

**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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September 10, 2008**

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

•c

(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%
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Interest Rate Payable	
To Bond Holders (AAA)	<u>4.639%</u>

Yield After Interest	<u>(.189%)</u>
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**ISOLATED YIELD SCENARIO
CSLF AAA RATED AUCTION RATE CERTIFICATES
NEW LOAN SCENARIO
FEBRUARY 2008**

Yield After Interest (.189%)

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	<u>-0.0237%</u>
– 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	<u>0.3800%</u>
– 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