

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 Person: Sam Kipp,
EDFUND President



**President's Quarterly Report to the Board of Directors
For October 1- December 31, 2007**

Submitted February 2008

2007 was an unprecedented year for EDFUND and the student loan industry in general. The industry faced major challenges, culminating with the president's budget proposal and Congressional motivation to reduce costs in the FFEL Program. There were also expansive state and federal probes of the relationship between lenders and schools. While guaranty agencies were not the focus of these investigations and inquiries, the Congress made significant cuts to the financing structure of lenders and guaranty agencies that had an impact beginning with this first quarter of our new fiscal year.

Business Planning Initiatives

Budget & Business Plan: Although the 2007-08 business plan was approved just a few months ago, the 2008-09 business planning and budget development process has already begun. In response to recent state and federal legislative changes, this 2008-09 year will be uniquely different than any other year. Specifically, the state's budget directive to sell EDFUND requires EDFUND's senior management and Board to develop a 2008-09 business plan and budget assuming a single entity corporate structure, decoupled from CSAC as an auxiliary organization. Another significant factor includes federal legislative changes passed during 2006-07 that decreased certain revenues in the FFEL Program funding model causing tightened operating margins in an already highly competitive student loan industry. These dramatic changes make the 2008-09 business planning and budget development key to ensuring EDFUND's ongoing fiscal strength and success.

To meet these business challenges, EDFUND's executive management team will be reviewing and updating company goals, objectives and priorities during the winter months to ensure these objectives adequately position EDFUND for the future. These updated objectives will form the foundation for drafting the various 2008-09 business plan components. Preliminary revenue projections and expense targets will also be developed in support of these goals.

Legislative Issues

State: In late December, the state selected Bear Stearns, an investment banking firm out of New York, as their investment advisor to move the sale of EDFUND into the next phase. EDFUND executive management continues to work alongside the Department of Finance and Bear Stearns on the sale process.

Federal: While many in our business were trying to figure out what impact the passage of the College Cost Reduction and Access Act would have on the industry overall, the first quarter of fiscal year 2008 ended without further legislative action regarding the administration of the Federal Family Education Loan (FFEL) program. In fact, an early start to the presidential election took center stage, and while you would think the focus would not be on the federal loan programs several candidates took the opportunity to identify their education agendas regarding the FFEL program. While some propose to

end the FFEL program, others stopped short of that proposal and took an approach that would offer more competition between the FFEL and the Direct Loan program. The one consolation is that it is still very early in the campaign, which offers candidates relatively little downside for offering pie-in-the-sky proposals that may go nowhere.

While we are starting to see staff reductions and lenders pulling out of the business from the effects of the CCRA Act, the focus is now returning to the release of the President's FY 2009 budget. Several key legislative and regulatory events will also take center stage in the early part of 2008: a Senate vote on the economic stimulus package; negotiations on a Voluntary Flexible Agreement (VFA); House consideration of its Higher Education Act (HEA) reauthorization bill; and negotiated rulemaking on student loan issues.

Economic Stimulus Package

The Senate is expected to vote on an economic stimulus package in early February depending on whether or not Democratic and Republican presidential hopefuls can make it back to Washington. The U.S. House of Representatives approved its proposal, H.R. 5140, on January 29 by a 385-35 margin. The House would make available tax rebates of \$300 to \$600 for single taxpayers (\$1,200 per couple), with an additional \$300 per child. Under the Senate plan, individuals (including those whose only source of income is Social Security) would receive a flat rebate of \$500.

Contained in the Senate package is a provision that would allow for the issuance of mortgage refinancing bonds – and raise the private activity bond volume cap.

President's FY 2009 Budget

On February 5, 2008, President Bush will release his much anticipated FY 2009 budget proposal. The President's budget request for the fiscal year to begin October 1st will establish spending priorities for higher education and notably include comparative data relative to the scoring of the Federal student loan programs. This year's budget has the potential to move more quickly than in previous years as legislators make plans to head home early and campaign in advance of Election Day. Chairmen of the budget committees have stated they plan to move up the start of the budget resolution process with a goal of getting the measure to the floor early in March.

Earlier consideration of the budget resolution should help to expedite the annual appropriations process as well. The annual budget resolution, while non-binding, establishes an agreement between the House and Senate on the overall allowable amount of discretionary spending that can be appropriated. While details of the President's proposal remain largely under wraps, President Bush offered a sneak peek earlier this week when issuing an executive order that directs Federal agencies to ignore any earmark that is written into report language rather than the bills themselves. The President also announced his intent to veto any FY 2009 spending bill that does not cut the number and cost of earmarks in half. The President is expected to propose cuts to the major federal health insurance entitlement programs (Medicare and Medicaid) and to propose a one-year "patch" of the Alternative Minimum Tax (AMT). There is no reason to believe at this time that there will be additional cuts to the FFEL program.

