Alaska State Legislature

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Rep. Paul Seaton, Chairman

HOUSE EDUCATION COMMITTEE

HB 109
Sponsor Statement

HB 109 requires that, as a condition of eligibility for an Alaska Supplemental Education Loan (ASEL), a borrower must have good credit or, if unable to document a history of good credit, must apply with a credit-worthy co-signer. Administered by the Alaska Commission on Postsecondary Education (ACPE), these loans are funded by the Alaska Student Loan Corporation (ASLC). ASLC issues bonds in the capital markets using its various AlaskAdvantage education loans as collateral pledged to support the bonds. The loans are in two categories: those with a federal guaranty (Stafford, Federal PLUS and Grad PLUS) and non-guaranteed State loans. With bonds collateralized by guaranteed loans, investors know they can rely on the backing by the federal government. ASELs have no guarantee and therefore the underlying quality is a primary concern. ASLC has determined that unless the credit quality of ASELs is improved, they will not be usable as collateral.

Compared to credit standards imposed by lenders in other states, ASEL credit requirements are among the least restrictive for alternative education loans. ACPE currently only reviews histories for bad credit. If an applicant has no credit history they may borrow without a co-signer. In today's national economic climate, bond investors are extremely averse to bonds backed by certain asset types. Unfortunately, in this new environment ASELs are viewed as subprime loans. ASLC financial advisors indicate there is little likelihood this conservative investor perspective will change in the future. Passage of HB 109 is intended to permit ACPE to improve ASEL quality so they will be more positively received in the bond market. If ASLC is unable to finance the ASEL program through the capital markets, in the future the State would have to directly fund this program or ASELs would be unavailable. ACPE estimates that its annual loan demand through the ASEL program will continue to be $40 to $50 million.

HB 109 also allows ASLC to set the interest rate for Family Education Loans (FEL) in accordance with the rate set for the ASEL (not to exceed 8.25%). The FEL program allows a family member to take out a loan on behalf of another family member. This program accounts for less than 2% of ASLC loans. Currently ASLC must charge the 5% interest rate set in statute for the FEL. HB 109 gives ASLC the flexibility to set the interest rate according to the current fiscal environment.

The Legislature should carefully examine changes that put limitations on borrowers. However, HB 109 is necessary for ACPE and ASLC to continue to meet their shared mission to promote, support, and provide access to postsecondary education for Alaskans and in Alaska, without relying on the State General Fund to finance its operations.

State Capitol, Room 102 Juneau, AK 99801 - Phone: 465-3923 - Fax: 465-3472 - Toll Free (800) 665-2689
Representative_Paul_Seaton@legis.state.ak.us

HOUSE BILL NO. 109

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY THE HOUSE EDUCATION COMMITTEE

Introduced: 2/2/09
Referred: Education, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to eligibility for the Alaska supplemental education loan program and to the interest rate for a loan made under the Alaska family education loan program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 14.43.172(c) is amended to read:

(c) In addition to the provisions of (a) of this section, a borrower is eligible for a loan under AS 14.43.170 - 14.43.175 if the borrower

(1) is not delinquent in payment on a loan previously awarded by the commission;

(2) at the time of application or loan disbursement, does not have a past due child support obligation established by court order or by the child support services agency under AS 25.27.160 - 25.27.220;

(3) has not, within the previous five years, had a loan discharged or written off by the commission for any reason;

(4) does not have a status, at the time of application for a loan or disbursement of loan money, that would prevent the borrower from repaying the loan as it becomes due;

(5) has not, within the previous five years, defaulted on another loan made to the borrower by a lending entity unless the borrower can show good faith efforts to repay the loan and extraordinary circumstances that led to the default;

(6) **has** [DOES NOT HAVE] a credit history, at the time of application for a loan, that demonstrates **an ability and willingness** [CHRONIC INABILITY OR UNWILLINGNESS] to pay an extension of credit or loan as it becomes due; and

(7) has complied with the military selective service registration requirements imposed under 50 U.S.C. App. 453 (Military Selective Service Act), if those requirements were applicable to the person.

* **Sec. 2.** AS 14.43.740(c) is repealed and reenacted to read:

(c) The corporation shall set the interest rate on a loan made under AS 14.43.710 - 14.43.750, but the annual rate may not exceed 8.25 percent.

* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. AS 14.43.172(c), as amended by sec. 1 of this Act, and AS 14.43.740(c), as repealed and reenacted by sec. 2 of this Act, first apply to loans made for a school year that begins on or after July 1, 2009, and apply thereafter.

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: REGULATIONS. The legislature finds that the changes made by this Act constitute an emergency under AS 44.62.250 and that the adoption of emergency regulations under AS 44.62 is necessary for the immediate preservation of the general welfare. The changes made to AS 14.43.172(c) in sec. 1 of this Act are needed in order that loans under the Alaska supplemental education loan program will be assets of a quality that may be used as security for bonds issued by the Alaska Student Loan Corporation to finance the operations of its education loan programs. Therefore, the Alaska Commission on Postsecondary Education may adopt as emergency regulations under AS 44.62 the regulations necessary to implement the changes made by this Act.

* **Sec. 5.** This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB109
() Publish Date:

Identifier (file name): HB109-EED-ACPE-02-05-09
Title: An act relating to eligibility for the Alaska Supplemental Education Loan Program; and the Alaska Family Education loan interest rate
Sponsor: (H)Education
Requester: (H)Education

Dept. Affected: Education
RDU: ACPE
Component: Program Administration and Operations
Component Number: 2738

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2010**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2009) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This bill is intended to improve the quality of education loans sufficiently to maintain the Alaska Student Loan Corporation's (ASLC) capacity to issue revenue bonds, backed by loan assets, to finance future lending activities. Implementation of the proposed changes is not expected to require additional appropriations. It is feasible that these changes will positively impact ASLC revenues through improved collections on the loans, but it is not possible to estimate that impact at this time due to the complexity of factors impacting loan collections.

Prepared by: Diane Barrans, Executive Director
Division: Alaska Commission on Postsecondary Education
Phone 907-465-6740
Date/Time 2/5/09 11:00 AM

Approved by: Diane Barrans, Executive Director
Alaska Commission on Postsecondary Education
Date 2/5/2009

(Revised 9/10/2008 OMB)

Briefing on: ASLC Liquidity Issues and Proposed Plan of Action

- The Alaska Student Loan Corporation (ASLC), created by the legislature in 1988 to provide a source of financing for state-administered education loans, has successfully issued bonds from 1988 through 2007. ASLC's tax-exempt bond issues have been structured using education loans as collateral.

- In 2008, due to the extended disruption in the capital markets, ASLC was unable to issue bonds. One reason for that was contagion from the sub-prime mortgage-backed bond market had spread to student loan-backed bonds—particularly in regards to non-federally guaranteed education loans such as the Alaska Supplemental Education Loans (ASELs). Rating agencies, financial partners and investors have substantially altered their level of scrutiny and qualitative standards for asset-backed bonds, resulting in ASELs being viewed as sub-prime loans.

- In short, ASELs as they exist today are no longer of sufficient quality to be effectively used to back bonds. In order for ASLC to be able to efficiently use ASELs to back bonds in the future, the credit standards applied to borrowers of these loans must be strengthened.

- Failure to make the proposed changes will seriously compromise ASLC's ability to finance its programs and operations in the capital markets. In that event the options will be 1) the State of Alaska will have to directly fund the ASEL program at an annual cost of approximately $50 million, or 2) ASLC will substantially cease originating ASELs effective in 2009.

- In addition to the proposal to raise the credit standard for the ASEL, because in the increases in the costs of financing the loan program, there is also a need to alter the interest rate on the Alaska Family Education Loan (FEL). That loan rate is currently set in statute at 5%. The proposal is to set the FEL rate at the same rate charged on the ASEL—currently that rate is 7.3% and is capped in statute at 8.25%. Proposal would allow the Corporation to set the rate on these loans using the same program-costs based formula used for the ASEL.

