
10.a

Action/Information Item

California Student Aid Commission

Update on the Voluntary Flexible Agreement

Per the Higher Education Act, Voluntary Flexible Agreements (VFAs) must be cost-neutral. The U.S. Department of Education (Department) determines cost-neutrality by comparing projected costs under standard guaranty agency financial arrangements with those under the VFA. Because of the impact of the changes in the *College Cost Reduction and Access Act* (H.R. 2669), the Department has determined that the existing VFAs are no longer cost-neutral.

The College Cost Reduction and Access Act (H.R. 2669) was enacted on September 27, 2007 amending the Federal Family Education Loan (FFEL) Program. This new law, effective October 1, 2007, significantly reduces standard payments from the United States Department of Education (Department) made to guaranty agencies, including:

- A reduction in the retention percentage on defaulted loan collections from 23 percent to 16 percent; and
- A reduction in the account maintenance fees on newly originated loans from .10 percent to .06 percent.

The Department notified Executive Director Michel in a letter dated October 2, 2007, that the VFA between the California Student Aid Commission (CSAC) and the Department will be terminated effective January 1, 2008 (See Tab 10.a.1).

In a subsequent letter to Executive Director Michel, the Department has expressed its willingness to meet with CSAC no later than December 14, 2007 to discuss its decision to terminate the VFA and explain the methodology that was used to evaluate cost neutrality (See Tab 10.a.2).

EDFUND President Kipp will provide an oral update on the cancellation and ongoing discussions of the VFA.

Responsible Staff:

Sam Kipp, EDFUND President

Janet McDuffie, Chief
Federal Policy & Programs Division



Tab 10.a.1

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CSAC
EXECUTIVE OFFICE

Diana Fuentes-Michel
Executive Director
California Student Aid Commission
10811 International Drive
Rancho Cordova, CA 95670

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Dear Ms. Fuentes-Michel:

Since 2001, the California Student Aid Commission (CSAC) and the Department have worked together through a voluntary flexible agreement (VFA) to explore new strategies to enhance efficiency, reduce loan defaults and delinquencies, and improve operations. This agreement has been extremely useful as a pilot for testing alternative approaches to the standard Federal Family Education Loan guaranty agency structure. As you know, however, the recently enacted College Cost Reduction and Access Act of 2007 (P.L. 110-84) significantly reduces standard payments from the Department of Education to guaranty agencies. After reviewing the impact of these changes on the VFA, the Department has determined the agreement is no longer cost-neutral as required under §428A of the Higher Education Act of 1965, as amended (HEA). Cost neutrality is determined by comparing projected costs under standard guaranty agency financial arrangements with those under the VFA.

Accordingly, consistent with Section 5 of the Agreement, please consider this letter formal notification that the VFA between CSAC and the Department will be terminated effective January 1, 2008. As provided in Section 7(a), upon termination of the VFA the prior Existing Agreements between CSAC and the Department are reinstated to the extent those agreements are consistent with the HEA and Department regulations. Pursuant to paragraph 7(b) of the Agreement, the VFA also is modified effective October 1, 2007, to conform with the College Cost Reduction and Access Act by reducing the account maintenance fee percentage from .1 percent to .06 percent and by reducing the retention percentage on collections of defaulted loans to 16 percent.

The Department and CSAC's work together under the VFA was very valuable. I look forward to continuing this productive relationship in the future to make higher education accessible to students.

830 First St. N.E., Washington, DC 20202
www.FederalStudentAid.ed.gov

California Student Aid Commission Meeting

1-800-4-FED-AID

November 29, 2007

Diana Fuentes-Michel
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Should you have questions, please contact Susan Szabo, Chief Business Operations Officer, at 202-377-3437.

Sincerely,



Lawrence A. Warder
Acting Chief Operating Officer, Federal Student Aid
United States Department of Education

cc: Dr. Sam Kipp, III
President, EDFund

Office of the Attorney General
The State of California

Susan Szabo
Chief Business Operations Officer, Federal Student Aid

Office of the General Counsel
U.S. Department of Education

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Ms. Diana Fuentes-Michel
Executive Director
California Student Aid Commission
10811 International Drive
Rancho Cordova, CA 95670

Dear Ms. Fuentes-Michel:

On October 2, 2007, the Department notified the California Student Aid Commission (CSAC) of its decision to formally terminate the Voluntary Flexible Agreement (VFA) between the Department and CSAC effective January 1, 2008. This decision was based on an evaluation, conducted as a result of enactment of the College Cost Reduction and Access Act of 2007 (P.L. 110-84) (CCRAA), that determined the agreement was no longer cost neutral as required under §428A of the Higher Education Act of 1965, as amended (HEA). The Department understands that there may be questions regarding the methodology that was used, after enactment of the CCRAA, to determine that the VFA agreement was no longer cost neutral.

To address these questions, I would like to arrange a meeting between the Department and CSAC to discuss the decision to terminate the VFA and explain the methodology that was used to evaluate cost neutrality. My office will be in contact with you to schedule a meeting to occur no later than December 14, 2007. CSAC is welcome to invite anyone that they wish to attend this meeting with the Department.

Should you have any questions, please contact Susan Szabo, Chief Business Operations Officer, at 202-377-3437 or Sybil Phillips, Director, Portfolio Performance Management, at 202-377-3206.

Sincerely,

Lawrence A. Warder
Acting Chief Operating Officer, Federal Student Aid
United States Department of Education

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November 29, 2007

Ms. Diana Fuentes-Michel
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cc: Dr. Samuel Kipp III
President, EdFund

Diane Auer Jones
Assistant Secretary, Office of Post Secondary Education

Susan Szabo
Chief Business Operations Officer, Federal Student Aid

Sybil Phillips,
Director, Portfolio Performance Management, Federal Student Aid