (Senate Bill 91) on August 24, 2007. Senate Bill 91 would repeal provisions to existing law relating to the establishment and operation of EdFund and the State’s participation in the FFEL Program

To preserve the assets in the student loan program, the Commission’s administrative budget and funding for Cal-SOAP was shifted from the SLOF back to the State General Fund in State Fiscal Year 2007-08. In anticipation of the sale of EdFund, the Governor’s Proposed 2008-09 Budget includes additional resources in the Commission’s budget for prospective activities necessary to reestablish essential core business and technology services that EdFund has been providing to the Commission. However, with the delay in the "Sale of EdFund" these funds were shifted to support the cost of the Commission's move to a new facility in 2008-09.

SERVICES PROVIDED BY EDFUND

EdFund provides the following guaranty agency services in keeping with competitive business practices:

- Guarantee services: As a designated guaranty agency under the FFEL Program, the Commission (through its auxiliary EdFund) will pay participating student loan lenders 97 percent of the outstanding loan amount if a student defaults on a loan. It is this guarantee that enables lenders to make loans to students based solely on the student's eligibility for a student loan, as certified by the school he/she has chosen to attend, and the student's signature, confirming his/her agreement to repay.

- Default aversion assistance: Lenders must request default aversion assistance from the guaranty agency or guarantee services provider when a loan is between 60 and 120 days past the payment due date. As a part of this process, EdFund engages in an active default aversion program designed to assist the borrower in achieving a successful repayment experience. This is accomplished by increasing borrower awareness of the variety of repayment options available, as well as the potential consequences of defaulting on a student loan.

- Payment of insurance claims: Default occurs after the borrower fails to make payments for at least 270 days, a period during which the borrower is typically contacted multiple times by the lender and guaranty agency and offered a variety of options for returning his or her loan to good standing. After a loan reaches a default status, the lender submits a claim to the guaranty agency. The guaranty agency then purchases the defaulted loan from the lender at rates determined by federal statute. The guaranty agency is in turn reimbursed by the federal government a percentage of the payment made by the guaranty agency to the lender. For all loans guaranteed after October 1, 1998, which later default, the guaranty agencies receive 95 percent reimbursement from ED.

- Collections: When the guaranty agency pays an insurance claim to the lender, it then attempts to collect reimbursement from the borrower. Funds a guaranty agency recovers from defaulted borrowers through the collections process are returned to the federal government, minus a percentage retained by the guaranty agency. If the guaranty agency exhausts all opportunities to collect on a loan, the loan may ultimately be transferred back to the federal government through a process known as mandatory assignment.

  EdFund continues to focus on establishing debt recovery strategies that successfully balance the need to maximize recovery of taxpayer funds with its desire to match each borrower with the most appropriate repayment program.

- Loan Portfolio Management: EdFund administered an existing loan guarantee portfolio valued at approximately $35 billion at the end of 2007-08. EdFund tracks each loan's status on a routine basis and submits periodic reports to ED. EdFund also consolidates status updates from FFEL Program lenders and reports them to the federal government through the National Student Loan Data System.

- Program Oversight: EdFund's Program Review and Compliance Unit is responsible for reviewing its school and lender partners' compliance with federal regulations governing participation in the FFEL Program. EdFund staff perform compliance reviews on educational institutions based on their cohort default rates, and for lenders based on their guarantee volume with EdFund.

The following functions administered by EdFund are central to its competitiveness and success:

- Customer Service: EdFund provides customer service to the schools and students it serves via a network of regional client relations managers located throughout California and the nation. EdFund's Client Services team of 68 client relations managers and support staff consists chiefly of seasoned former school financial aid administrators and lender representatives who work directly with school clients to ensure quality service delivery and strong customer satisfaction. Regional staff also work with high schools, educating staff and students about financial aid programs and participating in financial aid workshops.

- Delinquency Aversion and Default Prevention: EdFund continues to support schools with a focus on lowering cohort default rates (CDR) by providing customized default prevention plans, helping to focus the limited resources of schools on efforts that will yield improved results when measuring their CDR.

  EdFund offers free training and ongoing support on a wide range of default prevention products that include: EdTe$t, an online loan counseling tool; CMS, a cohort management tool; and the online Student Loan Debt Summary for borrowers. EdFund also expanded its money management educational materials available to schools. *Building Futures ~ Financial Literacy* modules include a comprehensive Instructor's Guide, 11 power point presentations on a wide variety of budgeting, saving, and credit topics and student workbooks to compliment many of the session topics.