- The timing of a change in the ASEL credit standard is fortunate in that it coincides with the 2008 increase in the federal Stafford loan limits.[1] Stafford loans, also offered by ASLC for Alaska students, are a federal entitlement to any student attending an accredited institution and no credit standard is considered in making these loans (except that the borrower may not be in default on an existing federal education loan). Furthermore, in January 2009 congress introduced a stimulus bill which provides for an additional increase in the Stafford loan limits of $2,000 per year for an undergraduate program.

The actions described above are proposed at the recommendation of ASLC Executive Officer and Alaska Commission on Postsecondary Education Executive Director Diane Barrans. She is available to respond to questions or concerns and can be contacted at diane.barrans@alaska.gov or 465.2113.

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[1] **Annual Stafford borrowing limits are for dependent and independent students respectively: 1) $5,500 and $9,500 (freshman), 2) $6,500 and $10,500 (sophomore), 3) $7,500 and $12,500 (junior/senior), and 4) $20,500 (all graduate).**

ACPE Quick Loan Comparison Charts

These are quick comparison charts of student and parent loans offered by the Alaska Commission on Postsecondary Education. For more information on the individual loans please click on the loan programs.

2008-2009 Interest Rates with Benefits[1]	AlaskAdvantage Stafford Loan[2]		Alaska Supplemental Education Loan		AlaskAdvantage PLUS Loan	Family Education Loan
	In-School Period/ Grace/ Deferment	Repayment Period/ Forbearance	In-school Period/ Grace/ Deferment	Repayment Period/ Forbearance		
Annual Percentage Rate[3]	n/a	n/a	8.27%	7.30%	n/a	6.31%
Base Rate	6.80%	6.80%	7.30%	7.30%	8.50%	5.00%
AlaskAdvantage General Benefit	-0.80%	-0.50%	n/a	n/a	-1.00%	n/a
Alaska Presence Benefit	-1.00%	-1.00%	-0.50%	-0.50%	-1.00%	n/a
Direct Payment Benefit	n/a	-0.25%	n/a	-0.25%	-0.25%	-0.25%
Lowest rate with **immediate** benefits	**5.00%**	**5.05%**	**6.80%**	**6.55%**	**6.25%**	**4.75%**
Timely Payment Benefit	n/a	-2.00%	n/a	-2.00%	-1.00%	n/a
Lowest rate **after 48 months** of repayment	**5.00%**	**3.05%**	**6.80%**	**4.55%**	**5.25%**	**4.75%**

[1]Interest rates are set according to the base rates set each year by the United States Department of Education. Interest rates and borrower benefits are subject to approval annually by the Alaska Student Loan Corporation and do not apply to interest subsidized by the federal government.

[2]benefits apply only to the interest owed by the borrower; not to subsidized loans. The base rate for undergraduate borrowers on subsidized Stafford loans is 6.0% after 7/1/08.

[3]APR assumes a principal loan amount of $8500, origination fee of 3%, freshman borrower, and a repayment term of 10 years. The APR does not include the effects of borrower benefits.

	AlaskAdvantage Subsidized[5] Stafford Loan	AlaskAdvantage Unsubsidized[6] Stafford Loan	Alaska Supplemental Education Loan	AlaskAdvantage PLUS Loan	Family Education Loan
What is it?	Low-interest education loan for students			Loan to parents	Low-interest loan to family member
Need-based?	Yes	No	No	No	No
Credit Check Required?	No	No	Yes	Yes	Yes
Origination fee:	No	No	3%	3%	3%
Type of interest rate:	Fixed	Fixed	Fixed	Fixed	Fixed
Repayment begins:	6 months after a student graduates or attends less than half time			Within 60 days of full disbursement	
Deferment available?	Yes	Yes	Yes	Yes	No
Forbearance available in cases of hardship?	Yes	Yes	Yes	Yes	No
Are repayment options available?	Yes	Yes	Yes	Yes	Yes

[5]a subsidized loan means the government pays the interest while you are in school, in deferment, or your grace period.

[6]students borrowing unsubsidized loans are responsible for repaying all interest that accrues on the loan.

Alaska Family Education Loan

The Family Education Loan (FEL) is available to family members wishing to help students with education expenses.

Apply Now

- 5% fixed interest rate
- 3% origination fee
- .25% discount for autopayment

2008-2009 Interest Rates with Benefits	Percentages
Base Rate	5.00% (6.31% APR)[1]
Direct Payment Benefit	-0.25%
Lowest Cost Interest Rate Equivalent	**4.75%**

Borrowing Limits	Annual Limit
Career Training (Vocational)	$6,500
Undergraduate	$8,500
Graduate	$9,500

LOAN PROGRAMS

Student Loans
AlaskAdvantage® Stafford
PLUS for Graduate & Professional Students
Alaska Supplemental
Parent Loans
PLUS
Family Education
Career Specific Loans
Teacher Education
A.W."Winn" Brindle
Michael Murphy Memorial
Professional Student Exchange
Consolidation Loans
Federal
Alternative

Eligibility

- Borrower (family member applying for loan) must be an Alaska resident
- Student must have a high school diploma or equivalent (i.e., GED)
- Student must be enrolled and admitted into an eligible program on a full-time basis
- Neither the student nor the borrower can be in default on a federal or state education loan
- Neither the student nor the borrower may be past due on an Alaska child support obligation
- Borrower must not have an adverse credit history

How to Apply

You can apply online, stop by our office in Anchorage or Juneau, or an application is available for download. Remember:

1. Family members may only borrow up to the student's cost of attendance as certified by the school, not to exceed the annual limits listed above.
2. Discuss financial aid options with the school. Many schools offer different financial aid programs. School financial aid experts can advise you regarding which aid is suitable for you. The school may also have specific criteria and deadlines, and you may miss out if you apply without first discussing your options with the school. Inform your school of your financial aid decisions.

[1]The APR assumes a principal loan amount of $8500, origination fee of 3%, freshman student, and a repayment term of 10 years. The APR does not include the effects of borrower benefits.

Alaska Supplemental Education Loan

The Alaska Supplemental Education Loan is an alternative, low-cost borrowing option to supplement funding for students with costs of attendance not fully covered by the AlaskAdvantage Stafford Loan. The interest rates listed below are fixed*, but borrower benefits are variable and may change annually.

Apply Now

- 3% origination fee

2008-2009 Interest Rates with Benefits	In-School Period	Repayment Period
Base Note Rate	7.30% (APR 8.27%)[1]	7.30% (APR 7.3%)[1]
Alaska Presence Benefit	-0.50%	-0.50%
Direct Payment Benefit		-0.25%
Timely Benefit After First 48 Repayment Months		-2.00%
Lowest Cost Interest Rate Equivalent	**6.80%**	**4.55%**

*Interest rates and AlaskAdvantage Borrower Benefits are subject to approval annually by the Alaska Student Loan Corporation. Interest rates on loans issued prior to the 2006/2007 academic year are variable and change annually. Click here for a chart of rates. AlaskAdvantage Borrower Benefits apply to both new fixed rate loans and existing variable loans.

Borrowing Limits	Annual Limit[1]	Lifetime Maximum
Career Training (Vocational)	$6,500	
Undergraduate	$8,500	$42,500
Graduate	$9,500	$47,500
Undergrad + Grad		$60,000

[1]Loan amounts are pro-rated based on the term of attendance; e.g., an undergraduate student attending only one semester is eligible for 1/2 the annual loan limit, or $4,250.

