

Moderator: Ron Gambill
July 7, 2009
10:00 am CT

Operator: Good morning. My name is (Monica) and I will be your conference operator today.

At this time, I would like to welcome everyone to the Student Loan Community Proposal Media Briefing conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, followed by the number one on your telephone keypad.

If you would like to withdraw your question, press the pound key.

Thank you. Mr. Gambill you may begin your conference.

Ron Gambill: Good morning. My name is Ron Gambill and I am Chairman and CEO of Ed South. Welcome to this morning's media conference call to discuss the student loan community's reform proposal.

The student loan community is excited to work with President Obama and the Congress in this very important effort by offering enhancements to the reforms they have proposed that will best serve students, families, and schools.

For more than 40 years, federally guaranteed student loans have helped millions of American families achieve the kind of dreams made possible by the best higher education system in the world.

We are united in our belief that a national student loan program locally administered is the best - is in the best interests of families and taxpayers.

Students, families, and schools are better served by non-profit, state based, and local for profit organizations committed to providing superior service and investing in continuous innovation.

Today, representatives of student loan community, a diverse group of lenders, guarantee agencies, secondary markets, and servicers representing all sectors and regions come together united in support of a new proposal for federal student loans.

Moments ago, we formally submitted to Congress the Student Loan Community Reform Proposal. Our proposal builds on the president's plan to accomplish two important objectives.

First, produce millions in budget savings that would be directed to fund Pell Grants for low income students and second, preserve the competition, consumer choice, borrower default prevention programs, and more than 35,000 jobs nationwide.

The student loan community's proposal truly offers the best of both worlds. The president's cost saving Pell Grant features and the tried and true program elements that have served families well since 1965. Consumer choice, superior service, innovation, local administration, and borrower default prevention.

Importantly, it achieves these goals without the significant transition risk that comes with the administrations proposed takeover of more than \$60 billion in private sector originated student loans in only six month's time.

In other words, all of the benefits of the president's proposal without any of the operational risks that could potentially disrupt students and families access to loans for post secondary education.

Now, I'd like to give you an overview of how the call will proceed. After our three speakers have completed their brief presentations, we will take questions from reporters for about 40 minutes.

I realize others may be on the call, but the purpose of today's call is to address questions from the media.

The following organizations have signed onto this proposal, Citizens Bank, Brazos Higher Education Service Corporation, Ed Financial Services, Educational Credit Management Corporation, Ed South, Finance Authority of Maine, Florida Department of Education, Georgia Higher Education Assistance Corporation, Georgia Student Finance Authority, Illinois Designated Account Purchase Program, Illinois Student Assistance Commission.

Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Missouri Department of Education, National Student Loan Program, NelNet, New Mexico Student Loans, New York State Higher Education Services Corporation, (N-Heef) Network, North Carolina State Education Assistance Authority, Northwest Education Loan Association, PNC Bank, Sallie Mae, Student Loan Guarantee Foundation of Arkansas, SunTrust Banks, Tennessee Student Assistance Corporation, The Student Loan Corporation, USA Funds, Utah Higher Education Assistance Authority, Wyoming Student Loan Corporation.

In addition, today's speakers on the call, we will have (John Bitivich), Executive Director of Sales of the Student Loan Corporation to assist in answering questions.

If anyone on the call has trouble hearing a speaker, please interrupt to bring this to our attention.

Now, let me introduce our panel. Our - the first speaker will be Jeff Noordhoek. President of NelNet, followed by Tim Connell, President of the Georgia Student Finance Commission and Tony Holland, Chairman and CEO of Ed Financial Services.

At this time, I will turn it over to Jeff Noordhoek.

Jeff Noordhoek: Thanks Ron and good morning everyone. Thanks for being on the call today.

In response to the Obama Administration's Proposal to increase funding for Pell Grants by expanding the Federal Direct Loan Program, a broad group of service providers from the student loan community, have come together with a proposal to help the administration accomplish its goals.

The student loan community is proposing a few simple enhancements to build upon the administration's proposal. These enhancements should create equal savings for Pell Grants, but also achieve stability for student loan access.

Importantly, the community proposal preserves choice for students and schools, competition to encourage innovation and superior customer service, and will save thousands of jobs in communities across the country.

To help you understand the community proposal, it is best to first describe why improvements to the administration's proposal are necessary. One hundred percent direct lending creates an estimated \$87 billion in revenue to the Federal Government over ten years to fund Pell Grants.

We agree, this is much needed funding. However, the administration proposal eliminates choice of service providers for families and schools by mandating them to use the Federal Government for origination processing.

Besides eliminating choice, the administration's proposal comes with significant execution risks. In a very short period of time, more than 4,500 schools and over 6.4 million students would be required to switch student loan platforms.

These conversions are difficult and it is likely some students and schools would face disruption in the conversion process.

Finally, it would also result in the loss of thousands of jobs in the student loan community in a time of extremely high unemployment rates nationally.

