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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

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

Submitted November 2007

September was not only the close of a quarter, but also the end of EDFUND's fiscal year. In what proved to be a tough year on multiple levels, EDFUND finished strong and overcame many challenges. Loan volume was off primarily as a result of earlier decisions by two lenders at our largest school, University of Phoenix, spurred by the new default fee. Experiencing significant gains elsewhere, however, EDFUND grew loan volume by 12.5 percent. Our new school-based software – gps, The EDFUND Student Loan Navigator – is being introduced into the market and has the promise of bringing additional school customers into the portfolio.

- For the 2006-07 federal fiscal year, EDFUND/CSAC guaranteed $6.758 billion in non-consolidation student loans for the Federal Family Education Loan (FFEL) Program. This was a decrease of 1.8 percent from the $6.881 billion for the previous fiscal year. The number of Stafford and PLUS loans declined 1.4 percent to 1,492,480. Consolidation loan volume was $2.576 billion, a drop of 20.3 percent compared to 2005-06.

- Total loan dollars including consolidations equaled $9.334 billion, a decrease of 7.7 percent from the $10.114 billion for the prior fiscal year.

- Compared to fiscal year 2005-06, loan dollar volume for schools in other states decreased 7.2 percent to $3.693 billion and the number of loans declined 3.4 percent to 928,978. At California institutions, the $3.047 billion in loan dollars and 561,782 new loans were 5.6 percent and 2.2 percent higher, respectively, than the amounts for the prior year.

- By type of school, private nonprofit institutions had the largest volume for the 2006-07 fiscal year, accounting for 30.5 percent of total EDFUND/CSAC loan dollars. At $2.058 billion, the loan dollar volume for students at these schools was 13.0 percent higher compared to 2005-06. This school category includes both two- and four-year private, nonprofit institutions.

- A close second in dollar volume was the four-year proprietary sector, which accounted for 27.9 percent of total loan dollars. The $1.884 billion in loan volume for these schools was 22.0 percent lower than a year ago. Two-year proprietary school volume grew 12.2 percent, from $1.155 billion in the previous year to $1.296 billion for the current fiscal year.

- Default claim dollars totaled $703 million for fiscal year 2006-07. This was a 35.5 percent increase from the $519 million for the prior 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. Sixty-five percent of the dollars that defaulted were from the high-risk segments (two-year public and private schools and all proprietary schools). The Default Prevention Call Center and Support Unit, together with the help of outside vendors, successfully resolved over 800,000 delinquent loans, preventing approximately $3.6 billion in loan defaults!

- The 2006-07 aggregate default rate was 4.46 percent at the end of September. The preliminary federal fiscal year default trigger rate reached 3.31 percent.

- Preliminary net recoveries on defaulted loans for fiscal year 2006-07 totaled $74 million, 23.9 percent more than the $59 million collected during 2005-06. Strategy changes implemented during the previous year have increased cash collections and decreased recoveries from Direct loan consolidations. The $43 million in loan rehabilitations reflected a growth of 128.5 percent and accounted for 58.6 percent of total recovered dollars. Compared to the prior year, Direct loan consolidations declined 80.2 percent, while wage garnishments were up 77.2 percent and voluntary borrower payments increased 46.5 percent for the current fiscal year.

Business Planning Initiatives

<u>Budget & Business Plan</u>: Uncertainties surrounding the FFEL Program this year, on both the federal and state levels, posed unique and unprecedented challenges in developing the 2007-08 budget. While various FFEL Program funding models were submitted by Congress over the summer, specific details were not finalized until September 27, 2007, when the president signed into law H.R. 2669, the College Cost Reduction and Access Act. Similarly, the state of California budget, passed in late August, contained language that significantly alters the state's future involvement with regard to EDFUND and the FFEL Program. It also shifted funding for CSAC grant program administration and outreach activity from the Operating Fund back to the state General Fund.

These federal and state legislative changes significantly impacted the 2007-08 Operating Fund budget approved by the Board on August 10, 2007. Therefore, a revised 2007-08 Operating Fund budget has been developed and will be submitted to the Board for approval at the November 2007 meeting. The most significant changes impacting guaranty agencies include:

> **Federal Legislation - FFEL Program Reductions**: With the passage of H.R. 2669, the federal government projects cost savings of $22.3 billion over the next five years through cuts to the FFEL Program, with more than $4.5 billion coming from guaranty agencies.
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> **California 2007-08 Budget:** The state budget, effective July 1, 2007, included language allowing for the sale of EDFUND, with proceeds to bring an estimated $980 million in budget relief to the state. In preparation for this event, the budget transferred the funding of the Commission's grant activities, FFEL Program oversight, and Cal-SOAP awards back to the state's General Fund.

