

AGENDA ITEM 3.

EXECUTIVE DIRECTOR'S REPORT

ILLINOIS STUDENT ASSISTANCE COMMISSION

EXECUTIVE DIRECTOR'S REPORT

For this first report to the Commission I have written an outline of some ideas we are considering about how to best move ISAC forward. ISAC has a great track record of serving the students of Illinois. It is essential that any changes we make continue that mission and tradition. During the Commission meeting I will update you as to the progress we are making in restructuring our balance sheet to better serve the State and its students. That process is moving very quickly now; to give you the very best and most current information I will "serve" it up fresh at the meeting on the 26th.

In this year, which marks the 50th anniversary of the creation of the entity that is now the Illinois Student Assistance Commission, it is appropriate, especially for a new Executive Director, to lead the Commission in the exercise of a complete self-examination. Having just been through an examination of a 50 year old body I expect ISAC's process to be relatively pleasant by comparison! One place that a governmental body should look to fully understand itself is its original and amended enabling legislation.

The following three paragraphs, plucked from the full 64 pages that contain the Illinois Higher Education Student Assistance Act, appear to contain the essence of what ISAC was envisioned to be by the legislature. Conveniently, all the programmatic elements of the Higher Education Assistance Act can be found in the Commission and all the elements of the Commission in the Act.

"A system of financial assistance of scholarships, grants, and loans for qualified residents of college age will enable them to attend qualified institutions of their choice in the state, public and private. The adoption of new federal student loan legislation necessitates that the State update and broaden its system of financial student assistance.

"As market conditions permit, the Commission is specifically encouraged to offer reasonable and affordable supplemental or alternative educational loans to students who seek to obtain these loans. As part of these alternative or supplemental direct lending initiatives, the Commission may give priority consideration to students assisted by the Commission's need based programs.

"It is the intent of this Section to establish College Savings Programs appropriate for families from *various* (emphasis mine) income groups, to encourage Illinois families to save and invest in anticipation of their children's education, and to encourage enrollment in institutions of higher education."

What has changed over 50 years, and particularly in the last ten, is the scale and scope of the need. In addition, the marketplace for student assistance has changed greatly during this period. ISAC is no longer a lonely provider of financial assistance to Illinois students. There are over 100 for-profit lenders that seek to do business with our students. Do our students need a generic 101st lender? It is doubtful that we add much value if that is our position. What is of value is an ISAC that increases its focus on a need-based assistance programs and in doing so utilizes the strategic advantages, which are unique to us as a not-for-profit creation of the State of Illinois. Simply put, we add no value and must have diminutive expectations of success if we

choose to offer generic product in competition with large for-profit financial service providers. In the alternative we can focus on need and understand that there is a wide range of need that can best be identified and delivered by a trusted governmental agency that does not have shareholder driven requirements of profitability.

Presently the student loan business nationally, and ISAC more importantly, largely see “need” as a issue or factor in so far as it comes to making grants. MAP being the best example of this practice. MAP has been one of the best need based programs in the country for many years.

Loans only take into account “need” some of the time, and in a simplistic and binary manner. Either you qualify for an interest subsidy under the FFELP rules or you don’t. To the extent a student does qualify, the interest rate break ends soon after graduation in most circumstances. There are several State of Illinois programs that we administer that give interest and principal waivers to students committed to going into specifically identified fields, primarily education and health related. These programs are largely binary applications of rules with the outcome being either you do or do not qualify for the waiver of repayment. As a percentage of our total lending presence these programs represent less than 5% of the total dollars loaned. So it is accurate to say that our loan programs are largely administered absent the consideration of need or capability to pay. Of course there are private loans that are “need” based but here the concept of “need” is turned on its’ ear. If you need the loan you cannot get it due to traditional lending being based on collateral and credit standing as opposed to seeing the loan as an investment in human capital.

Finally we have our College Illinois! Prepaid Tuition program. In this program we have not considered need as a relevant factor. We have viewed the relatively expensive cost of tuition and the tax – deduction attraction of the 529 programs as reason to limit our selling efforts to relatively wealthy folks.