- Loan Management Support for Schools and Lenders: EdFund provides extensive information and technical support for its school and lender customers seeking to track and manage large volumes of student loans.

- General Information Technology Support: The administration of federal student loans is an information-intensive process involving multiple parties and agencies at almost every juncture. Establishing and maintaining a smooth, reliable and timely flow of information and data transactions among students, schools, lenders, federal authorities and a guaranty agency requires extensive and continuously available technical support. EdFund consistently provides these to all its partners in the financial aid process through its loan management system and several auxiliary Web-enabled products and services. In 2007-08, EdFund implemented guarantor-neutral school-based software for loan processing, and moved all data center equipment to a new co-location facility with greater security.

- Communications and Outreach: EdFund strives constantly to keep students, parents, schools, lenders and policy-makers well-informed about financial aid opportunities, programs, policies and developments. Communication and outreach efforts include the production and coordination of a wide range of informational workbooks, brochures, rack cards, research reports and newsletters, as well as conference and trade show participation. EdFund also offers a variety of Web-based tools for students and schools and participates in the college access initiative by providing content to support going2college.org. Other products include EdWise® (an online financial planning guide for students) and a library of informational streaming video presentations.

Summary of Key Measurements

Loan Guarantee Volume

Total Stafford and PLUS loan dollars, excluding consolidations, equaled $8.2 billion. This represents a 21.5 percent growth over the $6.8 billion for the prior fiscal year and was generated from all school types, particularly proprietary schools. This significant growth was a strong turn-around from the prior year and was the combined result of increased loan limits, the addition of many new school customers and solid growth in existing school business. The volume increase came primarily from those schools with cohort default rates of 9.0 percent or less.

Consolidation loan volume shrank 57.3 percent, falling from $2.6 billion to only $1.1 billion as legislated fee increases and turmoil in the capital markets combined to drive lenders out of the loan consolidation business. Loan consolidations have reduced from $200-300 million to $200-300 thousand monthly.

National Guarantor

Prior to 1999, the Commission's loan program activities were restricted to the in-state (California) market. Legislation enacted in 1999 authorized the Commission to expand its loan operations out-of-state. In 2007-08, the Commission was one of the nation's leading guarantors and 60 percent of its loan guaranty volume was for students attending out-of-state institutions.

Approximately 50 percent of loan guarantee volume, excluding consolidations, was for borrowers at for-profit and proprietary institutions. This relatively high proportion of proprietary school loan guarantees might be described as a mixed blessing. The large volume of proprietary school loans produces Loan Processing Issuance Fee (LPIF) and Account Maintenance Fee (AMF) revenue for the Commission/EdFund. It also results in the Commission/EdFund having higher-than-industry-average loan default rates and associated claims payments. The defaulted loan claims in turn provide the collection revenue opportunities discussed below.

Defaulted Loans

Default claim dollars totaled $1.02 billion for fiscal year 2007-08. This was a 44.6 percent increase from the $703.5 million for the prior year. At least in part, this dramatic increase was due to Federal legislation which eliminated the exceptional performer program for lenders. This change reduced reimbursement to lenders on defaulted loans from 99.0 percent to 97.0 percent. With this reimbursement change coming into effect, lenders rushed to file default claims prior to the effective date for the change. As a result, defaults were filed some 70 days earlier than standard practice; the shorter time period in which to counsel borrowers diminished the effectiveness of EdFund's aversion efforts. Despite challenging circumstances driven by both federal actions and overall economic instability, EdFund, with the help of outside vendors, successfully resolved over 900,000 delinquent loans, preventing $4.2 billion in loan defaults.

With 332,874 borrowers in repayment, the Commission/EdFund's CDR for 2006 was 10.6 percent versus the national average of 5.2 percent. A couple of important points should be noted regarding this high default rate. The Commission/EdFund default rates for the more traditional four-year private and public schools are at or below the national average. The overall Commission/EdFund CDR is largely driven by the much higher than average proportion of loan guarantees for students attending higher default rate school segments. While these loans do result in a higher-than-average default rate, they also serve many of the neediest students. The vast majority of these students, even those attending the higher default-rate schools, do in fact repay their loans.

<u>Collections on Defaulted Loans</u>
Net recoveries on defaulted loans for fiscal year 2007-08 totaled $103 million, 40.2 percent more than the $74 million collected during 2006-07. A focused effort on rehabilitation and other strategy changes implemented during the previous year have increased cash collections and decreased recoveries from Direct Loan Program consolidations. The $76 million in loan rehabilitations reflected a 76.8 percent increase and accounted for 73.8 percent of total recovered dollars. Compared to the prior year, Direct Loan consolidations increased 79.4 percent, while wage garnishments were down 21.7 percent and voluntary borrower payments decreased 32.0 percent.

