17.1

Action/Information Item

California Student Aid Commission

Consideration of State Legislative Principles Affecting Positions on Legislative Proposals

The Commission is asked to review the proposed Legislative Principles for the 2007-08 legislative years. Commissioners and Commission staff may utilize the adopted Legislative Principles in developing positions on legislation and during budget and other policy discussions to convey general Commission policy positions.

The Commission is also asked to review the proposed legislative analysis templates. Staff will use these templates to report the impact proposed legislation would have on the Commission's programs, procedures, and policies.

Enclosed are the 1) Proposed Legislative Principles 2007-08, the 2) Proposed Summary of Legislative Principles 2007-08, the 3) Legislative Principles 2005-06, and the 4) Legislative Analysis Templates. The Summary of Legislative Principles document is intended as a supplemental tool for quick and easy reference.

On February 14, 2007, the Governmental Relations Committee voted to recommend approval of the draft Legislative Principles with some changes. The revised document will be furnished under separate cover prior to the Commission meeting.

Recommended Action: Review, discuss, revise, and approve the proposed principles.

Responsible Staff: Steve Caldwell, Chief
Governmental and Public Affairs Division

PROPOSED STATEMENT OF LEGISLATIVE PRINCIPLES FOR 2007-08

The mission of the California Student Aid Commission (Commission) is to make education beyond high school financially accessible to *all* Californians. The Commission's goal is to ensure all California students learn and apply for benefits with the Cal Grant Program and other specialized aid programs the Commission administers. The Commission serves the public interest by providing quality financial aid services at a reasonable cost to those students who need financial assistance to attend a college or university.

It is essential that the Legislature and the Administration collaborate with the Commission to ensure that the Cal Grant program and other specialized aid programs are successful by conducting Cal Grant promotional events, participating in, and supporting the Commission's mission. The continued commitment from the State to improve the availability and amount of financial aid is crucial to ensure educational access for all California students. This commitment strengthens the state's economic well-being by educating California's future workforce.

LEGISLATIVE OBJECTIVES

The Commission will work to maintain the support of the Legislature and the Executive branch for the following:

- The Cal Grant Entitlement and Competitive Programs,
- All Specialized aid programs, and
- Commission/ EDFUND's partnership
    - Strengthen and improve the opportunities offered through the Commission and EDFund model.

LEGISLATIVE PRINCIPLES

Recognizing the critical need to maintain Legislative and Executive support for postsecondary educational opportunities, the Commission adopts the following general statement of principles to guide staff in consideration of legislation and related policy issues:

- Foster Educational Access and Affordability
- Ensure the Availability of Information on Educational Opportunities
- Preserve the Flow of Financial Aid
- Ensure Adequate Support and Flexibility for Commission Operations

Each of these statements is discussed in further detail below.

The Commission should support these legislative principles by taking the following actions during the legislative session:

Staff will draft an objective analysis of all legislative bills that affect the Commission. All positions will be in a "pending" status until the Commission has the opportunity to review the legislation and analysis and take an official position. Staff will request the Commission take one of the following positions:

Neutral or No Position

- The Commission has conflicting votes or
- A bill that is not within the scope of the Commission's responsibility or would not impact the Commission's operations or procedures (mission?).

Support

- Supports the Commission's mission and principles.

Neutral if Amended, Support if Amended, or Oppose unless Amended

- The Commission's position would change if recommended amendments are made to resolve implementation or policy concerns. This position should indicate which concerns must be resolved before the Commission would change its position.

Oppose

- A bill that is in conflict with the Commission's mission and principles; it cannot be administered; it is too costly and burdensome to the Commission, the students, and schools.

Staff will request the Commission's involvement during the legislative session as the opportunity arise, including but not limited to:

- For the 2007 legislative session (as it relates to the 2007 Commission Meetings) February 22-23 (Governor's Budget), April 19-20 (positions on all introduced bills), June 21-22 (budget bill & additional bills), September 6-7 (status of bills), November 29-30 (signed bills and 2nd year bills).

The guiding principles and objectives should be reviewed at the beginning of each legislative session to ensure they continue to be applicable, valid, and supportive of the Commission's mission.

FOSTER EDUCATIONAL ACCESS AND AFFORDABILITY

The Commission and the State should advocate for increased higher education opportunities for all California students. The Commission accomplishes this as follows:

- Ensuring that financial aid to the growing number of needy California college students continues to expand as the cost of completing a postsecondary education continues to rise.
- Cultivating legislative and budget actions that protect, strengthen, and increase the state's General Fund commitment to student financial aid.
- Encouraging continued bipartisan support for funding of statutory growth in the Cal Grant programs and for continued access to affordable student loans administered through EDFUND.
- Promoting expanded educational and transfer opportunities for students transferring from community colleges to four-year colleges.
- Supporting legislation that will enhance the benefits to those participating in state or federal tuition savings plans that encourage saving while offering tax relief incentives, such as the ScholarShare Program.

FOSTER EDUCATIONAL ACCESS AND AFFORDABILITY - FUNDING OBJECTIVES FOR THE CAL GRANT PROGRAM

The Commission will advocate maintaining the integrity of the Cal Grant program and for increases in the value of all Cal Grant awards to help defray the cost of obtaining a postsecondary education. The Commission accomplishes this as follows:

- Providing continuous educational opportunities by adopting budget principles, which intend to, at a minimum, preserve the Cal Grant Entitlement and Competitive Program's eligibility requirements, preserve the value of the award, and maintain the current number of awards.
- Pursuing a state budget that is supportive of access and institutional choice through the Cal Grant Program.
- Advocating for funds that increase the number of competitive Cal Grant awards for qualified non-recipient students.
- Supporting full fee funding for Cal Grant students at the public universities and a maximum Cal Grant award that supports the ability of students to choose to attend a private university.
- Continue to help students fund their unmet financial need through low-cost loans under the federal student loan program.

ENSURE THE AVAILABILITY OF INFORMATION ON EDUCATIONAL OPPORTUNITIES

The Commission should work to expand and strengthen its early outreach efforts throughout the State. The Commission accomplishes this as follows:

- Promoting the availability of information on college educational opportunities for all California students and families.
- Promoting policies that provide information and guidance to students and their families on alternative methods for financing a college education.
- Providing the support needed to maximize the effectiveness of the California Student Opportunity and Access Program (Cal-SOAP).
- Working in coordination with our partners in the financial aid community.

PRESERVE THE FLOW OF FINANCIAL AID

The Commission should promote the uninterrupted flow of student financial aid to enable students to achieve their educational goals. The process of applying for and receiving student aid should be as simple as possible for students and their families, educational institutions, and other program participants. The Commission accomplishes this as follows:

- Advocating continued enhancements and improvements to the Grant Delivery System to promote transparency and ease of use in the system while maintaining speed and accuracy.
- Advocating federal and state actions that result in a streamlined application process for California students.

- Advocating policies that promote the cost-effective and timely administration of student financial aid programs.

Ensure Adequate Support and Flexibility for Commission Operations

The Commission should ensure that its administrative functions are sufficient to fulfill its essential mission and responsibilities. The Commission accomplishes this as follows:

- Administering its programs effectively and efficiently; expanding the use of advanced technological services and streamlined operations; providing high quality financial aid services to its customers and Californians at large; and retaining a qualified, professional workforce.
- Preserving the opportunity established through EDFUND (AB 3133, Chap.961, Stat.1996), as well as the authority to strengthen and improve the opportunities offered through the Commission and EDFund model (AB 2122, Chap. 657 and SB 1108, Chap.216, Stat. of 2004).

PROPOSED SUMMARY STATEMENT OF LEGISLATIVE PRINCIPLES FOR 2007-08

Mission

The mission of the California Student Aid Commission (Commission) is to make education beyond high school financially accessible to *all* Californians.

Statement of Legislative Principles

The Commission's duty is to preserve and improve the Cal Grant Entitlement and Competitive Programs, Specialized Programs, and the Federal Family Education Loan Program (FFEL) through its auxiliary non-profit EDFund.

The Commission will work to maintain the support of the Legislature and the Executive branch for postsecondary educational opportunities and adopts the following general statement of principles to guide staff in consideration of legislation and related policy issues:

- *Foster Educational Access and Affordability*
  - The Commission and the State should advocate for increased higher education opportunities for all California students
- *Ensure the Availability of Information on Educational Opportunities*
  - The Commission should work to expand and strengthen its early outreach efforts throughout the State.
- *Preserve the Flow of Financial Aid*
  - The Commission should promote the uninterrupted flow of student financial aid to enable students to achieve their educational goals.
- *Ensure Adequate Support and Flexibility for Commission Operations*
  - The Commission should ensure that its administrative functions are sufficient to: fulfill its essential mission and responsibilities; administer its programs effectively and efficiently; expand the use of advanced technological services and streamlined operations; provide high quality financial aid services to its customers and Californians at large; and retain a qualified, professional workforce.

When legislation is introduced that impacts the Commission, staff will request the Commission take one of the following positions: Neutral or No Position, Support, Neutral if Amended, Support if Amended, or Oppose unless Amended, or Oppose.

The continued commitment from the State to improve the availability and amount of financial aid is crucial to ensure educational access for all California students. This commitment strengthens the state's economic well-being by educating California's future workforce.

PROPOSED STATEMENT OF LEGISLATIVE PRINCIPLES FOR 2005-06

The mission of the California Student Aid Commission (Commission) is to make education beyond high school financially accessible to *all* Californians. The Commission is dedicated to implementing and maintaining the integrity and value of the Cal Grant Entitlement Program and ensuring that all California students learn about the program and apply for its benefits.

The state's continued commitment to improve the availability and amount of financial aid is crucial to ensure educational access for all California students and strengthen the state's economic well-being by educating California's future workforce.

Although the number of high school graduates with Cal Grant awards has increased from approximately 30,000 in 2000-01 to over 62,000 in 2004-05, many needy students remain unaware of the financial aid opportunities available to them. In 2003-04 the Commission embarked into expansion of its existing outreach efforts by adoption of a comprehensive outreach plan. The plan provides over $17 million in direct support for financial aid related activities. Furthermore, an additional $3 million was committed for a public awareness campaign and the Commission is providing support and coordination efforts with Cash for College and other programs. Partnering with Legislators and the segments to conduct Cal Grant promotional events is an effective way to ensure not only that the program is successful, but that Legislative members participate in and support the Commission's mission.