Eligibility

- FAFSA may be required
- High school diploma or equivalent (i.e., GED)
- Minimum half-time enrollment in eligible program
- Not in default on a federal or state loan
- Not have an adverse credit history (option to apply with credit-worthy cosigner)
- Alaska resident or attending an eligible school in Alaska
- Not past due in child support obligations

You can apply online, or you can download an application. Before you apply for loan programs, we recommend you:

1. Complete the Free Application for Federal Student Aid (FAFSA).
   You can complete the FAFSA online at http://www.fafsa.ed.gov/ anytime after January 1st.
2. Discuss your financial aid options with your school. Many schools offer different financial aid programs. Your school financial aid experts can advise you regarding which aid is suitable for you. Your school may also have specific criteria and deadlines, and you may miss out if you apply without first discussing your options with your school. Inform your school of your financial aid

LOAN PROGRAMS

Student Loans
AlaskAdvantage ® Stafford
PLUS for Graduate & Professional Students
Alaska Supplemental
Parent Loans
PLUS
Family Education
Career Specific Loans
Teacher Education
A.W."Winn" Brindle
Michael Murphy Memorial
Professional Student Exchange
Consolidation Loans
Federal
Alternative

decisions.

[1]The APR assumes a principal loan amount of $8500, origination fee of 3%, freshman borrower, and a repayment term of 10 years. The APR does not include the effects of borrower benefits.

College financial aid system facing stiff test

By DAVE CARPENTER
The Associated Press
Sunday, January 25, 2009; 4:26 AM

CHICAGO -- Finding financial aid for college this year promises to be tougher than any final exam. The quest for money that begins for students and parents every January has taken on new urgency in 2009 amid fears that loans and grants will be scarcer than in the past due to the recession.

"The financing system for college is in real crisis," said Barmak Nassirian, associate executive director of the American Association of College Registrars and Admissions Officers. "Every one of the participants in the system is experiencing hardship _ higher education institutions, states, aid donors and families all are cash-strapped."

Federal student loans remain readily available _ with some funding even increased recently by Congress. But the prospect that grants and scholarships may be cut at many schools, combined with the shrinking availability of private loans, has fueled widespread angst at a time when more people than ever are seeking help. Applications for federal aid for the current academic year already are running 10 percent above last year's record pace, according to the Department of Education.

Savings held in Section 529 plans _ the state-sponsored investment funds for college that are popular for their tax breaks _ have been depleted by the worst bear market in decades and home equity values have plummeted. That has sapped two sources most tapped by parents to fund their children's higher education. Colleges' endowments have been similarly walloped.

Private student loans are especially hard hit. Last year, 60 private lenders provided $19 billion to students. Now, 39 of those have stopped lending to students and the remaining firms have made it harder to borrow, according to Finaid.org, a Web site that tracks the industry.

"The stress level is high," said Rod Bugarin, financial aid adviser for the New York-based college consulting firm IvyWise.

Numerous revenue-short states are likely to consider cutting aid in one way or another, and public colleges and universities are expected to raise tuition _ in some cases by double digit percentages _ as they set rates for next year.

Scholarships from civic groups and local companies across the country also are likely to decline, Bugarin said, although it's too early to know the extent.

What it all means is that families and college counselors are having to hold difficult conversations about reduced savings and the need to take on more debt and lower sights to focus on more affordable schools.

"There are no sure answers because we're in new territory," said Bruce Hammond, a Washington, D.C.-based college admissions consultant and co-author of "The Fiske Guide to Getting into the Right College." "But students with high need and lesser credentials are going to have to brace themselves for less aid."

Jean Kliphuis, 46, of Huntington, N.Y., is concerned about the tightening vise of college costs and how to pay for them as she studies aid prospects for daughter Katie, a high school senior who has applied to six schools. Jean is a librarian and her husband Tim is self-employed in the office equipment business. As middle-income parents of three children, their tab for college could be overwhelming if they didn't do all their homework on aid options.

"There is money out there, but you have to jump through a lot of hoops to get it," Kliphuis said. "So my husband and I are jumping through the hoops."

The key to success in the "convoluted" financial aid process is good information, she said, and there's lots of it available through schools' aid offices and online at such sites as Collegeboard.com and Princetonreview.com.

Indeed, the news isn't all bad. The federal government has authorized some $95 billion in grants, loans and work-study assistance to help almost 11 million students and their families pay for college this year, and its recent commitments mean that total will all but certainly be exceeded next year.

"It's scary, but not as scary as people might think," said Lauren Asher of the California-based Institute for College Access and Success, an independent nonprofit group.

Among the encouraging developments for parents and students:

_ The government broadened student borrowing in the midst of the credit crunch, ensuring the continued flow of federal loans that families depend on ahead of costlier private ones. Among other changes, annual borrowing limits for unsubsidized Stafford loans, which students can take out regardless of income, were raised by $2,000 and parents can now defer repayment of federal loans until after their child leaves school.

Stimulus proposals that would give students more financial aid also are progressing through Congress.

"This certainly has been an unprecedented disruption in the student loan marketplace," said Mark Kantrowitz, publisher of Finaid.org. "But Congress and the Department of Education have acted quickly to avert a crisis."

_ No school is known to have withdrawn pledged financial aid this academic year despite financial setbacks that have prompted them to make cuts elsewhere. A number of top institutions, from Harvard, Yale and Duke to smaller institutions with large endowments, announced expanded aid last year and have insisted they will stick to those commitments.

Aid can make a huge difference in affordability. The average list price of tuition and fees for the current academic year is $6,585 for in-state students at four-year public universities and $25,143 at private colleges, with some costing far more. But grants and tax breaks lower the average net price to about $2,900 at public universities and $14,900 at private schools, according to the College Board.

_ Some students will benefit from the turmoil, especially at colleges with high tuitions and scarce resources.

"These places continue to jack it up," Hammond said of tuition increases, "so if you can pay the full outrageous fee in this economy, as long as you can walk and chew gum you will be admitted. And if you're pretty good _ average, even _ you might get a $10,000 merit scholarship."

Admissions experts recommend considering a range of fallback options, from lower-cost public schools to community colleges or even waiting a year to save more money. And colleges and parents alike are hedging their bets on next year and beyond.

Administrators at Ohio State University see no big immediate impact on aid from the economy but are concerned about what may happen over the longer term, said Bill Shkurti, chief financial officer. The school's endowment has fallen by as much as 30 percent from $1.5 billion a year ago but accounts for just 2 percent of operating revenue, he said.

The University of North Carolina at Wilmington, with a much smaller enrollment and endowment, similarly has taken a hit. In a scenario likely to be repeated on many campuses, financial aid director Emily Bliss says the school is bracing for unpleasant conversations with parents about next year as it relies more on loans in its aid packages and eliminates some of the "free" money.

"Grants and scholarships won't all come through," she said. "It's difficult for us to tell families that, because our heart is breaking for them knowing what they're going through."

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AP Education Writer Justin Pope contributed to this report.

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On the Net:

FAFSA:http://www.fafsa.ed.gov/

FinAid:http://www.finaid.org/

The Salt Lake Tribune http://www.sltrib.com

Paying for college

State stepping in as banks bail out of student loans

As the number of private lenders shrinks, Utah agency expects to help thousands of borrowers

By Brian Maffly
The Salt Lake Tribune
Salt Lake Tribune

Article Last Updated:08/15/2008 03:35:18 AM MDT

For the first time, the state of Utah has begun originating student loans, a shift that will ensure that any Utah college student who needs financial assistance can get it, although it will cost more.

The Utah Higher Education Assistance Authority (UHEAA), the agency that oversees financial aid to Utah students, is bracing for loan applications worth $100 million this academic year after big banks all but abandoned the federally guaranteed loan program.

Last fall, Congress cut what participating lenders could make on student loans at the same time money became more scarce. That created a double disincentive for financial institutions to lend to college students. With fewer lenders available, Utah students are expected to flock to UHEAA, agency director David Feitz told his board Thursday.

"We would rather have a full cadre of lenders, but that is unlikely to happen in the near future until Congress raises the yields," he said.

