

AGENDA ITEM 10.

PARTIAL PAYMENT OF FEDERAL DEFAULT FEE FOR 2008-2009 ACADEMIC YEAR

Submitted for: Action

Summary: The Illinois Student Assistance Commission (“ISAC”) has sought to reduce the cost of borrowing for students and parents who borrow through the Federal Family Education Loan Program (“FFELP”), and, since 1999, this was accomplished by waiving the optional one percent federal guarantee fee.

The Higher Education Reconciliation Act of 2005 replaced the optional federal guarantee fee with a mandatory one percent default fee (the “Federal Default Fee”) for all FFELP loans guaranteed and disbursed on or after July 1, 2006. The Federal Default Fee can either be assessed to and paid by the borrower, or it can be paid with another non-federal source of funds.

2006-2007 Academic Year - for loans guaranteed by ISAC

In March 2006, the Commission took action to continue to reduce the cost of borrowing to Illinois students and parents by paying the Federal Default Fee with monies from the Student Loan Operating Fund (“SLOF”) for the 2006-2007 academic year for loans guaranteed by ISAC.

2007-2008 Academic Year - for loans guaranteed by ISAC

At the Commission’s meeting on January 26, 2007, the Commission approved the payment of the Federal Default Fee for ISAC-guaranteed loans from SLOF for the 2007-2008 academic year. However, passage of the College Cost Reduction and Access Act of 2007 (“CCRAA”) with an effective date of October 1, 2007 prompted a reexamination of the issue. CCRAA has the effect of reducing fees and payments received from the Federal government in support of student loans issued under FFELP. The reexamination occurred at the September 21, 2007 Commission meeting, with an additional change approved at the November 16, 2007 Commission meeting; the Commission took action to pay 50% of the Federal Default Fee for any new loans guaranteed by ISAC on or after December 1, 2007 for the 2007-2008 academic year.

2008-2009 Academic Year - for loans guaranteed by ISAC

Based on estimated revenues and expenditures for SLOF for FY2009, it is projected that the Commission will be able to continue to pay 50% of the Federal Default Fee on behalf of student and parent borrowers. It is estimated that the value of this payment will be approximately \$60 per loan for the 2008-2009 academic year.

Consistent with the efforts made since the November 16, 2007 Commission meeting, ISAC will continue to reach out to lenders to encourage them to bear the other 50% of the Federal Default Fee.

Action requested: That the Commission approve the following resolution:

“BE IT RESOLVED that for any new loans guaranteed by the Illinois Student Assistance Commission (ISAC) for the 2008-2009 academic year, the Commission approves the payment of 50% of the Federal Default Fee from the Student Loan Operating Fund (SLOF)”.