



**Webinar: The Strength of FFEL – February 10, 2009
Questions and Answers Summary
Dr. Sam Kipp, EdFund President**

Lender Stability

I'm not sure that I understand what all these put, participation and conduit programs are about, but my real question is will they work? Will they keep lenders in the FFEL program?

These programs are a bit confusing to most people, but let me say this: they are all designed to deal with the immediate issues and intended to enable lenders to continue to participate in the FFEL Program. Yes, I feel these short-term measures will work and lenders will stay in the FFEL Program. Of course everyone involved is continuing to work actively towards solutions for the long term future of the FFEL Program and re-establishing stability in the market.

Last year we had five lenders on our preferred lender list but two have left. Do you think more lenders will pull out of FFEL in the near future?

We understand and you are not alone. It is possible that other lenders will drop out. However, the record to date is that all eligible borrowers have received federal student loans and we expect that to be the case even if an additional lender or lenders exit the program.

During the webinar, Dr. Kipp mentioned a House bill that would provide an extra \$2000 for undergraduate students. Could you let me know which bill includes that provision?

The bill alluded to is HR 1 - the American Recovery and Reinvestment Act of 2009, which is part of the Economic Stimulus package. It contains the following provisions:

- **Pell Grants:** \$15.6 billion to increase the maximum Pell Grant by \$500, from \$4,850 to \$5,350 for the 2009-10 academic year, and to eliminate the Pell Grant shortfall.
- **Federal Work-Study:** \$490 million to support undergraduate and graduate students who work.
- **Student Loan Limit Increase:** Increase limits on unsubsidized Stafford loans by \$2,000.
- **Tuition and Textbook Tax Credit:** \$13.5 billion to provide a \$2,500 tuition and textbook tax credit for 2009-10

The Senate bill does not contain this item, so we are hopeful that it will survive and be a part of the Conference bill that both houses of Congress will vote on.

What effect does the current unstable banking climate have on lender participation?

The broad credit squeeze is impacting the ability of some lenders, mainly those that depend upon investor credit rather than deposits as the source of lending capital, to participate in the FFEL Program.

If 100 lenders have left the program, how many remain?

There are over 40 who are still originating new loans with EdFund as the guarantee servicer. Many of them are large national operations but about an equal number are small local lenders. We have no way of knowing how many of these small local lenders are operating across the country, but there are many.

Are FFEL lenders selling their loans to the Department of Education?

Some lenders have already sold fully disbursed loans and more are expected to do so as the loans become eligible. However, we expect these lenders to hold some, perhaps most, of their loans.

Why would a lender hold FFEL loans, as opposed to selling to the Department of Education, if it allows them to free up money to lend?

Lenders' intentions are to establish long-term relationships with borrowers. However, in the near term that has been more difficult with the CCRAA changes and the current credit market conditions.

Direct Lending

We have been in FFEL forever and have come to value the services our guarantor provides to the school and to our students. Do guarantors play a role in the Direct loan program?

Not at the current time. However, guarantors create many publications and programs and that would be useful for DL students and schools alike.

I've been very happy in FFEL, but my concern is this: If some of my students' loans are going to be PUT to the Department and wind up being serviced by the DL servicer, should I just move them to the DL program right up front?

First, it is too early to say what lenders will do—what portion of FFEL loans may be PUT to the Department and what portion will be retained by the lenders or placed in the conduit. Schools should consider the solution that will provide:

- assured access to student loans, and
- services needed by students and your school.

With respect to the first consideration, it is clear to me that both programs will provide assured access to federal student loans. With respect to the second, there are a large number of services and personal support for students and institutions that only guarantors provide.

We've all heard that several large universities have moved to, or back to, the Direct lending program. In fact, I heard DL volume was up over 30 percent from last year. Is DL capable of handling all loan volume across the country?

Most organizations can handle reasonable increases in volume. Some can handle unexpectedly large increases in volume. Very few, if any, can handle a doubling of volume without major problems. For DL to handle all the loan volume across the country, it would have to quintuple its capacity.