Commission staff has identified several long-term objectives toward these goals at the legislative level:

FUNDING OBJECTIVES

The Commission is committed to the following funding objectives:

- The Commission continues to provide educational opportunity by adopting budget principles, which are intended to, at a minimum, preserve the Cal Grant Entitlement and Competitive Program's eligibility requirements, preserve the value of the award and maintain the current number of awards.

- The Commission shall continue to advocate for funding to implement and improve the Cal Grant Program for students who are not currently served by the Competitive program.

- The Commission will advocate maintaining the integrity of the Cal Grant program and for increases in the value of all Cal Grant awards to help defray the cost of obtaining a postsecondary education.

- The Commission will support full fee funding for Cal Grant students at the public universities and a maximum Cal Grant award that supports the ability of students to choose to attend a private university.

- The Commission shall strive to continue to help students fund their unmet financial need through low-cost loans and the waiver of borrower guaranty fees under the federal student loan program.

Legislative Principles

The Commission will work to maintain the support of the Legislature and Administration for;

- The Cal Grant Entitlement and Competitive Programs, and
- A business diversification plan that will build on the Commission/ EdFund's strength by expanding beyond the Federal Family Education Loan Program (FFEL) to continue to serve the public interest by providing quality financial aid services, at a reasonable cost, to those student who would be unable to attend higher education without financial assistance.

Recognizing the critical need to maintain Legislative and Executive support for postsecondary educational issues, the Commission adopts the following general statement of principles to guide staff in consideration of legislation and related policy issues during the 2005-06 legislative session:

Foster Educational Access and Affordability

- The Commission and the State should advocate for increased higher education opportunities for all California students.
- The Commission should strive to ensure that financial aid to the growing number of needy California college students continues to expand and not erode as the cost of completing a postsecondary education continues to rise.
- The Commission should cultivate legislation and budget actions, which would protect, strengthen, and increase the state's General Fund commitment to student financial aid.
- The Commission should encourage continued bipartisan support for funding of statutory growth in the Cal Grant programs and for continued access to affordable student loans administered through EdFund.
- The Commission should pursue a state budget that supports access and institutional choice through the Cal Grant Programs.
- The Commission and State should promote expanded educational and transfer opportunities for students transferring from community colleges to four-year colleges.
- The Commission should support legislation that will enhance the benefits to those participating in state or federal tuition savings plans that encourage saving while offering tax relief incentives, such as the ScholarShare Program.

Ensure the Availability of Information on Educational Opportunities

- The Commission should work to expand and strengthen its early outreach efforts throughout the State.

- The Commission should strive to promote the availability of information on college educational opportunities for all California students and families.

- The Commission should promote policies that provide information and guidance to students and their families on alternative methods for financing a college education.

- The Commission should provide the support needed to maximize the effectiveness of the California Student Opportunity and Access Program (Cal-SOAP).

- The Commission should work in coordination with the California Education Roundtable and its State GEAR UP Grant partners.

PRESERVE THE FLOW OF FINANCIAL AID

- The Commission should advocate for continued enhancements and improvements to the Grant Delivery System to promote transparency and ease of use in the system while maintaining speed and accuracy.

- The Commission should promote the uninterrupted flow of student financial aid to enable students to achieve their educational goals.

- The Commission should advocate federal and state actions that result in sufficient and effective financial aid for California students. The process of applying for and receiving student aid should be as simple as possible for students and their families, educational institutions, and other program participants.

- The Commission should advocate policies that promote the cost-effective and timely administration of student financial aid programs.

ENSURE ADEQUATE SUPPORT AND FLEXIBILITY FOR COMMISSION OPERATIONS

- The Commission should ensure that its administrative functions are sufficient to: fulfill its essential mission and responsibilities; administer its programs effectively and efficiently; expand the use of advanced technological services and streamlined operations; provide high quality financial aid services to its customers and Californians at large; and retain a qualified, professional workforce.

- The Commission should seek to preserve the opportunity established through AB 3133, (Statutes of 1996), the legislation authorizing the establishment of EDFUND, as well as the legislative authority to pursue diversified lines of business (per AB 2122 and SB 1108, Statutes of 2004).

Legislative Analysis Templates

- An Analysis of Original Bill is completed for any bill that may impact the Commission's programs, procedures, policies, and operations. This would be completed most often for bills that are introduced at the beginning of the legislative session.
- An Analysis of Amended Bill is completed for any bill that may impact the Commission's programs, procedures, policies, and operations. This would be completed most often for bills that are amended during the legislative session that when originally introduced did not contain a provision(s) that impacted the Commission.
- A Summary is completed for any bill that was already analyzed as introduced or amended and adds a provision that impacts the Commission but many of the previous headings still apply. This analysis is a "summary" of the new amendments and its impact to the Commission.
- A No Analysis Required is completed for any bill that 1) the Commission is watching as it moves through session, 2) is a spot bill, 3), is a minor amendment to a bill that has already been analyzed, or 4) was amended to no longer impact the Commission.

Each of the templates has the following optional headings except the No Analysis Required: Summary, Summary of Amendments, Purpose of the Bill (Author Statement), Position, Analysis - Federal/State Law, This Bill, Implementation Considerations, Technical Considerations, Legislative History, Fiscal Impact, Economic Impact, Policy and Concerns

CALIFORNIA STUDENT AID COMMISSION

Analysis of Original Bill
AB/SB (Author)
Subject Matter/Title
As Introduced (Date)

Summary

Purpose of the Bill (Author Statement)

Position

Analysis

Federal/State Law

This Bill

Implementation Considerations

Technical Considerations

Legislative History

Fiscal Impact

Economic Impact

Policy Concerns

Legislative Staff Contact

Darrine Distefano
California Student Aid Commission
526-8295
ddistef@csac.ca.gov

Steve Caldwell
California Student Aid Commission
526-8095
scaldwel@csac.ca.gov

Analysis of Amended Bill
AB/SB (Author)
Subject Matter/Title
As Amended (Date)

Summary

Summary of Amendments

Purpose of the Bill (Author Statement)

Position

Analysis

Federal/State Law

This Bill

Implementation Considerations

Technical Considerations

Legislative History

Fiscal Impact

Economic Impact

Policy Concerns

Legislative Staff Contact

Darrine Distefano
California Student Aid Commission
526-8295
ddistef@csac.ca.gov

Steve Caldwell
California Student Aid Commission
526-8095
scaldwel@csac.ca.gov

Tab 17.1g

CALIFORNIA STUDENT AID COMMISSION

Summary Analysis of Amended Bill
AB/SB (Author)
Subject Matter/Title
As Amended (Date)

Summary

Summary of Amendments

Purpose of the Bill (Author Statement) (optional)

Position

Analysis (optional)

Federal/State Law (optional)

This Bill (optional)

Implementation Considerations

Technical Considerations

Legislative History (optional)

Fiscal Impact (optional)

Economic Impact (optional)

Policy Concerns (optional)

Legislative Staff Contact

Darrine Distefano
California Student Aid Commission
526-8295
ddistef@csac.ca.gov

Steve Caldwell
California Student Aid Commission
526-8095
scaldwel@csac.ca.gov

No Analysis Required
AB/SB (Author)
Subject Matter/Title
As Introduce/Amended (Date)

Summary

Legislative Staff Contact

Darrine Distefano
California Student Aid Commission
526-8295
ddistef@csac.ca.gov

Steve Caldwell
California Student Aid Commission
526-8095
scaldwel@csac.ca.gov

17.2

Action/Information Item

California Student Aid Commission

Update on State Legislation and Issues and Consideration of Positions on Pending Legislation Affecting the Commission

This agenda item will provide an update of legislative bills that have been introduced so far in the 2007-08 legislative session.

The 2007-08 two-year legislative session began on December 4, 2006. There are 36 new Assembly members and 12 new Senators (due to term limits) that started terms in December 2006.

Enclosed are: 1) the State Legislative and Budget Update; and 2) the 2007 Legislative calendar.

On February 14, 2007, the Governmental Relations Committee discussed the State Legislative Update. The Committee took no action on the listed bills pending further information. Governmental Affairs staff is working with internal staff and Legislative staff to analyze current proposals. Further information will be provided as it becomes available.

Recommended Action:. Review update information and adopt official positions on proposed legislation, as necessary.

Responsible Staff: Steve Caldwell, Chief
Governmental and Public Affairs
Division

STATE LEGISLATIVE UPDATE

State Budget
The Governor introduced his proposed State Budget on January 10, 2007. As the Franchise Tax Board receives personal tax information from the public's filings, the Governor and the Legislature will revise revenue forecasts in regard to budget proposals.

The Legislative Analyst's Office (LAO) will release its analysis of the Governor's Budget sometime during the week of February 19-23. The Legislature will use the LAO's analysis as a blueprint for the beginning of their Spring Budget Committee and Budget Subcommittee discussions. The Governor, through the Department of Finance will revise the January budget based on changes to the projected revenue, caseload for certain programs and other changes that occur between January and May. Once the May Revision of the Budget is released, (on or about May 15th) the budget hearings begin to move very quickly.

The Constitution requires the Legislature to present its budget, agreed upon by the Assembly and Senate, to the Governor by June 15th. This usually occurs sometime after June 15th. The Governor has 15 days to take action including using his line-item veto power to sign the budget into law.

Legislation
The California Legislature had until January 26 to submit bill proposals to the Legislative Counsel. Several bills have been introduced. Bills may be heard in committee once they have been in print for more than 30 days. This is the beginning of a two-year session and many changes will be made to the proposals as they move forward in the process. Some of the bills have very little detail and have been introduced as place-holders or "spot bills". Staff will provide updates as necessary. To follow progress on state bills, log on to www.leginfo.ca.gov , click on the Bill Information link and enter the bill number in the search box.

The following bills that may affect the Commission's programs have been introduced this session.

AB 14
AUTHOR: Laird (D)
TITLE: Discrimination: Civil Rights Act of 2007
INTRODUCED: 12/04/2006
LOCATION: Assembly Judiciary Committee

SUMMARY: Enacts the Civil Rights Act of 2007. Subjects licensees under this Business and Professions Code to disciplinary action if the discrimination is based upon the prospective recipient's sex, race, color, religion, ancestry, national origin, disability, medical condition, marital status, or sexual orientation. Provides that nothing in these provisions would require any healing art practitioner to perform a licensed activity for which he or she is qualified.

