

AGENDA ITEM 7.

ELIMINATION OF GUARANTEE FEE FOR FY2004

Submitted for: Action

Summary: At its November 9, 2001 meeting, the Commission authorized the elimination of ISAC's guarantee fee for ISAC-guaranteed Federal Family Education Loan Program (FFELP) loans disbursed on or after July 1, 2002 through June 30, 2003 (FY2003). The elimination of this one percent guarantee fee reduces the cost of borrowing for students and parents, and results in a greater percentage of loan proceeds becoming available to apply toward educational expenses.

Now, based on the current level of the Federal Student Loan Reserve Fund (FSLRF) administered by ISAC, and assumptions about revenues and expenditures over the next year and a half, staff recommends that the Commission take action to continue not charging a guarantee fee through the end of FY2004. This will ensure that Illinois students and parents seeking FFELP loans will enjoy the same benefits being offered by many guaranty agencies across the country. In addition, this will ensure parity with the fees currently being charged borrowers in the federal government's direct lending program. A decision on this issue at this time will allow staff to announce this important benefit to students, parents, and financial aid professionals as they start planning for the next school year.

Based on current loan volume projections, this recommended action would save Illinois students and their families about \$7.5 million in FY2004. This equates to approximately \$40 saved per loan guaranteed. The adjusted fund balance of the FSLRF was \$62.7 million as of September 30, 2002. The \$7.5 million of foregone revenue attributable to this recommended action will not adversely affect the agency's ability to support current operations.

Action requested: That the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after July 1, 2003 through June 30, 2004 (FY2004).