Adding to the pressure was a recent move by Congress to raise the maximum students can borrow by $2,000 (to $5,500 for freshman, $6,500 for sophomores and $7,500 for upperclassmen). Feitz estimated UHEAA will see applications worth one-fourth of the state's total student loan volume this coming year, but he won't know how much until students begin applying as they return to school.

"It could be $60 million, it could be $200 million," Feitz said of a development that represents a profound change in the way UHEAA conducts business.

UHEAA has access to $121 million to lend over the coming academic year.

The U.S. Department of Education promises to buy participating states' loans issued this year under the Federal Family and Education Loan program (FFELP). This would enable states to "recycle" the money back to students in the form of new loans. The UHEAA board voted unanimously Thursday to approve Utah's participation in the complex arrangement.

Feitz cautioned that the program, which runs only for one year, isn't a permanent solution to the liquidity mess that has caused "tremendous chaos" in the $50 billion system that subsidizes the popular Stafford and PLUS loan programs.

"Now we're calling on Congress and the departments of Treasury and Education to take additional action to further stabilize the student loan program for years to come," he said.

In recent months four banks - Wells Fargo, Zions, J.P. Morgan Chase and Key - pulled out of Utah's program, leaving only U.S. Bank. Fifteen credit unions, led by America First, still lend to students, but the banks' departure left a vacuum. Wells Fargo and Zions were the top lenders last year, accounting for more than half of the state's student loan volume.

Lenders also have become picky about which institutions they work with. One Utah school, Snow College, found itself with no lenders, so UHEAA last month began lending directly to students at the Ephraim school.

"Were in a pretty good place, a much better place than our sister agencies across the country," board chairman David Jordan said. "From the students' perspective, this will work. We will be able to help them without depleting our resources."

bmaffly@sltrib.com

Utah students can expect to pay more for college loans under steps taken by the Utah Higher Education Assistance Authority to preserve universal access to federally guaranteed loans.

But the news isn't all bad.

"I'm not aware of lenders offering better terms than what UHEAA is offering," said John Curl, the University of Utah's financial aid director. "We encourage students to research who they're going to get loans from and find the best terms they can get. They are going to have to pay more interest; that's unfortunate."

Congress last year cut the rate on some student loans from 6.8 to 6 percent. But in order to participate in an emergency federal bail-out measure, Utah slashed two rate reductions. Until now, students who had payments automatically drawn from their accounts received a 1.25-point reduction and another 2-point reduction after four years of timely payments. Losing these benefits adds $1,763 to the cost of servicing a $15,000 loan.

On Thursday, the UHEAA board suspended issuing consolidation loans to avoid tying up scarce capital needed to serve current students. Former students looking to simplify repayment plans have other options for consolidating their loans in the federal program.

But Utah students still get breaks on up-front costs of the most common loans, Stafford and PLUS. UHEAA continues to cover the 1 percent origination fee and 1 percent default fee, translating into a $100 subsidy on a $5,000 loan.

- *Brian Maffly*

Financial aid

* **Students who are considering borrowing** for college for the upcoming school year should start researching their options now, said John Curl, financial aid director at the University of Utah.
* **Students should consult the financial aid office** at their school, check Web sites that serve as information clearinghouses, such as finaid.org, or www.uheaa.org, the Web site for the Utah Higher Education Assistance Authority.

boston.com

THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

The Boston Globe

A late try to salvage student loans

Patrick calls on pension board, colleges to invest in agency bonds

By Casey Ross, Globe Staff | August 7, 2008

Governor Deval Patrick has asked the state pension fund to invest $50 million and will ask Harvard University and other local colleges to invest millions more to provide student loans to thousands of families struggling to pay college tuition bills that are due in the coming weeks.

Patrick's 11th hour proposal, floated among key officials yesterday, would prop up the troubled 26-year-old Massachusetts Educational Financing Authority, which announced last week that it would be unable to provide student loans for this school year because of turmoil in the nation's credit markets.

The proposal would entail the investment funds buying portions of a $425 million bond sale that MEFA is planning this month. The agency would use the proceeds to finance student loans.

"We have 40,000 students and families who need help, and we're right up against it," Patrick said in an interview with the Globe last night. "This is a sound investment for the pension board and the endowments."

The governor and his aides, along with state lawmakers, have been brainstorming ways to restore student loan funds for the past week. MEFA had previously offered low-cost, fixed-rate loans, but now borrowers have to look to other lenders whose loans may carry higher rates and higher costs.

Yesterday, Patrick's top budget aide, Leslie Kirwan, asked the state pension board to consider buying $50 million of the upcoming MEFA bonds. Administration officials also hope the state investment would be seen as a show of confidence in the bond market and MEFA, spurring purchase by other investors that could finance more loans.

Patrick said he intends to call officials today from Harvard, Boston College, the University of Massachusetts, and the Massachusetts Institute of Technology, among other schools, about making similar investments in MEFA bonds.

The chairman of the state pension board, state Treasurer Timothy Cahill, was noncommittal about Patrick's request, but said the board would consider it.

The pension fund staff "will examine the options legally available to invest in any debt issuance set up by MEFA and report back to the trustees before any action is taken," Cahill said through a spokeswoman.

With $51.7 billion in assets, the pension fund invests monies for state employees and retirees. And while it is unusual for the fund to use anything other than financial returns as grounds for investment, the board has already committed funds to local projects that are intended to produce economic and social benefits within Massachusetts. The program was a major policy goal of Cahill, who got the pension board to adopt it in 2003.

Even without Cahill's commitment, Patrick has a strong start on getting the board to adopt his measure, as he appoints three of its nine members, one of whom is Kirwan.

Another board member, Robert Brousseau, reacted favorably to Patrick's request and said he did not hear strong objections from fellow board members at yesterday's meeting.

"I can't see anybody opposing it, but we have to see the parameters of the investment and what form it would take," said Brousseau, who represents teachers on the board.

Patrick said he is seeking swift consideration from the pension fund board because MEFA is planning to hold its bond sale within two weeks.

"We need action," he said. "If they need to call a special meeting to approve this, then I hope they will."

Meanwhile, representatives of the local colleges said the institutions will consider the investment.

"We're always more than happy to have discussions with the governor," said John Longbrake, a spokesman for Harvard University, the governor's alma mater. "We welcome the opportunity to learn more about the challenges MEFA is facing and to discuss ways to address them."

Robert Connolly, a spokesman for UMass President Jack Wilson, said: "This is an idea we're definitely willing to explore. We do see it as a potential win-win in terms of providing the university with a sound investment while helping families cope with their financial aid challenges."

Officials at the student lending agency, meanwhile, said Patrick's plan carries minimal risk to the investment funds because MEFA's bonds provide reliable returns. Executive Director Tom Graf said the default rate on the authority's loans is less than 1 percent. "This plan allows" the pension board "to make a stable investment that is especially warranted in this financial climate," he said.

The problems in the bond market, which started with the foreclosure crisis and spread to other credit markets, have imperiled student lenders across the country, prompting more than 50 agencies to stop making federal or private loans.

Graf said the size of the upcoming bond sale may change based on investor interest. If the sale is a success, he hopes the agency will then be able to offer loans with rates below 8.5 percent, which is the current charge for Federal Plus loans. Last year, the authority's private 20-year loan rate was 6.39 percent.

The agency made $400 million in private loans in the last school year, and another $110 million in federal student loans.

State Senator Brian A. Joyce, who authored a letter last week signed by other legislators urging Patrick to support MEFA, applauded the governor's actions. "This critically important to an awful lot of Massachusetts families," he said. "The governor can use his bully pulpit to ask for some assistance, and I wholeheartedly support what he's doing."

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AP Associated Press

NH working on student loan problem

By Kathy McCormack, Associated Press Writer | August 6, 2008

CONCORD, N.H. --Turmoil in the financial markets has driven many lenders out of the student loan market, leaving students struggling to pay their fall tuition. That's a problem that New Hampshire officials are working on.