STATUS: 02/01/2007 To ASSEMBLY Committee on JUDICIARY.

Commentary: This bill would require the California Student Aid Commission (Commission) to award a Cal Grant without regard to age, sex, race, color, religion, ancestry, national origin, disability, medical condition, martial status, or sexual orientation.

Although the FAFSA requires a student's or parent's martial status information, the Commission does not use it to determine eligibility for the Cal Grant program.

Position: Pending

AB 111
AUTHOR: Blakeslee (R)
TITLE: National Guard Assumption Program For Education Loans
INTRODUCED: 01/08/2007
LOCATION: Assembly Higher Education Committee

SUMMARY: Changes the date on which the National Guard Assumption Program of Loans for Education becomes inoperative. Provides an incentive for persons to enlist or reenlist in the National Guard, the State Military Reserve, or the Naval Militia.

STATUS: 02/01/2007 To ASSEMBLY Committee on HIGHER EDUCATION.

Commentary: Extends program by three years - changes inoperative date to July 1, 2010 and repeal date January 1, 2011. Has urgency clause to make bill effective immediately upon enactment.

Position: Pending

AB 120
AUTHOR: Laird (D)
TITLE: 2007-08 Budget
INTRODUCED: 01/10/2007
LOCATION: Assembly Budget Committee

SUMMARY: Makes appropriations for support of state government for the 2007-08 fiscal year.

STATUS: 02/01/2007 To ASSEMBLY Committee on BUDGET.

Position: Pending

AB 171
AUTHOR: Beall (D)
TITLE: Public Interest Attorney Loan Repayment Program
INTRODUCED: 01/23/2007
LOCATION: ASSEMBLY

SUMMARY: Includes service in a county counsel's office as service that would qualify a participant for loan repayment under the Public Interest Attorney Loan Repayment Program.

STATUS: 01/23/2007 INTRODUCED.

Commentary: While this program was signed into law in 2000, it has never been funded and no appropriation is included with this bill.

Position: Pending

AB 175
AUTHOR: Price (D)
TITLE: Cal Grant B Awards: Access Costs
INTRODUCED: 01/23/2007
LOCATION: ASSEMBLY

SUMMARY: Relates to the Cal Grant Program, which establishes the Cal Grant B Entitlement Awards under the administration of the Student Aid Commission. Requires the maximum award for access costs, for the 2008-09 award year, to be in an annual amount that equals at least $1,551.

Beginning with the 2009-10 award year, the bill would require the maximum award for access costs to be increased by not less than 5 percent and not more than 10 percent per year until that amount equals at least 20 percent of the access costs for the budget category of a student living off-campus, as determined by the triennial Student Expense and Resource Survey (SEARS), as adjusted between survey years for Consumer Price Index changes in a specified manner.

STATUS: 01/23/2007 INTRODUCED.

Commentary: While the general cost of living and the cost of college textbooks and supplies have increased dramatically, the Cal Grant B Access Grant has not increased since 1999-00 when it was increased by 10 percent from $1,410. This bill would require the maximum award for access costs, for the 2008-09 award year, to be in an annual amount that equals at least $1,551.

Position: Pending

SB 54
AUTHOR: Ducheny (D)
TITLE: 2007-08 Budget
INTRODUCED: 01/10/2007
LOCATION: Senate Budget & Fiscal Review Committee

SUMMARY: Makes appropriations for support of state government for the 2007-08 fiscal year.

STATUS: 01/10/2007 To SENATE Committee on BUDGET AND FISCAL REVIEW.

SB 139
AUTHOR: Scott (D)
TITLE: Nursing Education
INTRODUCED: 01/25/2007
LOCATION: Senate Education Committee

SUMMARY: Relates to the State Nursing Assumption Program of Loans for Education (SNAPLE). Makes a person who is currently employed as a registered nurse in a state-operated 24-hour facility ineligible to enter into an agreement for loan assumption under this program.

STATUS: 02/01/2007 To SENATE Committees on EDUCATION and HEALTH.

Commentary: This is a spot bill. Commission staff is working with Senator's Scott's staff to identify any areas related to the SNAPLE program that need to be addressed.

Position: Pending

SB 160
AUTHOR: Cedillo (D)
TITLE: Student Financial Aid: California Dream Act
INTRODUCED: 01/30/2007
LOCATION: SENATE

SUMMARY: Enacts the California Dream Act. Requires that a person who has attended and graduated from secondary school, rather than high school, in the state is exempt from paying nonresident tuition at the Community Colleges and the CSU. Allows persons attending and graduating from technical schools and adult schools to be included within the scope of this provision.

STATUS: 01/30/2007 INTRODUCED.

Commentary: Senator Cedillo also authored SB 160 in the 2005-06 session which also would have enacted the California Dream Act. The Governor vetoed SB 160. The veto message included the following statement: *"While I do not believe that undocumented children should be penalized for the acts of their parents, this bill would penalize students here legally by reducing the financial aid they rely on to allow them to go to college and pursue their dreams."*

Position: Pending

CALIFORNIA 2007-08 Regular Session

Dec. 04, 2006	Organizational Session of the 2007-08 Regular Session (Article IV., Sec. 3(a)). Organizational Recess begins upon adjournment.
Jan. 03, 2007	Legislature reconvenes from Organizational Recess (J.R. 51(a)(1)).
Jan. 10, 2007	Budget must be submitted by Governor (Art. IV, Sec. 12(a)).
Jan. 15, 2007	Martin Luther King's Birthday observed.
Jan. 26, 2007	Last day to submit bill requests to the Office of Legislative Counsel.
Feb. 12, 2007	Lincoln's Birthday observed.
Feb. 19, 2007	Washington's Birthday observed.
Feb. 23, 2007	Last day for bills to be introduced (J.R. 61(a)(1), J.R. 54(a)).
Mar. 29, 2007	Spring Recess begins upon adjournment (J.R. 51(a)(2)).
Mar. 30, 2007	Cesar Chavez Day observed.
Apr. 09, 2007	Legislature reconvenes (J.R. 51(a)(2)).
Apr. 27, 2007	Last day for policy committees to hear and report fiscal bills for referral to fiscal committees (J.R. 61(a)(2)).
May. 11, 2007	Last day for policy committees to hear and report nonfiscal bills to the Floor (J.R. 61(a)(3)).
May. 25, 2007	Last day for policy committees to meet prior to June 11 (J.R. 61(a)(4)).
May. 28, 2007	Memorial Day observed.
Jun. 01, 2007	Last day for fiscal committees to hear and report bills to the Floor (J.R. 61(a)(5)). Last day for fiscal committees to meet prior to June 11 (J.R. 61(a)(6)).
Jun. 04 - Jun. 08, 2007	Floor session only. No committee may meet for any purpose (J.R. 61(a)(7)).
Jun. 08, 2007	Last day to pass bills out of the house of origin (J.R. 61(a)(8)).
Jun. 11, 2007	Committee meetings may resume (J.R. 61(a)(9)).
Jun. 15, 2007	Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).
Jul. 04, 2007	Independence Day.

Jul. 13, 2007	Last day for policy committees to meet and report bills (J.R. 61(a)(10)).
Jul. 20, 2007	Summer Recess begins on adjournment, provided Budget Bill has been passed (J.R. 51(a)(3)).
Aug. 20, 2007	Legislature reconvenes (J.R. 51(a)(3)).
Aug. 31, 2007	Last day for fiscal committees to meet and report bills to the Floor (J.R. 61(a)(11)).
Sep. 03, 2007	Labor Day observed.
Sep. 03 - Sep. 14, 2007	Floor session only. No committee may meet for any purpose (J.R. 61(a)(12)).
Sep. 07, 2007	Last day to amend bills on Floor (J.R. 61(a)(13), A.R. 69(e)).
Sep. 14, 2007	Last day for any bill to be passed (J.R. 61(a)(14)). Interim recess begins upon adjournment (J.R. 51(a)(4)).
Oct. 14, 2007	Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in his possession after Sept. 14 (Art. IV, Sec. 10(b)(1)).
Jan. 01, 2008	Statutes take effect (Art. IV, Sec. 8(c)).
Jan. 07, 2008	Legislature reconvenes (J.R. 51(a)(4)).

17.3

Action/Information Item

California Student Aid Commission

Update on Federal Legislation and Issues and Consideration of Pending Legislation Affecting the Commission

This agenda item will provide an update on federal activity and information on the 109th Congress.

Enclosed is the federal issue update.

On February 14, 2007, the Governmental Relations Committee met and discussed the federal update. The Committee did not take action on this item. Commission staff will provide updated information as it becomes available.

Recommended Action:. For information and consideration of positions on pending legislation.

Responsible Staff: Steve Caldwell, Chief
Governmental and Public Affairs
Division.

FEDERAL ISSUES UPDATE

New Federal Bills
The new Congress, led by Democrats, has acted quickly to establish its priorities in the new session. The following are brief summaries of pending proposals that affect financial aid programs. The House has adopted a requirement referred to as "pay go" which means that each bill that costs money must be offset by another (or another provision within the same bill) that saves money. It appears that in many cases, the offset has yet to be identified. Some of the proposals listed are "spot" or concept bills that will be further developed later in the process.

HR 5
SPONSOR: Miller Ge (D)
TITLE: College Student Relief Act
INTRODUCED: 01/04/2007
LOCATION: Senate Health, Education, Labor and Pensions Committee

SUMMARY: Creates the College Student Relief Act of 2007; reduces the interest rates for student borrowers. Among other provisions, this bill would reduce the interest rate on student loans from 6.80 percent for loans disbursed between July 1, 2006 and July 1 2007 on a phased in basis down to 3.40 percent for loans disbursed between July 1, 2011 and July 1, 2012.

STATUS: 01/17/2007 In HOUSE. Discharged from HOUSE Committee on EDUCATION AND LABOR.

Commentary: By lowering the interest rate, those who are repaying student loans would save money. However, the potential affect of savings identified in the proposal are currently under consideration by Commission and EDFUND staff. Please see the NCHELP information sheet (Tab 3.2) that follows the Federal Issues Update for further information.

