

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 January 1- March 31, 2007**

Submitted April, 2007

The second quarter is historically a slow period for new loan volume, and this past quarter also saw the impact of the shift made by two lenders at the University of Phoenix. As we expected, year-to-date loan volume figures are down slightly. However, we feel we are positioned well to make up for the differences by year end, with a critical assist from new Grad PLUS volume, the increase in first- and second-year loan limits that will take effect July 1, 2007, and the default fee policy.

- ◆ During the first half of fiscal year 2006-07, dollar volume in Stafford and PLUS loans totaled \$2.448 billion, a decrease of 2.7 percent from the \$2.517 billion reached last year at this time. The number of new loan guarantees was down 2.9 percent to 610,602 loans for the current fiscal year through March, compared to 628,712 loans for the same period of federal fiscal year 2005-06.
- ◆ Consolidation loan dollars decreased 11.5 percent from \$1.528 billion this time last year to \$1.352 billion for the 2006-07 fiscal year-to-date.
- ◆ Total loan dollars including Consolidations equaled \$3.801 billion, 6.0 percent lower than the total for the first six months of the previous fiscal year.
- ◆ Among the four Federal Family Education Loan (FFEL) Program loan types, guarantees for unsubsidized Stafford loans generated the most dollar volume, totaling \$1.151 billion by the end of the second quarter of fiscal year 2006-07. Subsidized Stafford loan dollars reached \$1.009 billion, PLUS totaled \$233 million, and Graduate PLUS loans were at \$55 million.
- ◆ Compared to last March, loan dollar volume for schools in other states was down 7.3 percent to \$1.553 billion for fiscal year-to-date 2006-07. The loan dollar volume for California institutions increased 6.1 percent to \$887 million. The number of new guarantees in other states declined 4.6 percent to 410,344 loans. At California schools, there was a 0.8 percent increase to 199,408 loans for the current fiscal year through March.
- ◆ With \$991 million in new guarantees, four-year proprietary institutions had the largest loan dollar volume among the various school types during the first half of fiscal year 2006-07. Private nonprofit schools increased 20.2 percent to \$492 million. Four-year public institutions were at \$252 million, 5.3 percent more than in 2005-06.

- ◆ The top loan originator during the first six months of fiscal year 2006-07 was Citibank, with \$474 million in new loans guaranteed through EDFUND. The next highest was Wells Fargo Bank, with \$395 million.
- ◆ Default claim dollars totaled \$323 million for the current federal fiscal year through March, 28.0 percent more than at this time last year. Our internal Call Center continues its all-out efforts to avert the claims being filed. A few examples:
 - Penetrating the aversion list multiple times each day.
 - Greater utilization of warm transfers to lenders for immediate resolution.
 - Calling references on accounts with invalid phone numbers since nearly 60 percent of claims-filed accounts are skip accounts.
- ◆ As of March 2007, the aggregate default rate was 2.05 percent. This rate is being proposed in the revised CSAC/EDFUND Voluntary Flexible Agreement as an assessment of how well EDFUND is preventing defaults. The aggregate default rate measures a fiscal year performance and is based upon the sum of defaulted loan dollars owed by borrowers, minus loans repurchased. This amount is then divided by the sum of outstanding loans in repayment, deferment and forbearance on the last day of the previous fiscal year.
- ◆ Preliminary net recoveries on defaulted loans totaled \$34 million for the first half of the 2006-07 federal fiscal year, 26.6 percent higher than for the same period of 2005-06.

Business Planning Initiatives

Budget & Business Plan: EDFUND management is already actively engaged in its 2007-08 budget and business planning process. Executive management at EDFUND and CSAC will review the budget and business plan components in May and June for final submission to the Board and Commission for approval in late summer 2007. All efforts are on schedule.

Legislative Issues

Federal: Since the Democrats regained control of Congress, there has been a flurry of legislation introduced that would seriously impact the student loan industry. The various pieces of House and Senate legislation seek to improve college access and affordability from a range of perspectives. At least in the early going, any costs associated with the proposals would be offset by cuts to the FFEL Program. EDFUND has developed a series of financial analyses to project the likely impact of each piece of legislation, and is evaluating appropriate strategic responses. At this point, prudence requires that we assume company revenues will be diminished regardless of what legislation is finally approved.

While this report is meant to encompass only activities and developments from the second quarter of EDFUND's fiscal year, I feel compelled to include significant developments as of the time of this writing.

