

Information Item

California Student Aid Commission

EDFUND President's Report

Enclosed for review is a written report from the President of EDFUND.

Recommended Action: For information only. No action is required.

Responsible Staff: Sam Kipp,
EDFUND President



**President's Quarterly Report to the Board of Directors
For October 1- December 31, 2006**

Submitted February, 2006

With the first quarter of 2006-07 now behind us, this fiscal year is taking shape. We anticipated that it would be an especially challenging one on many fronts, and that is proving to be the case.

Stafford/PLUS loan dollar volume totaled \$1.430 billion, an increase of 5.2 percent from the \$1.360 billion reached last year at this time, while consolidations decreased 9.0 percent, coming in at \$933 million for the quarter compared to \$1.026 billion in the first quarter last year. Total loan dollars including consolidations reached \$2.363 billion for the quarter, 0.9 percent lower than the total for the first quarter of 2005-06.

Among the four Federal Family Education Loan (FFEL) Program loan types, guarantees for unsubsidized Stafford loans generated the most dollar volume, totaling \$667 million for the first three months of fiscal year 2006-07. Subsidized Stafford loan dollars reached \$583 million, PLUS loans totaled \$149 million, and Graduate PLUS loans \$31 million.

Compared to last December, loan dollar volume for schools in other states grew 3.7 percent to \$905 million for fiscal year-to-date 2006-07. The loan dollar volume for California institutions increased a healthy 7.3 percent to \$518 million.

By type of school, four-year proprietary institutions accounted for the largest loan dollar volume during the first quarter of fiscal year 2006-07 with \$598 million, but remained virtually flat. Private nonprofit schools increased 18.7 percent to \$291 million. Four-year public institutions reached \$164 million, 3.7 percent more than in 2005-06.

The top loan originator during the first three months of fiscal year 2006-07 was Citibank, with \$316 million in new loans guaranteed by EDFUND/CSAC. The next highest was the Wells Fargo Bank, with \$215 million.

Default claim dollars totaled \$157 million for the current federal fiscal year through December, 23.2 percent more than at this time last year.

As of December 2006, the EDFUND/CSAC aggregate default rate was 1.00 percent and the preliminary U.S. Department of Education default trigger rate was 0.75 percent.

Preliminary net recoveries on defaulted loans totaled \$16 million for the first three months of the fiscal year, 26.9 percent higher than for the same period of 2005-06.

Business Planning Initiatives

Budget & Business Plan: EDFUND has begun the planning process for the 2007-08 budget and business plan.

Legislative Issues

Federal: Though the Democrats now control both houses of Congress, the margin in the Senate is razor thin and many of the new Democratic members of the House count themselves as fiscal conservatives, in contrast to the "Old Lion" liberals from their party that chair many committees. And, of course, the President still holds veto power. So no party or group can claim the legislative driver's seat and legislation will have to attract some bipartisan support to be successful.

House Democrats outlined six pieces of legislation and passed them in the first one hundred hours of the new Congress. Among those six pieces of legislation is one making a 50 percent, phased reduction in the interest rate on subsidized Stafford loans, with the increased cost to the federal government to be balanced by reducing payments to lenders and guarantors. On the Senate side, we can expect a broader package of higher education initiatives that will include a reduced interest rate as well as a renewed push to persuade schools to choose direct lending over the FFEL Program. We are closely monitoring these efforts.

The Department has made no announcement concerning our voluntary flexible agreement or those of the other three VFA guarantors whose agreements are also being negotiated.

State: The Legislative Analyst's Office issued a report in December compiling 59 pages of previously recommended legislation. Only three pages addressed financial aid for higher education. This compilation appeared to be more for the benefit of the many new legislators, rather than evidence of any concerted push by anyone in a particular direction. We are monitoring the situation and will advise of any developments.

Industry Representation

Conferences: The well attended California Community Colleges Student Financial Aid Administrators Association and the California Association of Student Financial Aid Administrators conferences took place in early December and marked the end of the annual conference season. A range of EDFUND staff, from Training, Default Prevention Initiatives, Communications and Government Relations made presentations and offered training sessions. EDFUND was well represented and the booth shared with CSAC was well received. It is important to note that there were 10 other guaranty agencies present, all actively seeking new school customers, making our strong showing critical.

Associations: I was part of a featured panel discussion on industry trends at the Consumer Bankers Association meeting held in late November in Washington, DC. In light of the results of the November election, it should come as no surprise that this was the best attended meeting this group has ever held. Other sessions focused on a variety of changes taking place in the student lending industry, particularly concerning private loans and consolidations.

Company Improvement Initiatives

Lender Partnerships and the Default Fee: EDFUND's efforts to strengthen linkages with lender partners are reaping dividends. Over two dozen of EDFUND's largest lenders have agreed to pay down the federal default fee for the 2006-07 academic year on behalf of EDFUND.

