

AGENDA ITEM 6.

ELIMINATION OF GUARANTEE FEE THROUGH DECEMBER 31, 2006

Submitted for: Action

Summary: At its November 19, 2004 meeting, the Commission authorized the elimination of ISAC's guarantee fee for Federal Family Education Loan Program (FFELP) loans disbursed on or after January 1, 2005 through December 31, 2005. 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 Reserve Fund (FSLRF) administered by ISAC, and assumptions about expected lender claims reimbursements 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, 2006. Based on current loan volume projections, this recommended action would save Illinois students and their families more than \$11.4 million through December 31, 2006. This equates to approximately \$53 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, 2005.

When the guarantee fee is assessed, the fees collected are deposited into the Federal Student Loan Reserve Fund (FSLRF) which is used primarily to reimburse lender claims for defaulted loans. Although ISAC's current federal fund balance of approximately \$54 million is more than adequate to cover losses on defaults through the fee-elimination period requested, it is approximately \$33.4 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 FSLRF balances of guaranty agencies continue to decline. In order to ensure the long-term stability of the FSLRF and that of the Federal Family Education Loan Program (FFELP), the mandating of the guarantee fee is being considered at the federal level through both the budget reconciliation process and the Reauthorization of the Higher Education Act. If enacted as part of either of these pieces of legislation, the implementation date for the mandated fee is likely to occur during calendar year 2006.

Action requested: That the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after January 1, 2006 through December 31, 2006. Further, that the Commission authorizes staff to begin assessing the fee if it is mandated by federal legislation.