Many students "are being frozen out from having the loans they were expecting," said Mark Connolly, director of the state Bureau of Securities Regulation.

"In the last several days, our office has been engaged in discussions with some of the participants who have been involved in securitizing these loans in our state," Connolly said Wednesday.

"We are trying to encourage these participants to bring liquidity to these loans so students can plan for their academic year. If we are unable to successfully encourage these participants to bring liquidity to our student loan market, we will take regulatory action that in part will address the issue," Connolly said.

Connolly said his office has been involved with many other states in looking at the auction-rate securities market -- short-term investments that are a popular way for companies and some wealthy investors to store their cash -- which has rippled into the student loan market.

Dozens of lenders have left the federal student loan program, though where that has happened other lenders have stepped in or students have turned to a smaller program in which the Education Department makes loans directly to students.

Last month, the Massachusetts Educational Financing Authority, which provided more than $500 million worth of college financing last year, said it would not provide private loans this year because of turmoil in the financial markets. That affected about 650 New Hampshire college students from Massachusetts.

Earlier this year, the New Hampshire Higher Education Loan Corp., the state's leading provider of student loan financing, said it was suspending its private loan program because of market conditions. That meant more than 6,000 students had to find another place to borrow money.

On the Net:

http://www.sos.nh.gov/securities/ ■

Financial Institutions
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Special Report

Private Education Loans: Time for a Re-Education

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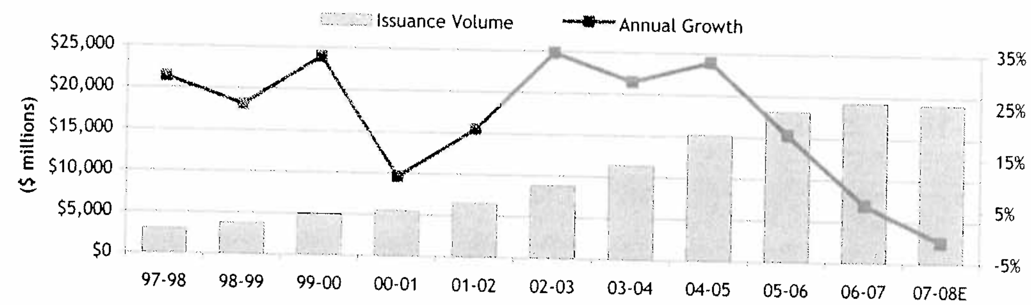
Related Research

- *Federal Student Loans: A Lesson in Legislation, Jan. 14, 2009.*
- *U.S. Finance & Leasing Company Outlook 2009, Dec. 18, 2008.*
- *2009 U.S. Structured Finance Outlook, Dec. 10, 2008.*
- *Student Loan Auction Rates - The Definition of Stress, Sept. 30, 2008.*
- *An Education in Student Lending, Feb. 5, 2007.*

Overview

The rising cost of education has consistently outpaced growth in loan limits for federal student loan programs. The gap has been filled with the private education loan. Issuance of private, or nonfederal, education loans has grown from $3bn in academic year 1997-1998 to $19.1bn in academic year 2007-2008, according to College Board. Lenders involved in the federal student loan space have leveraged their school relationships, operating platform, and expertise to expand into private education lending. While early performance data seemed to indicate a smooth transition, the economic environment was strong and loan portfolios had yet to fully season. As the economy showed signs of weakness in 2007 and more private student loans entered repayment, cracks began to emerge in lender underwriting strategies.

Private Education Loan Growth



Source: College Board.

Deterioration in portfolio credit metrics combined with a widespread re-pricing of risk in the capital markets have made it more difficult for lenders to access the asset-backed securitization (ABS) markets for private student loan term funding. Lenders have pulled back on origination volume by tightening underwriting standards and cancelling certain school relationships, but many lenders have had to arrange expensive funding facilities for un-securitized private loans on their balance sheets. Government funding programs, like the Term Asset-Backed Loan Facility (TALF) may temporarily increase investor buying of private loan deals, but they will not truly re-ignite interest. This will necessitate re-educating investors on the risk/rewards of the product and, potentially, making changes to the loans to make them more attractive to investors. Continued deterioration in portfolio credit quality and an inability to secure cost-effective funding could result in negative rating action for student lenders.

In this report, Fitch will:

- Discuss how college costs, federal student aid, and legislation drive growth trends in the private education loan;
- Explain how dislocations in the capital markets have impacted funding options for loans and how the structure of the private student loan may need to change;
- Provide an analysis of recent credit trends for large private lenders; and

- Discuss the impact of the bankruptcy of The Education Resources Institute, Inc. (TERI) on the private education loan market.

Private Education Loans

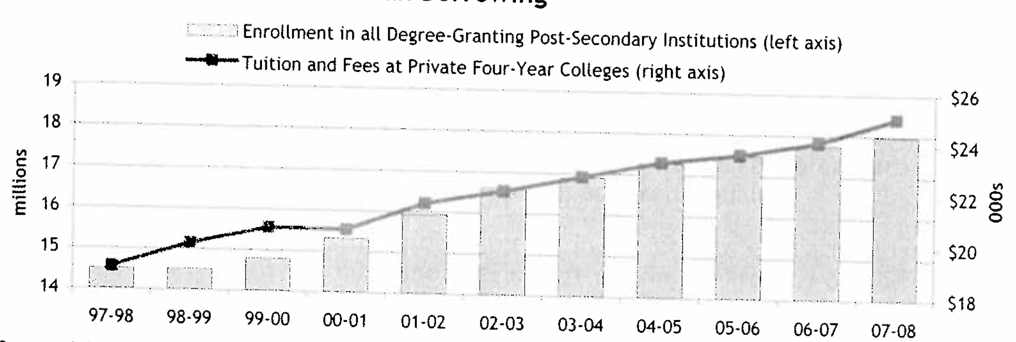
The private or nonfederal education loan has garnered increasing interest as growth in the product has surged over the last decade. Demand for private student loan ABS was relatively robust through 2006, given ample market liquidity and stable collateral performance, but investor interest waned in 2007 as market risk premiums increased and the weakening economic picture began to impact credit quality.

The following sections will discuss growth trends in the private education loan, funding alternatives, asset quality trends, and the impact of the bankruptcy of The Education Resources Institute), Inc. (TERI).

Growth

Private education loans have become an increasingly important component of education funding in the last decade, accounting for approximately 11.7% of total student aid in the 2007-2008 academic year, according to College Board, compared to 3.7% a decade ago. Growth in private student loans has been driven by increasing enrollment levels, rising tuition expenses and, until recently, static federal loan limits. Over the last ten years, enrollment in degree-granting post-secondary institutions grew 24% and average annual tuition and fees at private and public four-year institutions is up 32.7% and 53.3%, respectively. Meanwhile, federal Stafford loan limits remained static from October 1993 to June 2007.

Drivers of Private Education Loan Borrowing



Source: College Board and National Center for Education Statistics.

Fitch expects growth of the private loan product to change; however, as higher funding costs and deteriorating collateral performance have reduced the propensity to loan and some recent legislative change may have an impact on the demand for private education loans. On the legislative front, federal Stafford loan limits have increased twice in the last two years. The Deficit Reduction Act of 2006 increased base limits for freshman and sophomores receiving loans after July 1, 2007 by $875 and $1,000, respectively. Fitch believes this change contributed to the 0.9% decline in private education loans issued in academic year 2007-2008, as subsidized Stafford loans increased 11.1% during the year; well above the 3.3% average annual increase over the last ten years. The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) increased federal loan limits further by allowing undergraduates to borrow an additional $2,000 in unsubsidized loans per year after July 1, 2008.