<u>Revenue and Services Provided to the Commission and the State</u>
In 2007-08, the State's loan program activities generated positive net revenues of approximately $24 million. Other Commission activities funded by its loan program revenue had expenses of $3 million. These added expenses reduced overall operating revenues net of expenses to approximately $21 million for 2007-08**.** EdFund continued to provide printing, mailing and technology support to the Commission's grant and specialized program operations.

CHANGES IN DELIVERY OF LOANS ~
PROGRAM ENHANCEMENTS

In spite of tumultuous times in the student loan industry, EdFund implemented several federally required changes to the delivery and services of loans. EdFund also provided enhanced customer service while continuing to improve the efficiency of the loan process.

Industry Issues

Over the past year, numerous stories appeared in the mainstream and industry press about problems in the credit markets and their impact on student loans. Many of the reports focused on problems in the sub-prime mortgage industry and how a number of factors, including higher interest rates and price corrections in an inflated housing market, contributed to the situation. The state of the economy led to a large number of mortgage defaults and foreclosures. Many nonprofit, private and state-based lenders in the student loan program used financing models similar to mortgage lenders to raise the capital to make student loans.

These same lenders had also experienced two consecutive years of significant reductions in the FFEL Program subsidies they received from the federal government as a result of the Higher Education Reconciliation Act (HERA) and the College Cost Reduction and Access Act (CCRAA).

The national economic conditions and associated credit crisis drastically impacted the willingness and ability of lenders to participate in the FFEL Program. The reduced profitability of FFEL Program loans and the inability to sell those FFEL Program loans in the asset-backed securities market forced some lenders to leave the student loan program. Major national and regional lenders exiting the FFEL Program are causing many current FFEL Program schools to move or consider moving to the Federal Direct Loan Program.

Lenders exiting the FFEL Program, the liquidity crisis, and the reduced profitability of FFEL Program loans caused some lenders to decline participation in the rehabilitation of defaulted FFEL Program loans. The loss of rehabilitated loans as a collection technique resulted in a significant revenue loss for many guarantors.

Former Education Secretary Margaret Spellings informed the House and Education and Labor Committee that ED had additional immediate capacity in the Direct Loan Program, and discussed ED's efforts to prepare the Lender-of-Last Resort (LLR) program for large-scale implementation, should it become necessary. The LLR program is a mechanism for the Commission/EdFund as guarantor to act as a lender by issuing federal student loans directly from federal funds when an LLR lender cannot be identified.

The former Secretary held numerous meetings with the guaranty agency community to discuss the possibility of implementing a large-scale LLR program. However, given announcements by several large lenders that they will continue to participate in the FFEL Program, it is anticipated that there will be little to no need for LLR loans. To date, all eligible borrowers at eligible institutions have received the FFEL Program loans they need to finance their education.

Federal Legislation
The federal government has taken steps to improve liquidity in the FFEL Program.

Ensuring Continued Access to Student Loans Act
HR 5715, the Ensuring Continued Access to Student Loans Act (ECASLA), was signed into law by the President on May 7, 2008.

The new law includes the following provisions:

- increased federal unsubsidized Stafford loan limits by $2,000 for most students effective July 1, 2008;
- clarifies the Secretary's authority to provide federal funds to guaranty agencies under the Lender-of-Last Resort (LLR) program;
- gives the Secretary the authority to act as a "secondary market of last resort" in cases where attempts to auction securitized loan portfolios fail;
- temporarily allows lenders to disregard negative credit reporting resulting from medical expenses or mortgage default/foreclosure when considering credit eligibility for a PLUS borrower;
- provides flexibility for Parent PLUS borrowers to postpone repayment until the day after their dependent student has completed the grace period for Stafford loans; and
- expands eligibility for the Academic Competitiveness and SMART Grants, and clarifies definitions so that students can better take advantage of them.

Industry participants worked with Congress to extend the ECASLA provisions for an additional year. The Secretary is now allowed to purchase loans from FFEL Program lenders until September 30, 2010, and guarantors can provide Lender-of-Last Resort loans on a school-wide basis until that date.

