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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

EDFUND®

President's Quarterly Report to the Board of Directors
For April 1- June 30, 2007

Submitted August 2007

The student loan industry is still reeling from the accusations, investigations and media attention that have fallen on it. The result is increased uncertainty amongst schools about whom to work with and how best to work with their financial aid partners. The required federal default fee continues to impact EDFUND's volume; the loss of University of Phoenix volume as a result is still felt. However, that loss has been balanced by strong growth from other proprietary schools as well as the two- and four-year nonprofits in the company's home market. In addition, the Grad PLUS loan volume continues an upward trend and we added five new public universities in the east in the final month of the quarter. While volume for 2006-07 is expected to be nearly flat, this in itself is a remarkable achievement.

- By the end of the third quarter of federal fiscal year 2006-07, dollar volume for Stafford and PLUS loans totaled $3.710 billion, a decrease of 4.8 percent from the $3.897 billion reached last year at this time. The number of new loan guarantees was down 4.2 percent to 915,991 for the current fiscal year through June, compared to 956,579 loans for the same period of fiscal year 2005-06.

- Consolidation loans declined 12.2 percent from $2.015 billion last June to $1.769 billion for the 2006-07 fiscal year-to-date.

- Total loan dollars including Consolidations equaled $5.480 billion for the first nine months of the 2006-07 fiscal year, 7.3 percent less than the total for the previous fiscal year through June.

- Among the four non-consolidation loan types in the Federal Family Education Loan (FFEL) Program, guarantees for unsubsidized Stafford loans generated the most dollar volume, totaling $1.736 billion for the first three quarters of the 2006-07 fiscal year. Subsidized Stafford loan dollars reached $1.523 billion, PLUS loans totaled $333 million, and Graduate PLUS loans were at $119 million.

- Compared to last June, loan dollar volume for schools in other states was down 12.1 percent to $2.285 billion for fiscal year-to-date 2006-07. The loan dollar volume for California institutions grew 9.6 percent to $1.414 billion. The number of new guarantees in other states declined 8.1 percent to 610,185 loans. At California schools, there was a 4.6 percent increase to 304,658 loans for the current fiscal year through June.

- With $1.392 billion in new guarantees, four-year proprietary institutions had the largest loan dollar volume among the various school types during the first three quarters of fiscal year 2006-07, despite a drop of 24.0 percent compared to the previous year. Private nonprofit school loan volume increased 20.2 percent to $873 million. Four-year public institutions were at $394 million, 8.6 percent more than in 2005-06.

- Our top loan originator during the first nine months of federal fiscal year 2006-07 was Citibank, with $640 million in new loans guaranteed. The next highest was Wells Fargo Bank, with $595 million.

- Default claim dollars totaled $521.8 million for the current federal fiscal year through June, 32 percent more than at this time last year. Incoming delinquent accounts increased 27 percent in fiscal year 2005-06, which is the population of borrowers at risk of defaulting in fiscal year 2006-07. This volume, coupled with the fact that we experienced a 29 percent increase in 2005-06 first time delinquencies (*50 percent of defaults are comprised of first time delinquencies*) are the primary contributors to the increase in defaults. In many cases, we are also seeing a change in default behavior at our higher volume schools. We have increased our default prevention efforts in response to the increases in delinquency volumes by partnering with external vendors and by developing aggressive internal strategies.

- As of June 2007 the EDFUND/CSAC aggregate default rate was 3.31 percent (refer to Table 10). The preliminary U.S. Department of Education default trigger rate was 2.47 percent.

- Preliminary net recoveries on defaulted loans totaled $54 million by the end of the third quarter of the 2006-07 fiscal year, 35.7 percent higher than for the same period of 2005-06.

Business Planning Initiatives

Budget & Business Plan: Developing a 2007-08 loan program business plan and budget proposal has been uniquely challenging this year due to the numerous uncertainties surrounding the FFEL Program on both the federal and state levels. Various FFEL Program funding models have been introduced by Congress and the President, but final regulatory changes will not be passed until early fall, making revenue and expense budgeting for 2007-08 particularly difficult. Factor in the state of California budget discussions regarding EDFUND, the FFEL program, and CSAC grant funding, and the 2007-08 budget assumptions become even more complex.

