

Tennessee Student Assistance Corporation

Thursday March 18, 2010

DISCUSSION ITEM A: Federal Family Education Loan Program (FFELP) Update

Staff Recommendation: For discussion only.

Background: The Federal Family Education Loan Program provides several types of loans.

Subsidized Stafford loans are provided to students with financial need. Students are not required to repay the loan unless they drop to less than half-time attendance or graduate. The federal government pays the accrued interest on the loan while the student is enrolled in school.

Unsubsidized Stafford loans are for students who have not demonstrated financial need. Repayment is deferred while the student is enrolled at least half-time or completes college. Students are responsible for accrued interest while they are enrolled.

Parent PLUS loans are provided to parents of students while the student is enrolled in college. Financial need is not a factor and repayment begins upon disbursement.

Grad/Professional Plus loans are provided to students in graduate or professional degree programs. Financial need is not a factor and repayment begins immediately.

In 2008-09, TSAC guaranteed \$846 million in these programs. In the first eight months of 2009-10, TSAC guaranteed \$457 million. The details for each of these loans are provided in the documents that follow.

Supporting Document: *Federal Family Education Loan Program Reports, March, 18, 2010.*

Information Item A (continued)

Rehabilitation RFP for Defaulted FFELP Loans

Under Loan Rehabilitation, borrowers with defaulted federal student loans can remove the default status and repair their credit history by making nine consecutive, on-time, voluntary monthly payments within a ten month period.

Changes in the economy have severely limited Rehabilitation lenders from purchasing Rehabilitated loans. TSAC has been impacted by this and has been unable to sell its complete portfolio since September 2008. TSAC's current volume eligible for Rehabilitation is approximately \$51 million.

Two lenders have submitted bids in response to the recently released RFP, and TSAC is in the process of reviewing those bids.

TSAC Board Advisory Committee to the Loan Division

At the September 2009 TSAC Board meeting, an advisory committee was appointed to help identify service areas that the Loan Division could pursue should Congress eliminate the FFEL Program.

Federal Default Fee

Current market pressures have forced guaranty agencies to reassess their ability to pay the Federal Default Fee on behalf of student borrowers.

In an effort to continue to assist students in covering their educational cost, TSAC will continue paying the default fee. This will assist in limiting current declining volumes.

Should the Ensuring Continued Access to Student Loans (ECASLA) program be continued, TSAC anticipates that loan volumes will increase from current levels as a result of this initiative.

Default Management

The TSAC Loan staff continues their focus on Financial Literacy, Default Aversion, and Default Prevention by working closely with colleges and universities to identify ways to limit student loan default.

We are also working closely with schools on their current Cohort Default Rates to determine if there might be processing errors which when corrected will significantly reduce their default rate.

TSAC FFELP Loan Servicer Transition

Nelnet Guarantor Services (NGS), TSAC's service contractor, is closing their servicing center in Jacksonville, Florida and moving all operations to Colorado.

The TSAC Loan Division staff is carefully monitoring this process and will visit Colorado over the next few months to ensure that the quality of work meets all standards of the contract.