While DL could certainly handle some additional volume, as it did this year, the real question is: How much of an increase can they handle before service levels suffer? We don't really know, and personally I don't think we need to find out because there are still plenty of reasons to remain with the FFEL Program.

I heard that not only Direct loan volume but also FFEL volume has increased, with some lenders up 40-50 percent. Do you know how much FFEL volume has increased? Should we be worried about the capacity of FFEL lenders to process the increased loan volume?

While final numbers have not yet been released by the Department of Education, I do believe that both programs have grown over the last year. To answer your question, no, I do not think we need to be concerned about the total FFEL Program capacity.

What are the differences between Direct lending and the FFEL Program related to default prevention?

The Direct loan contractor is obligated to perform the due diligence required by law, just as FFEL lenders must do. The real difference lies in the many additional preventive and remedial actions taken or supported by FFEL guarantors, which vary considerably from guarantor to guarantor.

As a graduate school using FFEL, recently I've been concerned that my students would save money in the Direct Loan program with a lower interest rate for Grad PLUS and up-front rebates for Stafford loans. Do you think the programs will ever be aligned?

I would hope that they would become aligned, but can't be certain that they will. The difference between DL and FFEL for PLUS loans are real, and saving money is important. In the case of Stafford loans, FFEL lenders learned years ago that the percentage of borrowers that end up retaining their up-front rebate incentives (based on timely payments during repayment) is very low. For that reason, most lenders stopped offering these rebates, instead focusing on incentives that all or most borrowers are able to retain. With many guarantors paying the federal default fee for borrowers, the difference in rates between FFEL and DL Stafford loans is often eliminated.

However, do not short-change students of the supportive and helpful extra effort that the FFEL guarantors provide. I've often said that student borrowers are entitled to a loan, but they deserve the education, support and counseling so often needed to assure a successful repayment experience. This is where the FFEL Program excels. While more difficult to quantify in dollars, these services can be seen in improved lives!

Private Loans

With the economy in such turmoil, many parents and students are asking for assurance that there will be ways to pay for college. In the past we have been able to count on private loans to help meet the need. Should we be at all concerned about the availability of private loans? What options do we have?

Good question. Yes, this is a real issue for some students and institutions. There are fewer private loan providers, and most have tightened their credit/underwriting standards. Increased federal loan limits will help some. But one thing is clear; this problem is facing students who need private loans—regardless of whether they are attending FFEL or Direct lending schools.

Paying for College

How would you advise parents who are planning for college this fall? Especially if a parent has lost his or her job recently.

This is a very real situation for many families and paying for a college education is one of the largest investments than any individual or family can make. Family resources are only one part of the equation in determining how to pay for a college education; financial aid is the other part of the equation. That's why

we would encourage the family to apply for financial aid by completing the FAFSA and then discuss their circumstance with the financial aid office at the school. They should consider a mixture of grants, work-study, scholarships and loan aid as part of a total package that would make it still possible to attend college.

Getting or not getting a college education should not be a discretionary choice, but should be seen as an essential investment. I would urge any family faced uncertain about how to pay for college to talk to the school's financial aid office.

Cohort Default Rate

I am at a four-year university, and we use EdFund for most of our volume. We have a 2006 CDR of 3.3 percent. Why does EdFund have a cohort default rate that is higher than the national average?

We are an open-access guarantor, providing programs and services to all types of eligible borrowers and institutions. While we guarantee about 10 percent of the total national volume, we guarantee well over 20 percent of nation's highest default rate loans—including many low-income students who need these loans most. We're proud of that contribution.

Now, within our portfolio, our default rate among four-year universities is the same as, or lower than, the national average for such institutions. But our overall rate will continue to be higher because we do not exclusively focus on four-year universities. We expect that the Direct lending CDR will increase over time as its portfolio composition shifts from one of primarily low risk borrowers to more of a mixed portfolio.

The 2007 draft default rates were just posted on NSLDS. Ours is up a bit, which we attribute to the bad economy. But we forgot about the new calculation. For which year will the cohort rates start to reflect the new three-year tracking?

