

## Ensuring Continued Access to Student Loans: How It Works



February 8-11, 2009  
Myrtle Beach, SC

**Chuck Sanders**  
South Carolina Student Loan Corp.

**Conway Casillas**  
Sallie Mae

**Bill Ayers**  
Sallie Mae

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## How Did We Get Here Timeline

- January 2007- President's Budget proposes 50BP reduction in Special Allowance Payments
- Summer 2007- Banks begin to report losses linked to subprime mortgages
- September 2007- CCRAA Passed
- February 2008- Auction Rate Securities market collapses (rates on variable rate debt hit double digits)
- Spring 2008 – Interest rates on variable-rate bonds increases over 1.00%
- January thru May 2008- Industry representatives “walk the streets and halls of DC”
- May 2008 – Congress passes ECASLA
- July 2008 – The word “subprime” added to Merriam-Webster dictionary
- Sept-Oct 2008 - Freddie Mac, Fannie Mae, Lehman, Merrill Lynch, AIG, Washington Mutual, Wachovia
- Sept 2008- Today – Credit markets and financings freeze – credit-based rates spike




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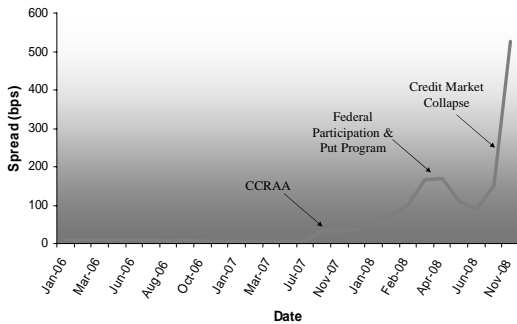
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7-Year Spread to LIBOR




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## Preserving Student Loan Access



"At a time when our rough economy is already dealing a huge blow to American families, we can't allow trouble in the credit markets to further price students out of a college degree.

"With market turbulence showing no signs of letting up, it's only prudent to make sure that students have every assurance that the federal student loans they need will be there next year."

Chairman George Miller (D-CA)



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## Congressional Action

- Key Congressional Hearings
  - March 14: House Education and Labor – **Chairman Miller**
  - March 17: Senate HELP Field Hearing -- **Chairman Kennedy**
  - April 15: Senate Banking – **Chairman Dodd**
- **HR 5715: Ensuring Continued Access to Student Loans Act of 2008**
  - April 17: Passed House
  - April 24: Spellings/Paulson/Nussle Letter Urging Congress to Pass Legislation Quickly
  - April 26: President Bush Radio Address
  - April 30: Passed Senate
  - May 1: Congress Sends HR 5715 to President
- Extended 6 months before set to expire



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## ECASLA Major Provisions

- Raised Loan Limits
- Enhanced Parent PLUS Loan Eligibility

**Upon a determination by the Secretary that there is an inadequate availability of loan capital to meet the demand for loans** under sections 428, 428B, or 428H, whether as a result of inadequate liquidity for such loans or for other reasons, **the Secretary, in consultation with the Secretary of the Treasury, is authorized to purchase, or enter into forward commitments to purchase,** from any eligible lender, as defined by section 435(d)(1), **loans first disbursed** under sections 428, 428B, or 428H **on or after October 1, 2003, and before July 1, 2010,** on such terms as the Secretary, the Secretary of the Treasury, and the Director of the Office of Management and Budget jointly determine are in the best interest of the United States, except that **any purchase under this section shall not result in any net cost to the Federal Government** (including the cost of servicing the loans purchased), as determined jointly by the Secretary, the Secretary of the Treasury, and the Director of the Office of Management and Budget.



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## ECASLA: Preserving Student Loan Access



Four Programs Implemented by U.S. Department of Education and U.S. Department of Treasury



1. Loan Participation Purchase Program ("Participation Program")
2. Loan Purchase Commitment Program ("Put Program")
3. Short-Term Loan Purchase Program ("Short-Term Purchase Program")
4. Asset-Backed Commercial Paper Conduit(s) ("Conduit Program")



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## ECASLA: Preserving Student Loan Access

### 1. Loan Participation Purchase Program ("Participation Program")

U.S. Department of Education purchases 100% participation interest in pools of eligible Stafford/PLUS loans originated by FFELP lenders in exchange for U.S. Treasury funds to make new Stafford and PLUS loans. Over the duration of the loan from the U.S. Treasury (with the loans serving as collateral) lender must pay the government Commercial Paper plus 50 basis points.

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## ECASLA: Preserving Student Loan Access

### 1. Participation Program

- Only loans first disbursed on or after May 1, 2008 and no later than July 1, 2009 are eligible
- Lender must make first disbursement before entering into participation interest
- Loans must be fully disbursed no later than Sept. 30, 2009
- Loans must be eligible for Put Program (no borrower benefits permitted except for 25 basis point interest rate reduction for electronic debit)
- Lender pays government Commercial Paper plus a margin of 0.50%
- Servicing remains with lender and role of guaranty agency maintained
- Loans must be refinanced or "put" by Sept. 30, 2009
- Eligible to be refinanced in Conduit Program

• Replicated for Academic Year 2009-2010

Sallie Mae is utilizing for AY 2008-2009 and plans to utilize for AY 2009-2010

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**ECASLA: Preserving Student Loan Access**

**2. Loan Purchase Commitment Program (“Put Program”)**

U.S. Department of Education commits to purchase eligible Stafford/PLUS loans sold (or “put”) by lenders at a price determined by the Office of Management and Budget is cost neutral to the government.



