Lender of Last Resort Program: Key Issues
Open Session Material

CSAC/EDFUND has had a Lender of Last Resort (LLR) Program since the program's inception in the early 1990s but reliance on it has been minimal up to now. Nonetheless, having a viable LLR Program is a mandatory responsibility of every state designated guarantor.

1. The current model of relying on regular FFELP lenders to serve as lenders of last resort will no longer work in the current circumstances after Congress made sharp cuts to lender yields and turmoil in the credit markets has disrupted normal sources for financing student loans and raised lenders' cost of funds.

2. Funding for a large scale LLR Program will need to be based on advances from the federal Treasury.

3. Time is of the essence because a significant loan access crisis is anticipated for higher risk borrowers by the peak late summer – early fall borrowing season. The Secretary of Education made clear at a meeting with guaranty agency representatives in Washington last Friday that she wants Federal Advance LLR Agreements in place ASAP but no later than July 1st.

4. Impact on borrowers:

   - An LLR Program using federal advances from the Treasury is the only way to assure that higher risk borrowers continue to have access to federal loans to help fund their education and training.
   - Prospective borrowers would not have to apply to two lenders and be turned down before being eligible for an LLR loan. Under the new proposed approach, schools could certify that they could not find an eligible lender and then all their borrowers would be eligible for LLR loans.
   - LLR borrowers would be charged the Default Fee – 1% of the loan amount – and it would be subtracted from the proceeds of the loan disbursements.