Position: Pending

HR 472
SPONSOR: McKeon (R)
TITLE: Higher Education Act
INTRODUCED: 01/16/2007
LOCATION: House Education and Labor Committee

SUMMARY: Amends the Higher Education Act of 1965 to address the issues of college affordability and transparency. This bill is intended to assist families and students with easy to use web tools to search and compare colleges, make college costs and financial aid transparent, and raise awareness about college opportunities especially for low income families, non-traditional students, and first in the family to attend college.

STATUS: 01/16/2007 INTRODUCED. 01/16/2007 To HOUSE Committee on EDUCATION AND LABOR.

Commentary: This is the latest bill to update the ongoing attempts to update (reauthorize) the Higher Education Act (HEA) of 1965. The HEA was extended in September 2006 until June 30, 2007 (3rd extension).

Position: Pending

HR 601
SPONSOR: Biggert (R)
TITLE: Definition of Independent Student
INTRODUCED: 01/22/2007
LOCATION: House Education and Labor Committee

SUMMARY: Expands the definition of independent student in the Higher Education Act of 1965 to include homeless youth.

STATUS: 01/22/2007 INTRODUCED. 01/22/2007 To HOUSE Committee on EDUCATION AND LABOR.

Position: Pending

HRES 81
SPONSOR: Wu (D)
TITLE: Pell Grant Increase
INTRODUCED: 01/19/2007
LOCATION: House Education and Labor Committee

SUMMARY: To express the sense of the House of Representatives that the maximum Pell Grant should be increased to $5,800.

STATUS: 01/19/2007 INTRODUCED. 01/19/2007 To HOUSE Committee on EDUCATION AND LABOR.

Position: Pending

S 301
SPONSOR: Clinton (D)
TITLE: Higher Education Assistance
INTRODUCED: 01/16/2007
LOCATION: Senate Finance Committee

SUMMARY: Provides higher education assistance for nontraditional students, and for other purposes. This Act may be cited as the *Nontraditional Student Success Act.* The proposal includes an increase in the Pell Grant maximum to $8,600 in 2007-08 and up to $12,600 in 2011-12 less the Expected Family Contribution.

STATUS: 01/16/2007 INTRODUCED. 01/16/2007 In SENATE. Read second time. 01/16/2007 To SENATE Committee on FINANCE.

Position: Pending

S 359
SPONSOR: Kennedy (D)
TITLE: Higher Education Act Of 1965
INTRODUCED: 01/22/2007
LOCATION: Senate Finance Committee

SUMMARY: Amends the Higher Education Act of 1965 to provide additional support to students. This Act may be cited as the Student Relief Act of 2007. The bill includes an increase to the Pell Grant maximum to $5,100 in 2007-08 and up to $6,300 in 2011-12.

STATUS: 01/22/2007 INTRODUCED. 01/22/2007 In SENATE. Read second time. 01/22/2007 To SENATE Committee on FINANCE.

Position: Pending

Federal Budget
President Bush released his $2.9 trillion budget proposal for fiscal year 2008 this week. The proposed budget includes a $1,350 Pell Grant increase over the next five years. However, concerned has been expressed relative to the elimination of some need-based aid programs and additional cuts to lender subsidies used to offset the $19.8 billion needed to increase the Pell Grant - among other selected programs - over the next five years.

Grant Increases
Specifically, the President's FY 2008 budget proposes raising the maximum Pell Grant award to $4,600 in 2008 and then increase by $200 in every year thereafter until 2012. Maximum Pell Grants for the next five years would grow to the following amounts;

- FY 2008: $4,600
- FY 2009: $4,800
- FY 2010: $5,000
- FY 2011: $5,200
- FY 2012: $5,400

A Department of Education press release indicated that "the $4,600 maximum grant awarded to the poorest students would cover nearly 75 percent of tuition and fees at a typical public 4-year college, while the average award of $2,770 would pay for 42 percent of tuition and fees."

Secretary of Education Margaret Spellings said "This is the largest Pell Grant increase in thirty years." Department officials said that increasing the Pell Grant was the best way to get dollars into the hands of the neediest students.

Staff will provide periodic updates on the federal budget. The NASFAA website is an effective resource for information related to the federal budget. NASFAA's website is located at http://www.nasfaa.org/Home.asp. Additionally, Commission and EDFUND staff will continue to work together to estimate the affect of various proposals as they continue to develop.

On the Hill

The Senate and the House of Representatives began a new session in January. On September 30, programs under the Higher Education Act of 1965 (HEA) were extended through June 30, 2007, by the Third Higher Education Extension Act of 2006 (P.L. 109 - 292).
The nine-month HEA extension bill signed into law by President Bush made several changes to the HEA, including loan forgiveness to survivors of victims of the 9/11 attacks and further restrictions to institutions ability to participate in the school-as-lender program.

1. 9/11 Loan Forgiveness: The HEA extension bill includes a provision extending student loan forgiveness to the spouses and parents of those who died or became disabled in the terrorist attacks of September 11, 2001.

   Under this provision the Department of Education will discharge federal student loans; (1) of the spouses of an eligible public servant, including any consolidation loan used jointly by the spouse and the eligible public servant; (2) the portion incurred on behalf of the eligible victim (other than an eligible public servant), of a consolidation loan that was used jointly by the eligible victim and his or her spouse; (3) the portion of the consolidation loan of an eligible parent that was incurred on behalf of an eligible victim; and (D) the PLUS loan indebtedness of an eligible parent that was incurred on behalf of an eligible victim. For the purposes of this provision:

   - *Eligible Public Servants* are individuals who served as a police officer, firefighter, other safety or rescue personnel, or as a member of the Armed Forces who died or became permanently and totally disabled due to the injuries suffered in the 9/11 terrorist attack
   - *Victims* are individuals who died or became permanently or totally disabled due to injuries suffered in the attacks
   - *Eligible Parents* are parents of an eligible victim with a PLUS loan or a consolidation loan used to repay a PLUS loan incurred on behalf of an eligible victim.

   The law requires the Department to establish procedures to apply for loan cancellation under this provision by regulations that must be prescribed and published by Dec. 29, 2006.

2. Eligible Lender Trustee Restrictions: The law eliminates the ability of schools to circumvent recent school-as-lender restrictions by forming an eligible lender-trustee relationship.

   During remarks on the House floor, Rep. Ric Keller (R-FL), chairman of the Subcommittee on 21st Century Competitiveness made it clear that all schools that have an eligible lender-trustee agreement in place may continue to operate, but they must comply with the school-as-lender program requirements.

   Under the provision an eligible lender cannot make or hold a loan as a trustee for an institution or an organization affiliated with an institution unless:

   - The lender is serving as trustee for that institution or organization before Sept. 30
   - The institution or organization and the lender comply with the school-as-lender requirements established by the HERA by Jan. 1, 2007.

3. Hispanic Institutions: The HEA extension law eliminates the two-year waiting period for Hispanic-serving institutions applying for grants and a requirement that these institutions document the percentage of low income students enrolled at the institution.

Howard "Buck" McKeon (R-CA) said eliminating the two-year waiting period would reduce red tape for Hispanic-serving institutions and described the low-income reporting requirement as "outdated and burdensome"

4. Guaranty Agencies: The bill corrected a legislative error by continuing current law with respect to payments made to guaranty agencies. McKeon said this would enable guaranty agencies to continue working to help students avoid loan default.

Report on College Costs and Financial Aid:

According to a new report from the Advisory Committee on Student Financial Assistance, college costs have prevented, and if left unaddressed, will continue to prevent millions of "college qualified" students from pursuing a bachelor's degree. The report estimates that in the 1990's costs prohibited between 800,000 and 1.6 million qualified students from earning a degree and the estimate rises to 1.4 million to 2.4 million for the current decade.

Even more alarming, according to the Advisory Committee these estimates are quite conservative due to the methodology of the report. Using complex research methods, the figures presented by the Committee try to focus on students for whom costs was the main, if not sole, contributor to not obtaining a degree.

The report cites "impressive gains made by K-12 educators, professionals in early intervention programs, states, colleges, Congress, and the Department of Education from 1992-2004," but asserts that "net price at four-year public colleges increased over that time period and appears to have undermined these improvements." It also warns that if college costs are not addressed by policymakers and the higher education community, the trend will continue. To combat these issues, the report offered the following six recommendations:

- Reinvigorate the access and persistence partnership to increase need-based aid from all sources,
- Restrain increases in the price of college and offset increases with need-based student aid,
- Moderate the trend - at all levels - toward merit-based aid and increasing reliance on loans,
- Reduce financial barriers to transfer from two-year to four-year colleges,
- Strengthen early intervention programs for low- and moderate-income students,
- Invest in efficient and productive remediation.

Although the makeup of the Advisory Committee is bipartisan and the report did not seek to place blame with any administration or agency, Democrats and Republicans had very differing views on the report. Both House Education and the Workforce Committee Chairman Howard "Buck" McKeon (R-CA) and Ranking Member George Miller (D-CA) lamented the rising costs of college and both referenced the report in regards to the Higher Education Reconciliation Act. However, in one of those "only in Washington" situations, Miller used the report to criticize the legislation, while McKeon used it to support it.

For more information on the Advisory Committee on Student Financial Assistance and to access the report, please click here: http://www.ed.gov/about/bdscomm/list/acsfa/edlite-whatnew.html

College Student Loan Relief Act Summary

The College Student Relief Act of 2007 (H.R. 5) passed the House on January 17, 2007 by a vote of 356 to 71. Under this bill, borrower interest rates on new subsidized Stafford loans to undergraduate students under both the FFEL and Direct Loan programs will be reduced from the current 6.8% to 3.4% over five years, as follows:

- the rate will be 6.12% for loans first disbursed on or after July 1, 2007 and before July 1, 2008;
- the rate will be 5.44% for loans first disbursed on or after July 1, 2008 and before July 1, 2009;
- the rate will be 4.76% for loans first disbursed on or after July 1, 2009 and before July 1, 2010;
- the rate will be 4.08% for loans first disbursed on or after July 1, 2010 and before July 1, 2011; and
- the rate will be 3.40% for loans first disbursed on or after July 1, 2011 and before January 1, 2012

Under the bill, the rate reductions would sunset beginning with new loans first disbursed on or after January 1, 2012 (these loans would carry the current 6.8% interest rate).