Loan Limits for Subsidized and Unsubsidized Federal Stafford Loans

	Pre-Deficit Reduction Base Subsidized/ Unsubsidized	Post-Deficit Reduction Base Subsidized/ Unsubsidized	Pre-ECASLA Additional Unsubsidized	Post-ECASLA Additional Unsubsidized
1st year undergraduate	$2,625	$3,500	$4,000	$6,000
2nd year undergraduate	$3,500	$4,500	$4,000	$6,000
3rd year & beyond undergraduate	$5,500	$5,500	$5,000	$7,000
Graduate/Professional	$8,500	$8,500	$12,000	$12,000

Source: FinAid.org

The most critical change, however, was a provision in the Deficit Reduction Act which permits graduate and professional students to use PLUS loans to fund their entire cost of attendance, less other aid received. Historically, students funded a significant portion of their graduate programs, which tend to be more expensive than undergraduate programs, with variable-rate private education loans. Fitch expects graduate students to willingly switch to federal PLUS loans, which offer more attractive terms. PLUS loans were up a modest 1.25% in academic year 2007-2008, well-below the 12% annual average growth rate over the last decade, but Fitch believes PLUS loans will expand materially in the 2008-2009 academic year, at the expense of private loans.

Still, private education loans remain very relevant for international graduate students with no access to federal loans and in the undergraduate space, for borrowers whose parents cannot access PLUS loans, as the gap between federal loan limits and tuition expenses continues to be relatively wide. Fitch estimates that, based on current legislation, the gap between four-years of tuition and fees at a private undergraduate college and federal loan aid could be around $50,000. Recent dislocations in the capital markets and credit deterioration resulting from portfolio seasoning and a tougher economic environment, however, have reduced the profitability, and therefore, the availability of the private education loan. Fitch believes lenders that remain in the space are taking a closer look at the terms and structuring of the product in order to make them more attractive for investors while remaining useful for borrowers.

Lenders

Many large financial institutions participate in the private student loan market, particularly those with a sizeable retail franchise, as student loans are often part of the consumer product suite. Most large banks, however, do not disclose detailed information on their student loan portfolios, as it is not a significant contributor to the overall business. Large bank lenders include JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo (including Wachovia).

Private Education Loan Portfolios

($m)

	2002	2003	2004	2005	2006	2007	3Q 2008
SLM Corporation	$5,822	$8,305	$11,482	$16,437	$22,588	$ 28,328	$32,800
Student Loan Corp	$1,784	$2,643	$3,649	$4,812	$3,072	$4,696	$5,816
NelNet	$75	$92	$90	$97	$197	$275	$276

Source: Company Filings and Fitch Estimates.

More robust information is available for non-bank student lenders like SLM Corporation, Student Loan Corp. (which is 80% owned by Citibank, N.A.), and Nelnet, Inc. The portfolios of each have grown rapidly since 2002, but growth slowed materially in 2008, given the more difficult environment.

Funding

Many private education loan providers have funded a portion of their portfolio in the ABS market in recent years, but investor risk aversion and underlying collateral deterioration has reduced the demand for private student loan ABS bonds.

SLM Corporation, the largest student loan provider, completed three private loan ABS transactions in 2006 totaling over $5bn in issuance, but it has not completed a private loan ABS transaction since its $2.2bn deal in March 2007. Only two private student loan deals were completed in 2008; one $140m deal from MRU Holdings, Inc. (My Rich Uncle) completed in July, which Fitch did not rate, and a $400m deal from the Massachusetts Educational Financing Authority, completed in August, rated 'AAA' by Fitch based on the financial guaranty provided by Assured Guaranty Corp.

SLM: Private Education Loan Securitization Activity

(For the Years Ended December 31; $ 000s)

Year	Amount	# Deals
2002	$690	1
2003	$3,503	3
2004	$2,535	2
2005	$3,005	2
2006	$5,088	3
2007	$2,001	1
2008	-	0
Total	**$16,822**	**12**

Source: Company Filings.

Large bank lenders have been able to leverage their deposit base to replace ABS funding, but non-bank lenders have had to rely on more expensive sources of debt to fund student loan portfolios. The weighted-average cost of SLM's March 2007 term ABS deal, excluding the auction rate tranche, was approximately LIBOR plus 15 basis points. In 2008, the company paid LIBOR plus 400 basis points for its $2.5bn, ten-year, unsecured corporate debt issuance and LIBOR plus 155 basis points for $3.8bn in private loan ABCP capacity, which matures in February 2009.

Higher funding costs and reduced margins led many lenders, like CIT, College Loan Corporation, KeyBank, and Astrive Student Loans (a registered trademark of The First Marblehead Corporation), to exit the business altogether. Those that remain have reduced origination volume and re-evaluated underwriting criteria. SLM, for example, has tightened its underwriting standards, terminated certain school relationships and reduced origination volume by 20% year-over-year, to approximately $6.3bn in 2008. Additionally, SLM is looking to expand the deposit base of its industrial bank, Sallie Mae Bank, in order to more cost-effectively fund the private loan portfolio. The bank had $2.3bn in term bank deposits as of December 31, 2008 and Fitch believes the deposit base will grow to keep pace with private loan originations in coming quarters.

Still, Fitch does not believe that lenders will abandon the ABS markets altogether, as it can be an efficient way to secure term funding for private student loans. While lenders are expected to re-educate investors on the attractive risk/return attributes of the private education loan in order to reduce funding spreads, the Federal Reserve is doing its part to get the ABS market functioning again with the introduction of the Term Asset-Backed Loan Facility.

Term Asset-Backed Loan Facility (TALF)

The Term Asset-Backed Loan Facility (TALF) is being developed with the intention of restoring liquidity to the ABS markets for consumer assets; including auto, credit cards, and student loans. Under the TALF, the Federal Reserve Bank of NY is expected to make up to $200bn of loans, which will be fully secured by eligible ABS. Eligible collateral will include, US dollar-denominated cash ABS with a long-term credit rating of 'AAA'. The underlying credit exposures must be auto loans, student loans, credit card loans, or small business loans guaranteed by the US Small Business Administration. Student loans will include federally-guaranteed loans, including consolidation loans, and private student loans. Eligible ABS must be issued after January 1, 2009 and all or substantially all of the underlying credit exposures of eligible student loan ABS must have had a first disbursement date on or after May 1, 2007.

TALF loans will have a three-year term with interest payable monthly and the loans will not be subject to mark-to-market requirements. TALF loans are pre-payable, but will not allow for substitution of collateral and any repayment of principal on eligible collateral must be used to reduce the principal amount of the TALF loan. The interest rate will be set to encourage borrowers to purchase ABS. The facility will stop making loans on December 31, 2009, unless the facility is extended by the Federal Reserve. Expectations are for the TALF to be up and running in the first quarter of 2009.

Fitch believes the TALF could be an attractive, and much-needed, funding source for private student loans originated after May 1, 2007, although enhancement levels needed to create 'AAA' securities will likely be more expensive given revised stress scenarios which reflect more recent credit conditions. But restoring more permanent liquidity to the private education loan ABS market may take more than what the TALF, alone, can accomplish. Fitch believes lenders will need to convince investors that underwriting criteria is effective enough to identify and exclude the riskier borrowers and schools that yielded significant deterioration in their portfolios in 2007 and 2008.

Additionally, lenders may need to alter the structure of the private student loan, itself, to make it more liquid and attractive for investors. The maturity of a private student loan, for example, is typically 15 to 20 years, while the maturity of an auto loan is around 5 to 6 years. Investors may not be comfortable with the longer average life of a private student loan ABS transaction and it may be more difficult and more expensive to hedge the interest rate risks of a longer-dated asset. Still, shortening the life of the underlying loan can increase the borrower's monthly payments significantly, making it more difficult to stay current on payment and, therefore, leading to higher portfolio credit losses. Clearly, there will be a balancing act for lenders to consider.

