

AGENDA ITEM 9.

PARTIAL SALE OF STUDENT LOAN PORTFOLIO

Submitted for: Action

Summary: At the June 2007 Commission meeting, the Commissioners were briefed on plans to recapitalize ISAC. In summary, these plans called for a series of transactions that would create an interim financial structure for ISAC. A component of that interim financial structure includes a sale of approximately \$1.3 billion of non-Illinois based student loans in the IDAPP Portfolio. The sale is scheduled to close on or about July 31, 2007.

In addition to the second loan sale, the interim financial structure includes:

1. The approval by the Commission at the June meeting of the refinancing of up to \$400 million of FFELP student loans through an existing facility.
2. Refinancing \$350 million of Illinois nexus "Alternative Loans" through a new facility, which is being approved as a separate agenda item.
3. Utilizing the funds generated by these transactions and the second loan sale to call for retirement all debt issued under its 1995 and 2001 Indentures as well as all series of outstanding Variable Rate Notes.

As with the first sale of portions of the IDAPP portfolio, this transaction continues to redefine ISAC's participation in an increasingly competitive student loan industry. This second sale is another step toward ISAC strategically exiting the business of helping out-of-state students attend out-of-state colleges and, instead, ensuring that the State concentrate upon assuring college affordability for Illinois students. As with the first sale, provisions of the loan sale agreement ensure that the sale protects the students' borrower benefits.

There have been a number of changes in the student loan industry that support ISAC's strategy for exiting the business of lending to students without a nexus to the State. These changes include proposed reductions in fiscal support at the federal level that will reduce federal payments to student loan guarantors and lenders by \$19 billion over the next five years, making the costs of doing business in the student loan industry more expensive, while simultaneously reducing revenues.

Following a thorough analysis of ISAC's student loan assets, the Commission along with its advisors has identified specific non-Illinois nexus portions of IDAPP's approximately \$3.3 billion loan portfolio which could better serve Illinois students and taxpayers if purchased by other entities. The redeployment of these student loan proceeds enables the Commission to immediately fund MAP grants for Illinois students attending Illinois schools. Funding for MAP awards up to the \$26.8 million appropriated in the State's Fiscal Year 2007 budget will come from this sale.

The consulting firms of Morgan Stanley and Gardner, Underwood and Bacon supervised the second IDAPP Portfolio sale. Kutak Rock LLP and Chapman and Cutler LLP provided legal services to ISAC in connection with the sale of the second portfolio and the defeasance of certain ISAC obligations.

Action requested:

That the Commission approve the following resolution:

“BE IT RESOLVED that the Illinois Student Assistance Commission approve the Resolution providing for the sale of certain student loans within the IDAPP portfolio for the purpose of supporting student grant programs administered by the Commission and other approved expenditures, for which appropriations have been authorized by the Illinois General Assembly and Governor.”