Credit Crisis in Higher Education 2009 and Beyond

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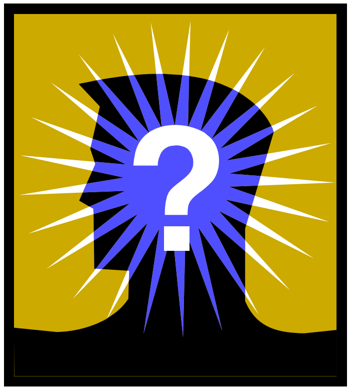
Founding Executive Director - Virginia Education Loan Authority
1977 to 1990

- My background started within higher education as a Bursar and then a Financial Aid Director before taking the VELA job.
- VELA was created due to the lack of lending support from the banking community to participate in the Federal loan programs (FFELP)
- VELA became the third largest lender in USA within 5 years in the FFELP and represented the majority of loans to Virginia schools and students by 1982
- Funds came from the sale of tax exempt revenue bonds and held a rating of A+ throughout my tenure.
- Left VELA in 1990 and became Executive V/P of Corporate Development at USAGroup, followed by Sr. V/P of Marketing at Nellie Mae and when Nellie Mae was purchased by Sallie Mae I became the V/P of Marketing and their first Higher Education Consultant for schools
- Presently consulting with colleges and universities on funding programs for future years.

What Are the Issues?



- COLLEGE LOSS OF REVENUE AND STUDENTS
- GROWING LOSS OF FAMILIES ABILITY TO PAY HIGHER EDUCATION BILLS

Issues

- STUDENTS AND PARENTS PERSONAL VALUE HAS DECLINED
- STUDENTS AND PARENTS ACCESS TO EQUITY AND/OR SAVINGS DOWN
- STUDENTS AND PARENTS USE OF FEDERAL LOANS ARE AT MAXIMUM LEVELS
- STUDENTS AND PARENTS ARE LOOKING TO FINANCE MORE AND MORE TO FILL THE "FINANCIAL AID GAP"

- COLLEGES ARE SPENDING MORE TO RECRUIT STUDENTS
- COLLEGES HAVE HAD THE ENDOWMENTS DAMAGED BY THE PRESENT ECONOMY
- COLLEGES ARE UNABLE TO EXTEND MASSIVE CREDIT TO RETAIN STUDENTS
- COLLEGES CAN NOT LOOK TO LENDERS FOR SOLUTIONS ANYMORE

What Schools are Effected Most?

- PRIVATE COLLEGES ?
- PUBLIC COLLEGES?
- PUBLIC COMMUNITY COLLEGES?

ALL OF THEM

Potential Impact

- DECLINE IN ENROLLMENTS DUE TO UNMET FINANCIAL NEED
- FEWER STUDENTS ADVANCING TO GRADUATE STUDIES
- CRITICAL FIELDS IN MEDICINE,TEACHING AND OTHER AREAS MAY BE EFFECTED
- PRIVATE COLLEGES LOOKING TO THE COMMONWEALTH FOR INCREASED SUBSIDIES IN "TAG"
- PUBLIC COLLEGES REDUCING ALREADY SLOWED CAPITAL IMPROVEMENTS
- FAMILIES COMPLAINING TO THE STATE THAT THEY CAN NOT AFFORD HIGHER EDUCATION IN VIRGINIA
- FAMILIES BELIEFS THAT "ONLY THE RICH GO TO COLLEGE"

