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## Information Item

### *California Student Aid Commission*

#### EDFUND President's Report

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

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

***Responsible Staff:*** Becky Stilling,  
EDFUND President



## **President's Report to the California Student Aid Commission**

*June, 2005*

May was a month for interesting numbers as captured in our key performance measures. Overall, our financial performance continues to be strong and we remain on target to meet major performance goals for the year. In May, loan volume in the Stafford subsidized program was up 17.2 percent, Stafford unsubsidized was up 16.5 percent, and PLUS volume was up 44.2 percent. Volume for these three categories for May 2005 totaled \$424 million, up a very healthy 19.1 percent.

By contrast, consolidation loan volume for May was down 70.6 percent from May 2004 – but that comparison figure is the result of a major anomaly. Last year at this time we saw a strong push by major lenders to consolidate loans in advance of the annual July 1 readjustment of student loan interest rates. (In fact, in May 2004, consolidation loans were up an amazing 474 percent over May 2003!) As a result of this outcome, when consolidations are included, total volume for all loans for May was down 4.4 percent compared to May 2004. We believe consolidations are likely to jump once again in June as remaining unconsolidated borrowers rush to beat the interest rate increase set for July 1.

On a year-to-date basis, total Stafford and PLUS volume is at \$3.213 billion, a 24.6 percent increase over last year's year-to-date total at this time. With consolidations, total year-to-date loan volume is \$3.734 billion, up 13.8 percent. If we continue to do well without any unexpected drop-off, we should make our goal of \$7 billion in this fiscal year.

Defaulted claim payments in May totaled \$47 million, a 73 percent increase over the payment rate for the same month last year. Year-to-date defaulted claims total \$314 million, up 40 percent from \$224 million at this point last year. We are continuing to analyze the source of this increase, and have redirected resources to increase contact with delinquent borrowers.

There is more positive news from our collections team. Defaulted loan recoveries for the month of May totaled \$40 million, a substantial increase over last May, when the U.S. Department of Education stopped processing direct loan consolidations for several weeks at this time of year. On a year-to-date basis, collections are at \$266 million, up 21 percent from a year ago. It's important to note that this very positive trend can be expected to level off in the coming months as we place greater emphasis on rehabilitation – which currently requires 12 consecutive monthly payments in order for loans to return to good standing -- as a collection strategy.

## **1. Business Planning Initiatives**

Budget & business plan: As of mid-June, EDFUND's cost center managers have all completed their budget proposals for FY 2005-06. These proposals and the company's overall budget will be reviewed by EDFUND's EMT on June 27, in accordance with our normal annual budget cycle. Commission staff will then review the budget in early July and EDFUND staff will prepare the full budget proposal package for consideration by Board in August and the Commission in September.

## **2. Federal Issues**

Voluntary Flexible Agreement (VFA): EDFUND staff continues to refine our modeling work on a proposal for renegotiating the CSAC/EDFUND VFA that would preserve our basic business model, but add new targets and rates for performance achievement. The proposal is likely to focus on three components -- shared claim savings, collections and early withdrawal counseling. EDFUND and Commission staff continue to consult on these issues through the VFA workgroup established earlier this year. The Department has indicated it expects to conclude the renegotiation process with all of the current VFA guarantors by September.

Reauthorization issues: While there is no significant news to report regarding prospects for reauthorization occurring in 2005, the rhetorical jousting and maneuvering between proponents of the Direct Loan Program and the FFEL Program continues, as seen most recently in the heavily pro-direct lending recommendations recently released by a NASFAA reauthorization task force. Congress is currently focusing on moving appropriations bills through the process, as well as addressing budget reconciliation. However, with both mid-term elections and the need to re-address student loan interest rates looming in 2006, members appear motivated to try to keep the reauthorization process moving forward in 2005.

## **3. Company Improvement Initiatives**

Job families project: This project remains on target for initial rollout to staff in September. All managers have attended training to learn about EDFUND's new job classification approach. Managers play a critical role in assisting our Human Resources Division in the collection of position information and developing EDFUND's job family structure. We are finalizing the job levels with management and will soon be moving on to the next stage, incumbent mapping.

Information security risk assessment: The objective of the comprehensive information security risk assessment was to assess any administrative, technical, and physical risks to Commission and EDFUND information and information systems. The risk assessment is complete, and the resulting report is in final draft form at this writing. An executive summary presentation is scheduled for June 16, 2005 for Commission and EDFUND executive management. In addition to documenting the risk assessment, the report also provides prioritized recommendations for proposed corrective actions.

