

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 Report to the Board of Directors

August, 2006

As I write this, the reports for most of our July performance statistics are not yet available, but we'll be sure to update you at our meeting on August 18th. I am very pleased to report, however, that our new loan volume in July grew by 6.2 percent. For the year-to-date, new loan volume has increased 3.8 percent through July. I am especially encouraged by this performance.

Our consolidation loan volume continues to surge. In June we saw growth of more than 470 percent. We expect high growth to continue through September, because of the backlog of loan applications to process to meet the July 1st deadline. Higher interest rates took effect July 1st along with the elimination of the ability to obtain consolidation loans while still enrolled in school.

Defaulted loan claims totaled \$42.9 million in June, 8.6 percent more than last June. For the year, claims are up 11.8 percent which, as we've discussed before, was to be expected given the growth in our loan portfolio over the past six years. In the area of collections, we are making good progress in making adjustments to our strategy based on the provisions of our revised voluntary flexible agreement (VFA) proposal and the recently approved Budget Reduction Act. As we shift our strategy to focus more on rehabilitating loans or negotiating borrower payments, we expect lower recoveries for a short period of time. In June, our net collections revenue declined 25 percent over last June. To compare our mix of strategies: In June 2005 we had 74 percent consolidations, while this June consolidations were just 32 percent. In the same comparison, loan rehabilitations and borrower payments rose from 19 percent to 56 percent of collections activity for the month. Once borrowers have made a set number of on-time payments, our pipeline of rehabilitated loans will mature and we'll begin seeing a major upswing in recoveries in the last quarter of this fiscal year.

Business Planning Initiatives

Budget & business plan: The budget and business plan that will be presented at your meeting has been a focus of our efforts for the past several months. We engaged in a thorough and rigorous process through which we emphasized our core business functions and identified potential new efficiencies. The plan has been reviewed by Commission staff and the Board's Finance and Budget Committee. We look forward to discussing it – and the underlying assumptions behind it – at our meeting.

Federal Issues

Reauthorization of the Higher Education Act: The Higher Education Act has been extended — once again — by Congress through September 30. We fully expect yet another extension after that before the reauthorization process is completed.

Graduate and Professional PLUS loans: EDFUND wanted to be among the first in the industry to make it easy for students to obtain this new type of federal loan, and we were. Our process and system conversions were complete prior to the July 1 availability of the new loans. Subsequently, during the month of July, we guaranteed more than \$36 million in Grad PLUS loans. What's more, the average individual loan amount is close to \$20,000. Clearly, the word is out to students across the nation that Grad PLUS is an important new financing mechanism for higher education, thereby reducing reliance on private loans when federal loan limits prove insufficient.

Company Improvement Initiatives

Strategic partnerships: In response to an increasingly competitive business environment, EDFUND continues to re-shape its strategy. We are confidently focused on preserving our reputation as an innovative service provider, on maintaining strong school relationships, and on developing innovative new partnerships with lenders in the upcoming academic year.

Information security: We've seen heightened awareness of data security issues in our industry recently. Other guarantors, lenders, credit reporting agencies, even the Veteran's Administration have recently suffered security breaches. We have reiterated our commitment to information security as an organizational goal by hiring an internationally recognized industry expert as our new information security officer. Joe Blake will be responsible for safeguarding EDFUND's critical information and working with vendors and partners to focus on protecting customer data. We believe that Joe's contribution combined with our existing security practices will also enhance our competitive position with our lender partners and school customers.

Collections transitioning: We continue to make excellent progress in the ongoing transition of our collections area. We are seeing an encouraging increase in loan rehabilitations, wage garnishments and voluntary borrower payments, as we move away from a focus on consolidations. We have no concerns about being able to meet the new requirement under the Deficit Reduction Act that caps income from defaulted loans at 45 percent of annual defaulted loan collections beginning in 2009.

Other Initiatives & Issues

Space Planning Project: With the help of the joint Strategic Space Planning Committee, we've completed the exhaustive evaluation of our long-term space needs. We've also communicated with staff about our eventual move, are finalizing our lease negotiations on two new office buildings and expect construction to begin soon. The move to the new Rancho Cordova location will take place sometime in late 2007 or early 2008. I am very excited about this decision and look forward to new space that is designed specifically to meet EDFUND's and CSAC's needs.

We are now into phase two of the s project, which includes finalizing the formal lease document and fine tuning our individual department space planning to enable construction to begin on the new building site.

Tours for new Board and Commission members: With several new Board and Commission members having joined us in the past few months, we thought it crucial to offer tours of the EDFUND headquarters operations, along with an orientation on how EDFUND operates. I'm pleased to report that all have expressed interest and five members have participated already. We've conducted three tours so far, highlighting our role in the federal student loan program and showcasing our wide range of activities and work areas. Our visitors have, in turn, offered much positive feedback on the value of the tours in demonstrating EDFUND's culture of service, attention to customer needs and employee pride and enthusiasm.

Customer Feedback

Here are a few items addressing recent EDFUND interactions with customers and program partners:

From a public university financial aid administrator in Wyoming and EDSHARE grant recipient: "I got a survey call today to rate EDFUND. It was my pleasure to give (you) outstanding scores – this is just one of the great examples of what an excellent organization is!"

From a financial aid director in Massachusetts: "I am happy to state that (we) are now working with EDFUND ...It is a pleasure to be on board with an organization that clearly is dedicated to providing schools with account managers who go beyond the call of duty – and truly care."

From a California CRM reporting on a school's efforts to recognize EDFUND: "Point Loma provided a surprise luncheon to all lenders and EDFUND as a thank you for services provided. It is not very often that a school turns things around and provides something like that. They consider us (and the lenders) partners in providing services and educational access to their students, and they wanted to recognize our efforts to that end."

From a technical career school in the East on a recent EDFUND training program: "I have to admit, I went in feeling a little skeptical of how much I could actually learn in one sitting, and thinking the workshop was going to be long and boring. But I came out with a lot more confidence, a bit more educated and grinning from ear to ear. Thank you so much for everything."

Conclusion

These customer comments underscore what an important factor our delivery of premier customer service has been in company performance over the past few months. As some of you who have participated in our recent tours can attest, our staff commitment to serving customers is obvious and unwavering. I fully believe that, with our determination to continue leading the industry in service and our dedication to institutions and borrowers, we can find innovative solutions to the competitive challenges we face.