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**ECASLA: Preserving Student Loan Access**

**2. Put Program**

- Only loans originated after May 1, 2008, and before July 1, 2009 are eligible
  - No borrower benefits permitted except for 25 basis point interest rate reduction for electronic debit
  - Loan must be fully disbursed by the lender
  - Eligible loans are permitted to be put until Sept. 30, 2009
  - If put, lenders paid accrued interest & principal, reimbursed the lender paid 1% origination fee, and \$75 fee to cover costs of origination & servicing
  - Earnings must be used to make new Stafford/PLUS loans
  - Servicing transferred to the Department of Education’s servicer(s) and guaranty agency transfers guarantee function to government
- Replicated for Academic Year 2009-2010

Sallie Mae has not utilized. Market conditions and Conduit Program dictate use.



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**ECASLA: Preserving Student Loan Access**

**3. Short-Term Loan Purchase Program (“Short-Term Purchase Program”)**

U.S. Department of Education commits to purchase eligible Stafford/PLUS loans sold (or “put”) by lender during temporary period until the Conduit Program is implemented or Feb. 28, 2009. This temporary program was implemented based on the recognition that most loans made after the enactment of the *College Cost Reduction and Access Act of 2007* and before the *Ensuring Continues Access to Student Loans Act of 2008* were made at a significant financial loss to lenders.



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**ECASLA: Preserving Student Loan Access**

**3. Short-Term Purchase Program**

- Only Stafford/PLUS loans first disbursed on or after May 1, 2007 and no later than July 1, 2008 are eligible
- Lenders paid 97% principal & interest for eligible loans, which means lenders book a financial loss at the time of sale
- Borrower benefits are maintained
- Servicing transferred to the Department of Education's servicer(s) and guaranty agency transfers guarantee function to government

Sallie Mae sold two batches of eligible loans. Program has expired.



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**ECASLA: Preserving Student Loan Access**

**4. Asset-Backed Commercial Paper Conduit(s) ("Conduit Program")**

Longer-term program designed to create a federally-supported Asset-Backed Securities (ABS) market where private capital is raised to fund new Stafford/PLUS loans based on the promise that the government will act as a "purchaser-of-last-resort" if needed at price that is cost neutral to the government. Program results in reduced funding costs for lenders and generates fee income to federal government. The 5-year term of the program is designed to allow sufficient time for credit market conditions to improve.



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**ECASLA: Preserving Student Loan Access**

**4. Conduit Program**

- Stafford/PLUS loans with first disbursement on or after Oct. 1, 2003 and no later than July 1, 2009 are eligible (include loans in the Participation Program)
- Conduit(s) issue commercial paper to private investors, backed by the loans pledged to the Conduit(s)
- Conduit pays lenders from the amounts received from investors enabling lenders to make new loans
- Servicing remains with lender and guaranty agency role maintained while in the Conduit(s)
- First Conduit announced the week of Jan. 19, 2009
- Lender utilization of the Conduit(s) based on market share to ensure lenders have equitable access

• Program operational until Sept. 30, 2014

Sallie Mae is utilizing for AY 2008-2009 and plans to utilize for AY 2009-2010



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### ECASLA: Preserving Student Loan Access

The conduit will be an improvement over the temporary programs because those have only been available to lenders with cash on hand, said Justin Draeger, vice president of planning with the **National Association of Student Financial Aid Administrators**.

Because the conduit will buy old loans, "lenders who have been forced out of the market should be able to reenter it," Draeger said.

Jan. 29, 2009

# Bloomberg



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### ECASLA: Preserving Student Loan Access

**"this is one piece of legislation that worked exactly as the play was drawn up on the blackboard."**

*Terry Hartle, Senior Vice President, American Council on Education -- Jan. 6, 2009*

**THE WALL STREET JOURNAL**  
WSJ.com



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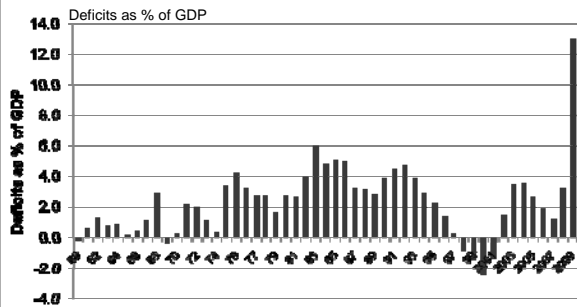
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### Recession/Bailout/Stimulus Push Deficit to Historic Levels



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## Economic Stimulus

### House Bill Highlights

- \$500 increase in maximum Pell Grant for AY 09/10
- \$490 million for Federal Work Study
- \$50 million for student aid administration
- \$2,000 loan limit increase for dependent and independent undergraduate Stafford unsub loans

### Senate Bill Highlights

- \$281 increase in maximum Pell Grant for AY 09/10
- \$400 increase in maximum Pell Grant for AY 10/11
- \$61 million in federal capital contributions Perkins Loans



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## Preserving Student ACCESS

- While nearly nine out of 10 families (89 percent) with annual income below \$35,000 filled out the Free Application for Federal Student Aid (FAFSA), this number drops off considerably to only 76 percent for families with annual incomes between \$35,000 and \$50,000, and continues to fall as income rises.



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## Open Forum

### Practical Considerations:

- Lender participation and sustainability
- Availability of private credit loans
- Cohort Default Rate trends
- Evolution of loan processing
- Other trends?



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