Going forward we will best serve the students of Illinois if we continue to support MAP as our flagship need based grant program. At the same time we can bring unique value to the students in Illinois if we utilize/expand our “need” based delivery of both our Loan and Prepaid Tuition programs. It may be helpful to think of the College Savings programs and Loan programs as simply pre-paid and post-paid tuition programs. Either pre or post-paid programs could be administered with a “need” based overlay of ISAC co-pay. In doing so, we would give simple economic incentives for students to align their interests, their futures, and the risk of an educational investment with us. If we were to apply principles of “need” to the process we would spread the “financial fertilizer” at depths that vary but ultimately increase the “yield” and cover more “acres.” By leveraging our dollars, the total dollars brought to the table for the benefit of Illinois Students will be increased.

As we move forward at ISAC my intention is to engage our significant human resources in an initiative to adapt products that we presently offer, so that these good financial assistance programs can be made even better. We will do this as a collaborative effort that brings together folks in all of our departments. The ultimate goal is to offer a suite of financial assistance programs that jointly make up a comprehensive solution to the financial problems that routinely block Illinois students from pursuing and completing the very best college programs for which they are otherwise eligible.

Legislative Update

The January 8, 2007 Inauguration of Governor Rod Blagojevich and the other state constitutional officers was attended by ISAC Chairman Don McNeil and Executive Director Andrew Davis. Davis also met the Governor, Lieutenant Governor Pat Quinn and Attorney General Lisa Madigan at other Inaugural events.

The new General Assembly was sworn in on January 10, 2007. The Governor's Annual Budget Address is scheduled for February 21, 2007. The Spring Session of the General Assembly is scheduled to adjourn on May 31, 2007.

In December 2006, each state legislator was sent a list of the "Illinois State Scholar" awardees in their respective district. They were also provided with a sample press release saluting the awardees for their local media and encouraged to send congratulatory letters to each winner. In January 2007, the same information was provided to freshman legislators.

Monetary Award Program

At this point in time application volume for the FY2007 Monetary Award Program is 1.4 percent higher than in FY2006, a modest increase compared to previous years. MAP claims are projected to total about \$384 million; to date nearly \$197 million have been claimed on behalf of 133,469 students. More students are also eligible for the Silas Purnell Illinois Incentive for Access (IIA) Program -- freshmen applicants with zero expected family contributions are up 3.4 percent. IIA claims are expected to be close to the \$8.2 million appropriation; to date nearly \$4.6 million have been claimed for 17,968 students.

ILLINOIS STUDENT ASSISTANCE COMMISSION
FISCAL YEAR 2007 APPROPRIATION SUMMARY REPORT
(July 1, 2006 - December 31, 2006)

	FY2007 Appropriation	Year-to-date Expended	Number of Recipients	Percentage Expended
<u>STATE GENERAL FUNDS</u>				
SCHOLARSHIPS AND GRANTS				
Monetary Award Program	\$354,259,800	\$191,099,263	132,752	53.9%
Illinois Incentive for Access Grants	8,200,000	4,553,750	17,924	55.5%
Teacher Loan Forgiveness Program	500,000	243,930	55	48.8%
Minority Teacher Scholarships	3,100,000	1,362,689	525	44.0%
Illinois Future Teachers Corps Scholarships	4,100,000	1,877,946	516	45.8%
Student to Student Grants	950,000	53,675	N/A	5.6%
Dependents Grants	470,000	215,041	56	45.8%
National Guard Grants	4,480,000	2,414,018	1,247	53.9%
Illinois Veteran Grants	19,250,000	4,648,571	5,067	24.1%
Bonus Incentive Grants	650,000	648,120	847	99.7%
Forensic Science Scholarships	500,000	0	0	0.0%
Nursing Education Scholarships	1,350,000	121,224	7	9.0%
Illinois Scholars Program	3,160,000	3,160,000	N/A	100.0%
TOTAL	\$400,969,800	\$210,398,226	158,996	52.5%
<u>SPECIAL REVENUE FUNDS</u>				
STUDENT LOAN OPERATING FUND				
Administration Expense (see detail on next page)	62,410,100	14,935,570	N/A	23.9%
Federal Loan System Development & Maintenance	5,000,000	681,822	N/A	13.6%
Higher Education Shared Service Center Expense	2,128,100	861,194	N/A	40.5%
Default Fees	15,000,000	3,982,402	N/A	26.5%
MAP Plus Grant Awards	34,400,000	0	0	0.0%
MAP Grant Awards	26,840,000	0	0	0.0%
TOTAL	\$145,778,200	\$20,460,989	N/A	14.0%
FEDERAL STUDENT LOAN FUND				
Loan Guarantee Program	190,000,000	70,128,032	N/A	36.9%
TOTAL	\$190,000,000	\$70,128,032	N/A	36.9%
SCHOLARSHIPS AND GRANTS				
Federal LEAP/SLEAP - Monetary Award Program	3,700,000	0	N/A	0.0%
Transfer to ED -Paul Douglas Funds Collected	400,000	0	N/A	0.0%
Federal Robert C. Byrd Fellowships	1,800,000	1,536,938	1,029	85.4%
TOTAL	\$5,900,000	\$1,536,938	1,029	26.0%
OTHER				
ISAC Accounts Receivables	300,000	26,930	N/A	9.0%
Higher Education License Plate Program	70,000	52,800	N/A	75.4%
Optometric Education Scholarship Program	50,000	50,000	10	100.0%
IVG- National Guard Grant Fund	20,000	0	0	0.0%
Illinois Future Teachers Corps Scholarship Fund	60,000	52,632	0	87.7%
Contracts and Grants Fund	70,000	6,025	N/A	8.6%
TOTAL, SPECIAL REVENUE FUNDS	\$342,248,200	\$92,314,345	0	27.0%
GRAND TOTAL	\$743,218,000	\$302,712,571	160,035	40.7%

