

AGENDA ITEM 11.

PARTIAL PAYMENT OF FEDERAL DEFAULT FEE

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.

Most recently, the Ensuring Continued Access to Student Loans Act of 2008 was enacted in response to the current capital markets crisis and its direct impact on potential availability of student loans. In its May 21, 2008 Dear Colleague Letter and subsequent statements, the U.S. Department of Education announced its intent to convert loans it purchases under the lender liquidity provisions of this most recent legislation to the Federal Direct Student Loan Program (FDSL) servicer. This conversion will remove these loans from ISAC’s guaranty and eliminate the revenues that would otherwise support the borrower fee waiver.

This change has prompted a reexamination of the issue for the 2008-2009 academic year. At its January 25, 2008 meeting, the Commission took action to approve waiving 50% of the Federal Default Fee on behalf of student and parent borrowers. This action was based on estimated revenues and expenditures for the Student Loan Operating Fund (SLOF) for FY2009 available at that time. Due to the significant legislative, regulatory and marketplace changes that have occurred since January, staff believes that it would be prudent to reduce the percentage of the default fee waived to 25% for students borrowing through the Federal Stafford (subsidized and unsubsidized) and Federal Graduate PLUS Loan Programs. The default fee paid on behalf of parents borrowing Federal PLUS loans would be reduced to 0%.

The Commission should note that a major guarantor competitor in Illinois has recently announced that they will no longer waive any of the default fee. ISAC, on the other hand, will pay an estimated \$2.5 million dollars of Federal Default Fees on behalf of student borrowers in FY2009. Staff will continue to closely monitor the guaranty portfolio situation under the newly enacted lender liquidity provisions and will keep the Commission informed of new developments.

Action requested:

That the Commission approve the following resolution:

“BE IT RESOLVED that for any new Federal Stafford (subsidized and unsubsidized) and Federal Graduate PLUS loans guaranteed by the Illinois Student Assistance Commission (ISAC) on or after July 15, 2008, the Commission approves the payment of 25% of the mandatory one percent default fee required pursuant to the Higher Education Reconciliation Act of 2005 (the “Federal Default Fee”) from the Student Loan Operating Fund (SLOF). The portion of the Federal Default Fee paid by ISAC will be reduced to 0% for new Federal Parent PLUS loans guaranteed on or after July 15, 2008.”