Connecticut Higher Education Supplemental Loan Authority

Market Overview

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• CHESLA has only issued fixed rate bonds some were insured
• CHESLA has no auction rate securities, variable rate demand bonds, or swaps
• CHESLA's debt portfolio is not under stress from the current market conditions
• CHESLA has relied on AAA monoline bond insurance since 2003
• Market challenge for CHESLA will be securing bond insurance for the upcoming bond issue
• CHESLA could also explore issuing without insurance
• CHESLA is backed by a Special Capital Reserve Fund which is a statutory guaranty
Asset-Backed Securities

- Linked to packages of mortgages – including sub prime mortgages
- Pass through Securities – As mortgage payments are made they are passed through to investors
- Defaults in Mortgages causing problems for owners of these securities
  - Cash Flows have essentially dried up
  - Causing Financial Institutions to report huge losses
Bond Insurers Pay...

- Bond Insurers saw the value of their investments in the sub prime securities fall at the same time as the likelihood of these securities defaulting rose.

- Due to losses from risky investment vehicles, AAA Bond Insurers are being downgraded as it is realized that they lack adequate capital to support their potential debt service exposure.
  - Bond Insurers have been told by Rating Agencies to raise additional capital.

- These are the same Bond Insurers that insure vast amounts of municipal bonds.

- As Bond Insurers and the bonds that they insure lose and/or are threatened with losing their AAA rating, they lose value.
  - Potential write-downs by the institutional investors that hold these bonds.
**Bond Insurance Turmoil**

- **Status of Bond Insurers (as of August 8, 2008)**
  - Assured Guaranty is the only AAA insurer with stable ratings from two agencies

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Moody's Investor Services</th>
<th>Standard &amp; Poor's Rating Services</th>
<th>Fitch Rating Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSA</td>
<td>Aaa / under review for downgrade</td>
<td>AAA / Negative</td>
<td>AAA/ Stable Outlook</td>
</tr>
<tr>
<td>Assured Guaranty</td>
<td>Aaa / under review for downgrade</td>
<td>AAA / Stable Outlook</td>
<td>AAA / Stable Outlook</td>
</tr>
<tr>
<td>Radian Asset Assurance</td>
<td>A3 / Negative Outlook</td>
<td>A / Negative Watch</td>
<td>Not Rated</td>
</tr>
<tr>
<td>MBIA</td>
<td>A2 / Negative Outlook</td>
<td>AA / Negative Watch</td>
<td>Not Rated</td>
</tr>
<tr>
<td>Fitch</td>
<td>Aaa under review (direct insolvency)</td>
<td>A / Negative Watch</td>
<td>CCC evolving</td>
</tr>
<tr>
<td>AIG</td>
<td>Aaa / Negative Outlook</td>
<td>AA / Negative Watch</td>
<td>Not Rated</td>
</tr>
<tr>
<td>FMBI</td>
<td>B1 / Negative Outlook</td>
<td>BB / Negative Watch</td>
<td>CCC evolving</td>
</tr>
<tr>
<td>ACA</td>
<td>Not Rated</td>
<td>CCC / Developing Watch</td>
<td>Not Rated</td>
</tr>
</tbody>
</table>
Bond Insurance Trading Spreads

- Assured Guaranty is the only insurer without material impact on trading value

- Other bond insurers (MBIA, Ambac, FGIC, XL, CIFG, Radian) trading on underlying credit
  - Investors look past bond insurance
Bond Insurance for New Student Loan Deals

- Historically MBIA and Ambac have been the two bond insurers active in the student loan market and are the two who have insured CHESLA bonds.
- FSA and AG are beginning to consider student loan transactions.
- Insurance premiums are climbing these two insurers:
  - FSA and Assured Guaranty have been adjusting their premium pricing to reflect the market scarcity of AAA insurance.
  - FSA and Assured Guaranty are implementing tighter underwriting criteria, reflecting their powerful market position.
Rating Agency Review of New Deals

- Rating agencies are reviewing and revising their rating criteria and stress test parameters.
- Review process is not complete and is contributing to delays in restructuring transactions.
- Revised rating agency criteria likely ready for next CHESLA bond issuance
- CHESLA has $6 million left to lend at 6.99% fixed rate.
- The Authority plans to issue $45 million in tax-exempt bonds the first week of November to fund additional CT FELP loans. The fixed rate will be set by the bond deal.
Variable Rate Bond Market
Future of Auction Rate Securities Market

- Consensus market view is that the auction rate market is defunct
  - Most borrowers refinancing or converting Auction Rate Securities to other instruments (Variable Rate Derivative Bonds, fixed rate bonds, and others)
  - Currently pressure on the traditional fixed rate markets with many institutions refinancing to a traditional fixed rate
Implications for CHESLA
Student Loan Availability

- Market turmoil impacting market access for Student Loan issuers
- Several lenders have left the Private loan market or have temporarily discontinued lending.
- Potential significant impact on loan availability
  - FFELP
  - Private
Implications for CHESLA

- CHESLA has a strong shadow rating of “A”
- Competitive landscape changes – unenhanced “A” rated bonds
  - Need to test investor market for uninsured bond deal
- CHESLA has backing of the State’s Special Capital Reserve Fund (SCRF). Stressing this security with the rating agencies.
- Private loans are likely to be scarce for students
  - Currently a strong market CHESLA’s private loans
- CHESLA has issued bonds with MBIA insurance since 2003.
- CHESLA is reverting to an earlier bond resolution without MBIA insurance for its 2008 bond deal.
<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rate</th>
<th>Fee Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Stafford Loan</td>
<td>6.8%</td>
<td>Fixed rate of interest (7/1/06)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fees vary by lender</td>
</tr>
<tr>
<td>Federal Plus Loan</td>
<td>8.5%</td>
<td>Fixed rate of interest (7/1/06)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fees vary by lender</td>
</tr>
<tr>
<td>Other Private Loans</td>
<td></td>
<td>Variable Rates of Interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fees vary by lender</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.9% Direct Plus Loan</td>
</tr>
</tbody>
</table>

1 APR (accounts for 3% reserve fee) ranges from 7.37% to 7.51% over the life of the loan.

Note - APR and Fees for other lenders vary by repayment terms. Consult the lender for actual terms.

New Stafford rate 6-6.8%
• CHESLA’s net Default rate as of June 30, 2008 is 2.44% down from 2.64% in June 2007

• CT FELP loan approval rate for 2007 Jan.-Dec. was 47%. For the past 8 months of 2008 (Jan.-Aug. 31, 2008) is 63% so there has not been a decline at this point.

• The majority of borrowers come from families with incomes between $75,000-$150,000, mostly middle income.