ILLINOIS STUDENT ASSISTANCE COMMISSION

FISCAL YEAR 2007 APPROPRIATION REPORT

ADMINISTRATION

(July 1, 2006 - December 31, 2006)

STUDENT LOAN OPERATING FUND

Line Item	FY2007 Appropriation	Year-to-date Expended	% Expended
Personal Services	\$16,935,700	\$7,414,767	43.8%
Retirement	1,951,900	854,888	43.8%
Social Security	1,295,700	535,850	41.4%
Group Insurance	4,755,100	1,985,947	41.8%
Contractual Services	12,471,800	2,340,532	18.8%
Contractual - Collection Agency Fees	21,334,400	1,513,197	7.1%
Travel	208,300	41,043	19.7%
Commodities	265,200	39,474	14.9%
Printing	724,200	42,101	5.8%
Equipment	535,000	9,583	1.8%
Telecommunications	1,894,900	149,610	7.9%
Operation of Auto Equipment	37,900	8,578	22.6%
TOTAL	\$62,410,100	\$14,935,570	23.9%

ILLINOIS STUDENT ASSISTANCE COMMISSION
Federal Student Loan Reserve Fund (FSLRF)
Comparative Sources and Uses Report
Federal Fiscal Year to Date
(October 2006 - December 2006)

