

## AGENDA ITEM 5.

### RECAPITALIZATION OF ILLINOIS STUDENT ASSISTANCE COMMISSION/LOAN SALES

**Submitted for:** Information

**Summary:** As ISAC looks to refocus its mission to “making college affordable for Illinois students”, it needs to simplify and restructure its debt capitalization. ISAC currently operates under 3 indentures, containing 13 series of bonds and five series of independent variable rate notes; it is an accounting challenge to work under the various covenants and reporting requirements contained in these 18 separate documents. It is our recommendation, therefore, that ISAC enter into a multi-step restructuring of its debt. This recapitalization is designed to finance the Agency’s needs for the next 18 months with the underlying concept that a new capital structure, which specifically supports ISAC’s long-term needs, will be put in place within that time frame. A summary of the first stage of this restructure follows:

1. A sale of \$1.3 billion of student loans is now planned for late July or early August 2007. These loans will be predominately non-Illinois nexus loans (that is, loans to students or schools outside of Illinois). The sale will be in the form of a public auction and all major student loan industry participants will be invited to bid. Morgan Stanley and Gardner, Underwood and Bacon are acting as financial advisors on this sale.
2. Refinance, on a short-term basis, up to \$400 million of FFELP student loans. An existing \$500 million facility with Bank of America and Chase Bank will be used for this purpose. This facility has been extended to October 2007 for this purpose and it will be canceled at the end of the restructuring process.
3. Refinance the Illinois nexus “Alternative Loans.” ISAC currently holds \$350 million of Alternative loans to students or through schools in Illinois. Alternative loans are student loans that are not guaranteed by the Federal government. These loans are currently housed in a number of the Indentures and Variable Rate notes issued by ISAC. Each of these debt instruments has limits on the amount of Alternative loans they can finance. In order to simplify the financing of these loans, a new medium term financing will be put in place. This medium term financing will be for 18 months and will house up to \$450 million of Alternative loans. This facility will be created through a bidding process which will include all the major bank participants in the student loan market.

4. With the funds generated by the sale of loans in July and the two refinancings, ISAC will call for retirement all debt issued under its 1995 and 2001 Indentures as well as all series of outstanding Variable Rate Notes. This will reduce the outstanding debt to one indenture and two independent credit facilities, far easier to operate under than the existing structure. The total amount of debt retired will be in excess of \$2 billion. Please see Exhibit #1 for a listing of the existing debt and the debt to be retired in this first stage.

This “interim” capital structure is, therefore, designed to provide for ISAC’s needs in a cost effective manner utilizing, wherever possible, existing debt and indentures thereby saving in excess of \$3 million on underwriting and placement fees until a final capital structure can be determined.

**Action requested:** None

Exhibit #1  
 Illinois Student Assistance Commission  
 Existing and Proposed Capital Structure

\$ in Millions	Existing Capital Structure		Projected Capital Structure	
		May-07		July-07
1995 Trust				
Series 1995	\$	50.0		
Series 1997	\$	60.0		
Series 1999	\$	105.0		
Series 2000	\$	325.0		
Series 2001	\$	200.0		
Series 2002	\$	200.0		
Total		\$ 940.0		
2001 Trust				
Series 2001	\$	221.4		
Series 2003	\$	300.0		
Series 2005	\$	350.0		
Total		\$ 871.4		
2002 Trust				
Series 2002	\$	250.0	\$	250.0
Series 2003	\$	332.2	\$	299.6
Series 2004	\$	250.0	\$	250.0
Series 2005	\$	600.0	\$	600.0
Total		\$ 1,432.2		\$ 1,399.6
VRDN's				
Series 1993	\$	50.0		
Series 1996	\$	15.1		
Series 1997	\$	41.1		
Series 1998	\$	42.4		
Series 1999	\$	100.0		
Total		\$ 248.6		
B of A - FFELP Warehouse Line*		\$ 200.0		\$ 310.0
Alternative Loan Warehouse Line**				\$ 350.0
Grand Total All Issues		<u>\$ 3,692.2</u>		<u>\$ 2,059.6</u>
Net Reduction in Outstanding Debt				\$ 1,632.7
Underlying Loan Portfolio		\$ 3,300.0		\$ 3,300.0
Estimated Loans to be sold				\$ 1,300.0
Net Loan Portfolio post sale		<u>\$ 3,300.0</u>		<u>\$ 2,000.0</u>

\*\$500 million maximum. Expires 10/21/07

\*\*450 million maximum. Maturity of 18 months