

Update on CSAC Business Diversification Efforts

With this year's passage of AB 2122, the Governor and Legislature authorized the California Student Aid Commission (CSAC) to allocate funding in order to expand its offerings in the student financial aid market through its nonprofit auxiliary, EdFUND.

The CSAC/EdFUND enterprise is the second largest student loan guaranty agency in the nation, among both government-operated non-profit and privately run, non-profit agencies. While all other top U.S. guaranty agencies offer a variety of services related to student loans – including loan origination and disbursement services, private loans, and secondary market activities – CSAC and EdFUND have only been authorized to offer the core guaranty administrative services. What the passage of this bill means is that CSAC and EdFUND will now be able to offer some of the same financial aid products and services that all of its major competitors currently do.

Specifically, the bill authorizes CSAC/EdFUND to provide operational and administrative services related to Federal Family Education Loans (FFEL) that are:

- Related to student financial aid
- Consistent with the general mission of the Commission
- Consistent with the purposes of the federal Higher Education Act (which governs all U.S. student loan guaranty agencies)

The bill contains provisions that prohibit CSAC/EdFUND from entering into the issuance of bonds, loan origination or capitalization activities. However, it does allow CSAC and EdFUND to enter into partnerships with other institutions that offer loan origination and capitalization, provided that the partnership meets the three criteria outlined above.

Since its inception, EdFUND has been a successful generator of revenue, based on its ability to avert loan default, and to collect on loans that have defaulted. Under agreements with the U.S. Department of Education, CSAC/EdFUND retain a share of the money generated by collections, and receive incentive payments for preventing defaults. This money is deposited into a Student Loan Operating Fund held by the California Treasury. Since 1997, CSAC/EdFUND have channeled almost \$400 million from the Student Loan Operating Fund back into programs that directly benefit students. These programs include financial aid outreach efforts; backfills to the General Fund that pay for Cal Grant awards and Cal Grant program administration; and a continuing policy of waiving the 1% loan guaranty fee.

However, CSAC/EdFUND's ability to continue funding these programs is threatened by an increasingly competitive marketplace and the U.S. Department of Education's desire to renegotiate existing agreements. Thus, the need to diversify business offerings is timely and urgent.

Currently, the Student Aid Commission, EdFUND Board, and staff leadership of both organizations are actively engaged in discussions regarding potential opportunities. Several options are being analyzed to find the avenue(s) that will best generate revenue, so that CSAC/EdFUND can continue funding direct student benefits well into the future. Before actually beginning any activities, the provisions of AB 2122 require that CSAC and EdFUND present a detailed business plan to the Legislature for approval. In addition, the Department of Finance and the Administration will be kept informed of our progress on business diversification.