	2007	2006
BEGINNING CASH BALANCE, 10/01/06	\$38,970,882	\$48,789,493
Sources of Funds		
Collections	9,004,688	7,766,592
Repurchases, Rehabilitations & Consolidations	13,358,698	8,742,932
Reinsurance	36,016,608	32,193,806
Non- Reinsurable Claims	22,913	8,006
Default Fee	2,397,727	0
IRS Offsets	50,047	94,279
Interest on Investment	477,270	417,138
Miscellaneous Income	3,895	2,349
Total Sources	61,331,847	49,225,102
Uses of Funds		
Reimbursements to Lenders	37,298,195	35,041,793
Funds Remitted to Dept. of Education-Default Collections	6,638,004	6,152,154
Funds Remitted to Dept. of Education-Repurchases/Rehabilitations/Consolidation	9,497,101	5,757,794
SLOF Retention-Default Collections	1,937,146	2,364,484
SLOF Retention-Repurchases/Rehabilitations/Consolidations	3,179,149	2,360,612
Transfer to SLOF - Account Maintenance Fees	0	2,925,777
Default Aversion Fees	579,284	669,545
Collections on Non-Reinsurable Claims	42,807	21,361
Borrower Refund	101,956	76,240
IRS Offsets Refunded	50,047	68,903
Total Uses	59,323,687	55,438,663
ENDING CASH BALANCE, 12/31/06	\$40,979,042	\$42,575,934
ACCRUAL ADJUSTMENTS		
Due From Dept. of Education		
Reinsurance Claims Filed	11,230,122	14,188,732
Total Due from Dept. of Education	11,230,122	14,188,732
Due To Dept. of Education		
Collections Share	(2,026,557)	(1,921,060)
Reinsurance Repayments	(3,090,662)	(2,547,709)
Direct Consolidation Share	(132,952)	0
Total Due to Dept. of Education	(5,250,171)	(4,468,769)
Due to SLOF		
SLOF Retention Payables	(1,609,135)	(854,398)
Default Aversion Fee Payable	(186,623)	(209,768)
Collections on Non-Reinsurable Claims	(13,375)	(6,167)
Total Due to SLOF	(1,809,133)	(1,070,333)
Due from SLOF		
Collection Agency Commission	22,700	35,430
Default Aversion Fee Deferred Charges	7,586,009	7,216,890
Default Fee	690,269	0
Direct Consolidation Share	132,952	0
Total Due from SLOF	8,431,930	7,252,320
Other Adjustments		
Other Receivable	159,090	136,115
Vouchers Payable-Lender Reimbursements	(1,941,901)	(1,819,041)
Due to Dept of Education Reserve Recall	(3,191,056)	(6,382,113)
Total Other Adjustments	(4,973,867)	(8,065,039)
ADJUSTED FUND BALANCE, 12/31/06	\$48,607,923	\$50,412,846

* SLOF - Student Loan Operating Fund

ILLINOIS STUDENT ASSISTANCE COMMISSION
Student Loan Operating Fund (SLOF)
Comparative Sources and Uses Report
Federal Fiscal Year to Date
(October 2006 -December 2006)

	2007	2006
BEGINNING CASH BALANCE, 10/01/06	\$20,683,037	\$17,302,060
Sources of Funds		
SLOF Retention-Default Collections	1,937,146	2,364,484
SLOF Retention-Repurchases/Rehabilitations/Consolidations	3,179,149	2,360,612
Direct Consolidation Fees	768,722	1,430,757
Loan Processing & Issuance Fees	1,620,294	1,623,472
Account Maintenance Fees	3,222,960	3,260,842
Default Aversion Fees	579,284	669,545
Interest on Investment	257,842	209,232
Collections on Non- Reinsurable Claims	42,807	21,361
Miscellaneous Income	89,899	902
Total Sources	11,698,103	11,941,207
Uses of Funds		
Administrative Expenses	9,184,157	9,027,761
Default Fee	2,397,727	0
Non- Reinsurable Claims	22,913	8,006
Total Uses	11,604,798	9,035,767
ENDING CASH BALANCE, 12/31/06	\$20,776,342	\$20,207,496
ACCRUAL ADJUSTMENTS		
Due From Dept. of Education		
Loan Processing & Issuance Fees	597,054	807,341
Account Maintenance Fees	2,488,382	1,870,002
Total Due from Dept. of Education	3,085,436	2,677,343
Due to FSLRF		
Direct Consolidation Share	(132,952)	0
Collection Agency Commission	(22,700)	(35,430)
Default Aversion Fee Deferred Revenue	(7,586,009)	(7,216,890)
Default Fee Payable	(690,269)	0
Total Due to FSLRF	(8,431,930)	(7,252,320)
Due from FSLRF		
SLOF Retention Receivable	1,609,135	854,398
Default Aversion Fee Receivable	186,623	209,768
Collection on Non-Reinsurable Claims	13,375	6,167
Total Due from FSLRF	1,809,133	1,070,333
Other Adjustments		
Interest on Investment	85,947	88,300
Fixed Assets	315,041	281,365
Vouchers Payable-Administrative Expenses	(3,539,567)	(2,615,095)
Due to Illinois GRF	(2,031)	(1,609)
Total Other Adjustments	(3,140,610)	(2,247,039)
ADJUSTED FUND BALANCE, 12/31/06	\$14,098,371	\$14,455,814