Possible Solutions – Option 1

- RE-AUTHORIZE A *HYBRID* VELA FOR LENDING IN ALTERNATIVE LOANS (NON-FEDERAL) AND FFELP LENDING FOR VIRGINIA RESIDENTS ATTENDING VIRGINIA SCHOOLS AND VIRGINIA RESIDENTS ATTENDING OUT OF STATE SCHOOLS
- ESTABLISH A GUARANTOR FUND OF $5 MILLION TO ESTABLISH AN OPERATION AND CREATE A GURANTEE FUND FOR LOAN LOSSES
- AUTHORIZE TAX-EXEMPT AND TAXABLE FINANCE AUTHORITY TO VELA *HYBRID* TO FUND LENDING OR PURCHASING LOANS AND ALLOW MANAGEMENT TO OUT SOURCE SERVICES RATHER THAN RECREATE THE ORIGINAL VELA SIZE
- ALLOW VELA *HYBRID* TO USE FUTURE EXCESS FUNDS FOR REWARDS TO BORROWERS WHO GRADUATE IN PROFESSIONS NEEDED IN VIRGINIA
- ALLOW VELA *HYBRID* TO ACCEPT FUNDS FROM FEDERAL, STATE OR PRIVATE SOURCES TO PROMOTE PROGRAMS

Possible Solutions – Option 2

- ARRANGE A CONTRACT WITH ANOTHER STATE PROGRAM TO FUND VIRGINIA RESIDENTS
- OFFER OTHER STATE PROGRAMS CONTRIBUTIONS TO THEIR STATE LOAN GURANTEE FUNDS TO PARTICIPATE (RISK SHARING TYPE PROGRAM)
- ARRANGE FOR ONE BANK TO RUN A RISK SHARING PROGRAM AND PAY SERVICING FEES IN ADDITION TO A GURANTOR FUND AND THE STATE CREATE A REVIEW AGENCY TO ASSURE COMPLIANCE
- MAJOR PROBLEMS
- LACK OF CONTROL OVER SERVICE TO VIRGINIA RESIDENTS
- INABILITY TO DEVELOP REWARD PROGRAMS FOR FUTURE PROFESSIONS NEEDED IN THE COMMONWEALTH

Possible Solutions – Option 3

- DO NOTHING AND LET SCHOOLS FIND THEIR OWN SOLUTION
- RECONSIDER SUBSTANTIAL FUNDING TO THE “TAG” PROGRAM FOR PRIVATE SCHOOLS AND MAINTAIN FUNDING AS IS WITH PUBLIC INSTITUTIONS

Funding Alternative Loans

- GUARANTOR FUND FOR LOAN LOSSES
- TAX OR TAX EXEMPT MARKET PLACES
- LEVERAGE GUARANTEE FUNDS WITH LENDING RATIO TO MAXIMIZE LENDING TO STUDENTS AND PARENTS
- USE ANY NET REVENUE IN EXCESS OF OPERATIONS TO INCREASE THE GUARANTOR FUND
- CHARGE STUDENT OR PARENT 5% GUARANTEE FEE WITH:
  2% ALLOCATED TO THE GUARANTOR FUND FROM BORROWER
  1% CHARGE TO THE COLLEGE FROM PROCEEDS ALLOCATED TO THE GUARANTOR FUND
  2% FOR ADMINISTRATION
- AS AN AUTHORITY THE STATE REMAINS PROTECTED FROM BEING AN OBLIGOR ON ITS DEBT

Existing or Proposed State Loan Programs

- **CONNECTICUT HIGHER SUPPLEMENTAL LOAN AUTHORITY**
  (PROPOSED) AUGUST ISSUE **$41 Million**
- **MAINE LOAN PROGRAM**
  SOLD ISSUE MAY OF 2009 **$54 Million**
- **MASSACHUSETTS (MEFA)**
  SOLD ISSUE JUNE OF 2009 **$300 Million**
- **MINNESOTA SELF LOAN PROGRAM**
  SOLD ISSUE JAN. OF 2009 **$100 Million**
- **NEW JERSEY CLASS PROGRAM**
  SOLD ISSUE JUNE OF 2009 **$450 Million**
- **NEW YORK HIGHER EDUCATION**
  (PROPOSED) TBD IN 2009 **$350 Million**

Questions?

HAND OUTS INCLUDE READING MATERIAL ON MARKET PERCEPTIONS TO ALTERNATIVE LENDING