Consistent with the pay-as-you-go rule approved by the House two weeks ago, the bill includes a number of reductions in payments made to FFEL program participants in order to offset the projected $7 billion cost of the interest rate reductions. Specifically, these cuts would:

- Reduce lender insurance from 97% to 95% for loans made on or after July 1, 2007 (lender-of-last resort and exempt claims would continue to receive 100% insurance).

- Repeal "exceptional performer" status in the FFEL program effective July 1, 2007.

- Increase the lender-paid origination fee on Stafford, PLUS and Consolidation loans from 0.5% to 1.0% for loans first disbursed on or after July 1, 2007.

- Incrementally reduce guaranty agency collection retention from the current 23% to the following:
  - 20% beginning October 1, 2007 and ending September 30, 2008;
  - 18% beginning October 1, 2008 and ending September 30, 2010; and
  - Beginning October 1, 2010, "a percentage determined in accordance with the regulations of the Secretary and equal to the average rate paid to collection agencies that have contracts with the Secretary."

- Reduce the special allowance payment by 10 basis points on Stafford, PLUS and Consolidation loans first disbursed on or after July 1, 2007, except that loans held by lenders designated by the Secretary as small lenders are excluded. Small lenders are the lenders with the smallest holdings of FFEL program loans that, as a group, hold 10% of the total principal amount of all loans. Affiliated entities are considered to be one entity in making this determination.

- Increase from 1.05% to 1.30% the interest payment rebate fee on consolidation loans based on applications received on or after July 1, 2007 if 90% or more of the outstanding principal and interest on loans directly or indirectly held by the lender is comprised of principal and interest on consolidation loans.

17.4

Action /Information Item

California Student Aid Commission

Consideration of Annual Report on EDFUND

The draft Annual Report to the California State Legislature on EDFUND is included in the Commission agenda packet. The Commission is asked to review and take action on the draft Annual Report to the California State Legislature on EDFUND.

The Annual Report is required by California Education Code Section 69529.5, which directs the Commission to report to the Legislature by April 1 the following information about the operation of its 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 are required to reflect all changes, both positive and negative.

4) The level of compensation of managers and executives of the auxiliary organization.

5) Beginning in 2005, and on April 1 of each year, through 2010, the Commission is required to 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 market, and private lender activities that the auxiliary organization undertakes pursuant to subdivision (a) of Education Code Section 69522.

On February 14, 2007, the Governmental Relations Committee voted to recommend approval of the draft Annual Report on EDFUND Legislative Principles with some changes. The revised document will be furnished under separate cover prior to the Commission meeting.

Recommended Action: Review and adopt the recommendation of the Committee.

Responsible Staff: Steve Caldwell, Chief, Governmental and Public Affairs Division

Tab 17.4a

California Student Aid Commission

Annual Report to the Legislature on EDFUND

Federal Fiscal Year
October 1, 2005 – September 30, 2006

Report Date: April 1, 2007

April 1, 2007

Dear Members of the Legislature:

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 also 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.

EdFund was created in 1997 to provide operational and administrative services for the Commission's participation in the FFEL Program in support of the Commission's mission. Specifically, EdFund is responsible for ensuring that federally insured loans are issued to students attending eligible post-secondary educational institutions and that loans are taken out through an approved FFEL Program lender; maintenance of borrower account information; securing borrower repayments on delinquent and defaulted loans; and payment of claims to lenders when a borrower defaults.

Changes in the student loan industry in 2005-06 brought new challenges for the Commission and EdFund. In spite of these challenges, EdFund, in 2006, processed more than $10.1 billion in student loans (including Consolidation loans) and manages a portfolio of outstanding loans valued currently at $27 billion.

EdFund has been successful not only in business terms – loan volume growth, revenues, and customer ratings – but also in public service terms. Students in California and throughout the nation have benefited from the services provided by EdFund through its administration of the FFEL Program. These services focus on ensuring that borrowers have a successful educational experience followed by a successful student loan repayment experience.

The Commission and EdFund will continue to face new challenges in the future as additional changes to the FFEL Program have been proposed by Congress. The report provides specific information about EdFund's activities in 2005-06 while also addressing the issues facing both the Commission and EdFund as we look to the future.

Please feel free to contact my office at (916) 526-8271 with any questions or comments you may have regarding this report.

Sincerely,

Diana Fuentes-Michel
Executive Director
California Student Aid Commission

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 and 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 requires:

§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.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The California State Legislature granted the California Student Aid Commission (Commission) the authority to create a nonprofit auxiliary to the Commission for the purpose of providing services related to the California Student Aid Commission's participation in the Family Federal Education Loan (FFEL) Program under the terms of an annual Operating Agreement. The Commission retains responsibility for financial aid policy leadership and FFEL Program oversight.

EdFund provides services related to activities consistent with the Commission's mission and policy goals, including administration of the FFEL Program and general administrative support to the Commission. As part of the Commission's oversight responsibilities, the Commission conducts regular performance reviews of EdFund as delineated in the Operating Agreement. In addition, EdFund is subject to annual federal and state audits in accordance with federal loan program requirements. EdFund is also required to have an independent audit of their financial statements.

Through EdFund, the Commission has provided enhanced services and options to California's students. 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, changes in the delivery of loans, program enhancements, the operational budget, and the level of compensation for managers and executives of EdFund.

The past year has challenged the Commission and EdFund to work collaboratively to overcome many obstacles and resolve key issues in the administration of the FFEL Program. Both the Commission and EdFund will continue to work together to ensure common goals are reached that will benefit the FFEL Program and California.

<u>Services Provided</u>

The Commission and EdFund have experienced uninterrupted growth in annual loan guarantee volume. While higher education borrowing nationally has grown to become by far the largest source of financial aid, the Commission's loan volume has grown at a faster pace than the overall national program. Ten years ago, the Commission's loan program activities were limited to the in-state or California market. In 2005-06, the Commission was the nation's second largest guarantor, booking an organization-record $10.1 billion in loans while maintaining a current $27 billion loan portfolio.

In federal fiscal year 2005-06, 73.4 percent of out-of-state loan guarantee volume was for borrowers at for-profit or proprietary institutions, resulting in a higher than industry average loan default rate and associated claims payments. During 2005-06, the Commission/EdFund paid $519 million in claims on defaulted loans guaranteed by the Commission, an increase of $49 million or 10.4 percent over the $470 million in claims paid in 2004-05, reflecting both the overall growth of the loan portfolio as well as its composition. While both the Commission's cohort default rate and the FFEL Program's cohort default rate have declined over the years of EdFund's existence, the Commission's particular school mix for loans makes it likely that the Commission's default rate will continue in the future to be above the national average.

The Commission's guarantee services activities generated positive net revenues during 2005-06 of approximately $3.3 million. However, other Commission activities funded by its administration of the FFEL Program resulted in a net deficit of $21.4 million for 2005-06. This includes expenses related to the administration of the Cal Grant Student Opportunity and Access Program (CalSOAP). The net deficit was covered by funds previously accrued in the Commission's Student Loan Operating Fund. The 2006-07 loan program business plan and operating budget anticipates a substantial net operating surplus but, the revenue will be sufficient to cover both loan and operating expenses.

Changes in Loan Delivery

In a year filled with considerable pressure and changes, EDFUND achieved positive results. The Higher Education Reconciliation Act of 2005 significantly affected guaranty agencies, lenders and borrowers. Guaranty agencies were required to deposit a 1 percent Federal Default Fee into their Federal Fund beginning July 1, 2006 and meet specific changes in collection efforts. The Commission paid the Federal Default Fee (by making the required deposit from its Student Loan Operating Fund) through September 30, 2006. Many lenders agreed to cover the fee through June 2007. EDFUND's movement away from relying on new consolidation loans and toward borrower payments and loan rehabilitation as collections tools has been aggressive and successful.

Annual Budget

In FFY 2005-06, revenues collected by EDFUND totaled $162 million against total expenses of almost $183 million, with only $86 million of these expenses from standard loan program activity. The remaining expenses were predominantly due to a minimum reserve subsidy of $58 million to the Federal Fund and current grant administrative and outreach program support of nearly $27 million. These expenses resulted in an operating deficit of $21.4 million which was supported by surplus generated in prior years.

For FFY 2006-07, total revenues of $138 million are budgeted against total expenses of $138 million resulting in a balanced budget. Of the total budgeted expenses, $92 million supports standard loan program activity, with the remaining supporting grant administrative and outreach program costs.

Of the 615 people employed at EDFUND as of September 30, 2006, 565 (92 percent) were EDFUND direct hires and 50 (8 percent) were state civil service employees of the Commission assigned to work for EDFUND.

Level of Compensations for Managers and Executives

Members of the EDFUND Board of Directors do not receive a salary. Board members are compensated for their time with a $100 stipend for each day when the Board, or a Committee of the EDFUND Board, meets, and are reimbursed for actual and necessary travel expenses.

Executive management salaries are set by the EDFUND Board of Directors; 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 at the discretion of the Commission upon recommendation from the EDFUND Board. The Commission is reviewing the issue of compensation for EDFUND executives and management.

BACKGROUND

The California Student Aid Commission (Commission) is the state's principle provider of intersegmental statewide grant aid to postsecondary student. Founded in 1955 as the California State Scholarship Commission, the 15-member Commission's primary programmatic responsibilities include operation of the Cal Grant Program, which will distribute close to $900 million to California's college students during the 2007-2008 academic year. The Commission also administers several targeted grant scholarship and loan forgiveness programs and the FFEL Program through the activities of its nonprofit student loan services auxiliary, EDFUND.

Federal Stafford loans are the largest source of federal student aid and are 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 California Student Aid Commission. The FFEL Program is administered by EDFUND.

There are currently 35 FFEL Program guaranty agencies in the United States. The Commission, through EDFUND (a nonprofit public benefit 501(c)3 corporation), 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, California with regional offices located throughout the nation.

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 an auxiliary organization, 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 the U.S. Department of Education (USED) were tense because of USED's desire to implement the new Direct Loan Program requirements.

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 near 90 percent prior to 1993 to close to 50 percent by 1995.