Now, let me give you the details behind the community proposal. Our proposal calls for the elimination of Federal subsidies and private ownership of student loans, thereby, insuring the Federal Government owns and generates savings on all new loans.

This should achieve equal savings for Pell funding. However, schools would retain the option of choosing from a myriad of private entities to originate loans for their students through existing systems.

The systems they know well and use today to make sure their students have uninterrupted access to loan funding. The plan will allow students the ability to choose their loan servicer. This is extremely important to students, as this decision typically makes them a customer of the servicer for greater than ten years once a loan is originated.

The industry plan calls for default risk sharing in both programs by private entities which service the loans for the government. This concept is not present in the current direct loan program.

We believe this will result in an industry-wide incentive to further decrease defaults which is good for the financial health for student borrowers and produces greater savings for the Federal Government.

The service providers will be for profits, not for profits, state agencies, banks, and others, all competing to give students and schools the best service, while providing the desired savings by the administration.

In addition, our proposal leverages the expertise of guarantee agencies, lenders, and services to provide borrowers with financial literacy, borrower

support, advocacy, entrance and exit counseling, and default prevention services.

These are critical to help students manage their debt levels. Again, this plan includes simple enhancements to the existing Obama Plan.

Just like the Obama Plan, it's projected to provide the same level, \$87 billion of revenue to fund Pell Grants for low income students, yet improves the Obama Plan by providing choice of origination and service providers to schools and students. It promoted competition and thereby, future investment, innovation, and customer service.

It capitalizes on the existing infrastructure, thereby mitigating program conversion risk. It reduces defaults by introducing service to risk sharing and maintaining guarantee agencies to promote good repayment habits.

Finally, it saves thousand of jobs at a critical time in our country's economy. Thank you once again, for listening to my remarks, and I will now turn the call over to Tim Connell, President of Georgia's Student Finance Commission.

Tim Connell: Thank you Jeff. Good morning to all of you on the call this morning. I'm pleased to talk about the services provided by guarantee agencies to help students successfully repay their student loans and to discuss why many guarantee agencies support the student loan community proposal that will benefit the students and schools we serve.

Guarantee agencies help families throughout the country plan for and pursue their post secondary education goals. They are state based agencies or non-

profit organizations that administer the Federal Family Education Loan Program.

Guarantee agencies inform students and parents of their educational and financial aid opportunities, administers loans to borrowers, and work with borrowers and lenders to help default rates keep them at low levels.

To help students and families better manager their finances, guarantee agencies design materials and programs on budgeting, establishing good credit, paying for college and successfully managing debt.

They provide counseling sessions and Web based tools for students starting in elementary school and continue to provide financial literacy training throughout their school career and beyond.

Once students become borrowers, the guarantee agencies insure they receive the information and support they need to repay their loans. This includes, a comprehensive review of the repayment options available and assistance in selecting the plan that best suits the borrower.

One of the best indicators of successful default prevention activity is the National Student Loan Default rate of 5.2%, one of the lowest rates in the history of the program.

A recent survey of guarantors found that in fiscal year 2007, more than \$52 billion in delinquent Pell loans was successfully returned to repayment status. These efforts saved borrowers from long term financial difficulty and saved taxpayers much needed funds.

During these difficult economic times, guarantee agencies have worked hard to develop innovative strategies to help students and schools prevent defaults. These strategic - strategies include peer assistance programs to provide personalized guidance and tools to students, programs to assist borrowers who have dropped out of school and encourage them to return.

At default diversion symposium series developed to provide training assistance and updates to schools and conference calls organized to bring together the counselor, borrower, and lender servicer in an attempt to resolve the delinquency.

In my state of Georgia, in this past year alone, the Georgia Higher Education Assistance Corporation has dispersed some 20,000 Debt Management brochures to college students, 15,000 Credit Management brochures, and 12,000 Repayment Option brochures.

We've also completed assessments of school's default prevention plans and evaluated their effectiveness and we've helped schools develop a default prevention plan if they didn't have one.

We have posted a College Guide on Default Prevention on our gacollege411.org Web site for colleges, including direct loan schools to download for their use.

On a monthly basis, we send bunny messages to financial aide community to serve, to share with student borrowers. These messages are very short and they encourage best practices in reducing student loan defaults and educating Georgians on financial literacy and debt management.

We also provide the staff at schools with higher cohort default rates, with special help in preparing and mailing letters using the school's own letterhead to help with their delinquent borrowers.

And over this past year, with the staff of 12 individuals, we have reached more than 150,000 attendees at approximately 2,000 workshops presented at colleges, high schools, middle schools, and other community events.

We expanded financial literacy presentations beginning this year to middle schools, in addition to holding workshops at more than 600 or 80% of the high schools throughout the state.

Lastly, we brought back into current paying status, \$153 million or 80% of the 64,000 loans that were reported over 60 days delinquent.