- The Attorney General of New York State Andrew Cuomo has launched an investigation (reaching far beyond his state) into potentially unethical relationships between both federal and private loan providers, high-level school financial aid staff, and the U.S. Department of Education (ED). Despite the instances of alleged misconduct, Cuomo and Rep. George Miller (D-CA), Chairman of the House Committee on Education and Labor, generally expressed approval of financial aid administrators, institutions and lenders for quickly responding to and adopting measures to address questionable activities identified by Cuomo's investigation.
- There has also been a temporary suspension of access to the National Student Loan Data System (lenders and guarantors) beginning during the third week of April. The Secretary of Education issued a Dear Colleague letter saying that, "during this temporary suspension of access, the Department will more fully examine the specific usage of NSLDS by those entities for which access has been suspended to determine if there was unauthorized usage. Upon completion of this examination we will consider options for providing NSLDS access to these entities." ED's action took place after Senator Edward M. Kennedy (D-MA), Chairman of the Senate Health, Education, Labor and Pensions Committee, sent a letter to Secretary of Education Margaret Spellings to express concerns about the marketing practices of some federal student loan lenders. EDFUND is working with ED and the student loan industry to regain access for guaranty agencies, which use the NSLDS system for federally mandated functions.
- Representative Miller also sent a letter to Secretary Spellings asking her to impose an immediate moratorium on use of preferred lender lists by schools participating in the FFEL Program. The letter encourages the Secretary to undertake student loan program reforms "to ensure that they are operating in the best interest of our college students and families..." The "reforms" include clearly defining and ending improper payments by lenders, ceasing conflicts of interest in school-lender relationships, more closely monitoring the conduct of ED officials, and educating borrowers on their rights and options through a public information campaign. The Secretary announced the formation of a Department taskforce to address these issues.
- U.S. House Education and Labor Committee Ranking Republican Rep. Howard P. "Buck" McKeon (R-CA), and Rep. Ric Keller (R-FL), the Higher Education, Lifelong Learning, and Competitiveness Subcommittee's Ranking Republican, have introduced the Financial Aid Accountability & Transparency Act (H.R. 1994) to establish financial aid codes of conduct. The McKeon-Keller bill bans the practice of revenue sharing between private loan lenders and universities; allows an institution to negotiate lower interest rates or fees on loans for students and parents; and requires lenders and colleges to disclose more information about preferred lender lists and students' financial aid rights to students and parents.

While EDFUND applauds the moves to greater transparency in relations between lenders and schools, the immediate near-term effect seems to have been largely negative for borrowers. EDFUND's inability to access NSLDS, for example, can delay or deny funds to qualified borrowers whose eligibility cannot be swiftly and accurately verified. And at a time when many borrowers and their families need to make important financial decisions about the 2007-08 academic year, they find themselves unsure who they should turn to for reliable advice.

State: New York State Attorney General Andrew M. Cuomo, along with the State's Senate Majority Leader Joseph L. Bruno and Assembly Speaker Sheldon Silver, announced in April the introduction of legislation that seeks to "protect students and their families from exploitation by conflicts of interest in the student-loan industry." The Student Lending Accountability, Transparency and Enforcement (SLATE) Act of 2007 codifies the College Loan Code of Conduct which the AG has been promoting and including in recent settlements with schools and lenders over questionable practices. EDFUND has concerns about the initial language in the New York bill and will work with elected officials to help them clarify the issues.

A bill was introduced in April in the California legislature relating to standards of ethical behavior for student financial aid personnel at California colleges and universities. EDFUND is in the process of reviewing the language in AB 1652.

Taken as a whole, these developments amount to a perfect storm presently buffeting the student loan industry and providing unfortunate ammunition to proponents of direct lending.

Company Improvement Initiatives

Communications Switch Replacement: On March 19, EDFUND implemented a new communication switch for EDFUND and CSAC. This switch replaces the telephone switch that was installed when the organization moved to Zinfandel Drive ten years ago. In addition to providing stable telephone services, the new switch positions EDFUND and CSAC for using voice-over Internet protocol (VoIP). This technology will save cost, provides new functionality for the call centers (call routing flexibility and improved voicemail) and provides the next step toward unifying e-mail and voicemail.

Collections Transition: Our shift toward rehabilitating rather than consolidating defaulted student loans continues to be a resounding success. Our preliminary net recoveries from defaulted loans for the first half of fiscal year 2006-07 totaled \$34 million, 26.6 percent more than the \$27 million collected by this point last year. The over \$19 million in loan rehabilitations accounted for 56.6 percent of total net recoveries and was 338.3 percent more than the \$4 million for fiscal year 2005-06 through March. Compared to the prior year at this time, Direct loan consolidations declined 84.7 percent, while wage garnishments were up 83.0 percent and voluntary borrower payments increased 74.9 percent for the current fiscal year-to-date.

