

## AGENDA ITEM 9.

### PARTIAL SALE OF STUDENT LOAN PORTFOLIO

**Submitted for:** Information

**Summary:** Background: ISAC has a four legacy student loan portfolios remaining on its books. These portfolios consist of the following:

Portfolio	Assets	Debt	Loan Type	Notes
Rehabilitation	43,597,969	45,000,000	FFELP	Bonds are fully guaranteed by the state
UBS	21,914,449	19,450,000	FFELP	Tail end of original portfolio of \$1.4 billion
Citibank (1)	282,061,829	278,956,827	FFELP and private	Non-recourse warehouse line matured 7/27/10
LIBOR Floating Rate Notes	504,081,433	475,198,000	FFELP	Issued in October 2010
(1) Excludes \$31,535,162 of loans 91 days past due per Indenture				

Of these, three portfolios (the Rehabilitation, UBS and Citibank) are being considered for sale. The LIBOR FRN indenture precludes us from selling loans in excess of 5% of the portfolio. In general, the sale of these portfolios is the result of a desire to continue to downsize the loan function as well as taking advantage of what appears to be strengthening pricing for student loans in general. In specific, each portfolio has a slightly different reason to consider its sale:

- The Rehabilitation bonds mature on 5/1/14 and the State guarantee expires on that date as well. If ISAC has not sold the portfolio by December of this year, it will have to request that the State include in its 2014 budget an appropriation for the retirement of the bonds. The only option to selling the portfolio is to refinance it; given the nature of the underlying loans (all of which have defaulted once), which is viewed as highly unlikely, without the continued State guarantee. We do not think there is a willingness for the General Assembly to approve a new bond guarantee. It should be noted that the goal of this portfolio was to assist Illinois students with the rehabilitation loan process at a time when the market for these loans had completely shut down. Since its inception it has completed the rehabilitation of 3,788 borrowers exceeding our expectations when we issued the bonds. The market for these loans has since reopened and other buyers can now assist Illinois borrowers with the final steps of rehabilitation. The goal of this program was never to make a profit but to assist Illinois borrowers in clearing up their credit. We expect that even after the sale of the loans ISAC will be required to pay \$.5 million to \$2 million toward the retirement of the bonds.
- The UBS portfolio is reducing in size month by month as loans pay off. ISAC currently makes approximately \$250,000 net per year after costs on the portfolio. This amount will decline as the portfolio declines. Selling the portfolio, while it will reduce income, will also free up approximately \$2 million in cash sitting in the Trust for general ISAC use.

- The Citi portfolio has been in default since 2010. It has been and will continue to be an audit finding. Of the portfolio, approximately \$254 million are private loans with no federal guarantee and \$55 million are FFELP with federal guarantees. The \$31.5 million of defaulted loans are still on the books of ISAC and have a very limited possibility of collection. The portfolio is pledged to Citibank as collateral for a warehouse line entered into in 2007; as such, given the default, Citi has de facto control of the portfolio though they are still owned by ISAC. If the FFELP portion can be sold, ISAC may be able to restructure the remaining Private loan portfolio to eliminate the audit finding. Ideally, if both the FFELP and Private portfolios can be sold, the entire relationship can be shut down. Please note that the Private portfolio will be sold at a loss yet to be determined. These loans are not in demand by the market, and have performed poorly since issued. Given the non-recourse nature of the credit agreement the sale will require the approval of Citibank. Any loss to ISAC will be a non-cash write down.

ISAC has issued an RFP for an Auction Agent to assist in the packaging and potential sale of these portfolios. Please note that the Agency is not obligated to accept any bid and, other than the Rehabilitation portfolio is not under any pressure to sell any of the portfolios. The sale of any of the Agency's assets (of the size of this nature) can only be done with Commission approval. Given the timing needed to select an Auction Agent, package the portfolio's for sale and run the bids, it is anticipated that the sales will be brought to the September Commission meeting for review and potential action.

**Action requested:** None