Furthermore, Fitch believes the Deficit Reduction Act, which gave graduate students the increased ability to borrow federal loans, will change the make-up of private student loan portfolios. Of the last 7 private student loan ABS transactions facilitated by First Marblehead Corp, 10.4% of collateral, on average, was related to graduate student borrowers. Going forward, portfolios will be more heavily weighted to undergraduate students. Typically undergraduates do not have an extensive credit history, which means underwriting is often based on the credit risk of the co-borrower or co-signor, which is often a parent, guardian, or spouse. As underwriting policies have tightened, the portion of new loans with co-borrowers has increased. Therefore, newer originations are not solely dependent upon the student's ability to graduate and obtain meaningful employment, as the co-borrower, who is more likely to be established and have more at risk from a credit perspective, is also responsible for making payments. This should provide investors with additional comfort.

SLM has discussed adjusting its private education loan by shortening the product term, increasing the portion of the portfolio with a co-borrower, and requiring interest-only payments while students are in-school.

Asset Quality

Unlike federal student loans, private education loans do not come with a government guarantee against default, although the loans are generally non-dischargeable in bankruptcy and lenders will often obtain third-party insurance to limit the downside

Asset Quality: Private Education Loans

30+ Day Delinquencies/Loans in Repayment

	2002	2003	2004	2005	2006	2007	3Q 2008	Average
SLM Corp	7.7%	9.2%	8.4%	7.7%	10.1%	9.3%	9.6%	8.8%
NelNet	14.4%	12.5%	10.1%	7.8%	5.6%	4.7%	5.3%	8.6%
Student Loan Corp	NA	3.0%	2.3%	2.5%	5.2%	4.0%	5.2%	3.7%

Loans in Forbearance/(Loans in Repayment + Forbearance)

	2002	2003	2004	2005	2006	2007	3Q 2008	Average
SLM Corp	9.8%	10.0%	7.5%	9.9%	9.2%	13.9%	11.5%	10.3%
NelNet	17.5%	22.1%	3.1%	4.2%	5.4%	7.9%	5.2%	9.4%
Student Loan Corp	NA	NA	6.6%	7.1%	6.6%	8.1%	6.2%	6.9%

Net Charge-offs/Average Private Loans in Repayment

	2002	2003	2004	2005	2006	2007	3Q 2008	Average
SLM Corp	2.2%	1.9%	1.9%	1.9%	1.6%	3.1%	3.4%	2.3%
NelNet	3.5%	9.0%	10.6%	0.9%	1.1%	0.9%	2.4%	4.1%
Student Loan Corp	NA	0.4%	0.4%	0.4%	0.7%	1.4%	2.9%	1.0%

PrivateLoans in Repayment/Private Loans

	2002	2003	2004	2005	2006	2007	3Q 2008	Average
SLM Corp	53.1%	51.6%	52.5%	49.7%	50.7%	50.3%	52.2%	51.4%
NelNet	48.8%	56.3%	72.1%	68.4%	54.3%	54.6%	59.1%	59.1%
Student Loan Corp	NA	47.7%	51.8%	52.8%	37.6%	41.2%	38.1%	44.9%

Private Allowance/Private Loans in Repayment

	2002	2003	2004	2005	2006	2007	3Q 2008	Average
SLM Corp	6.3%	5.9%	5.1%	3.4%	3.4%	8.2%	7.8%	5.7%
NelNet	5.6%	12.1%	11.0%	20.1%	17.2%	14.0%	15.2%	13.6%
Student Loan Corp	NA	0.1%	0.2%	0.1%	0.6%	1.5%	4.6%	1.2%

Note: Metrics annualized in 2008 where appropriate.
Source: Company Filings and Fitch Estimates. NA - Not Available.

risk. Federal student loans are underwritten based on need, but private education loans are underwritten based on a credit evaluation of the borrower and/or co-borrower and risk-based pricing is employed. While early statistical data of collateral performance was sound, Fitch remained cautious about early credit data, as the surge in origination volume meant that only a small portion of loans outstanding were in repayment status. In recent years, as loan portfolios have seasoned and the economy has slowed, credit performance of the private education loan product has deteriorated.

Private student loan credit performance metrics for SLM Corp, Nelnet, Inc. and Student Loan Corp (SLC) are presented in the table above. Nelnet's portfolio is significantly smaller than the other lenders, but many metrics have followed a similar pattern. Surprisingly, delinquency metrics were actually down at the end of 2007 relative to the prior year, but Fitch believes this was because lenders were employing forbearance policies more aggressively, perhaps believing that a borrower's inability to pay was a temporary blip. But delinquency rates rebounded in 2008, as lenders pulled back on forbearance, after realizing the economic downturn would have a more prolonged impact on a borrower's ability to pay, particularly given the significant increase in the unemployment rate. Borrowers receiving forbearance are being awarded shorter grace periods to ensure they do not get out of the habit of paying every month. SLM's forbearance levels declined from 13.9% of loans in repayment and forbearance in 2007 to 11.5% in 3Q2008, while STU's declined from 8.1% to 6.2%. Fitch believes forbearance levels may decline further in 2009, as lender's award payment programs only to borrowers that they believe can truly benefit, but the decline will accelerate the recognition of credit losses into current periods.

From a net charge-off perspective, metrics have deteriorated for all three issuers since 2006, with SLC increasing 220 basis points to 2.9% as of September 30, 2008, and SLM increasing 180 basis points to 3.4%. Still, both issuers believe they have identified the main source of credit deterioration (outside normal pressure from economic weaknesses) and that is: lending to students attending schools with lower graduation rates and lower average earning potential, given the degree programs offered.

SLM has divided its portfolio into traditional schools and non-traditional schools, where the latter refers to 'loans made to borrowers that are expected to have a high default rate as a result of a number of factors, including having a lower tier credit rating, low program completion and graduation rates, or where the borrower is expected to graduate, a low expected income relative to the borrower's cost of attendance'. The dispersion in portfolio performance is clear, with the traditional portfolio posting net charge-offs of 2.5% in the fourth quarter of 2008, while the non-traditional portfolio posted net losses of 16.1%. Delinquency statistics are also significant with traditional and non-traditional delinquencies of 7.1% and 28.9%, respectively. SLM has ceased lending to non-traditional schools, but Fitch believes the impact of the $4.95bn portfolio will remain for some time as only 60.6% of the portfolio was in repayment as of December 31, 2008.

SLM Corporation - Private Portfolio Distribution

(For the Years Ended December 31; $m)

	2006	2007	1Q 2008	2Q 2008	3Q 2008	4Q 2008
Traditional Private Education Loans						
Traditional Loans, End of Period	19,533	25,791	27,502	28,349	30,060	30,949
Traditional Loans in Repayment	9,835	12,711	12,683	14,433	14,605	17,715
30+ Delinquencies/Loans in Repayment	NA	5.2%	4.6%	4.9%	6.3%	7.1%
Loans in Forbearance/Loans in Forebearance and Repayment*	NA	12.8%	15.5%	12.0%	11.0%	6.7%
Net Charge-Offs/Average Loans in Repayment	0.6%	1.5%	1.7%	2.0%	2.0%	2.5%
Allowance/Loans in Repayment	1.8%	3.5%	3.7%	3.3%	3.9%	4.0%
Non-Traditional Private Education Loans						
Non-Traditional Loans, End of Period	3,449	4,580	4,811	4,873	4,952	4,945
Non-Traditional Loans in Repayment	1,819	2,155	2,187	2,451	2,641	2,997
30+ Delinquencies/Loans in Repayment	NA	26.3%	23.3%	24.0%	26.3%	28.9%
Loans in Forbearance/Loans in Forebearance and Repayment*	NA	19.4%	21.4%	18.5%	14.4%	9.0%
Net Charge-Offs/Average Loans in Repayment	7.2%	11.9%	12.9%	15.0%	12.9%	16.1%
Allowance/Loans in Repayment	11.8%	36.3%	36.6%	33.4%	29.8%	26.4%

* Annualized.
Source: Company Filings.