Audit activities: The Internal Audit Department recently completed a review focused on updates performed to FAPS tables that are used to track the loan portfolio and to process lender claims. Internal Audit staff are also in the process of finalizing two reviews, one on Internal Collections and another on Default Claims Adjudication, and anticipates issuing those reports in the upcoming weeks.

Performance review: Commission staff have drafted a final evaluation document which will be discussed between Commission and EDFUND staff prior to the June meeting.

#### 4. Other Initiatives & Issues

EDSHARE For Educational Institutions: We continue to work on several efforts related to this program. First, our work on the development and eventual execution of a formal evaluation process continues. Related to that effort, we have asked the outside consultant (Anne Fitzgerald) who assisted us with program development and application review to conduct several case studies this year assessing outcomes. And finally, planning efforts continue for the Forum on Successful Student Borrowing authorized by the Board's Program and Policy Development Committee earlier this year. This forum, tentatively scheduled for November, will gather financial aid administrators for a series of speakers and panels addressing topics related to debt management, borrower education and default prevention. Costs for the forum will be covered out of remaining uncommitted EDSHARE program funds.

EDFUND Picnic in the Park: On June 4, EDFUND staff and immediate family members gathered for a Saturday picnic held off-site at a local facility near the Sacramento River. Over 300 attendees – including many children of staff -- enjoyed a fun afternoon of food and activities. This event took the place of the annual holiday party we have held for staff in recent years.

Commission Support Activities: Significant recent Commission support activities include:

- Grants processing: In February, monitoring of the Grants batch cycles was transitioned to EDFUND, along with establishing a secondary support service for CSAC from EDFUND network's specialists.
- Specialized programs: In May, the Specialized Programs Imaging project was completed. A backlog of 130 boxes of paper documents was imaged, providing CSAC staff with the ability to view these documents online. The project established a routine imaging process for CSAC utilizing EDFUND's Imaging and Records Management Unit.
- GPA process: Research began in May for streamlining the Grade Point Average (GPA) process, with emphasis placed on identifying imaging and online access improvements for over 80,000 GPA forms submitted annually by schools for grant eligibility determination.
- IVR facility: Activities resumed in May for building an Interactive Voice Recognition (IVR) facility for the CSAC Call Center to help alleviate high call volumes during the September and March awards cycles. The target date for delivering the IVR system is the beginning of September.

#### 5. Customer Feedback

This month I'd like to feature comments made by the California Association of School Financial Aid Administrators (CASFAA) in a document they recently prepared for legislative staff:

*“Since its inception in 1997, EDFUND has become a leader in collaborative activities and results-driven performance. The key aspect of EDFUND’s success as a non-profit public benefit corporation is the balance between its altruistic public-benefit focus and competitive private-sector responsiveness. Through direct consultation with the financial aid community, EDFUND has crafted effective strategies to reduce loan delinquencies and defaults and increase current and future borrowers’ understanding of debt management... EDFUND’s successful business model is predicated on the following:*

- *A performance-based organizational structure characterized by integrity, openness, accountability and a commitment to excellence.*
- *A steady, progressive enhancement of the technology system and the installation of advanced on-line functionality for both schools and lenders.*
- *Improved customer service capabilities by increasing staff and adding new expertise.*
- *A strategic focus on default prevention by re-dedicating internal staff and technology to the effort and building new tools for schools.*
- *The installation and gradual enlargement of a locally-based client services staff to work with schools and market services to them.*
- *The creation of an industry-leading consumer education program, with well-written, attractively-designed publications and Web-based resources.*
- *A reputation in the industry of a strong public service program focused on providing benefits to borrowers, anchored by the guarantee fee reduction, the consumer education program, and an ambitious \$12 million EDSHARE grant program.*
- *The strategic development of effective defaulted loan collection techniques and the in-house management of those efforts.*
- *The negotiation of a “voluntary flexible agreement” with the U.S. Department of Education that opened important new performance-based revenue sources.*
- *The installation of a customer-driven culture throughout EDFUND, with performance standards and metrics, and a universal values system.*
- *Stronger focus on managing and measuring financial performance.”*

We are obviously delighted to receive such a strong endorsement from an organization representing our home market and many of our most important customers!

## **6. Committee Activities**

No meetings of committees of the EDFUND Board have been held or set since your last meeting.

## **7. Conclusion**

I look forward to seeing each of you at the upcoming meeting. Please don’t hesitate to give me a call or send me an e-mail at any time if you have questions about pending issues.