

AGENDA ITEM 8.

ELIMINATION OF GUARANTEE FEE THROUGH DECEMBER 31, 2005

Submitted for: Action

Summary: At its June 11, 2004 meeting, the Commission authorized the elimination of ISAC's guarantee fee for Federal Family Education Loan Program (FFELP) loans disbursed on or after July 1, 2004 through December 31, 2004. The Commission has taken action since FY2000 to eliminate the assessment of the guarantee fee. 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.

Based on the current level of the Federal Student Loan Fund (FSLF) administered by ISAC, and assumptions about revenues and expenditures over the next twelve months, staff recommends that the Commission take action at this time to continue not charging a guarantee fee through December 31, 2005. Based on current loan volume projections, this recommended action would save Illinois students and their families more than \$11.0 million through December 31, 2005. This equates to approximately \$49 saved per loan guaranteed. A decision on this issue at this time is necessary as the current waiver of the fee is in effect only until December 31, 2004.

When the guarantee fee is assessed, the fees collected are deposited into the Federal Student Loan Fund (FSLF) which is used primarily to reimburse lender claims for defaulted loans. Although ISAC's current federal fund balance of approximately \$57.4 million is adequate to cover losses on defaults through the fee-elimination period requested, it is approximately \$30.0 million less than when the Commission first approved the elimination of the guarantee fee (for loans disbursed on or after July 1, 1999). Industry-wide, the FSLF balances of guaranty agencies continue to decline. In order to ensure the long-term stability of the FSLF and that of the Federal Family Education Loan Program (FFELP), the U.S. Department of Education is currently reviewing this issue in relation to the financing structure for guaranty agencies. The guaranty agency community, through the National Council of Higher Education Loan Programs (NCHELP), is actively working with the Department of Education in addressing this concern. Updates on this issue will be provided to the Commission as discussions progress at the federal level.

Action requested: That the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after January 1, 2005 through December 31, 2005.