In spite of these uncertainties, EDFUND management forged ahead with developing a 2007-08 business plan and budget proposal, based on defined assumptions, to ensure the annual business and budget planning cycle stayed on track. However, should any of these primary assumptions change significantly when federal and state legislation is passed, the 2007-08 loan program business plan and budget will require revisions and re-submission to the Board and Commission for subsequent review and approval.

In the meantime, the 2007-08 loan program business plan and budget was reviewed and approved by EDFUND's Finance and Budget Committee on August 2, 2007 and now proceeds to the EDFUND Board of Director's for review and adoption on August 10, 2007. Any revisions from these sessions will be included in the business plan and budget prior to submission to the Commission for final review and approval on September 6 - 7, 2007.

Legislative Issues

Federal: The last quarter has seen a great deal of legislative activity on the Federal level. The FY 08 Budget Resolution provided reconciliation instructions to the House and Senate education committees requiring them to find at least $750 million in savings from mandatory spending programs to go toward deficit reduction. The Chairmen of the committees (Massachusetts Senator Kennedy and California Representative George Miller) made no secret of their intention to use the reconciliation process to make substantial changes to the student loan programs and redirect most of the savings to need-based aid. Both Committees moved forward with reconciliation proposals that were approved in committee in June then by the full House and Senate in July.

On the House side, the College Cost Reduction Act significantly reduces lender subsidies in order to pay for reductions in Stafford Loan interest rates, increases in Pell Grants, and new loan forgiveness programs for public service employees, among others. The Senate version, the Higher Education Access Act, contains similar provisions to increase need-based aid and expands income-based loan repayment options that cap payments at a percentage of a borrower's income. Both proposals contain provisions that would implement auction mechanisms for lenders providing Parent PLUS loans.

From the guarantor perspective, both reconciliation bills would reduce guarantor payments by at least $2.5 billion over five years. Specifically, both would reduce collection retention to 16 percent (currently 23 percent). Both versions would also modify the method and amount paid to guarantors through the Account Maintenance Fee (AMF). The Senate version adopts the Administration's proposal to move to a per-unit (per loan) calculation. The House version incorporates several provisions formulated by the guarantor community through the National Council of Higher Education Loan Programs (NCHEP) in an attempt to move guarantor funding from the back end of the loan cycle to the front. That proposal would maintain the current volume-based AMF calculation, but at a lower rate. The model would also institute a new Delinquency Prevention Fee to be paid on loans that are not in a delinquent status.

Differences between the two bills will be negotiated in a conference committee. Timing for a conference remains uncertain. The most likely scenario will be that staff will meet during the August recess The final version they agree to in conference will be sent back to each chamber for final consideration then sent to the President for signature.

State: The State Assembly adopted a $103 billion state spending plan and sent it to the Senate on July 20. As expected, the proposed sale of EDFUND is in the draft budget trailer bill. The trailer bill provides more information regarding the EDFUND sale process. Some of the salient points include:

- Authorization for the sale of EDFUND and the loan program assets and/or the ability to enter into a contract with a service provider to administer the loan program.
- Empowerment of the Director of Finance to act as agent for sale for the State.
- Authorization for the Director of Finance to contract with a third party firm or individual to provide sale-side advisor services.

EDFUND will fully cooperate with the Department of Finance and the selected advisor to achieve the best possible outcome for all concerned. The timing and order of these steps remains unclear in this draft. We feel that there are many positive scenarios that can come from this process.

Industry Representation

Conferences:
The annual National Association of Student Financial Aid Administrators (NASFAA) conference took place in July and was attended by EDFUND staff. The tone and atmosphere was different than past years and reflected the overall state of the industry. Financial Aid Administrators seemed to be hesitant to visit the vendor area and meet with lenders and Guarantors in response to the scrutiny of the industry. Also many of the heavily attended sessions offered dealt with topics such as inducements, lender lists and best practices.