Net charge-offs on SLM's traditional portfolio, which represents about 86% of the total private loan portfolio, have increased as well, given the tougher economic environment, with net losses rising from 0.6% in 2006. Fitch expects credit metrics to deteriorate further in 2009, as the unemployment picture remains weak for borrowers in and just entering repayment status.

SLC has also segmented its private loan portfolio into the following three categories: Insured CitiAssist, Uninsured CitiAssist Standard and Uninsured CitiAssist Custom. Standard loans are primarily related to CitiAssist loans that have been approved based on standard underwriting criteria and were originated on or after January 1, 2008. Custom loans are related to loans made to non-traditional students or loans with less stringent underwriting standards.

Approximately 78% of the private loan portfolio carries private insurance through

United Guaranty Commercial Insurance Company of North Carolina/New Hampshire Insurance Company or through Arrowood Indemnity Company. Risk-sharing deductibles range from 5% to 20% up to maximum loss levels. As expected, net charge-offs on Insured CitiAssist loans remain relatively low at 0.8%, as of September 30, 2008, but SLC stopped insuring new CitiAssist loan originations on January 1, 2008, believing that higher loan losses would be more than offset by declines in insurance premiums paid.

Student Loan Corp - Private Portfolio Distribution

(For the Years Ended December 31; $m)

	2006	2007	1Q 2008	2Q 2008	3Q 2008
Insured CitiAssist					
Loans, End of Period	$2,410	$3,870	$4,489	$4,590	$4,523
Loans in Repayment	$733	$1,443	$1,469	$1,706	$1,605
30+ Delinquencies/Loans	6.5%	3.7%	4.6%	3.5%	5.3%
Loans in Forbearance/Loans in Forebearance and Repayment	8.3%	9.3%	13.4%	9.2%	11.8%
Net Charge-Offs/Loans in Repayment*	NA	NA	0.4%	0.6%	0.8%
Allowance/Loans in Repayment	0.1%	0.2%	0.4%	0.3%	0.6%
Uninsured CitiAssist					
Loans, End of Period	$662	$826	$1,033	$1,230	$1,293
Loans in Repayment	$423	$494	$530	$580	$609
30+ Delinquencies/Loans	2.9%	4.8%	5.1%	4.6%	4.5%
Loans in Forbearance/Loans in Forebearance and Repayment	3.5%	4.4%	7.2%	7.1%	8.5%
Net Charge-Offs/Loans in Repayment*	NA	NA	6.1%	8.0%	7.3%
Allowance/Loans in Repayment	1.6%	5.4%	6.8%	11.6%	15.0%
Loans Covered by Risk-Sharing Agreements with Schools	75.9%	59.7%	47.7%	40.3%	37.3%

* Annualized.
Source: Company Filings and Fitch Estimates.

Net losses on the uninsured portfolio amounted to 7.3% in the third quarter of 2008. Standard loans account for approximately 29% of the uninsured portfolio while custom loans account for about 71%. Net charge-offs on the standard portfolio amounted to 0.2% in the third quarter of 2008, while losses on the custom portion amounted to 9.3%. In the second quarter of 2008, SLC discontinued relationships with schools that generated higher-risk uninsured CitiAssist originations, which Fitch believes would be included in the custom portion of the portfolio. SLC has tightened underwriting criteria in response to the economic environment and plans additional tightening in the near-term.

A portion of the uninsured portfolio is covered by risk-sharing agreements with schools and universities, although that portion has been on a declining trend; from 75.9% of the uninsured portfolio in 2006 to 37.3% in the third quarter of 2008. Under the agreements, the school reimburses a specified percentage when losses exceed a certain threshold or the school pays a percentage of the total disbursed amount to compensate for future expected losses. Lenders to schools with riskier borrower profiles are subject to adverse selection.

While lenders like SLM and SLC are segmenting portfolios and modifying underwriting standards; balance sheets and securitization trusts continue to contain a significant amount of loans already originated which have yet to enter repayment status. As of September 30, 2008, only 38.1% of SLC's private loan portfolio was in repayment status, compared to 57.7% of SLM's portfolio at year-end. Fitch believes lenders have and will continue to build reserves in anticipation of poorer performance of loans made to 'non-traditional' schools and to incorporate general portfolio weakening due to the weaker economic environment. SLM's allowance as a percent of loans in repayment amounted to 7.2% at year-end 2008 and SLC's allowance amounted to 4.6% at the end of the third quarter 2008.

The fact that private education loans are non-dischargeable in bankruptcy has come under an increasing amount of scrutiny in recent years, in the face of bankruptcy reform and political transition. Consumer protection has been a hot topic in recent months and Fitch believes recent developments in the mortgage market aimed at reducing a borrower's debt burden could expand into other asset classes. Consumer protection advocates have also highlighted the higher interest rates charged by lenders on private loans. The imposition of interest rate caps or limits would also make the private loan less attractive to lenders and investors.

The Education Resources Institute, Inc.

The Education Resources Institute, Inc. (TERI), a private, non-profit corporation and the largest guarantor of private student loans, filed for Chapter 11 bankruptcy protection on April 7, 2008. TERI provided private education loan guarantees to commercial banks underwriting loans according to its articulated standards. Participating banks included Bank of America, Charter One Bank, JPMorgan Chase, and RBS Citizens. These banks would often partner with First Marblehead Corporation (FMD), a student loan facilitator, to structure private student loan ABS transactions. FMD conducted ABS transactions out of its wholly owned subsidiary, National Collegiate Funding LLC and TERI guaranteed 100% of principal and accrued interest on defaulted loans in the trusts.

As discussed in the Asset Quality section, private education loan credit performance began to deteriorate in 2007 and early 2008 as the economic picture weakened. But compounding the issue for TERI was that a large portion of the collateral included in the National Collegiate Student Loan Trust (NCSLT) was originated through the direct-to-consumer channel (as opposed to the school channel), which has been more susceptible to fraud, as there is typically no verification with schools to ensure that funds are being used to pay a borrower's tuition. On average, of the last 7 NCSLT ABS transactions, completed in 2006 and 2007, approximately 80% of loan collateral was originated in the direct-to-consumer channel. So as the economy weakened, some TERI-guaranteed portfolios deteriorated quickly, given the higher direct-to-consumer exposure. TERI received an increasing amount of default claims and its liquidity profile weakened.

Fitch has downgraded and/or placed on Rating Watch Negative numerous classes of NCSLT ABS due to deteriorating collateral performance, beyond Fitch's expectations, combined with operational uncertainties related to the bankruptcy proceedings of TERI and concerns regarding the level of recoveries on defaulted loans in a post-TERI environment. Ongoing analysis is focusing on default level and loss timing projections for each pool. Depending on the outcome, Fitch expects that ratings currently on Rating Watch Negative could be downgraded by an additional zero to three notches.

Fitch believes the impact of the TERI bankruptcy is not limited to ABS transactions, as there are TERI-guaranteed loans residing on bank balance sheets which may, therefore, end up performing well-below management expectations. While student loans are generally not a material component to a large commercial bank's profitability, unexpected losses on what were believed to be insured loans, will only add to the challenges facing banks in the current environment.

Summary

Fitch believes tighter underwriting standards and structural changes to the private education loan product will help peak investor interest in the collateral, but true market liquidity is not likely to return until investors have more information about how private student loan portfolios perform in the current stressed environment and the ABS markets are fully functioning without government intervention.

Even so, ABS spreads are not likely to return to pre-2007 levels, which means that many lenders that have temporarily cut origination volume may need to reassess the long-term risk/return attributes of the business. Based on these dynamics, the private student loan market will find a new equilibrium; however, this may not align with public policy interests and could necessitate further legislative action to restore a healthier balance of financing for this asset class.