

BANKS COMMITTEE  
AND  
HIGHER EDUCATION AND EMPLOYMENT  
ADVANCEMENT COMMITTEE FORUM

“THE EFFECT OF THE SUB-PRIME MORTGAGE  
CRISIS ON THE AVAILABILITY OF FUNDS  
FOR STUDENT LOANS”

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# CONNECTICUT STUDENT LOAN FOUNDATION (CSLF)

## I. Who we are and what we do

(1) Structure

(2) Services and Products

(a) Guarantor

(b) Lender

- (c) Information/Training Provider
- (d) Largest Financial Aid Provider and Disseminator of Financial Aid Information Located in Connecticut

### (3) Volumes

- (a) Guarantees Outstanding = \$1.5 billion +
- (b) FYE 2007 Guarantees = \$300 million/\$86 million in consolidations

(c) Loans Held = \$750 million

(d) FYE 2007 Lending = \$250 million FFELP

(e) Federal Program vs. Private

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(4) Non-Monetary Assistance Provided Annually

(a) Over 6,000 Families

(b) Over 140 sessions

## II. Lending

### (1) Bonds + Liquidity

#### (a) Structure

(i) Auction Rate Certificates

(ii) Bonds Outstanding = \$935.9 million Total  
\$36.9 million Tax-Exempt

(iii) Taxable vs. Tax-Exempt

(b) Current Lending Capacity  
Available - \$150 million +

(c) Difference between CSLF and other Lenders

(2) Funding

(a) Future Financing and Refinancing Problems

(i) Structure

(3) Cost and Recent Activity

(4) “Fall Back” Options

(a) Federal Backstop (expiration 9/30/09)

(b) Lender of Last Resort

(5) Taxable vs. Tax-Exempt Future



- (c) Lack of Liquidity in Market/Failed Auction
- (d) No Longer “Cash Equivalent”
- (e) No Market Confidence
- (f) New More Costly Financing Required if  
and when the Market will Accept Debt

(2) Market Relevance to Returns

(a) Federal Loan “Profitability”

- Some Examples and Explanation of Calculation:

**ISOLATED YIELD SCENARIO  
CSLF AAA RATED AUCTION RATE  
CERTIFICATES  
NEW STAFFORD LOAN  
FEBRUARY 2008**

Loan Rate 6.8%

Allowable Return:

CP Rate 3.11%

Margin Factor 1.34% 4.45%

Amount of Negative SAP (2.35%)

**ISOLATED YIELD SCENARIO  
CSLF AAA RATED AUCTION RATE  
CERTIFICATES  
NEW LOAN SCENARIO  
FEBRUARY 2008**

Allowable Return                      4.450%

Interest Rate Payable  
To Bond Holders (AAA)              4.639%

Yield After Interest                      (.189%)

**ISOLATED YIELD SCENARIO  
 CSLF AAA RATED AUCTION RATE CERTIFICATES  
 NEW LOAN SCENARIO  
 FEBRUARY 2008**

Yield After Interest (1.89%)

Expenses:

Lender Fee	1.00%	
Auction Agent	.01%	
Broker-Dealer	.25%	
Trustee	.07%	
Servicing	<u>.38%</u>	<u>1.71%</u>

Net Yield (Loss) After Expenses (1.90%)

NOTE: Subordinate Paper is Significantly Worse

# A TYPICAL YIELD SCENARIO --1<sup>ST</sup> QUARTER 2008 STAFFORD LOANS

- REVENUE
  - INTEREST 6.8000%
  - SPECIAL ALLOWANCE -0.0237%
  - EARNINGS 6.7763%

# A TYPICAL YIELD SCENARIO – 1<sup>ST</sup> QUARTER 2008 STAFFORD LOANS

- EXPENSES
  - BOND INTEREST 4.7750%
  - LENDER FEE 1.0000%
  - AUCTION AGENT 0.0100%
  - BROKER-DEALER 0.1565%
  - TRUSTEE FEE 0.0700%
  - SERVICING 0.3800%
  - TOTAL EXP 6.3915%

**A TYPICAL YIELD SCENARIO --1<sup>ST</sup>  
QUARTER 2008 STAFFORD LOANS**

- **REVENUE** 6.7763%
- **EXPENSES** 6.3915%
- **NET YIELD ON LOAN** 0.3848%

- **NOTE: BROKER-DEALER FEES ON NEW ISSUES  
ARE .25% WHICH BRINGS THIS YIELD TO  
.1348%**

## IV. Wrap-Up

- Over 130 Lenders Have Dropped Out of Federal/Private Student Lending
- CSLF Has No Problem Meeting Demand Today
- The Future Does Not Look Bright
  - Lack of Confidence and Liquidity
  - Lack of Affordable Debt Structure
  - Cherry Picking by Other Lenders
  - Profitability in Federal Program an Issue