Borrower Initiated Loan Application Processing: On December 11, EDFUND launched a guarantor flow, borrower initiated loan application (BILA) product. The product provides schools an alternative to the traditional lender flow process, and includes the added student benefit of a single point of contact for Stafford loan processing. The school enjoys time savings with a borrower initiated process since the financial aid office is prompted to certify only those loans that students have actually requested, rather than certifying possible loans up front and then waiting for the student to finalize the loan request.

The BILA product is fully integrated with EDFUND's current Loan Portal and can be a component to a full-servicing model with EDFUND products. For example, a school can direct their students to EDTE\$T for entrance counseling, connect to the Loan Portal to view lender benefits and loan requests, and then complete other forms requested by the school online with the QuickForm product.

Grad PLUS Cohort Management System: Our Cohort Management System product was enhanced to include the Grad Plus Loan. While Grad Plus does not figure in to the default rate calculation, it is an important element when counseling borrowers on their total loan indebtedness and repayment options. This modification was prompted by the HERA changes which became effective July 1, 2006.

Collections Transition: Our shift toward rehabilitating rather than consolidating defaulted student loans is exceeding expectations both in its pace and in its level of success. Our William D. Ford consolidations continue to drop, down 84.1 percent for first quarter 2005-06 as compared to last year, while loan rehabilitations are up nearly 500 percent for that same period.

New and Improved Publications

Loan Consolidation for Grad PLUS Borrowers: A compact two-page PDF that can be printed as a handout, with essential information for Grad PLUS loan consolidation. Includes advantages and disadvantages of consolidating loans; why to consolidate now — including a table that shows how loan repayments are affected if the borrower decides to consolidate; and frequently-asked questions.

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

Fund Your Future Counselors' Guide Financial Aid Fact Sheets: Extracted from the 2007-08 California Counselors' Guides, these fact sheets are available as a separate download. They provide an overview of the major financial aid programs and how to apply for them, in eight languages.

National Student Loan Data System Card: Handy tri-fold, business card-sized reference piece with basic information for students on NSLDS and how to access it.

FAFSA for Students/Parents Video— A guide to filling out the 2007-08 FAFSA: Full of helpful hints and step-by-step information to help parents and students fill out the FAFSA accurately. Four separate VHS videos and now, all four versions have been compiled onto one DVD.

EDFUND Publications in Text-Only Format: A number of EDFUND publications have been converted into text to make them more accessible to readers with reading impairments. The list has been expanded to include most of our most popular publications and all files are now in Microsoft Word format.

Services to the Commission

CSAC Grade Point Average (GPA) Imaging Optimization – This project extended EDFUND's record imaging system to CSAC GPA processing and went live on December 14, three weeks ahead of schedule.

CSAC Call Center IVR – An interactive voice response (IVR) helps CSAC to better manage inbound calls from students seeking assistance, especially during peak season, and went live on November 21, one week early.

Outreach Campaign – In accordance with the Operating Agreement between the two organizations, EDFUND is responsible for the administration of the Commission's Outreach Campaign contract, which includes both a public awareness campaign focused on Cal Grants as well as the California Cash for College workshops focused on the FAFSA.

Student Expenses and Resources Survey: Working cooperatively with the Commission's research staff, developed an online Student Expenses and Resource Survey customized for seven schools. Paper-based surveys were also developed. By developing a Web-based solution, and a scanning method of capturing paper-based surveys, the Commission will have detailed data responses available for further analysis both now and in the years to come. This online tool will greatly reduce Commission staff time consumed in the past by administration and data collection, while reducing costs associated with a paper survey. Expected launch date is January 15, 2007.

Other Initiatives & Issues

College Access Web Site: Developed in response to the Higher Education Reconciliation Act, www.going2college.org features comprehensive information for students and families about career preparation, planning for college, finding a college and paying for college. CSAC/EDFUND are responsible for details about California's programs and services.

Customer Feedback

Here are a few items addressing recent EDFUND interactions with customers and program partners:

From the assistant financial aid director at a public, four-year institution in Maryland after attending EDFUND's Fall Training Workshop: "Once again you and the EDFUND staff did a great job with the site, time and overall training. Thank you for making learning fun."

About the experience of a private, liberal arts college in New England: The school was using Vermont Student Assistance Corp. exclusively (as all schools do in Vermont) not only for FFEL Program loans, but also to manage all its financial aid processes (packaging and awarding, verification, etc.). It had been dissatisfied with VT's service and Citibank told them that EDFUND could help. An EDFUND client relations manager and client solutions manager went into the school with Citibank and provided it options for developing its own financial aid process. By the end of the visit, the school had decided to move all its volume to EDFUND. Another CRM conducted Financial Aid 101 training so it would know how to run an aid office.

Both Citibank management and the school said they had never experienced such extraordinary customer service before.

Conclusion

The changes to the guarantor environment triggered by the Higher Education Reconciliation Act are still reverberating through the industry. EDFUND has responded strategically to the greatest competitive challenge we faced as a result – the required federal default fee – but further challenges lie ahead as we prepare for the 2007-08 academic year and beyond.