VFA Negotiations

The omnibus appropriations bill, HR 2764, signed into law by President Bush on December 26, states that the Secretary of Education must reach cost-neutral agreements with the five VFA guarantors by March 31, 2008. After the passage of the omnibus bill, the Department of

Education contacted each of the five VFA guarantors and scheduled meetings to discuss each agency's VFA and the Department's cost assumptions. While the meeting with EDFUND was extremely amicable, it quickly became obvious that the numbers provided by the Department were not an accurate reflection of the current activities, nor did they reflect the portfolio mix and type of school and borrowers that we serve. EDFUND has recently provided the Department with a new VFA proposal focused on our Early Withdrawal Counseling (EWC) program, and has shared data analysis with the Department to ensure an accurate basis for cost comparison and performance standards can be established in the new VFA agreement.

Reauthorization of the Higher Education Act

The HEA expired on September 30, 2004. Congress has extended the Act on several occasions, the last time authorizing the programs through March 31, 2008. Congress reauthorized much of Title IV, the student aid provisions, through FY 2112 as part of Higher Education Reconciliation Act (HERA) in early 2006. The balance of the HEA was never reauthorized during the remainder of the 109th Congress.

Of interest to everyone in the higher education and student loan industry, which have waited through numerous continuing resolutions for the reauthorization of the Higher Education Act, the House Rules Committee has scheduled to meet to structure the amendment process for floor consideration of a bill to reauthorize the HEA. House consideration of the bill reportedly could come as early as Wednesday, February 6th. The U.S. Senate passed its version of the reauthorization bill in July 2007. A conference committee will meet to iron out the differences between the two bills before final approval by both houses and moving the bill to the President for signature.

Negotiated Rulemaking

Early in 2008, the federal agenda started with a negotiated rulemaking session between the U.S. Department of Education, the higher education community, student advocates and student loan representatives. The Department uses negotiated rulemaking sessions to obtain community input into the regulatory process and provide clarification and interpretation of the laws passed by Congress. This negotiated rulemaking session focuses on the College Cost Reduction and Access Act

Earlier this week, the Department made available *draft* regulatory language pertaining to Title IV student aid. Issues included in this round of negotiated rulemaking session include:

- Income-based repayment
- Economic hardship deferment
- Direct loan public service loan forgiveness
- Active-duty military borrower benefits and waivers
- Definition of Not-For-Profit Lender for Differential SAP to FFEL Lenders

One item noticeably missing at this stage of negotiations is the issue of federal pre-emption. With many states developing local laws regarding code of conduct language, the absence of federal pre-emption will leave administration of these new standards a nightmare for schools, students, lenders and others in the industry. At this time, the Department does not seem interested in developing and maintaining one federal standard by which all participants in the federal student loan programs can follow.

Technology Initiatives

gps – The EDFUND Student Loan Navigator was successfully implemented into production, and has been well received by our customers. As of 12/31/2007, 10 schools were transitioned from PCFAPS onto gps. The transition of EDFUND.net schools began in January 2008 and is expected to be completed by April. Development continues on additional functionality. The product is also being introduced to a wider audience, as Client Services has begun discussing gps, as a school based software option, with our current and potential school customers.

EDFUND's Internet Site – During first quarter, we completed the research phase and are launching a project to re-design **edfund.org**, with a look and feel that will better focus our brand. There will be significantly improved ease of navigation. Visitors to our site will be able to get their questions answered and the information they need without having to wade through content they're not interested in. Our current site has no shortage of content. We are going to clear clutter and streamline the navigation process. The new edfund.org is scheduled to roll-out before peak season this fall, which is an aggressive timeline.

Industry Representation

Client Services represented EDFUND at the following conferences in the first quarter:

- CASFAA Conference (California)
- CCCSFAAA Conference (California)
- TASFAA Conference (Texas)
- LASFAA Conference (Louisiana)
- AASFAA Conference (Arkansas)
- NAFAA Conference (Nevada)
- OASFAA Conference (Oklahoma)
- AASFAA Conference (Arizona)
- SWASFAA Conference
- WFAA Conference (Washington)

Customer Feedback

Western Region:

We have decided not to go with the Direct Lending program. . . **We cannot afford to lose the cohort management system** for the default rate that EdFund provides. The DL program offers nothing for default prevention. Please let me know what we need to do to be able to add you back to our list.

~ College in Arizona

I just thought I would share UNR's good news! Thank you to our lenders and guarantor for all your exceptional hard work! You rock! 2005 Default rates came out today! 2.3% is the lowest in our history. We were 3.0 last year and now...wow...2.3% default rate.

~ University of Nevada, Reno

South Atlantic Region:

"EdFund service is outstanding! They help our students daily with **entrance/exit interviews**; their online forms are simple and easy to complete. We have never had [any] problems with any guarantees and [the] **EdFund CMS system** is a tool that I would recommend for every financial aid office to use."