Client Relations Managers also represented EDFUND at financial aid conferences in Nebraska, Wyoming, Utah, Western Region, Rocky Mountain Region, Arizona, Pacific Region, Oklahoma, and Arkansas. In addition, Michael Amaloo, Senior Client Relations Manager present at the Rocky Mountain SFAA Summer Institute.

Associations: Client Relations Managers supported financial aid associations through committee work with the Washington Association Conference Committee, the Oregon Association Executive Council Committee, the Rocky Mountain Region Summer Institute Committee and the Louisiana Association of Student Financial Aid Administrators.

Company Improvement Initiatives

FACS Dialer Replacement Project: EDFUND completed the installation of Noble applications with added security features (Noble is a predictive dialer system used in the Default Prevention and Internal Collections Call Centers). Noble users are now required to enter a unique user ID and password. The password will expire periodically and the users will have to establish new secure passwords. The new security features meet EDFUND's requirements.

New Lender List-Related Enhancements: EDFUND made several enhancements to its loan products and Web site. Schools that utilize the EDFUND WEBapp or EDFUND Loan Portal products can now address preferred lender lists and borrower choice two ways:

- Lender list randomization -- showcases your list of lenders in rotating random order
- Additional FFEL Program lender list -- displays a comprehensive list featuring more FFEL Program lenders available to borrowers

EDFUND has also added language to its Web-based products informing borrowers about their right to select any lender or guarantor. For schools who want to provide borrowers with a comprehensive lender list, we have made the additional FFEL Program lender list available on our Web site at: http://www.edfund.org/pdfs/FFEL_Program_Lenders_Borrowers.pdf

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 hosted eight web cast training sessions with 56 schools in attendance and we continue to encourage use of CMS product for targeting default prevention efforts on campus.

EDTE$T: EDFUND's online loan counseling tool has been updated to reflect the most recent regulatory changes.

Corporate Account Strategy: The Default Prevention Initiatives Unit has teamed up with the Sales Directors of Corporate Accounts to strategize on products and services EDFUND can provide to our Corporate School Clients that will enhance the schools efforts in default prevention. To date we have provided ongoing web cast training on topics such as: Delinquent Borrower Counseling, Loan Repayment Options, and Cohort Management System training.

The Rehabilitation Restructure project: This project allows greater functionality for several of EDFUND's rehabilitation products. In addition, we automated the identification, verification, and collateral processing for eligible rehabilitation accounts within our FAPS mainframe. Automation proved effective enough to reduce the required number of staffing hours by half.

Publications: Our Communications Department collected 10 awards from the prestigious Magnum Opus Awards. A national contest sponsored by Publications Management and the Missouri School of Journalism, the Magnum Opus Awards competition is the only awards program dedicated exclusively to corporate and custom publishing. A panel of esteemed judges, including the nation's top custom-publishing professionals and professors from The Missouri School of Journalism, reviewed over 800 entries from noteworthy companies such as: Walt Disney, Toyota, American Airlines, Nickelodeon and Aetna. From this distinguished group, the judges selected the grand, gold, silver, bronze and honorable mention winners.

EDFUND earned one special recognition award, one silver award, four bronze awards and four honorable mention awards for a variety of financial aid materials produced for either financial aid professionals or students. Our Default Prevention Initiatives Unit deserves special recognition as well; many of the honored publications include contributions from their talented and committed team.

Special Recognition
Outlook: Graduate Entrance Guide – Grand Print Other Publication
Silver Award
EDFUND's external newsletter, *NewSource* – Best Regularly Featured Column: Money Matters
Bronze Awards
EDFUND's external newsletter, *NewSource* – Best Use of Black & White Photography
Outlook: Graduate Exit Guide – Best Table of Contents Design
EDFUND'S internal newsletter, *Kaleidoscope* – Most Improved Design
EDFUND's EDSHARE Web site – Best Publication Companion Web Site Design
Honorable Mentions
EDFUND's external newsletter, *NewSource* – Best Interview/Profile, "Helping Them Help Themselves"
EDFUND's external newsletter, *NewSource* – Best Public Service Series/Article, "Take the Initiative"
The *Fund Your Future Workbook* – Best Table of Contents Design
The *Fund Your Future Workbook* – Best Cover

