6.3

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 Report to the
Board of Directors

February, 2006

It's been a remarkably busy quarter since our last regular Board meeting, so there is much to cover in this update. First, our performance statistics. As you know, we experienced a slowdown in loan volume growth rate over the last quarter of FY 04-05 and the first quarter of FY 05-06. I'm pleased to report we're seeing signs of what we hope will blossom into a "spring thaw" of renewed growth. In January, new loan volume grew by 4.6% -- modest growth compared to a year ago, but an improvement from recent months. For the year to date, new loan volume has increased 2.5% through January.

In the area of loan consolidations, we continued through the quarter to see a surge in consolidation activity. The 300 to 350% increases we saw in November and December are undoubtedly related to the backlog of applications received by lenders and the U.S. Department of Education (USED) leading up to last July 1's interest rate increase. However, in January we continued to see growth of well over 250%, suggesting that other factors such as a new lender contract and continued concern about rising interest rates may be contributing to this growth.

Defaulted loan claims totaled $42.8 million in January, virtually the same as last January. For the year, claims are up 6.5% which, as we've discussed before, is to be expected given the growth in our loan portfolio over the past six years. In the area of collections, we are making good progress in making adjustments based on the provisions of our revised voluntary flexible agreement (VFA) proposal and the recently-approved Budget Reduction Act. The key initiative here is a shift in strategy to focus less on consolidating defaulted loans and more on rehabilitating them or negotiating borrower payments. This transition necessarily involved a temporary slowing of collections volume since consolidations credit the full value of the loan to us immediately, whereas rehabilitations and borrower payments bring in revenue over time. In January, net collections revenue was down 20% over last January; however, our mix of strategies has shifted significantly, from 72% consolidations in January 2005 to 53% in January 2006. In the same comparison, loan rehabilitations and borrower payments rose from 23% to 37% of collections activity for the month. We are building a substantial pipeline of future collections revenue that will continue to grow as we move through this transition process.

1. Business Planning Initiatives

Budget & business plan: We are well underway already in our FY 06-07 budget planning effort, working through a rigorous process designed to focus on supporting core business functions and identifying potential new efficiencies. The budget development process will accelerate steadily over the next few months toward our annual budget meeting in August.

2. Federal Issues

Voluntary Flexible Agreement (VFA): The U.S. Department of Education has indicated they have no further questions regarding the proposal we presented to them several weeks ago, and we are currently awaiting notification of the beginning of the mandatory 30-day comment period. Once that period is complete, the agreement should be ready for signature. Work has been underway for some time already to adjust operations to maximize potential CSAC/EDFUND earnings and USED savings under the new VFA.

Reauthorization issues: Immediately after returning from its December-January recess, Congress approved the Deficit Reduction Act, more commonly known as the 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. Students, lenders and guarantors all took significant financial hits. The bill:

- Moves the Stafford loan program form a variable interest rate to a fixed rate of 6.8%.
- Increases interest rates in the PLUS program from 7.9% to 8.5%.
- Requires the deposit in each guaranty agency's Federal Fund of a 1% "federal default fee." This fee replaces the guarantee fee and may be charged to the student or deposited from "other non-federal funds."
- Authorizes graduate/professional students to take out PLUS loans.
- Eliminates in-school consolidation of student loans.
- Phases down origination fees for both the FFEL and the Direct Loan Programs.
- Reduces lender insurance, including for "exceptional performers."
- Cuts retention on collections achieved via loan consolidation from 18.5% to 10%.
- Beginning in 2009, prohibits retention of any collection fees on default consolidations that exceed 45 percent of total defaulted loan collections.

Overall, the bill will increase costs for students and reduce program revenues for both lenders and guaranty agencies. We are continuing to analyze its implications for EDFUND going forward.

3. Company Improvement Initiatives

Job families project: This project – designed to analyze and enhance EDFUND's existing job position structure – is now moving into the roll-out phase, with communications to managers and staff anticipated on a rolling basis through the early spring.

Collections transitioning: We are making excellent progress in the ongoing transitioning on our collections area, emphasizing increased loan rehabilitation and borrower payment arrangements, and decreased use of loan consolidation as a default collections method. We will be well-positioned to meet the new requirement under the Deficit Reduction Act capping consolidations eligible for retention income at 45% of annual defaulted loan collections.

4. **Other Initiatives & Issues**

Audit activities: As you know, Internal Audit staff continue to work with the Bureau of State Audits team that is on site conducting the audit requested last fall by the Joint Legislative Audit Committee. The state audit team has recently indicated they expect to conclude their work in April.

EDSHARE For Educational Institutions: One of the key follow-up activities related to this program -- the Forum On Successful Student Borrowing – was held on November 15-16 in Phoenix. The Forum offered financial aid staff an opportunity to focus their attention on successful default prevention and borrower education strategies, as well as national trends in financial aid and higher education. Approximately 75 attendees enjoyed hearing from Bill Straus, co-author of the best-seller *The Millennial Generation*, and a host of other informative presenters.

Space planning project: Work continues on this effort and I will be sure to update you when there is new information to report.

Support For Commission Activities: Significant recent activities include:

- CSAC Grade Point Average (GPA) Imaging Optimization – This project went live on December 14, three weeks ahead of schedule.

- CSAC Call Center IVR – This project went live on November 21, one week early. Kudos to our technology staff for their excellent work on both of these projects.

5. **Customer Feedback**

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

From a community college financial aid administrator in the Western Region: "I've been working [here] for nine years in the financial aid office. I wanted to send a personal thank you for the dedication and support that [our EDFUND Client Relations Manager] provides to me individually and to our office on a consistent basis. She is such an awesome resource, not to mention great person. She's extremely prompt in finding information as well as researching and finding answers to questions she does not know. Anytime I've every needed something, she is there to assist and help. She is definitely a star in my book and the books of many others."

From a public university financial aid administrator in the Western Region: "Thank you so much for putting together yesterday's training workshop. I thought the material was very useful and appropriate for the differing levels of knowledge among the staff and was very pleased with the way the material was presented. I received very good feedback from the counselors."

From lender partners: This year, Lender Initiatives created a true Lender Marketing Workshop series, which kicked off in January and will run though March. We expanded our series from four regional workshops to a total of ten located across the nation. This series also provides a workbook which includes contact information for our national Client Services team, a financial aid glossary, new publications, and highlights of many of EDFUND's products and services. To date, the new format has received tremendous support and appreciation by our lender partners!

From a borrower: "[An EDFUND default prevention counselor] received high compliments from a borrower he helped today. The borrower, who withdrew from school early, was very unsure of what to do now that she had to take time off from school. The borrower had to take time off to deal with family issues and needed help on how to get back into school. The borrower, said [the EDFUND counselor] was the most helpful person she had ever spoken to and is confident about returning back to school to continue her education now that she spoke to him."

From a community college financial aid administrator in the Eastern Region: "Just wanted to congratulate you and your staff on a great issue [of *NewSource*, EDFUND's monthly newsletter for financial aid staff]. That is not to say that past issues have not been great, but this one was timely, clear and concise… Our school rep for EDFUND and her supervisor continue to do an excellent job of representing EDFUND and are the epitome of all that you stand for and are trying to communicate in the marketplace. They will be joining us for our staff Christmas party next, as we see them as part of us."

6. Conclusion

I'm pleased to see progress on several fronts noted above, while also very conscious of the many and diverse issues we continue to grapple with at this time. Fortunately we have a wonderful staff behind us and every opportunity to succeed in the future. I look forward to working closely with you as we navigate through this challenging time.