

AGENDA ITEM 8.

ELIMINATION OF GUARANTEE FEE THROUGH DECEMBER 31, 2004

Submitted for: Action

Summary: At its November 8, 2002 meeting, the Commission authorized the elimination of ISAC's guarantee fee for Federal Family Education Loan Program (FFELP) loans disbursed on or after July 1, 2003 through June 30, 2004 (FY2004). FY2004 was the fifth consecutive year in which the Commission took action to eliminate the assessment of the guarantee fee. The elimination of this one-percent guarantee fee reduces the cost of borrowing for students and parents, and results in a greater percentage of loan proceeds becoming available to apply toward educational expenses.

Based on the current level of the Federal Student Loan Fund (FSLF) administered by ISAC, and assumptions about revenues and expenditures over the next six months, staff recommends that the Commission take action to continue not charging a guarantee fee through December 31, 2004. Based on current loan volume projections, this recommended action would save Illinois students and their families more than \$7.2 million through December 31, 2004. This equates to approximately \$46 saved per loan guaranteed. A decision on this issue at this time will allow staff to announce this student benefit to students and financial aid professionals as they plan for the next school year.

Staff is recommending the elimination of this one-percent guarantee fee only through December 31, 2004, at this time due to numerous discussions surrounding the guarantee fee at the federal level. It is quite possible that federal legislation may be enacted to mandate the assessment of the fee at some point in the near future through the President's budget proposal, the Reauthorization of the Higher Education Act or the Budget Reconciliation Act.

When the guarantee fee is assessed, the fees collected are deposited into the Federal Student Loan Fund (FSLF) which is used primarily to reimburse lender claims for defaulted loans. Although ISAC's current federal fund balance of \$56.7 million is adequate to cover current losses on defaults, it is approximately \$30.0 million less than when the Commission approved the elimination of the guarantee fee for loans disbursed on or after July 1, 1999. Industry-wide, the FSLF balances of guaranty agencies have declined. In order to ensure the stability of the FSLF and that of the Federal Family Education Loan Program (FFELP), the federal government is strongly considering the possibility of mandating the assessment of the guarantee fee. Even without this mandate, guaranty agencies are individually considering the assessment of the guarantee fee in order to ensure the stability of their FSLF.

While staff is recommending that the guarantee fee continue to be eliminated for the period July 1, 2004, through December 31, 2004, staff may need to bring this issue before the Commission again later in the fall if federal legislation impacting the assessment of the fee is enacted or an assessment of the FSLF balance indicates that reinstating the guarantee fee is necessary.

Action requested: That the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after July 1, 2004 through December 31, 2004.