As a result of the drop in loan volume, the USED and state Legislators became concerned about the loans under the Commission's guarantee. To address these issues and enable the Commission's loan guaranty program to be competitive, the California Legislature authorized the Commission's loan guaranty services to be administered by a nonprofit auxiliary corporation rather than within the state government structure. The Legislature also granted the Commission custody and control over the spending of loan program-generated funds needed for that purpose.

EDFUND was founded in 1997 (AB 3133, Chapter 961, Statutes of 1996) as a nonprofit subsidiary corporation of the Commission. The Board of Directors created a performance-based organization that operated competitively against both nonprofit and state agency guarantors. As its benchmarks for performance, the Board considered standards for both nonprofit organizations and private financial organizations.

EDFUND operates as the Commission's guaranty agency services provider under the FFEL Program and has made the Commission's guaranty program more competitive nationwide by successfully enhancing customer service, building reliable technology systems, and correcting previously unresolved federal and state audit issues.

The Commission and EDFUND have Saved California Money

Since July 2003, the Commission's entire administrative budget has been funded by loan program revenue generated through EDFUND, representing direct annual State General Fund savings. Over the past several years, direct savings included:

- $12 - $13 million annually for the Commission's administrative budget;
- $8.5 million annually for the California Student Opportunity and Access Program (Cal SOAP); and,
- $197.5 million total for the Cal Grant Program in 2004-05 and 2005-06.

The Commission has also approved funding for several outreach and college preparation programs and an annual Public Awareness Campaign to build student awareness of the opportunities afforded to them through the Cal Grant program and various other state and federal financial aid programs.

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 following are examples of some of the successful synergy projects between the Commission and EDFUND:

- Technology Synergy Projects: EDFUND and the Commission successfully transferred the Commission's Data Center from the TEALE Data Center to EDFUND, saving the state money while promoting data reliability, confidentiality and improved security. EDFUND'S technology development staff also worked cooperatively with the Commission's Research staff to develop an online survey application/tool to implement the Student Expenses and Resource Survey. The development of the online survey will greatly reduce Commission staff time in administration and data collection, as well as reduce costs associated with a paper-administered survey.

- Joint Research Project: Commission and EDFUND research staff annually identify a joint research project. This project is determined in relation to similar program goals. The work includes identifying project parameters, developing a methodology, generating data collection, formulating data analysis and lastly, developing the research draft.

- Outreach Campaign: In August 2006, EDFUND's Communications Department and the Commission's Governmental and Public Affairs staff worked together to develop a request for proposal for the contract bid to develop and manage the Commission's Public Awareness and Outreach Campaign. Additionally, EDFUND and Commission staff worked cooperatively to evaluate the proposals and choose the contractor.

- Integrated Voice Response (IVR) system: EDFUND and the Commission worked together to implement the IVR system as a further enhanced customer service improvement. The IVR allows for better communication between the Commission and students, schools, financial aid advisors and the general public. Since the IVR system has been in place, fewer calls have been dropped, response time to callers has been reduced and overall customer service has improved.

- Space Planning Project: EDFUND, working with the Commission, signed a lease with the Mather Development Group (McCuen Properties) to occupy new twin, two-story office buildings to be located in the Mather Commerce Center. The new site will provide approximately 170,000 square feet of office space and house approximately 800 employees, including subleasing space to the Commission for its operations. EDFUND is finalizing its space planning and expects construction to begin soon. The projected move-in is set for mid-2008.

The Future

The California Legislature placed relatively few constraints on the management of the federal loan guaranty program and EDFUND. Instead, the Legislature granted broad powers to the Commission and the EDFUND Board, and, with each successive set of amendments to the law, expanded the authority granted to the two organizations. For example, in 1999 legislation clarified the authority to guarantee loans nationally and enter into a five year operating agreement. In 2004, legislation enabled EDFUND to enter into new student financial aid-related activities other than those necessary for the Commission's participation in the FFEL Program.

Consistent with the current statutory requirements, the Legislature gave the Commission flexibility to manage EDFUND and the loan program. The Commission has the responsibility of addressing and resolving any of the issues that impact the successful performance of EDFUND or the administration of the federal loan guarantee program.

Because of changes in federal policies, guaranty agencies must aggressively streamline processes, enhance business efficiencies and expand their revenue base or risk becoming financially unstable. In the 40-year history of the federally guaranteed student loan programs, change and growth have both been constant. This means that the Commission and EDFUND must remain flexible by adjusting current operations and marketing focus to adapt to a rapidly changing environment. With this responsiveness, opportunities for future growth are good.

The Commissioners have been contemplating changes to the current roles and responsibilities of the Commission and of EDFUND as the Commission's loan auxiliary organization. In August 2005, the Bureau of State Audits began its work on an audit to examine the workings of EDFUND as an auxiliary to the Commission and of the Commission's leadership with respect to the roles and responsibilities of each organization.

The Commissioners held off on finalizing a roles and responsibilities document as well as a new operating agreement with EDFUND pending the outcome and recommendations of the audit. The audit report was released in April 2006. After several lengthy discussions, the Commissioners voted to develop a request for proposal and solicited bids for a firm to assist the Commissioners with a report and recommendations for the final roles and responsibilities document. The consultants will present a preliminary report to the Commissioners at their meeting which is scheduled for February 22 - 23, 2007. The Commissioners are expected to approve a final roles and responsibilities document in the spring 2007.

SERVICES PROVIDED BY EDFUND

EDFUND provides the following guarantee agency services in keeping with competitive business services:

- Guarantee services: The guarantee is an agreement that the federal government, through the Commission and EDFUND, will pay the lender 97 percent of the outstanding loan amount if the student defaults on the loan. Default occurs after the borrower fails to make payments for nine consecutive months, 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.

- Default aversion assistance: Lenders must request default aversion assistance from the guaranty agency or guarantee services provider if a loan is declared delinquent when no payments or attempts to restructure payments have been made for 60 days past the payment due date. As a part of this process, EDFUND engages in an active default aversion program designed to increase 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: 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 the USED.

- Collections: When a 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. In the event 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 revenue recovery with its obligation to match each borrower with the most appropriate repayment program.

- Loan Portfolio Management: EDFUND administers an existing loan guarantee portfolio valued at approximately $27 billion. EDFUND tracks each loan's status on a routine basis and submits periodic reports to USED. 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. Priority for reviews by

EdFund staff is given to educational institutions based on their cohort default rates, and to lenders based on their lending volume.

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

- 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 more than 70 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. This level of local, personal and comprehensive customer service was unprecedented when implemented by EdFund and remains one of the its hallmarks in the student loan arena.

- 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 functions and services. In 2001, EdFund invested $5 million in the installation of a new data center, allowing the organization to terminate a major data processing contract and bring major mainframe support functions in-house, thereby producing substantial long-term cost savings.

- 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, research reports, videos, special alerts, newsletters and other targeted outreach material, as well as ongoing school and lender workgroups, site visits, open houses, EdFund tours, briefings and conference and trade show participation. EdFund also offers a variety of Web-based tools for students and schools, including EdFund.net (a loan processing system for schools), EdWise (an online financial planning guide for students), EdTe$t (an online loan counseling tool for students and schools), a library of informational streaming video presentations and an online student newsletter.

Summary of Key Measurements

Loan Guarantee Volume
The Commission and EDFUND have experienced uninterrupted growth in annual loan guarantee volume. During the ten years of EDFUND operations, the Commission's annual loan guarantee volume has grown from $2.2 billion in 1996-97 to $10.1 billion in 2005-06, a more than fourfold increase. While higher education borrowing nationally has grown to become by the far the largest source of financial aid, the Commission's volume has grown at a faster pace than the overall national program. The number of loans in other states grew 5.7 percent to 961,088. At California schools, the 550,189 new loans were 0.5 percent more than last year.

National Guarantor
Ten years ago, the Commission's loan program was largely restricted to the in-state or California market. In 2005-06, the Commission was the nation's second largest guarantor. Looking at 2005-06 loan guarantees, 57.8 percent of the Commission's loan guarantee volume was at out-of California institutions. It should also be noted that 73.4 percent of this out-of-state loan guarantee volume was for borrowers at for-profit 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. And finally, the defaulted loan claims in turn provide. The defaulted loan claims in turn provide the collection revenues opportunities discussed below.

Defaulted Loans
During 2005-06, on behalf of the Commission, EDFUND paid $519 million in claims on defaulted loans guaranteed by the Commission. This was in increase of $49 million or 10.4 percent over the $470 million in claims paid in 2004-05. This increase in claims payments was driven by two primary factors. First, the growing annual guarantee volume's natural byproduct is an increase in future defaulted loans and resulting claim payments. Secondly, the Commission's loan guarantee volume, particularly out of California, had a high proportion of for-profit schools and these schools have a higher than average defaulted loans rate. Beginning at 15.0 percent of the Commission's total loan guarantees in 1996-97, proprietary school guarantee volume reached 51.9 percent of the Commission's total guarantees during 2005-06. This higher proportion of proprietary school guarantee volume is reflected by the Commission having a 2004 cohort default rate of 8.2 percent versus the FFEL Program cohort default rate of 5.1 percent for the same period.

While both the Commission's cohort default rate and the FFEL Program cohort default rate have declined over the years of EDFUND's existence, the Commission's particular school mix for loans makes it likely that the Commission's default rate will continue in the future to be above the national average.

Collections on Defaulted Loans
During 2005-06, EDFUND had net defaulted loan collection recoveries of $59.4 million, a 2.1 percent increase over 2004-05. The 2005-06 fiscal year was a transitional one for Commission/EDFUND collection efforts, which had previously relied heavily on Direct Loan Program Consolidation loans as a primary collection tool. The dramatic results of these changes can be seen in the 42.6 percent decline in Direct Loan Program consolidations while wage garnishments were up 72.4 percent, voluntary borrower

payments increased 55.6 percent, and loan rehabilitations rose 206.4 percent for the 2005-06 fiscal year compared to 2004-05. The Commission's expectation is that, while this strategic shift will, in the near term, likely result in slightly reduced gross collections, it will also yield higher net collection revenue for the Commission.

Revenue to the Commission and the State
The Commission's guarantee services activities generated positive net revenues during 2005-06 of approximately $3.3 million. However, other Commission activities funded by its loan program administration had expenses of $24.6 million (Outreach programs - $12.5 million; Grants administration - $12.1 million). These other expenses resulted in a net deficit of $21.4 million for 2005-06. This deficit was covered by funds previously accrued in the Commission's Student Loan Operating Fund. The Commission and EDFUND anticipate that the 2006-07 loan program operating budget will have a net operating surplus but revenue and loan expenses will balance for 2006-07 after funding non-loan program activities.

