AGENDA ITEM 15.

FINANCING FOR THE COLLEGE ILLINOIS! CAPSTONE! SM LOAN PROGRAM

Submitted for: Action

Summary: The College Illinois! Capstone SM Loan Program is a private loan program unique to the Illinois Student Assistance Commission (ISAC). Now in its second year of a multi-year pilot, the Capstone Loan Program was designed to address the student who, in their senior year of college, has exhausted all sources of funds and, without the financial support of the Capstone Loan Program, would drop out without graduating. The Capstone Loan Program is designed to lend the amount, after scholarships and any available FFELP based loans, needed by the student to remain enrolled and graduate. Furthermore, once the student has graduated, the Capstone Loan Program is designed to "make college affordable" by offering unique borrower benefits based on whether the borrower lives and works in Illinois and his/her income levels. For instance, a borrower who works in Illinois and earns less than $30,000 per year will have his/her rate on the Capstone loan reduced to 5% from 8%.

ISAC previously financed Capstone loans through its facility with Citibank. With the reduction in the Citibank facility to no more than its outstanding borrowings, staff has aggressively sought alternative sources of funding for the Capstone Loan Program. Staff contacted and met with nine (9) financial institutions. Of those institutions, Shorebank was the only one to issue a commitment to support the Capstone Loan Program (the "Shorebank Capstone Facility"). The terms and conditions of the Shorebank Capstone Facility are set forth on **Exhibit A** hereto.

Total cost of the Shorebank Capstone Facility, after factoring the costs associated with the advance rate, the interest reserve and the cash collateral is Prime + 2.5% or approximately 6.5%. This compares to the yield on the loans of 8% while the student is in school and approximately 6.5% while in repayment (based on estimated borrower benefits). While admittedly this financing is expensive, it does allow ISAC to continue the Capstone Loan Program. Based on applications in hand, loan demand for the Capstone Loan Program for the current academic year is estimated at $3.5 million. The Shorebank Capstone Facility provides Capstone Loan Program financing for up to two (2) years.

Management recommends approval of the Shorebank Capstone Facility on the terms and conditions set forth on **Exhibit A**.

Action: **"BE IT RESOLVED** that the Illinois Student Assistance Commission is authorized to obtain financing from Shorebank to finance the College Illinois! Capstone[SM] Loan Program (the "Shorebank Capstone Financing") on terms and conditions set forth in **Exhibit A** hereto; and

"BE IT FURTHER RESOLVED that the Chairman or Executive Director are authorized to execute and deliver one or more credit or similar agreements with Shorebank and such other documents, certificates and instruments as are necessary to consummate the transactions contemplated by the Shorebank Capstone Financing on terms and conditions set forth in **Exhibit A** and such other terms and conditions as the Executive Director deems in the best interests of ISAC.

EXHIBIT A
TERM SHEET
SHOREBANK COLLEGE ILLINOIS!SM CAPSTONE LOAN PROGRAM

1. **Borrower**: ISAC.
2. **Loan amount**: up to $7,000,000 Secured Line of Credit.
3. **Purpose**: To fund the origination of student loans under ISAC's "Capstone Loan Program".
4. **Maturity**: 2 years.
5. **Repayment**: Monthly payments of interest only. All outstanding principal and interest are due at maturity.
6. **Pricing**: Prime plus 1.00% floating, with a floor of 5.00%.
7. **Fee**: 0.50% origination fee ($35,000) plus out of pocket expenses.
8. **Collateral**:
   - Assignment of student loan pool originated using the subject line of credit (advances will be limited to 80%).
   - Additionally, a deposit of 10% cash of any advance amount will be required as collateral for the loan.
   - At no time shall advances to schools with a cohort default rate greater than 6% exceed 20% of the total advances outstanding.
9. **Interest Reserve**: an interest reserve fund equal to six months interest on outstanding amount of borrowings will be established.