ED recently announced two new initiatives under the umbrella of ECASLA:

- The creation of a Commercial Paper "conduit" that would bring additional liquidity for student loans by providing assurances to investors of securitized student loan assets though a federal government safety net.
- A temporary purchase program that would allow student loan lenders to sell loans made in the 2007-08 academic year to the federal government. (Current ECASLA programs only apply to loans made after May 2008.) This temporary program would only be open until the conduit option is up and running or until February 28, 2009, which ever comes first.

Reauthorization of the Higher Education Act
After years of extensions, Congress finally passed a reauthorization of the Higher Education Act (HEA) on July 31, 2008. Signed into law by President Bush on August 14, 2008, below are some of the main areas of change in the statute.

<u>Financial Literacy Requirements</u>

The importance of financial and economic literacy was emphasized by Congress via additional requirements for guarantors to provide defaulted borrowers with financial literacy materials. Congress encouraged guarantors to provide this service to students at schools not only in the FFEL Program but in the Direct Loan Program as well. Congress also added the ability for guarantors to participate in the exit counseling of borrowers at the school level.

The Commission and EdFund has traditionally provided a wealth of financial literacy materials to schools and students, and will continue to provide these materials as well as engaging in active default aversion programs designed to help borrowers achieve successful repayment.

Loan Rehabilitation
Reauthorization puts into statute the practice of a guaranty agency or other loan holder removing the record of default from a borrower's credit history after a loan is rehabilitated, and allows a borrower to attempt loan rehabilitation only once per loan.

Cohort Default Rate
Reauthorization modifies the current cohort default rate (CDR) calculation by extending the number of years a borrower in repayment is tracked by one additional year. This change is expected to increase the CDR for schools, lenders and guarantors.

State Legislation
Federal law guarantees the availability of a FFEL Program loan to eligible students through a Lender-of-Last-Resort (LLR) program. A student, who is otherwise eligible for a Stafford Loan and, after receiving two rejections, has been unable to find a FFEL lender willing to make such a loan is eligible for the LLR program. The guaranty agency either must designate an eligible lender to serve as an LLR or must itself serve in that capacity. During times where broad-scale loan-access problems prohibit the implementation of LLR programs, the Secretary of Education has the authority to advance federal funds to guaranty agencies to make LLR loans. State law contained language that would have potentially prohibited the Commission from participating in the federal advance program. California statute was amended in September 2008 to allow loan origination or capitalization activities authorized pursuant to an agreement with the United States Secretary of Education for the Lender-of-Last-Resort program.

Voluntary Flexible Agreement

Since the 1998 Reauthorization of the HEA, FFEL Program guaranty agencies were offered the opportunity to submit applications to ED to provide services under a Voluntary Flexible Agreement (VFA). Five guaranty agencies, including the Commission/EdFund, had their VFA proposals approved. A VFA incorporates and modifies the guaranty agreements under sections 428 (b) and (c) of the HEA, and is intended to enhance program integrity, increase cost efficiencies, and allow flexibility to experiment and improve delinquency and default prevention. The Commission/EdFund's VFA started with several experiments and now focuses on the success of the Early Withdrawal Counseling (EWC) program. EdFund's research indicated that student borrowers who leave school prior to completing their program are much more likely to default on their student loans than those who finish their programs. Using this research as a foundation, EdFund developed an innovative EWC program that targets these borrowers and provides specific services that have not only shown positive results in default prevention, but also improve the borrowers' completion rates in school.

Congress has always stipulated that VFAs must be "cost neutral." According to ED, the cuts to the financing model for guaranty agencies as part of CCRAA meant the existing VFAs were no longer cost neutral. In October 2007, ED announced it would terminate all VFAs on December 31, 2007. However, legislative language included in the Omnibus Appropriation Bill directed Education Secretary Spellings to renegotiate VFAs with FFEL Program guaranty agencies no later than March 31, 2008. EdFund, on the Commission's behalf, participated in negotiations with ED to develop a new VFA. In March 2008, ED preliminarily accepted the proposal to continue the EWC program and issued a new VFA contract for consideration by the Commission in July 2008. The Commission proposed amendments to the new VFA. Currently, ED has not entered into any new VFA agreements.

EdFund Improvement Initiatives

Cohort Management System**:** EdFund's Cohort Management System product, now serving over 700 schools, has been enhanced to capture real-time borrower demographic updates from school users. Each year, EdFund hosts on-demand webcast training sessions for schools to encourage use of the CMS product for targeting default prevention efforts on campus.

Corporate Account Services: To enhance the default prevention efforts of EdFund's corporate school clients, EdFund provided monthly webcast training on topics such as Delinquent Borrower Counseling, Loan Repayment Options and EdFund's Cohort Management System.

