

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

^{4c}

(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

III. Connecting the Sub-Prime + Student Loan Problems

(1) Market Conditions

(a) Volatility in Rates (CP, LIBOR, Treasury Bills)

(b) Interest Payments on Bonds

Example:

<u>Date</u>	<u>Type</u>	<u>Interest Earned*</u>	<u>CP Rate</u>	<u>Interest Paid</u>
2/11/08	AAA	4.45%	3.11%	4.639%
2/25/08	A**	4.37%	3.032%	7.150%

* In-School Paper

**Tax-Exempt

- (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 --1ST QUARTER 2008 STAFFORD LOANS

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

A TYPICAL YIELD SCENARIO – 1ST 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 --1ST
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