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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 Report to the Board of Directors

November, 2006

With the 2005-06 fiscal year now concluded, it is clear that my confidence in EDFUND's ability to overcome somewhat daunting challenges is well founded. We began the year with loan volume nearly flat-lining, but we corrected course, worked extremely hard, and finished strong. Total loan dollars including consolidations reached $10.1 billion for fiscal year 2005-06, an increase of 29.1 percent from the $7.8 billion in 2004-05 – a new record for EDFUND.

For the 2005-06 federal fiscal year, EDFUND/CSAC guaranteed $6.9 billion in Stafford and PLUS loans. This was 4.5 percent more than the $6.6 billion last year. The number of Stafford and PLUS loans guaranteed increased 3.7 percent to 1,513,005. Consolidation loan dollar volume reached $3.2 billion, a jump of 157.6 percent compared to last year.

Compared to fiscal year 2004-05, our loan dollar volume for schools in other states increased 3.8 percent to $4.0 billion in 2005-06, while the dollar volume for California institutions increased 5.5 percent to $2.9 billion. The number of loans in other states grew 5.7 percent to 961,088. At California schools, the 550,189 new loans were 0.5 percent more than last year.

By type of school, the four-year proprietary schools had the largest volume for the 2005-06 federal fiscal year, accounting for 35.1 percent of total EDFUND/CSAC loan dollars. At $2.4 billion, the loan dollar volume for four-year proprietary schools was 14.3 percent higher for the 2005-06 fiscal year compared to 2004-05. The second largest school type by volume, with 26.4 percent of total loan dollars, was private nonprofit institutions, which includes both two- and four-year colleges and universities. The $1.8 billion in loan volume for these schools was 6.4 percent higher than a year ago.

Default claim dollars totaled $519 million for fiscal year 2005-06. This was a 10.3 percent increase from the prior year. The 2005-06 aggregate default rate was 3.75 percent at the end of September. The preliminary federal fiscal year default trigger rate reached 3.01 percent.

Net recoveries on defaulted loans for fiscal year 2005-06 totaled $59.4 million, 2.1 percent more than the $58.1 million collected during 2004-05. Strategic adjustments in our collection recovery activities were implemented during the past year to increase cash collections and decrease consolidations. The dramatic results of these changes can be seen in the 42.6 percent decline in Direct loan consolidations, while wage garnishments were up 72.4 percent, voluntary borrower payments increased 55.6 percent, and loan rehabilitations rose 206.4 percent for the 2005-06 fiscal year compared to 2004-05.

Business Planning Initiatives
Budget & business plan: EDFUND's budget and business plan received Board approval September 5 and was subsequently approved by the Commission September 7. We are pleased to have commenced the 2006-07 fiscal year with our plan in place.

Federal Issues
Reauthorization of the Higher Education Act: On September 27, 2006, the Higher Education Act was extended — once again — by Congress, this time through June 30, 2007. The Third Higher Education Extension Act of 2006 (H.R. 6138) is the sixth overall extension of programs under the HEA in the current reauthorization cycle, and effectively ends the long-shot prospects that reauthorization could be completed in the 109th Congress. For the first time, the extension is being used as a vehicle to make both technical and substantive reforms to the HEA, despite the fact that the full reauthorization remains unfinished. In addition to the standard extension of programs, H.R. 6138 includes new provisions in the following sections:

- Eligible Lender Trustee Relationships with Eligible Institutions;
- Hispanic-Serving Institutions;
- Guaranty Agency Account Maintenance Fees (the cap on AMFs has been removed); and
- Cancellation of Student Loan Indebtedness for Survivors of Victims of September 11, 2001 Attacks.

Voluntary Flexible Agreement: EDFUND has been paid $28 million by ED for our successful implementation of various innovative programs within our VFA. I will provide a more complete update at our next meeting.

Company Improvement Initiatives
Strategic Partnerships and the Federal Default Fee: Our efforts to strengthen our linkage with our lender partners is reaping enormous dividends. Over two dozen of our largest lenders have agreed to pay down the federal default fee on behalf of EDFUND. This loomed as our single largest competitive issue in the new fiscal year. With a more level playing field, our superlative Client Services staff will be able to better maintain our existing business and aggressively seek new business.

Information Security at the Highest Level: Our new ISO, Joe Blake, is already bringing his expertise to bear on behalf of EDFUND and the guaranty agency community. Joe provided an extremely valuable critique to ED and NCHELP of a proposed process that Federal Student Aid wished to put in place to better secure tape exchanges between guaranty agencies and FSA's Virtual Data Center.

Collections Transitioning: Our progress in moving away from consolidations towards loan rehabilitation as a collections tool has been nothing short of outstanding. As I noted earlier, loan rehabilitations, wage garnishments and voluntary borrower payments are all up significantly. One particular statistic is especially worth noting. Concerns were raised about EDFUND's ability 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. With our income from FFELP consolidations for 2005-06 at 1.1 percent of the total, and William D. Ford consolidations at 39.1 percent of the total, we've met the requirement three years early.

Upgraded Predictive Dialer Installed: We have successfully replaced our outdated FACS dialer with a next generation predictive dialer. (A predictive dialer uses a variety of algorithms to predict both the availability of agents and called party answers.)