Default Prevention: EdFund continues to implement strategies to help borrowers successfully repay their loans. EdFund has refined its counseling techniques and implemented new performance standards and metrics to reinforce objectives. Additional skip-tracing tools were implemented that will increase the number of borrowers EdFund can counsel. EdFund employs targeted strategies based on the stage of delinquency for each borrower, and has enhanced the risk scoring of loans. An ever-increasing range of technology is utilized to maximize borrower contact, including enhanced use of the automated dialer and increased use of e-mail to reduce forms processing time.

EdFund also continues to support schools with a focus on lowering defaults through a combination of financial literacy, student retention and default prevention programs.

EdFund Link: To provide a bi-weekly electronic newsletter of consistent value to financial aid staff, regular columns have been established on subject areas of customer interest.

EdFund.org: A major 2007-08 project was the re-write and re-design of the entire EdFund Web site. Launched in November of 2008, the new site provides easier access to EdFund products and services, more intuitive navigation, and a new student loan borrowers section with tools to help borrowers manage their loans.

EdTe$t®: EdFund's online loan counseling tool has been updated to reflect recent regulatory changes included in the Higher Education Opportunity Act of 2008.

Flexible Automated Collection System (FACS) Dialer Replacement Project: EdFund installed added security features to its predictive dialer system used in the Default Prevention and Internal Collections Call Centers. Users are now required to enter a unique ID and password. The password expires periodically and users have to establish new secure passwords. EdFund also improved data reporting by providing a more intuitive method for assigning completion codes to calls.

New and Improved Publications

Borrower Wisely inserts: 4" x 9" cards feature practical tips and alternative loan information for students considering college or graduate school.

Building Futures – Financial Literacy: Expanded financial literacy resources include a downloadable curriculum covering budgeting, savings and credit.

EdTe$t postcards: 4.5" x 6" cards encourage students to visit EdTe$t to meet their loan counseling requirements.

Entrance & Exit Loan Counseling: Updated PowerPoint presentations reflect the most recent regulatory changes so schools can provide their borrowers with complete and accurate information.

Entrance and Exit Guides: Insight and Outlook: For undergraduate and graduate students, a magazine-style guide that helps borrowers plan for and ensure the timely repayment of their student loans. Measures to combine these two publications into a single loan counseling guide for cost savings are underway. Current publications were updated to reflect recent regulatory changes in HEOA.

Federal Tax Benefits at a Glance -- A Guide for Students and Parents fact sheet: Summarizes tax credits, tax deductions and saving incentives for higher education for tax year 2007.

Fund Your Future Series: Publications, re-designed and updated annually, that provide a comprehensive overview of grants, loans and other college financial aid programs. Over 1.5 million free copies of the nine workbooks – national and state-specific versions, with two translated into Spanish – plus condensed brochures reached students and families across the U.S. in 2007-08.

Guide to Federal Tax Benefits for Higher Education: Tax Year 2007: Comprehensive booklet on higher education tax incentives including the most recent updates to the tax laws.

Loan Consolidation at a Glance flyer: Two-sided, downloadable flyer listing advantages and disadvantages of consolidating federal student loans. Includes a Q&A section and a chart showing possible payment amounts. Revised to reflect changes in federal law.

NewSource: Newsletter for financial aid professionals on industry issues, EdFund products and services, federal actions, etc. Converted mid-year from a monthly to a quarterly to allow for more original and in-depth reporting.

PLUS brochure in English and Spanish: A quick-read brochure about the borrowing options for parents and stepparents. Revised to reflect changes in federal law.

Power of Education poster in English and Spanish: Demonstrates the value of a college education by providing income figures by level of education. Available as a download.

Rack cards: Brochures on credit card management, deferments and forbearances, credit reports, the National Student Loan Data System and private loans were converted to rack cards both for easier reference and to achieve cost savings.

Stafford brochure in English and Spanish: Explains the ins and outs of federal Stafford loans to students and their families. Revised to reflect changes in federal law.

Student Loan Quiz: One-page quiz in Spanish assessing students' knowledge of the basics of their student loan.

Student Retention Guide: 24-page booklet, for college financial aid staff, based on analysis of results from EdFund's Early Withdrawal Counseling program. Available as a download.