*FSLRF - Federal Student Loan Reserve Fund

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
November 30, 2006**

	<u>CURRENT MONTH</u>	<u>PREV. MONTH</u>	<u>FY TO DATE</u>	<u>CUMULATIVE</u>
<u>Disbursements:</u>				
<i>Student Loan Originations & Purchases</i>				
Average Borrower Indebtedness	\$ 7,070	\$ 6,050	\$ 7,164	\$ 5,990
Number of Borrowers/Loans	6,188	10,492	79,671	1,317,223
Total Originations & Purchases	\$ 43,746,949	\$ 63,471,498	\$ 570,755,761	\$ 7,889,912,470
<i>Operating Expenses</i>	\$ 5,846,315	\$ 5,444,322	\$ 33,835,652	\$ 420,112,416
<u>Collections:</u>				
Principal - Student	\$ 90,522,185	\$ 96,275,270	\$ 565,018,450	\$ 4,000,062,241
Interest - Student	8,082,464	8,423,750	39,382,172	662,385,906
Principal - Guarantor	19,286,278	20,098,107	60,807,298	865,339,339
Interest - Guarantor	323,146	328,879	1,601,595	52,307,421
Federal Interest Benefits	0	11,761,816	20,252,059	248,515,327
Special Allowance	0	15,893,116	38,301,740	209,650,659
<u>Summary:</u>				
Total Principal	\$ 109,808,463	\$ 116,373,377	\$ 625,825,748	\$ 4,865,401,579
Total Interest	8,405,610	20,514,445	61,235,826	963,208,654
Total Special Allowance	0	15,893,116	38,301,740	209,650,659
 TOTAL COLLECTIONS	 <u>\$ 118,214,073</u>	 <u>\$ 152,780,938</u>	 <u>\$ 725,363,314</u>	 <u>\$ 6,038,260,892</u>

ILLINOIS STUDENT ASSISTANCE COMMISSION

**COLLEGE ILLINOIS!
Total Program Performance
December 2006 - FY 2007**

APPROXIMATE INVESTMENT RETURN, 12/30/06

	<u>Ending</u> Market Value	<u>Fiscal</u> Year-to-date	<u>Since</u> Inception***	<u>Inception</u> Date****
Total Program	\$871,011,623	9.2%	5.5%	7/6/99
Policy Benchmark*		9.6%	5.7%	
Actuarial Assumption **		3.9%	7.9%	
Domestic Equity	\$530,161,971	11.0%	3.7%	7/6/99
William Blair	38,809,348	8.2%	-3.6%	7/7/00
<i>Russell 1000 Growth</i>		10.1%	-5.3%	
New Amsterdam	37,686,861	9.3%	10.7%	7/15/04
Holland Capital	35,661,283	8.2%	7.1%	7/15/04
<i>Russell 1000 Growth</i>		10.1%	10.0%	
LSV Asset Management	74,592,377	13.3%	18.0%	2/13/04
<i>Russell 1000 Value</i>		14.7%	14.5%	
State Street Global Advisors	75,718,927	11.9%	16.6%	4/21/04
<i>Russell 1000 Value</i>		14.7%	16.9%	
Kenwood Capital Management	22,273,583	8.4%	19.3%	7/15/04
Nicholas-Applegate	23,571,555	10.5%	22.7%	7/15/04
<i>Russell 2000 Value</i>		11.8%	19.5%	
SSgA S&P 500 Index Fund	132,356,405	12.7%	2.7%	7/6/99
<i>S&P 500 Index</i>		12.7%	2.5%	
Nicholas-Applegate	48,070,960	9.4%	18.7%	11/14/05
Denver Investment Advisors	41,420,672	9.6%	17.9%	11/14/05
<i>Russell 2000</i>		9.4%	16.4%	
International Equity	\$50,075,926	18.1%	21.6%	10/1/02
LSV Asset Management	50,075,926	18.1%	32.1%	11/4/05
<i>MSCI EAFE</i>		14.8%	29.9%	
Domestic Fixed Income	\$285,549,270	4.8%	6.1%	7/6/99
JP Morgan Chase Investment Advisors	108,631,614	4.7%	3.4%	7/1/03
<i>Lehman Aggregate Index</i>		5.1%	3.2%	
SSgA LB Aggregate Index	40,696,599	5.1%	2.8%	6/10/05
<i>Lehman Aggregate Index</i>		5.1%	2.8%	
Galliard Capital Management	68,104,849	0.0%	-0.5%	11/1/06
<i>Lehman Intermediate Government/Credit</i>		4.3%	-0.4%	
Income Research & Management	68,116,207	0.0%	-0.4%	11/1/06
<i>Lehman Intermediate Government/Credit</i>		4.3%	-0.4%	
Cash Account	\$5,224,455	3.6%	3.5%	
T-Bills		2.4%	3.2%	

Note: Returns are preliminary and subject to revision pending the December 30, 2006 quarterly report.