How well is it working? In the three weeks preceding the final installation and activation of the Noble Dialer, 19,417 inbound calls were processed; in the three weeks after the launch of Noble, 40,703.

Delivery of Student Loan Debt Summary Enhanced: We are now offering schools a choice of expanded and enhanced delivery options for the Student Loan Debt Summary. Electronic delivery allows borrowers to access their aggregate loan statement, enter additional loans, and update calculations. Schools can opt to have letters printed only for students nearing the time of loan exit counseling. Upon borrower request, schools can also reprint multiple letters.

New and Improved Publications

New Graduate/Professional Publications Released: Outlook™, magazine-style entrance and exits guides, offers a comprehensive education on student loan basics in an informative and engaging format for graduate and professional students. *Outlook* goes above and beyond the federal loan counseling requirements by offering a broad range of money management tips.

HERA-Driven Publication Updates: EDFUND's entire portfolio of printed materials -- brochures, booklets, loan wraps, workbooks, posters, cards, bookmarks, etc. -- had to be carefully reviewed and updated to reflect the requirements of the Higher Education Reconciliation Act. The majority of EDFUND's most popular materials were revised and back in inventory by early July.

New Online Publication: Entitled *Peer Assistance Guide and Workbook,* contains universal concepts that can be tailored to any type of institution, such as determining a target borrower population, selecting and training peer counselors, non-monetary ways to reward counselors, and forming partnerships on campus.

Other Initiatives & Issues

Helping Schools Save Time and Money: EDFUND contacted 300 schools receiving the paper DFT1 quarterly report (which shows projected cohort default rate information for their borrowers) and showed them how to easily access this same report through the Cohort Management System. This method is not only more secure, helping to protect borrower information, but also more efficient and cost effective.

Educating Health Professionals: Staff worked with Nelnet to develop a financial literacy curriculum for health profession schools seeking to meet new AAMC requirements. Three presentations were created in fiscal year 2005-06. Joint roll-out and marketing efforts (including training for CRMs and NelNet staff, producing a financial literacy guide supported by an explanatory tri-fold, a special event at the Health Professions Conference in January 2007, and five training events for health professions financial aid staff) will be executed beginning in November 2006.

Forum on Successful Student Borrowing: A two-day event, focusing on identifying tools and resources to help prepare students for a successful financial future, drew 78 representatives from 48 schools. The information gathered at the event was published in August 2006**.**

Conference representation: Staff represented EDFUND at several industry conferences throughout the fiscal year, conducting interest sessions on default prevention and financial literacy. Some of the conferences include:

- CCCSFAAA 2005
- CASFAA
- WASFAA 2006
- ILASFAA
- NCHELP Debt Management Conference
- CCULAA
- COHEA
- NASFAA 2006

Space Planning Project: We signed a lease with the Mather Development Group (McCuen Properties) on October 19 to occupy new twin, two-story office buildings to be located in the Mather Commerce Center less than two miles from EDFUND's existing headquarters complex. The new site can accommodate approximately 170,000 square feet of office space and house approximately 800 employees, including subleasing space to CSAC for its operations. We are finalizing our space planning and expect construction to begin soon. Our projected move-in is set for mid-2008.

Customer Feedback

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

From a financial aid director who came from New Hampshire for a school tour:
"Thank you so very much for such an awesome experience at the headquarters of EDFUND. I was thoroughly impressed with the entire operation and the "user-friendly" engagement of each and every person we met with. From the initial invitation and travel arrangements to visiting the Shipping Center, I remain convinced that EDFUND is step above the rest. I greatly appreciate having the opportunity to see it all first-hand. Thank you again."

From a private, California four-year institution on the superior service provided by their CRM:
"I can't say enough about our client relations manager and what she has meant to my office. She helped us set up our EDExpress parameters and queries and trained us when we began using that system in 2003. She has also simplified our FISAP preparation by creating all of the necessary tables.

She is now helping us with our planned implementation of Datatel by mapping out exactly what we need to do and when. We call her every time we have a question and she is always here when we need her."

About the experience of a private, two-year college in North Carolina with technology challenges and limited resources:
The director of financial aid noted to one of our CRMs that he had, due to technical reporting issues, been forced to abandon the AES system he had been using for Pell processing. He thought he would need to use EDExpress and EDconnect but wasn't familiar with either of them, and didn't know how to proceed.

Knowing we had a wealth of expertise on our CSM team, he welcomed EDFUND'a help in getting things up and running. The director, who had been using other guarantors, was amazed at the amount of effort and professional expertise EDFUND provided to his school. He also expressed great satisfaction with the two financial aid workshops he and his staff had attended. As a result, he promised to use EDFUND for all of his future out-of-state lending partners!

Conclusion

I take great pride in the extraordinary strides EDFUND made in 2005-06. We set a new record for loan volume, and we never strayed from our core values to do it. Our success continues to be based on our principles: a team ethic that draws the best from every employee; a focus on excellence that produces award-winning publications and outstanding customer service recognized throughout the industry; a level of commitment that successfully drove a wholesale collections shift and a precisely on-schedule implementation of Grad PLUS; and an integrity that infuses all we do and defines all our relationships with each other and our schools, lenders and partners. I am eagerly anticipating EDFUND's annual Employee Conference on November 16 and the opportunity to congratulate every member of the organization on the tremendous accomplishments of the past year, as well as to share with them our plans for the future.