Rehabilitation Enhancements: EdFund continued to refine the loan rehabilitation process by implementing a new Web-based payment portal. This portal significantly streamlines the payment setup process for agents and gives borrowers the ability to make payments and set up payment arrangements via EdFund.org. The end-to-end automation has resulted in a 75 percent reduction of staffing hours needed to maintain payments and has also significantly reduced the time needed to post payments by virtually eliminating manual payment processing. Other enhancements include the implementation of the Extended Repayment option, which gives borrowers with large balances another payment option -- a longer term and lower monthly payments. The lower monthly payments can help borrowers budget better and improve their chances of successfully rehabilitating their defaulted student loans.

School-based Software: **gps** – The EdFund Student Loan Navigator™, EdFund's school-based software product, replaced two other products (PCFAPS and EdFund.net) with one that is more robust in its application processing features, providing school users more flexibility and processing options. **gps** is one of only two truly open systems in the industry, which allows EdFund to gain market share from competitors, particularly among four-year institutions. To date, 75 schools have implemented **gps** and additional campuses are in the pipeline.

Student Loan Debt Summary: As part of EdFund's mission to provide benefits to borrowers, EdFund generates a borrower statement showing total loan indebtedness. Over 370 schools are signed up and over 680,000 statements were made available for borrowers. Providing the Electronic Student Loan Debt Summary realized over $600,000 dollars in printing and mailing costs for fiscal year 2007-08.

Summary of Achievements
In a year filled with considerable pressure and changes, EdFund produced positive results:

- Recording new Stafford and PLUS loan volume of $8.2 billion (a 21.5 percent increase over 2006-07) even with the competitive challenges posed by the implementation of the federal default fee, resulting in the Commission saving borrowers $45.1 million dollars by paying the federally required default fee on the borrower's behalf.

- Maintaining a very strong reputation for outstanding customer service satisfaction; EdFund's overall satisfaction rating is 98 percent based on a independent research survey.

- Developing streamlined loan processing for the Lender-of-Last Resort (LLR) program, and preparing outreach communications for California schools and students.

- Implementing an online payment portal that streamlines payment setup by agents and allows borrowers to arrange and make payments via EdFund.org. End-to-end automation has resulted in a 75 percent reduction in staffing hours needed to maintain payments and significantly reduced the time required to post payments by virtually eliminating manual payment processing.

- Processing a record number of claims, assisting a record number of defaulted borrowers, improving collection recoveries 40.2 percent, increasing gross rehabilitation volume by 76.8 percent and executing major strategic planning objectives, all while increasing efficiencies.

- Completing almost one million manual loan transactions 99.9 percent on time and with 98.1 percent quality.

- Offering 583 free training events on loan processing, financial literacy and professional development to over 14,500 financial aid and industry partners.

- Successfully resolving over 900,000 delinquent loans, preventing approximately $4.2 billion in loan defaults.

ANNUAL BUDGET

With the passage of the 1998 Reauthorization of the Higher Education Act, two funds were created to take the place of the former Federal Guaranteed Loan Reserve Fund. Based on FFEL Program requirements, state law created the Federal Student Loan Reserve Fund (Federal Fund) and the Student Loan Operating Fund (SLOF) in the state treasury in 1999. Federal law establishes FFEL Program revenue sources and allowable expenses for each fund. The assets of the Federal Fund are the property of the federal government, and their main purpose is to pay lenders for defaulted student loans. Money in the SLOF is the property of the State and must be used for loan program operating expenses and/or the support of financial aid-related activities.

The Commission and EdFund's actual SLOF revenues and expenses for federal fiscal year 2007-08 appear in Figure 1. EdFund operates on an October 1 through September 30 fiscal year, reflecting the federal budget cycle.

Figure 1: Commission and EdFund Student Loan Operating Fund Statement of Revenues and Expenses for FFY 2007-08
($ in thousands)

REVENUES:	
Net recoveries on loan defaults*	$103,138
Account maintenance fee	$21,145
Loan processing and issuance fee	$25,384
Default aversion fee	$10,842
Lender premium fee	$1,212
Interest income	$1,940
Voluntary Flexible Agreement/other revenues	$2,194
Total Revenues	**$165,855**
EXPENSES:	
Loan program personnel costs	$53,322
Federal default fee subsidy	$44,936
Operating expenses	$23,841
Collection agency expenses	$19,481
Commission FFEL Program operating expenses	$193
Borrower benefits-EdShare/other expenses	$(224)
Total Loan Program Expenses	**$141,549**
LOAN PROGRAM REVENUES NET OF EXPENSES	**$24,306**
Outreach programs	$2,133
Grant administrative costs and Prorata	$981
Total Non-Loan Expenses	**$3,114**
OVERALL OPERATING REVENUES NET OF EXPENSES	**$21,192**

* Recoveries on loan defaults, net of ED's equitable share and the claim purchase complement. This amount includes fees earned from consolidating defaulted loans through the Direct Loan Program.