*Policy Benchmark is 15% S&P500, 30% Russell 1000, 15% Russell 2000, 5% MSCI EAFE, 18% Lehman Aggregate, 16% Lehman Intermediate Government/Credit, and 1% T-bills. Previously, the benchmark was 50% S&P500, 10% Russell 2000, 38% Lehman Aggregate and 2% T-bills (From October, 2001 through October, 2002) and 50% S&P500, 47% Lehman Aggregate and 3% T-bills (Prior to October, 2001).

**Actuarial assumption was revised to 7.75% effective 7/01/02. Prior to 7/01/02 the assumption was 8%.

***Annualized if over one year.

****Benchmark returns are as of the beginning of the month.

ILLINOIS STUDENT ASSISTANCE COMMISSION

COLLEGE ILLINOIS!
Sources and Uses Report
December 2006 - FY 2007

BEGINNING MARKET VALUE TOTAL FUNDS BALANCE, 07/01/06

Cash at Custodians	\$10,745,602
SSgA S&P 500 Index Fund	117,402,688
JP Morgan Chase Investment Advisors	99,777,347
William Blair & Co.	33,876,277
Nicholas Applegate Small Cap Core	43,972,573
LSV Asset Management International Equity	42,213,254
Richmond Capital Management	123,523,673
LSV Asset Management Large Cap Value	65,817,901
State Street Global Advisors Large Cap Value	67,670,015
Kenwood Capital	20,534,704
New Amsterdam Partners	34,495,477
Holland Capital Management	32,977,189
Nicholas Applegate Small Cap Value	21,324,997
Denver Investment Advisors	34,984,815
SSgA LB Aggregate Index Fund	38,731,089

Total Beginning Balance

\$788,047,603

SOURCES OF FUNDS

Contributions Received	29,964,707
Application and other Fees	653,568
Interest from Treasury and Banks	259,891
Unrealized Gain on Investments	54,080,190
Interest Income on Investments	9,924,740
Realized Gain on Investment	8,780,236

Total Sources

\$103,663,332

USES OF FUNDS

Administrative Expenses	1,872,596
Refunds to Purchasers	2,935,900
Tuition Payments	14,553,470
Investment Expense	1,337,347

Total Uses

\$20,699,313

ENDING MARKET VALUE TOTAL FUNDS BALANCE, 12/30/06

Cash at Custodians	5,224,455
SSgA S&P 500 Index Fund	132,356,405
JP Morgan Chase Investment Advisors	108,631,614
William Blair & Co.	38,809,348
Nicholas Applegate Small Cap Core	48,070,960
LSV Asset Management International Equity	50,075,926
LSV Asset Management Large Cap Value	74,592,377
State Street Global Advisors Large Cap Value	75,718,927
Kenwood Capital	22,273,583
New Amsterdam Partners	37,686,861
Holland Capital Management	35,661,283
Nicholas Applegate Small Cap Value	23,571,555
Denver Investment Advisors	41,420,672
SSgA LB Aggregate Index Fund	40,696,599
Income Research & Management	68,116,207
Galliard Capital	68,104,851

Total Ending Balance**\$871,011,623****NUMBER AND DOLLAR VALUE OF PLANS, 12/30/2006**

Number of Plans:		
Plans Paid in Full	33,099	
Active Plans	14,736	
Cancelled Plans	6,101	
Suspended Plans	26	
Total Number of Plans	53,962	
Purchased Value of all Plans		\$1,077,445,494

Active Plan: Plan has been approved and contract payments are being made.
Cancelled Plan: Plan has been terminated either at the request of the purchaser or involuntarily due to delinquency, fraud, etc.
Suspended Plan: Plan with an incomplete application or other outstanding omissions; a plan with this status is inactive.