<u>New and Improved Publications and Videos</u>

Loan Cancellation for Death of the Borrower: One-page document that describes the steps to take in the event of the death of a student or parent borrower. Includes helpful URLs, phone numbers and approximate time frames**.**
Ombudsman brochure: A handy overview of the function and services offered by the EDFUND Ombudsman's Office.
Building Futures Entrance & Exit Loan Counseling: The power point presentations and instructor guides have been updated to reflect the most recent regulatory changes so that schools may continue to provide their borrowers with complete and accurate information during their borrowing experience.
About EDFUND brochure: An overview of EDFUND highlighting our customer service, training, processing and technical capabilities.
Entrance Guide: Zone In on Your Student Loan: For college students, a magazine-style guide that helps new borrowers plan for and ensure the timely repayment of their student loans. Updated to reflect new Stafford loan limits that became effective July 1, 2007.
Federal Stafford Loan Interest Rates and Loan Limits: Designed as a hand out for students, this simple flyer shows the current year's federal student loan interest rates as well as the annual and aggregate borrowing limits.
PLUS Loan Wraparound and School Certification Guide: Updated based on new guidance from ED and changes in the Higher Education Reconciliation Act.
Private Loans card: A two-sided card replaced a six-page brochure. Information for students and parents on choosing a private loan.
Stafford brochure: Explains the ins and outs of federal Stafford loans to students and their families. Includes loan information that became effective July 1, 2007.
Stafford Loan Wraparound: Updated based on new guidance from ED

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

EDFUND's Internal Collections team prides themselves on their sensitivity and helpfulness. They work hard with each borrower to get them back on track with their payments with the goal of matching each defaulted borrower with the most appropriate repayment program. Here is an excerpt from a letter received about one of our Collectors who worked with this borrower over a nine-month period:

> "Natasia, I have appreciated the professionalism and compassion I've experienced from you during this past year. I have learned skills and found strength that I did not have when I began the (rehabilitation) program. You have listened to my concerns, worked with me, and encouraged me every step of the way, making it a particularly positive experience for me. Natasia, I want to personally thank you for your efforts and for making such a positive impact on this borrower! YOU ROCK!"

EDFUND's Client Relations Managers receive many positive customer testimonials. A sampling is below:

> Excerpt from email written by Financial Aid Director:
> I hope this note finds you doing well. I just wanted to send a quick note to tell you how much I appreciate Diana. She takes fantastic care of us here at Prescott College and I really couldn't be happier with her service, follow through and candor. She's amazing and does well by us each and every time we interact with her.
>
> I know you already know this, but you've got a true gem in Ms. Diana and I appreciate that you've assigned her to work with Prescott College.

Lender Partner regarding training that one of our CRMs set up and an EDFUND trainer presented at:

> I hope you are doing well. I wanted to thank you again for recommending Patti for the New Aid Officer Workshop. It was great to have you all on board and everyone really loved the presentation. I know you wanted feedback and I have just now gone through the evaluation forms (sorry it took so long). I have attached some of the results and comments.

We receive many positive comments on our training evaluation forms. Below is a small sample:

> Good presenter; kept audience engaged
> Her energy, personality and presentation style encouraged me to stay focused and remain attentive.
> This was a great presentation. It can be used in all aspects of Financial Aid.
> She gave me another resource to better my customer service abilities for my customers. I will pass this info on to my director for other employees!
> Great ideas dealing w/difficult customers

Conclusion
In the midst of much external uncertainty, EDFUND continues to be a values-driven company with a focus on performance and progress. Plans to move into a new building in 2008 are moving forward on schedule; a new operating agreement between EDFUND and the Commission has been adopted; and enhancements to the company's products and services are ongoing. The company continues to preserve and strengthen core operations and protect current loan volume while seeking out additional schools that can benefit from our service model.