In FFY 2007-08, total loan program revenues earned by EdFund were $166 million. Loan program expenses ($142 million) and non-loan program expenses ($3 million) resulted in overall operating revenues exceeding expenses by approximately $21 million. Loan program expenses were comprised of $97 million in operating costs and $45 million in federal default fee subsidy funding on behalf of student borrowers. Non-loan program expenses funded $2 million in outreach and public awareness programs along with $1 million in grant administrative costs.

Revenues

FFEL Program revenue is derived from six specific sources authorized and regulated by ED. The rate of federal reimbursement for certain services provided by EdFund was reduced by federal legislation enacted by Congress effective October 1, 2007.

The revenue sources are:

- **Net Recoveries on Loan Defaults** – Collection dollars retained after ED's fair share is deducted. The collection retention percentage from borrower payments was reduced by recent federal legislation from 23 percent to 16 percent effective October 1, 2007. Similarly, while retention on rehabilitation loan recoveries remains at 18.5 percent, collections on defaulted loan consolidations decreased the prior year from 18.5 percent to 10 percent effective October 1, 2006.

- **Account Maintenance Fee** – 0.10 percent of the original principal in the outstanding loan portfolio is paid to the guaranty agency on an annual basis. The rate was reduced to 0.06 percent effective October 1, 2007.

- **Loan Processing and Issuance Fee** – 0.40 percent of the principal of new loans guaranteed is paid to the guaranty agency at time of loan disbursement.

- **Default Aversion Fee** – 1 percent of the principal and interest on loans more than 60 days delinquent that are brought current by counseling borrowers before the loan becomes 270 days delinquent and enters default. This fee is available for first-time default aversion assistance requests only, is paid from the Federal Fund, and must be refunded if the borrower subsequently defaults.

- **Lender Premium Fee** – This fee is based upon a contractual relationship developed with a lending partner. A scaled premium fee is paid by the lender when purchasing loans qualifying for rehabilitation or consolidation. The contract was canceled by the lender April 2008, given market liquidity constraints and federal regulatory changes which significantly reduced the lender's profit margins.

- **Interest Income** – Interest income from funds held in the Student Loan Operating Fund.

- **Voluntary Flexible Agreement** – Performance-based payments made by ED under the negotiated terms of the agreement. With ED's termination of the VFA, only one quarter of VFA revenue was received in FFY 2007-08. Although the Omnibus Appropriation Bill directed the U.S. Secretary of Education to renegotiate VFAs no later than March 31, 2008, currently ED has not entered into any new VFA agreements.

Personnel

The ability to recruit, hire, promote and compensate staff outside of state civil service was one of the key competitive advantages presented by the opportunity to transfer the Commission's student loan administrative and servicing functions to EdFund. Ensuring fair and equitable treatment of all employees regardless of their status as EdFund direct hires or state civil service employees continues to be a major priority for EdFund and the Commission.

In an effort to address these aims, Assembly Bill 3133, the legislation authorizing the Commission to establish EdFund, provided a mechanism so state civil service employees whose functions were transferred from the Commission into EdFund could opt to remain state civil service employees of the Commission while being assigned to work for EdFund. Of the 557 people employed at EdFund as of September 30, 2008, 540 (97 percent) were EdFund direct hires and 17 (3 percent) were state civil service employees of the Commission assigned to work for EdFund.

EdFund is an equal opportunity employer providing opportunity to all regardless of race, color, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation.

LEVEL OF COMPENSATION OF MANAGERS AND EXECUTIVES

Members of the EdFund Board of Directors are appointed by the Commission and do not receive a salary. Compensation of a $100 stipend is given for each day when the Board or Board Committee meets. Reimbursement for actual and necessary travel expenses is also provided.

EdFund management salaries are based on national salary surveys of comparable nonprofit corporations both within and outside of the student loan industry, and are based on a combination of EdFund norms and individual qualifications. The EdFund Board of Directors sets the executive management salaries. Human Resources sets all other salaries. EdFund employees may receive incentive compensation as set forth in the Operating Agreement pursuant to the Commission's "Policy Statement and Guidelines Memo for EdFund Incentive Compensation Plans." The policy states that the chair of the Commission reviews the incentive compensation amounts based on performance reports provided by the EdFund Board and the executive director. The Commission chair may either approve or decrease the incentive compensation amounts recommended by the EdFund Board. If either the executive director or the EdFund Board disagrees with the decision rendered by the Commission chair, one or both may request a closed session review by the Commission.