VFA Funding from the Department of Education (ED): In early October 2007, all five guaranty agencies operating under Voluntary Flexible Agreements (VFA) with ED received notice that the agreements would be terminated as of January 1, 2008. ED cited concerns over the cost neutrality of the agreements in light of the recently passed H.R. 2669.

The Relocation Project: The relocation project was approved by the Commission and the EDFUND Board of Directors in support of strategic space and facilities planning goals for both organizations. Ground breaking occurred in June 2007 with completion and EDFUND move-in projected for July 1, 2008. However, at present it is unclear whether CSAC will be relocating to this new facility.

Legislative Issues

Federal: The last quarter of the federal fiscal year continued to be a busy time in Washington, DC. Congress finalized a budget reconciliation package: the College Cost Reduction and Access Act of 2007 (CCRAA). The new law calls for more than $21 billion in reductions in federal mandatory spending over a five-year period. All of the savings come from cuts to lender and guarantor revenue streams. From the guarantor perspective, the new law reduces guarantor payments by reducing collection retention to 16 percent down from the previous 23 percent. The CCRAA also reduced the amount ED pays to guarantors through the Account Maintenance Fee (AMF). The AMF reduction was originally part of an NCHELP proposal to shift guarantor payments from the back end of the loan cycle to front-end activities which also included an offset in the form of a new Delinquency Prevention Fee to be paid to guarantors by ED. Unfortunately; Congress included the AMF reduction without including the proposed new fee.

According to ED, the changes in the guarantor funding model noted above meant that the five currently operating Voluntary Flexible Agreements (VFAs) are no longer “cost neutral”. ED notified each of the agencies that the VFAs would be terminated effective January 1, 2008. This action prompted a swift bi-partisan response by a number of key members of Congress encouraging ED to rescind this unilateral termination and instead work individually with each guaranty agency to renegotiate cost-neutral VFA agreements. EDFUND has also been working with the National Association of Student Loan Administrators (NASLA) as well as Chairman Kennedy (D-MA) in the Senate and Chairman Miller (D-CA) in the House to include language in the Labor, Health and Human Services and Education appropriations bill to require the Secretary of Education to re-negotiate the VFAs within a specified time. This effort will continue on the legislative front, although the president has issued a veto threat against the appropriations bill. At the same time, ED has sent a follow-up letter to schedule individual meetings with each VFA guarantor to discuss their recent actions and the metrics used to calculate cost neutrality.

Reauthorization of the Higher Education Act, it seems, may again be moving forward. President Bush signed the tenth extension of the act on October 31, allowing HEA programs to continue to operate until the end of March 2008. The action gives lawmakers an additional five months to try to complete a full reauthorization package. The day after the extension was signed, the House Education and Labor Committee moved forward with its efforts to do so. The Committee recently held a hearing on college costs, which will likely be a final hearing before introducing reauthorization legislation. Chairman Miller and Ranking Member McKeon released a joint announcement of plans to mark up a bill in November. It is expected that the mark up will occur during the week of November 12, just prior to the two-week Thanksgiving recess. The Senate passed its reauthorization package earlier this year.

Finally, after more than a year of wading through a sometimes strained negotiated rulemaking process, ED issued final regulations for the student loan programs on November 1. There were few items in the final package that differed from the provisions included in the Notice of Proposed Rulemaking issued this past summer. The new regulations, among other things, clarify school-lender relationships and the use of preferred lender lists, clarify issues around prohibited inducements and institute a prohibition of on-campus staffing assistance offered to schools by lenders and guarantors.

State:

The California Department of Finance (DOF) has issued a request for qualification (RFQ) to obtain a sale-side advisor for the sale of EDFUND pursuant to the California State budget adopted in August of this year. The DOF anticipates an advisor will be selected by the end of November. This individual or firm will be tasked with completing the valuation of EDFUND and developing the request for proposal (RFP) which will be required prior to the solicitation of bids. EDFUND will continue to cooperate fully with the Department of Finance and the selected advisor to achieve the best possible outcome for all concerned.

Technology Initiatives

2006-07 was a year of change for this division. In July, Patrick Pendleton was named vice president and with that came several changes that will better position the Information Technology Services (ITS) Division for continued success.

Over the course of the year, our telephone switch was replaced and upgraded which allows us to leverage technologies that enable new functionality and services while increasing reliability and lowering operating costs.

The conversion to Natural version 4 was a major effort that touched over 3,500 programs in the FAPS system and required regression testing all of FAPS. This was accomplished without impacting any in-progress projects and with minimal complications.

The Accounting Enhancement Project (AEP) implemented cash-receipt tracking that serves as one of the building blocks to integrate accounting within the activity processing of FAPS and to build reconciliation functionality. The balance of the year saw the design and development of other important components of AEP including Claims, Rehabilitations and Cash Reconciliation.

