

AGENDA ITEM 5.

IDAPP INTERIM FINANCING

Submitted for: Action

Summary: IDAPP needs to raise new capital at this time to meet our ongoing, routine obligations for upcoming loan purchases and originations. This includes the peak season for borrowers opting to consolidate their loans, annual loan purchases from lender partners, and the upcoming large volume of fall term disbursements for loans for the new academic year. Based on current funds available and projected funding needs, it is essential that new funds be raised in June.

In order to achieve a short execution time consistent with the timing of our capital needs, a relatively low cost of execution and maximum flexibility with regard to future strategic actions currently under consideration by the Commission, staff, in consultation with its financial advisors, has decided to pursue a short-term, interim financing at this time. Staff solicited bids from firms on our existing financing teams, selected pursuant to an RFP procurement process compliant with State requirements, to provide short-term financing options.

Following an analysis of the proposed financing options, staff is recommending, and our financial advisors are in agreement, that we enter into a \$500 million revolving line of credit facility with Bank of America serving as agent bank; Chapman and Cutler as counsel to the bank; Burke Burns & Pinelli, Ltd., as counsel to the Commission; Starshak Welnhofner & Co. as financial advisor, and US Bank as trustee. All firms were pre-approved through the RFP procurement process in 2004.

Copies of the Credit Agreement, Trust Indenture and other related documents will be provided to Commissioners under separate cover.

Action requested: That the Commission approve the following resolutions:

"BE IT RESOLVED that the Illinois Student Assistance Commission approves the Resolution providing for a revolving credit facility in an initial amount not to exceed \$500,000,000 and authorizes the execution of a Credit Agreement, Trust Indenture and certain other documents in connection therewith; and

"BE IT FURTHER RESOLVED that the Commission delegates the authority to take certain actions and to make certain determinations as provided in such Credit Agreement and Trust Indenture to the Chairman of the Commission or, if so designated in writing by the Chairman with respect to any or all of the actions or determinations described herein, the Executive Director of the Commission."

ILLINOIS STUDENT ASSISTANCE COMMISSION
IDAPP INTERIM FINANCING

Customarily, at this time of year, IDAPP undertakes a financing to raise new capital to meet our ongoing, routine obligations for upcoming loan purchases and originations. This includes the peak season for borrowers opting to consolidate their loans, annual loan purchases from lender partners, and the upcoming large volume of fall term disbursements for loans for the new academic year. Based on current funds available and projected funding needs, it is essential that new funds be raised in June.

As a result of the continuing uncertainties related to ISAC's ongoing review of strategic alternatives, staff, in consultation with its financial advisors, has decided to pursue a short-term, interim financing at this time. The advantages of this approach include a short execution time consistent with the timing of our capital needs, a relatively low cost of execution and maximum flexibility with regard to future actions. Further, this type of financing does not require rating agency approval or development of public disclosure documents which can be more challenging during times of uncertainty. Such an interim financing could be retired when appropriate by a permanent long-term financing or other type of transaction.

Staff solicited bids from firms on our existing financing teams to provide short-term financing options. This was done because these firms have already been pre-approved by virtue of a rigorous RFP procurement process compliant with State requirements. In addition, the familiarity of these parties with ISAC will allow them to implement such a financing in a shorter time frame. Two primary types of financing vehicles were proposed – conventional revolving line of credit facilities, and asset-backed commercial paper conduits. Staff and financial advisors felt that given the time constraints, the revolving line of credit approach was preferred. It is inexpensive, flexible, and could be implemented in a shorter time frame. While a commercial paper conduit has some advantages, it is more complex, would take longer to set up and is more expensive in terms of up-front fees, particularly legal fees.

In reviewing the proposed options, it was learned that one of the bidders, Bank of America, as agent, had recently provided a revolving credit facility, with Chapman and Cutler as counsel, for an entity similar to IDAPP that is also in a position of reviewing its strategic options. Staff felt this transaction provided an excellent template for a financing which could be replicated quickly by the same parties at a reasonable cost. Bank of America was one of the bidders and is already pre-approved via a previous RFP process, as is Chapman and Cutler. The Credit Agreement will provide for the addition of one or more lenders who qualify under the Commission's procurement policies and subject to the Commission's approval. In addition, Burke Burns & Pinelli, Ltd., was selected to provide legal counsel to the Commission, Starshak Welnhofner & Co. to provide financial advisory services, and US Bank to provide trust services, in connection with this transaction. These firms were also pre-approved through the RFP procurement process in 2004.

Therefore, staff is recommending, and our financial advisors are in agreement, that we immediately enter into a \$500 million revolving line of credit facility through Bank of America similar to the recent transaction completed by this team. We feel this approach provides the simplest, most flexible, low cost approach with the highest degree of likelihood of being successfully completed within the time frame needed to provide the necessary funds for continuing operations. Further, it in no way presents any impediments to the various strategic options currently under consideration.