The Commission approved the 2007-08 incentive compensation for EdFund rank-and-file, based in part on EdFund staff's assertion that the incentive compensation for EdFund rank-an-file is required as part of the employees' expected compensation for the year and is considered a contractual item. For 2007-08, EdFund rank-and-file received incentive compensation of $3.7 million.

For 2007-08, the Commission did not approve incentive compensation for EdFund's executive management. Chapter 182, Statutes of 2007 (Senate Bill 89) requires that increases in compensation or benefits for EdFund officers, including discretionary bonuses and retention bonuses, be approved by DOF. For FFY 2007-08, DOF agreed with the Commission. Figure 2 is the compensation to EdFund's executive management for 2007-08.

Figure 2: EdFund Executive Management Compensation FFY 2007-08

Position Title	**Compensation**
President	$325,000
VP, Finance and Administration	$221,600
VP, Legal and External Relations	$212,000
VP, Client Solutions and Services	$187,200
VP, Information Technology Services	$180,250
VP, Default Management	$177,700
VP, Audit Services	$176,285
VP, Client Services	$100,472
VP, Human Resources	$ 92,520
Total	**$1,673,072**

Notes:

VP Client Services and VP Human Resources separated April 2008 and the positions were eliminated.

VP Audit Services received incentive compensation as the position is considered within the EdShare contractual program to avoid any potential conflict.

CONCLUSION

Federal requirements contained in the Higher Education Reconciliation Act of 2005 and the College Cost Reduction and Access Act of 2007 continued to impact the EdFund business model. Schools chose guarantor and lender partners on price rather than service, while reimbursement levels from the federal government were reduced. Several lenders announced their intentions to leave or limit their participation in the FFEL Program, as a result of the instability in the credit markets and lender subsidy cuts on FFEL Program loans.

Despite broad turmoil in the financial and credit markets that created uncertainty in the flow of funds to support student lending, EdFund produced record new loan guarantee volume--which increased 21.5 percent from the prior year. Although federal legislative actions reduced income streams, and the mandatory Federal Default Fee increased expenses, EdFund produced overall operating revenues of $24 million in the Student Loan Operating Fund (SLOF).

In the past, the loan program revenues were utilized to benefit the State and students by providing funding for the Cal Grant program, outreach activities, and the Commission's administrative budget. However, with the proposed "Sale of EdFund" and the preservation of the State's loan program assets, the use of loan program revenues has been severely curtailed.

While the economic conditions of the State and nation continue to affect the FFEL Program, the Commission and EdFund are committed to providing financial assistance to California students for postsecondary education.

As of February 19, 2009

CALIFORNIA STUDENT AID COMMISSION

Barry Keene, Chair
General Public Representative
(Senate Rules Appointee)

Lynne de Bie
California Secondary Schools Representative
(Governor Appointee)

Yasmin Delahoussaye
California Community Colleges Representative
(Governor Appointee)

Lorena Hernandez
General Public Representative
(Senate Rules Appointee)

Patricia Fong Kushida
General Public Representative
(Governor Appointee)

Bonaparte Liu
General Public Representative
(Governor Appointee)

Enrique Murillo
General Public Representative
(Speaker of Assembly Appointee)

Israel Rodriguez
California Independent College or University Representative
(Governor Appointee)

Antonio Solorzano, Jr.
General Public Representative
(Speaker of Assembly Appointee)

Six Vacancies (Governor Appointees)

California Postsecondary Educational Institution Student Representatives (2)

California Public, Proprietary or Nonprofit Postsecondary School Representative

California State University Representative

University of California Representative

General Public Representative

COMMISSION EXECUTIVE MANAGEMENT

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Executive Director

Keith Yamanaka
Chief Deputy Director

John Bays
Chief, Information Technology

Ed Emerson
Chief, Federal Policy and Programs

Janet McDuffie
Chief, Administration and External Affairs

Catalina Mistler
Chief, Program Administration and Services

Keri Tippins
General Counsel and Chief, Legal Affairs & Audit Services

EDFUND EXECUTIVE MANAGEMENT

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President

Therese Bickler
Vice President, Client Solutions and Services

Len Hyde
Vice President, Default Management

Diane Manning
Vice President, Audit Services

Patrick Pendleton
Vice President, Information Technology Services

David Reid
General Counsel and Vice President, Legal Services and External Relations

Martin Scanlon
CFO and Vice President, Financing and Administration