CHANGES IN DELIVERY OF LOANS ~ PROGRAM ENHANCEMENTS

In 2005-06, EDFUND implemented several federally required changes to the delivery and services of loans. EDFUND also provided enhanced customer service while improving the efficiency of the loan process.

Federal Legislation

The following two major pieces of legislation impacted the program:

Higher Education Reconciliation Act of 2005: Congress approved the Deficit Reduction Act, more commonly known as the budget reconciliation bill. The Act's goal was to generate tens of billions of dollars in savings, with a substantial portion of the savings extracted from the federal student loan program.

Provided below are the major changes to the FFEL Program that affect guaranty agencies, lenders and borrowers:

Guaranty Agency:

- Federal Default Fee**:** As of July 1, 2006, guarantors must deposit into the Federal Fund a Federal Default Fee of 1 percent of the principal on Stafford and PLUS loans. By rebuilding the Federal Fund through the Federal Default Fee, guarantors will be able to pay their share of defaults and the costs of default prevention efforts without having to draw from their Operating Funds.

  Honoring a long-standing commitment, the Commission and EDFUND paid the fee on behalf of borrowers from July 1, 2006, when the new requirement took effect, through September 30, 2006 -- a period which accounts for the bulk of the fee incurred during the entire academic year. Many large lenders have agreed to pay the fee for the remainder of the academic year (October 1, 2006 through June 30, 2007) on behalf of the borrowers whose loans the Commission guarantees.

The Commission and EDFUND are also actively pursuing a multi-year zero default fee strategy for new loans guaranteed after July 1, 2007.

- Collections: As of October 2006, guarantors may only retain 10 percent (instead of 18.5 percent) of the revenues earned from defaulted loan collections where the collection effort relies upon replacing defaulted loans with new Consolidation loans and, effective October 2009, they cannot earn collection revenues on replacement Consolidation loans when these loans represent more than 45 percent of their total annual collection recoveries. As a result, guarantors have had to shift their collection strategy away from consolidations to alternative collection methods such as loan rehabilitation, which now requires fewer timely consecutive monthly payments (nine instead of twelve) from the borrower. EDFUND has successfully shifted its collection strategies toward alternative collection methods.

Lenders:

- Origination Fees: The new rules reduce, and will eventually eliminate by 2010, the origination fee of up to 3 percent that FFEL Program lenders are currently allowed to charge Stafford loan borrowers. The fee will continue to be charged on PLUS loans.

Students/Borrowers:

- Loan Limits: Effective July 1, 2007, first and second-year Stafford limits increase from $2,625 to $3,500 and $3,500 to $4,500. Unsubsidized Stafford limits increase from $10,000 to $12,000 for graduate/professional students and from $5,000 to $7,000 for additional borrowing to enroll in a graduate/professional program. The new regulations, however, did not change the aggregate loan limits, which will likely lead to the continued growth of private loans among undergraduates.

- Interest Rates: The interest rate for Stafford loans disbursed on or after July 1, 2006 increased to 6.8 percent fixed and the variable interest rates on existing loans increased to 6.8 percent or higher. Additionally, the new PLUS rate for FFELP loans increased from 7.9 percent to 8.5 percent, but through an oversight, the Direct Loan PLUS rate was not changed.

- Grad PLUS: A new loan for graduate and professional students is now being offered. After process and system conversions were completed prior to July 1, this new type of federal loan was introduced. Grad PLUS is an important new financial mechanism for higher education that can reduce reliance on private loans, which typically offer less favorable terms for borrowers than federal loans.

Reauthorization of the Higher Education Act: On September 27, 2006, the Higher Education Act was extended, once again, by Congress; this time through June 30, 2007. The Third Higher Education Extension Act (HEA) of 2006 (H.R.6138) is the sixth overall extension of programs under the HEA in the current reauthorization cycle. For the first time, the extension was used as a vehicle to make both technical and substantive reforms to the HEA, despite the fact that the full reauthorization remains unfinished. In addition to the standard extension of programs, H.R. 6138 includes new provisions in the following sections:

- Eligible Lender Trustee Relationships with Eligible Institutions;
- Hispanic-Serving Institutions;
- Guaranty Agency Account Maintenance Fees (the cap on AMFs has been removed); and
- Cancellation of Student Loan Indebtedness for Survivors of Victims of September 11, 2001 Attacks.

Proposed Federal Legislation

The FFEL Program may change again. Federal legislation has been introduced which may in time, impact the program.

The College Student Relief Act of 2007 (HR 5): The U.S. House of Representatives passed The College Student Relief Act of 2007 (H.R.5) by a vote of 356-71 on January 17, 2007 and it is slated to be debated next in the Senate. The bill is intended to make changes to the Federal Family Education Loan (FFEL) Program for both subsidized Stafford borrowers and FFEL Program loan holders. To pay for these interest rate cuts, the bill reduces payments to FFEL Program lenders and increases certain lender fees. The following are highlights of proposed changes and the affect on guaranty agencies, lenders and students/borrowers:

Guaranty Agency:

- Collection Retention: Reduce to 20 percent from 23 percent, effective July 1, 2007, the amount that a guaranty agency retains from the money they recover from borrowers who default on loans. The rate would drop to 16 percent by 2011.

Lenders:

- Reduce the amount that the government reimburses lenders for loans made on or after July 1, 2007 that go into default, from 97 cents to 95 cents for every dollar that is not paid back.
- Increase to 1 percent, from 0.5 percent, the one-time fee that lenders must pay the government to consolidate a borrower's loans.
- Cut by 10 "basis points" or 0.1 percentage point the return that lenders receive on federal loans.
- Ending the "exceptional performers" program, this increases the insurance payments to loan services that consistently comply with U.S. Education Department regulations.

Student/Borrowers:

- Reduce the borrower's interest rates over the next five years from the current fixed rate of 6.8 percent to 3.4 percent. The first reduction is proposed to take effect July 1, 2007 with the last reduction rate to be effective July 1, 2011 through July 1, 2012. After January 1, 2012, the subsidized Stafford rate will revert back to 6.8 percent.

Voluntary Flexible Agreement

Voluntary Flexible Agreement: FFEL Program guaranty agencies may submit applications to USED to provide services under a Voluntary Flexible Agreement (VFA).

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 improve the availability and delivery of student financial aid. Borrowers have benefited greatly from the Commission's VFA. The Commission received $28 million during 2006 for successful implementation of various innovative programs within the VFA, covering services through federal fiscal year, 2004-2005. The Commission has submitted a proposed VFA for USED consideration.

EDFUND Improvement Initiatives

Strategic Partnerships and the Federal Default Fee: EDFUND's efforts to strengthen linkages with lender partners are reaping enormous dividends. Over two dozen of EDFUND's largest lenders have agreed to pay down the federal default fee on behalf of borrowers for loans guaranteed from October 1, 2006 through June 30, 2007.

Information Security at the Highest Level: The state of California faces continued concerns with information security and client privacy issues. EDFUND has taken a proactive role in supporting information security by securing tape exchanges between guaranty agencies and the Federal Student Aid's Virtual Data Center. This new protocol ensures customer data security and continued customer service and support.

Collections Strategies Transitioning: EDFUND's movement away from relying on new Consolidation loans and toward borrower payments and loan rehabilitation as collections tools has been aggressive and successful. The federal government had previously voiced concerns about a perceived over dependence on Direct loan consolidations as a collection strategy. . Reflecting this federal government concern, the 2006 Deficit Reduction Act caps guarantor income from consolidating defaulted loans at 45 percent of annual defaulted loan collections, beginning in 2009. Therefore, over the last year, EDFUND and the Commission have moved away from this reliance upon consolidation loans as collection techniques. During the past year, revenues from loan rehabilitations, wage garnishments and voluntary borrower payments were all up significantly while revenue from consolidation of defaulted loans was down. This change in collection strategy is well underway and is expected to fully comply with the 2009 target date.

Delivery of Student Loan Debt Summary Enhanced: EDFUND is now offering schools a choice of expanded and enhanced delivery options for the Student Loan Debt summary. Electronic delivery allows borrowers to access their aggregate loan statement, enter additional loans, and update calculations. Schools can opt to have letters printed only for students nearing the time of loan exit counseling. Upon borrower request, schools can also reprint multiple letters.

New and Improved Publications

New Graduate/Professional Publications Released: Outlook™, magazine-style entrance and exits guides, offers a comprehensive education on student loan basics in an informative and engaging format for graduate and professional students. *Outlook* goes above and beyond the federal loan counseling requirements by offering a broad range of money management tips.

HERA-Driven Publication Updates: EDFUND's entire portfolio of printed materials – brochures, booklets, loan wraps, workbooks, posters, cards, bookmarks, etc. – had to be carefully reviewed and updated to reflect the requirements of the Higher Education

Reconciliation Act. The majority of EDFUND's most popular materials were revised and back in inventory by early July.

New Online Publication: Entitled Peer Assistance Guide and Workbook, contains universal concepts that can be tailored to any type of institution, containing subjects such as determining a target borrower population, selecting and training peer counselors, non-monetary ways to reward counselors, and forming partnerships on campus.

<u>Helping Schools Save Time and Money:</u> EDFUND contacted 300 schools receiving printed quarterly reports which show projected cohort default rate information for their borrowers and showed them how to easily access this same report online through the Cohort Management System. This method is not only more secure, helping to protect borrower information, but also more efficient and cost effective.

<u>Educating Health Professionals:</u> EDFUND worked with Nelnet to develop a financial literacy curriculum for health profession schools seeking to meet new American Association of Medical Colleges requirements. Three presentations were created in fiscal year 2005-06. Joint roll-out and marketing efforts include: training for Client Relations Managers and Nelnet staff, producing a financial literacy guide supported by an explanatory tri-fold brochure, producing a special event at the Health Professions Conference in January 2007, and providing five training events for health professions financial aid staff. These activities will be executed beginning in November 2006.

<u>Forum on Successful Student Borrowing:</u> EDFUND coordinated and hosted a two-day event, focused on identifying tools and resources to help prepare students for a successful financial future. The event drew 78 representatives from 48 schools.