A major cross-divisional success was achieved with gps: The Student Loan Navigator. The project was a big success on many levels including outstanding cross-functional teamwork, a new proof-of-concept process, customer focus, successful package application deployment, and excellent project management/leadership. The gps project is a glimpse into how projects will run in the future and how EDFUND can develop new products to benefit our school customers and lender partners.

The year ahead promises to be the most exciting yet. Key ingredients in our success will be our people, our alignment with business needs, and the ability to build upon our existing technologies and to leverage them in support of EDFUND's growth. The move to our new building along with a data center relocation promises to keep many in ITS busy.

Industry Representation

Conferences and Training Events

Client Services, Western Region represented EDFUND at the following conferences in the fourth quarter:

- Oregon Association of Student Financial Aid Association (OASFAA) Summer Drive In Training
- Alaska Association of Student Financial Aid (ALASFAA) Conference
- National Association of Student Financial Aid Association (NASFAA) Conference
- Arizona Western College Resource Fair
- Career Colleges & Schools of Texas Conference
- Arizona Association of Student Financial Aid Association (AASFAA) one day workshops - two locations

We also hosted two Lender Marketing Workshops (Phoenix and Austin) in September. Over 30 lender marketing partners attended. In response to a thank-you e-mail we sent, we received the following responses from lender attendees:

*"Thanks for the presentation. It was very informative.
Let me know if we can ever partner together in New Mexico."*

"It was great seeing you and hearing about the exciting things happening at EDFUND. I agree that we will all get through this if we work together and communicate. I look forward to expanding our relationship with EDFUND, and also seeing you later this fall.

"I just wanted to say thanks and that I enjoyed yesterday's training session."

Client Services, North Atlantic Region:

- Michelle Pursel, client relations manager in the Midwest, received the President's Award from the Missouri Association of Financial Aid Professionals at their conference. The honor was bestowed for her outstanding commitment to the financial aid association and the conference.

- The dean of Admissions at Benjamin Franklin Institute of Technology (a former direct lending school) in Boston, MA was delighted when all of the New England Client Services team stepped in to train the staff on ELM and the FFEL Program during their recent fall registration.

Company-Improvement Initiatives

gps - The EDFUND Student Loan Navigator is our new school-based software product. It replaces our two current products (PCFAPS and EDFUND.net) with one that is more robust in its application processing features, providing the school users more flexibility and processing options. The introduction of gps allows EDFUND to better meet the needs of our existing school customers, while also positioning EDFUND to be more competitive in the marketplace.

Default Prevention Initiatives (DPI) continues to support schools with a focus on lowering defaults. This year the unit increased its training events by 10 percent and at the same time reduced costs by utilizing webcast technologies. And in May, DPI implemented enhancements to EDFUND's Cohort Management System, providing over 560 schools the ability to update borrower demographics in "real time." This improves contact information for delinquent borrowers and enhances security of confidential information by reducing the number of schools submitting demographic changes on paper reports.

Publications

EDFUND Link
The e-mail communications that are sent out under the title of EDFUND Link were joined as one in this new communication product. Available in HTML and text e-mails, the "teaser" story links will open up to a Web page with all the stories in full. The first issue was launched September 7 with subsequent issues sent out every two weeks. http://www.edfund.org./newsletter/newsletter.html.

Fund Your Future Series
Our signature financial aid series for the 2008-09 school year was slated for release in October, including workbooks, brochures and counselors' guides. The national version of the workbook covers federal financial aid and includes a listing of state higher education agencies where students can find information on financial aid offered by their state. Arizona, California, Hawaii/Pacific Islands, Nevada, Oregon and Washington versions of the workbook detail state-specific student aid, such as grants and scholarships for state residents, as well as the major federal financial aid programs. Spanish versions of the California and the national workbooks will also be available.

The series features four brochures: one for California students (English and Spanish); a national version; and another for career college students. The California counselors' guide provides more in-depth information on state programs and the applications process. A national version of the counselors' guide will be available for download only as a PDF.

EDFUND Institute
As part of a larger effort to bring more strength and clarity to the EDFUND name in the marketplace, the four areas within EDFUND that provide training to school and lender staff are being placed under a single umbrella -- the EDFUND Institute. As part of this branding effort, all materials -- printed and electronic -- are being re-designed to share one focused look, and one single logo. The first re-branded workshop took place the end of September, and initial feedback is very positive.

Conclusion

In the midst of uncertainty, EDFUND continues to be a values-driven company with a focus on performance and progress. 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. The next year promises to be EDFUND's most exciting year yet. Key ingredients to our success will be the strength of EDFUND's reputation for integrity, its commitment to providing superior service, the resourcefulness and resilience of its people, and its ability to keep students first in all it does.