The three-year tracking begins in the 2009 cohort year. So it will not have impacted your 2007 rate. Borrowers entering repayment between October 1, 2008 and September 30, 2009 will be counted as part of the 2009 cohort, constituting the denominator. These borrowers will be tracked through September 30, 2011. Those that default during this timeframe will count as part of the cohort calculation numerator. Draft cohort default rates will be released in February 2012 and the official 2009 cohort default rates will be released to schools in September 2012.

While the Department of Education estimates rates will increase by 30-50 percent, many schools might experience a more substantial increase. Schools can act now to put into place stronger loan counseling and default prevention practices and tools that can minimize the impact to their CDRs. EdFund and other FFEL partners offer many resources to assist schools with these efforts. In fact, EdFund can run simulated cohort default rates to provide an earlier look at what may happen to these rates. If you would like this help, contact your [client relations manager](#). If you are not an EdFund customer, contact your guarantor.

How is EdFund preparing to handle the change from a two-year tracking period of defaults to a three-year tracking period?

We are already running simulations, using the 2006 cohort as the basis, to provide our school customers with an early look at how the third year might impact their CDRs. This information will enable schools to take action now on the 2009 cohort of borrowers, some of whom are still in school. This will help schools mitigate any surprises when the three-year tracking shows up in draft and official CDRs in 2012. Ask your EdFund [client relations manager](#) for assistance.

Obama Administration

We heard a lot during the election about the new administration's support for DL. How do you see the change in administration affecting the FFEL industry?

Actions since the election continue to suggest ongoing administration support for FFEL and DL.

During his confirmation hearing, the new secretary of education said that the immediate need is to ensure all eligible borrowers have access to federal student loans. We couldn't agree more. This will require the active involvement of all participants to ensure the success of two competitive programs, FFEL and Direct lending.

I also think that people will increasingly recognize the value that competition and choice have brought to the student loan marketplace and to student lending. They have led to more responsive, more effective delivery of services levels in both programs because the two have competed directly with one another.

EdFund

Will EdFund need to make cuts, in either staffing or services, to remain in business?

No. We are financially strong and among the most efficient and effective in the delivery of services. In fact, to continue our high level of service and local presence, we recently added five client relations managers to what was already the largest such group in the industry.

What is the status of the sale of EdFund?

The governor made the proposal to sell EdFund in May 2007; it had been delayed for a variety of reasons. However, the sale is now back on track. The state recently retained Friedman, Billings, Ramsey Group, Inc., an investment firm that will serve as their sale-side advisor. This firm is going through the process of understanding our business and its economics. I can't predict exactly what the outcome of this will be, but I am confident that the people at EdFund, and our record, will make it highly likely that the organization that emerges on the other side of any transaction will be one that is familiar to the schools and to the other industry participants.

Some guarantors have just announced that they will pay the federal default fee for all borrowers at all schools in our state for 2009-10. Will EdFund pay the default fee on behalf of borrowers during the 2009-10 academic year?

We are in the process of completing our analysis of market conditions and their implications for our federal default fee policy. Maximizing benefits to borrowers will continue to be a paramount consideration, as it always has been for EdFund. We expect to make an announcement about our plans for the coming academic year this spring.

Students who have loans from multiple lenders or guaranty agencies are at risk of losing track of a loan and defaulting. Does EdFund have services to assist these students with tracking their loans?

One of the services EdFund offers, that schools report being quite valuable, is our Student Loan Debt Summary. This online tool captures all of the federal loans that an individual student has borrowed, whether it is with EdFund, other guarantors, the Direct or the Perkins loan program. This cumulative snapshot includes total loan amount, accrued interest, and an estimated monthly payment. SLDS not only assists students with tracking their loans' holders, it also helps them better prepare for the repayment situation that faces them upon graduation.

Choice has always been important to me and to my students. What can I do to ensure borrower choice is maintained?

Continue to ensure what we all do is understood and correctly valued by all concerned—from the politicians who set policy, to schools that provide the education and to the parents and students who ultimately benefit from what we all do together.

We continue to believe that all eligible students are entitled to a loan, but we also believe they deserve the service and support necessary to ensure that they have a successful education and repayment experience.

I am convinced that if we all focus on that end goal, the importance of choice will be clear to everyone and choice will be preserved in the system.