New and Improved Publications and Videos

Ombudsman Brochure: A concise overview of the alternative dispute resolution services offered by EDFUND's Ombudsman's Office, one of the first among guarantee service providers.

Guide to Federal Tax Benefits for Higher Education: Tax Year 2006: A comprehensive booklet to higher education tax incentives including the most recent updates to the tax laws.

Federal Tax Benefits at a Glance -- A Guide for Students and Parents: A concise fact sheet summarizing tax credits, tax deductions and saving incentives for higher education for tax year 2006.

Writing Tips: A two-sided sheet, available for download, with useful writing tips for financial aid staff. Includes links to resources on writing and design.

FAFSA Video Clips: Online streaming videos with step-by-step guidance and useful tips for completing the FAFSA, updated for 2007-08.

Stafford Loan brochure in English and Spanish: For students and families, explains the ins and outs of Stafford loans; refined further with HERA-related changes.

Credit for College booklet: A booklet for high school students that helps demystify college and financial planning issues.

Step-by-Step Look at Loan Consolidation Booklet: A guide for borrowers considering consolidating their student loans.

About EDFUND Brochure: An overview of EDFUND, highlighting our customer service, training, processing and technical capabilities.

Private Loans Card: Condensing a tri-fold booklet, this handy card provides borrowers a top-ten list of questions to ask prospective lenders when seeking a private loan to fund their education.

Cohort Management System: Our Cohort Management System product, now serving over 500 schools, has been enhanced to provide “real time” borrower demographic updates between schools and our FAPS mainframe. We hope this will provide us with better contact information to improve overall skip-trace efforts when contacting delinquent borrowers.

Student Loan Debt Summary: As part of our mission to provide benefits to borrowers, we send over 650,000 statements to borrowers currently enrolled at 420 participating institutions. As a cost-savings measure, we are working toward more of this volume accessing the statement on our Web site (Electronic Loan Debt Summary). We have successfully moved 93 schools to the ELDS and added 30 new schools to the electronic process.

Default Prevention Servicing: Our goal at EDFUND is for every borrower to have a successful repayment experience. To maximize our efforts, we expanded our default prevention services effective January 10, 2007, by contracting with two external vendors.

The servicers supplement our internal efforts and are assigned a portion of our borrowers in the late stages of delinquency (approximately 180 days delinquent), plus those accounts without a valid phone number. We are closely monitoring each vendor’s performance to ensure borrowers are receiving quality service and that the vendor is effective in resolving delinquencies.

Services to the Commission

Student Expenses and Resources (SEARS) Survey: CSAC gathers cost of education data on a three-year cycle based on the SEARS survey of California schools/students. The paper survey was very labor intensive in both data capture and results calculation. The system was also usable only once and was to require a complete replacement. CSAC requested assistance in automating and distributing the SEARS survey. Working closely with CSAC staff, EDFUND has developed an online survey system that provides the ability to customize surveys and to reuse the final product during the next survey cycle. The survey system maintains the survey, questions, answers and results for each of seven different surveys based on school segments. The new system sends out e-mail invitations, tracks individual user progress, and sends reminder e-mails. The information is stored in a database and extracts are provided to CSAC as requested. This project was implemented on January 24, 2007. The surveys will be gathered through May and the results will be distributed to interested parties including the Governor and the Legislature.

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. A workgroup composed of CSAC and EDFUND staff has been established to update and enhance the site on a quarterly basis.

Customer Feedback

Here are a few items addressing recent interactions between EDFUND and its customers.

From a career college chain, and major EDFUND client, that experienced a processing difficulty caused by a third party while transitioning to the CSAC/EDFUND guarantee, on the quality of the service provided by their client relations manager: "Excellent email. Outstanding customer service and commitment to the situation. I thank and applaud you. My sincerest appreciation for your help with this (and to all the others who participated too - thank you!). Hopefully this will help improve our FFEL processing flow.

I'm lucky you're our EDFUND Rep. Really well done."

From the dean of Student Services at a junior college in Southern California: "I want to thank you for the outstanding contributions your company has made to our students success. Each and every day the efforts of EDFUND help our students reach their educational goals. Not only can the student count on the great services from your company, but we at AVC have also learned to count on you through the outstanding representation of (our client relations managers). They have been great friends and colleagues to the staff and the AVC students."

Conclusion

EDFUND is a values-driven company, and at times like this that fact takes on special importance. We have always conducted our business with integrity, respecting the rules and boundaries that define ethical conduct. As a result, we are maintaining our focus on the business at hand: retaining our current customers, and continually seeking out additional schools that can benefit from our service model.