

## AGENDA ITEM 5.

### Payment of Federal Default Fee for 2007-2008 Academic Year

**Submitted for:** Action.

**Summary:** Since 1999, the Commission has sought to reduce the cost of borrowing to students and parents for Federal Family Education Loans (FFEL). This was accomplished by waiving the optional one percent guarantee fee. The Commission was able to do so based on the financial strength of the agency's Federal Student Loan Reserve Fund (FSLRF).

The 2005 Higher Education Deficit Reduction Act replaced the optional guarantee fee with a mandated one percent default fee for all FFEL Program loans guaranteed and disbursed on or after July 1, 2006. The mandated fee can either be assessed to the borrower or paid with non-federal sources of funds. At the Commission's March 31, 2006 meeting, the agency's Executive Director announced that the Commission would be able to continue to reduce the cost of borrowing to Illinois students and parents by paying the newly mandated default fee to the FSLRF with monies from the Student Loan Operating Fund (SLOF) for the 2006-2007 academic year. It is estimated that the cost to SLOF of paying the default fee for 2006-2007 will be approximately \$10 million.

For the 2007-2008 academic year, staff is recommending that the Commission approve the continued payment of the federal default fee from SLOF. The estimated cost to do so for 2007-2008 is approximately \$14 million based on anticipated loan volume of approximately \$1.4 billion. The increased cost over 2006-2007 is based primarily on two factors. The increased loan limits for freshman, sophomore and graduate borrowers effective July 1, 2007 is the first factor. Secondly, where the default fee was only paid for loans guaranteed after July 1 for the 2006-2007 academic year, the implementation of the default fee for academic year 2007-2008 is for all loans guaranteed for the year, including those guaranteed prior to July 1.

Beginning in 2007-2008, the maximum amount a freshman can borrow under the FFEL Program will increase from \$2,625 to \$3,500, the maximum amount for a sophomore will increase from \$3,500 to \$4,500 and the maximum for a graduate student will increase from \$10,000 to \$12,000 per academic year. This is estimated to increase overall borrowing by approximately \$150-200 million. For the current academic year, ISAC guaranteed approximately \$200 million in loans prior to July 1, 2006. Since these loans were guaranteed prior to the enactment date of the default fee, the fee was not required on these loans. For the 2007-2008 academic year, all Stafford and PLUS loans will require the payment of the default fee.

Based on projected revenues and expenditures for SLOF for FY2008, and considering a desirable minimum cash balance of approximately three months of operating expenses, it is projected that the Commission will be able to continue to pay the default fee on behalf of students and parents. Based on the average loan value this year, and the projected impact of the increased loan limits, it is estimated that the value of payment of this fee on behalf of students will equate to approximately \$60 per loan guaranteed in 2007-2008.

**Action Requested:**

That the Commission approve the payment of the mandated default fee for ISAC-guaranteed loans from the Student Loan Operating Fund (SLOF) for the 2007-2008 academic year.