Summary of Achievements

In a year filled with considerable pressure and changes, EDFUND provided positive results as follows:

- Reaching a record new loan volume of $6.9 billion -- a 4.5 percent increase. Client relations managers had more than 13,000 meaningful contacts with customers and potential customers, and more than 80 new schools chose to use EDFUND for part or all of their volume for the first time in 2005-06.

- Processing a record number of claims, assisting a record number of defaulted borrowers, collecting a record number of borrower payments and rehabilitations and executing major strategic planning objectives, all while increasing efficiencies.

- Achieving a near perfect on-time delivery of almost one million manual transactions completed on behalf of EDFUND'S lender partners and a 30 percent plus increase in combined call volume~~.~~

- Assisting a record by volume of more than 340,000 delinquent borrowers, an increase of 27 percent, while defaulted dollars were held to a 10 percent increase. Claim aversions and consolidations reached an all-time high, totaling $56 million - an increase of 47 percent over the prior year.

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 FFY 2005-06 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 FFY 2005-2006 actual and 2006-2007 budgeted

In thousands	**2005-06 Actual**	**2006-07 Budgeted**
REVENUES:		
Net recoveries on loan defaults*	$59,380	$66,725
Account maintenance fee	$26,875	$30,358
Loan processing and issuance fee	$22,712	$25,714
Default aversion fee	$10,467	$11,751
Lender premium fee	$178	$800
Interest income	$1,989	$770
Voluntary Flexible Agreement/other revenues	$40,197	$1,745
Total Revenues	**$161,798**	**$137,863**
EXPENSES:		
Loan program personnel costs	$54,341	$56,840
Operating expenses	$22,182	$21,071
Collection agency expense	$8,386	$11,868
Minimum reserve subsidy	$57,727	$0
Federal default fee subsidy	$10,797	$18,863
Restricted expenses	$3,655	$1,745
Borrower benefits-EDSHARE	$307	$923
CSAC FFELP operating expenses	$1,127	$1,800
Total Loan Program Expenses	**$158,522**	**$113,110**
LOAN PROGRAM SURPLUS	**$3,276**	**$24,753**
Outreach programs	$12,539	$11,128
Grant administration costs	$12,090	$13,625
Total Non-Loan Expenses	**$24,629**	**$24,753**
Total Expenses	**$183,151**	**$137,863**
OVERALL OPERATING (DEFICIT)	**$(21,353)****	**$0**

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

** *Operating deficits were supported by surplus generated in prior years.*

In FFY 2005-06, revenues collected by EDFUND totaled $162 million against total expenses of almost $183 million, with only $86 million of these expenses from standard loan program activity. The remaining expenses were predominantly due to a minimum reserve subsidy of $58 million to the Federal Fund and grant administrative and outreach program support of nearly $25 million. These expenses resulted in an operating deficit of $21.4 million.

For FFY 2006-07, total revenues of $138 million are budgeted against total expenses of $138 million resulting in a balanced budget. Of the total budgeted expenses, $92 million supports standard loan program activity, with the remaining supporting grant administrative and outreach program costs.

Revenue
The FFEL Program revenue is derived from six specific primary sources authorized and regulated by the USDE.

In addition to the six primary revenue sources, the Commission and EDFUND have also generated revenue under a Voluntary Flexible Agreement between the Commission and USED. No California General Fund monies are used by EDFUND; in fact, funds generated by the loan program are currently being used to fund Commission administrative expenses previously paid for by the General Fund. The rate of federal reimbursement for services provided by EDFUND was reduced starting in FFY 2000-01 due to FFEL Program modifications enacted by Congress in 1998. Several of these revenue reductions became fully effective on October 1, 2003.

Current revenue sources are:

- **Loan Processing and Issuance Fee** -- 0.40 percent of the principal of new loans guaranteed is paid to the guaranty agency at time of disbursement. This was reduced on October 1, 2003, from the previous rate of 0.65 percent.

- **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. This amount was reduced in 2001 from the prior 0.12 percent, and is projected to continue at the current level.

- **Net Collection Retention** -- Collection dollars after the Department's fair share is deducted. This collection retention percentage from borrower payments has been gradually reduced in recent years from 27 percent to 23 percent as of October 1, 2003, while retention from collection payments obtained through borrowers' loan consolidations will decrease from 18.5 percent to 10 percent in October 2006.

- **Default Aversion Fee** - Default Aversion Fee is equal to 1 percent of the principal and interest on accounts more than 60 days delinquent that are brought current by working with borrowers before their accounts become 270 days delinquent. This fee is currently paid from the Federal Fund.

- **Lender Premium Fee** – This fee represents a premium paid by lenders to the Commission for purchasing previously defaulted loans where EDFUND collection efforts have made the loans and borrowers eligible for reinstatement under the federal guarantee. This is a new initiative for 2005-06.

- **Investment Earnings** – Interest income from funds held in the Student Loan Operating Fund (SLOF).

- **Voluntary Flexible Agreement (VFA) Payments** – Performance-based payments made to the Commission and EDFUND by the U.S. Department of Education are under the terms of our Voluntary Flexible Agreement. In fall 2004, he U.S. Department of Education requested renegotiation of the terms of the Commission and EDFUND's VFA. Since negotiations are still ongoing, the U.S. Department of Education could not finalize payment for FFY 2005-06. The payment received during 2005-06 was for VFA performance during 2004-05.

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 the auxiliary. 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, AB 3133 provided a mechanism whereby 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 615 people employed at EDFUND as of September 30, 2006, 565 (92 percent) were EDFUND direct hires and 50 (8 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 do not receive a salary. They are compensated for their time with a $100 stipend for each day when the Board, or a Committee of the EdFund Board, meets, and are reimbursed for actual and necessary travel expenses.

EDFUND management salaries are based on national salary surveys of comparable non-profit corporations both within and outside of the student loan industry, and are based on a combination of EDFUND norms and individual qualifications. Executive management salaries are set by the EDFUND Board of Directors; all other salaries are set by the

Human Resources Division based on local market surveys and salary data, and in consultation with hiring managers. Salaries are set based upon national competitive averages. EDFUND's executive management may receive incentive compensation at the discretion of the Commission upon recommendation from the EDFUND Board. Figure 2 below includes both regular salary and incentive compensation. It should be noted that the Commission is reviewing the issue of compensation for EDFUND executives and management.

Figure 2: EDFUND Executive and Management Compensation FFY 2005-2006

Position Title	Compensation for FFY 2005-06
President	$ 254,000
VP, Legal Services and General Counsel	$ 184,413
VP, Technology Solutions and Services	$ 183,397
VP, Finance and Administration	$ 189,862
VP, Default Management	$ 160,166
VP, Human Resources	$ 157,621
VP, Loan Operations	$ 195,122
VP, Client Services	$ 180,486
VP, Audit Services	$ 154,653
VP, Public Affairs	$ 139,725
Total	$ 1,799,445

Notes: VP, Legal Services and General Counsel vacated on August 5, 2005; filled on June 1, 2006.
VP, Finance and Administration vacated July 8, 2005; filled on June 1, 2006.
VP, Human Resources vacated December 15, 2006, currently recruiting.
VP, Public Affairs vacated February 24, 2006; position eliminated and division duties reorganized.

CONCLUSION

The Commission and EDFUND faced significant competitive challenges from changes to the guarantor environment in the 2005-06 fiscal years. We worked strategically and successfully to surmount new requirements like the federal default fee, but these changes will continue to impact our business model in 2006-07.

The Commission and EDFUND have taken a series of actions to address all of the issues raised by the report from the Bureau of State Audits, including retaining consultants focused on streamlining operations and clarifying roles and responsibilities of the two organizations. Our continued progress in this area will be covered in greater detail in the 2006-07 Annual Report to the Legislature, after the final report from the consultants has been received and an appropriate action plan has been developed in response to their recommendations.

While it is anticipated that competitive pressures in the student loan guarantee services industry are expected to increase, the Commission and EDFUND will continue to work collaboratively for the benefit of the FFEL Program and California students.

As of March 15, 2007

CALIFORNIA STUDENT AID COMMISSION

Louise McClain, Acting Chair/Vice Chair
Secondary Schools Representative

Dean Johnston, Treasurer
Public, Proprietary, Non-Profit Representative

Michele Dyke, Secretary
General Public Representative

Chad Charton
Student, CSU

Rory Diamond
Student Representative

Daniel Friedlander
General Public

Sally Furay
Independent School Representative

Dennis Galligani
UC Representative

Alice Perez
General Public

David Roth
General Public

Five Vacancies
California State University Representative
Community Colleges Representative
General Public (3)

CSAC EXECUTIVE MANAGEMENT

Diana Fuentes-Michel
Executive Director

Keith Yamanaka
Chief Deputy Director

John Bays
Chief, Information Technology

Steve Caldwell
Chief, Governmental and Program Affairs

Janet McDuffie
Chief, Management Services
Acting Chief, Federal Policy and Programs

Catalina Mistler
Acting Chief
Program Administration and Services

EDFUND BOARD OF DIRECTORS

Sally Furay, Chair
Attorney at Law and
Consultant for Higher Education

Ryan Alcántara
Student, University of Southern California

C. Michael Cooney
Attorney At Law
Investment Group of Santa Barbara

Molly Greek
Director, Client Services
EDFUND

Patricia Hurley
Associate Dean, Director of Financial Aid
Glendale Community College

Conny Jamison
Retired City Treasurer
City of San Diego

Dale Rogers Marshall
President Emerita
Wheaton College, MA

Wayne Sparks
Director of Student Financial Aid
Washington State University

Frederick M. Weis
Executive Practitioner in Residence
Claremont McKenna College

Ex-Officio Members:
Diana Fuentes-Michel
Executive Director, California Student Aid Commission

Sam Kipp, EDFUND President

EDFUND EXECUTIVE MANAGEMENT

Sam Kipp
President

Therese Bickler
Vice President, Loan Operations

Len Hyde
Vice President, Default Management

Diane Manning
Vice President, Audit Services

David Reid
Vice President, Legal Services and General Counsel
Acting Vice President, Human Resources

Martin Scanlon
Vice President, Finance and Administration

Jacque Silver
Vice President, Technology Solutions and Services

Linda Weir
Vice President, Client Services