~ Notre Dame

Stephanie Bender met with a loan counselor at Howard Community College (MD) who expressed how very appreciative she was of the help Mike Stein provided on our **CMS product**. She is happy with the system. She said she has had good luck with it and thinks her CDR will be lower this year because of CMS.

~ Howard Community College, MD

After receiving and filling a request on December 24 for 1500 **Grad Outlook Entrance guides** for Brooklyn Law School (NY) CRM Sandy Stevenson received an email from the Director, which read, "Thank you so much, Sandy. Great Service!"

~ Brooklyn Law School, NY

Default Prevention Call Center

A borrower counseled by Mary Solus praised her for being patient, professional and very knowledgeable. She said Mary explained all her options to bring her loan up to date and showed a caring attitude towards her situation.

A borrower counseled by Judy Thor said EDFUND was "very fortunate to have a dedicated, knowledgeable and patient representative" that took her time to help explain her options to resolve her delinquency problems.

Tax Benefits Guide

EDFUND's updated Tax Benefits Guide has received positive feedback from key prospects including, American University College of Law and Catholic University (both in DC). Partner schools continue to voice their appreciation of this publication including College of Notre Dame (MD) and University of Baltimore.

Company Initiatives

EDFUND's Early Withdrawal Counseling (EWC) Program assists student borrowers who have dropped out of school, contacting these borrowers during their grace period to encourage them to return to school and provides personal counseling on repayment options. The goal of the EWC program is to reduce student loan delinquencies and defaults among this exceptionally high risk population and to help them make more informed and productive life choices. The EWC program now has over four fiscal years available for measuring success criteria. Over these years, the 15 EWC pilot schools that joined the program in 2001 have shown encouraging results in all key performance areas. A recent study concluded:

- Borrowers counseled under our EWC program were more likely to return to school than those in the control group – 11 percent compared to 7 percent;
- Borrowers counseled under our EWC program were substantially less likely to become delinquent at any time during their first year after leaving school than those in the control group – 29 percent versus 45 percent;
- Of critical importance, the percentage of borrowers in the control group cohorts who defaulted within two years of leaving school was nearly twice as high than among borrowers counseled in the EWC program – 17 percent in the control group compared to 9 percent among EWC borrowers;
- Finally, the default rates within two years for the first three control group cohorts jumped from 12 to 20 percent, but the rates remained flat among EWC borrowers – 9 percent.

The EWC program was expanded in the first quarter of 2007-08 to include six additional schools. As of December 31, 2007, 21 schools and nearly 250,000 borrowers have participated in this program.

Default Prevention Initiatives (DPI): EDFUND offers the Student Loan Debt Summary as a borrower benefit to EDFUND borrowers while in-school. The statement provides the borrower with a snapshot of their aggregate loan debt at the time the statement is generated. Effective October 1st, we moved to providing this statement electronically to borrowers. The online access to the Student Loan Debt Summary provides additional security for the borrower, the ability to add additional educational loans, recalculate their monthly loan repayment, and link to other valuable web tools. The online statement is updated monthly, providing a more accurate picture of a borrower's total indebtedness prior to graduation. This cost savings of shifting from a paper mailing to the electronic version is substantial.

Training Initiatives: Customers have responded positively to the application of webinar technology to obtain training on a wide variety of Financial Aid topics. The increased demand for this application required EDFUND update the Registration Management System to improve the customer's experience when registering for a webinar training event.

The workshop announcement process has been enhanced. Readers of our bi-weekly EDFUND Link newsletter now receive tips and techniques they can apply to maximize their learning experience. Customers are now provided an interactive HTML announcement that allows them to register for a workshop more easily than in the past.

New or Updated Publications

gps brochure explaining EDFUND's new school-based software to customers.

Tax Benefits Guide for 2007 has been updated to reflect changes to the tax code covering the 2007 calendar year for those pursuing higher education.

Tax Benefits Flyer provides a handy synopsis of the benefits explained in greater detail in the tax benefits booklet.

Parent PLUS and Parent PLUS (Spanish) brochures now include language on lender choice, and have been re-organized to better convey the benefits of a PLUS loan vs. a private loan.

Professional Development workbooks, today numbering over twenty-five on customer, team, professional and organizational success, support the training opportunities EDFUND provides staff at educational institutions.

Stafford brochure (Spanish) has been revised to include language on lender choice as well as the gradual reduction in interest rates starting July 1, 2008.

Teacher Loan Forgiveness brochure (national) has been expanded to provide information on the TEACH Grant and public service loan forgiveness.

Rack Card template will replace targeted tri-fold consumer brochures to achieve an overall one-third reduction in printing costs per item.

Conclusion

With all that is going on internally and the challenges being faced in the student loan industry, EDFUND successfully implemented all federally required changes to the delivery and services of loans during the first quarter. EDFUND continues to provide exemplary customer service while continuing to improve the efficiency of the loan process for students and the schools that serve them.