Connecticut Higher Education Supplemental Loan Authority

Market Overview

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CHESLA and Capital Market Turmoil

- 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 Insurance

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

Insurer	Moody's Investor Services	Standard & Poor's Rating Services	Fitch Rating Services
FSA	Aaa / under review for downgrade	AAA / Negative	AAA/Stable Outlook
Assured Guaranty	Aaa / under review for downgrade	AAA / Stable Outlook	AAA / Stable Outlook
Radian Asset Assurance	A3 / Negative Outlook	A / Negative Watch	Not Rated
MBIA	A2/ Negative Outlook	AA/ Negative Watch	Not Rated
CIFG	Ba2 / under review w/direction uncertain	A-/ Negative Watch	CCC evolving
Ambac	Aa3 / Negative Outlook	AA/ Negative Watch	Not Rated
FGIC	B1/ Negative Outlook	BB/Negative Watch	CCC evolving
ACA	Not Rated	CCC / Developing Watch	Not Rated

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

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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.

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.