Because of their close relationship to students, families and schools in areas of service, guarantee agencies can provide customized programs and materials that insure the local populations are served. Many guarantee agencies agree that the provisions included in the Student Loan Community proposal will insure that these services will continue to be provided and that students, families and schools will receive the support and assistance they deserve.

And with that, I'll turn it over to Tony.

Tony Holland: Thank you Tim and good morning. The reason Ed Financial Services, as many others that are supporting the Student Loan Community proposal, is because it's student focused.

Two of the major concerns we have with the administration's Student Loan Reform proposal, were with split accounts servicing and the lack of competition between the student loans services.

If the administration's proposal is enacted without enhancements that we're proposing to split account servicing and the lack of competition, will lower the servicing standards and the quality of customer service to the end user.

It will also increase delinquency and defaults and will create more difficulties for students to repay their loans. The Student Loan Community proposal eliminates these issues and offers reasonable alternatives.

Student loan servicers across the nation have accumulated years of experience dealing directly with students and have established high quality of service by competing with one another and with direct lending.

These high servicing standards are recognized by our schools and student customers. In addition to in school and repayment servicing, student loans servicers will also offer debt management and default prevention counseling, as well as extensive outreach programs which are provided to traditional and non-traditional schools at no cost to tax payers.

The Student Loan Community proposal allows for current student loan services to stay in business, stay competitive and to continue to meet the growing needs of the students and schools. The issue of split loan servicing is currently the single most significant issue for student loan borrowers.

Under the administration's proposal and the current (Acasma) Put Program, loans owned by the Department of Education must be serviced at a Department of Education servicer.

This requirement creates split account servicing for borrowers and means that they must make two month repayments to two separate entities. In addition, it increases the risk and cost of defaults to the Federal Government.

In the current economic environment, every effort should be made to simply a loan repayment for students. The Student Loan Community proposal offers the solutions where the loan remains with one servicer for the life of the loan, even after the sales of the Federal Government.

This not only meets the needs of the students, but also allows the schools to continue to be in the driver's seat, by selecting the servicer that provides the best help for their students.

If the servicer provides - provider falls short, schools can quickly make a move in a different direction. This keeps the whole student loan servicing system responsive.

We simply should not move exclusively to a system that eliminates choice and turns all decision making over the Department of Education.\

Thank you. And I'll turn this over - back to our moderator, Ron Gambill.

Ron Gambill: Thank you. We will now ask (Monica), our operator, to please queue up the questions.

Operator: At this time, I would like to remind everyone, in order to ask a question, simply press star, followed by the number one on your telephone keypad.

And we'll pause for just a moment to compile the Q&A Roster.

Again, ladies and gentlemen, to ask a question, simply press star, followed by the number one on your telephone keypad.

And there is a question from the line of (Doug Letterman).

(Doug Lederman):Hi. This is (Doug Lederman) from Inside Higher Ed. Thanks for holding this call. I was wondering if somebody might be able to walk us through where the proposal savings come from? Where the various - how you get up to the \$87 billion in savings over ten years? That would be very helpful.

Ron Gambill: Jeff would like to answer that question for (Doug) please?

Jeff Noordhoek: Sure absolutely. (Doug) it gets us to the savings, because at the core of this plan, it is very similar to what the administration is calling for, and that is, that the administration funds and keeps the value of the loans over their life.

So even though you have a service rep at front performing some origination functions and services at the back end, it's a very similar program and since the economics of the loan go to the Federal Government, over the vast majority of the life of the loan.

(Doug Lederman):Okay. But obviously - I mean, there's obviously some - where, I mean, how does it differ then, I guess, in terms of where the dollar values come from, 'cause obviously there are some differences? I just wondered if you can - were there changes that...

Jeff Noordhoek: Where the difference is, there would be a fee paid to the originator that would be discretionary from the Congress, but a fee that's paid for the origination services provided to make the loan and get it over to the government system.

(Doug Lederman): And I guess I just started - but in this other - and obviously that cost isn't in the administration's program, but presumably others are, so like what are - where - or is that a rounding error in...?

Jeff Noordhoek: There's certain ways that we have come up with savings, additional savings to help offset that cost. One of them is adding extended repayment terms to help loans also we have some provisions in the proposal once you review it, to allow for consolidation loans to be funded in some of the government programs, which creates additional earnings for the government to offset this cost.

(Doug Lederman): Got it. Okay. Thanks very much.

Operator: And there are no further questions at this time.

And there's a question from the line of (Molly Peterson).

(Molly Peterson): Yes. Hi. Can you all explain how this proposal or if this proposal differs at all from the Sallie Mae proposal?

Jeff Noordhoek: This is Jeff Noordhoek again. I'll take that one. The way it is different, is that it keeps some of the key provisions of the Sallie Mae proposal. However, it maintains greater involvement from state agencies, non-profits, and guarantors. And so those rolls are more clearly defined in this proposal, which we think adds to it, by getting that - as Ron started out in the beginning, that local flavor, that local touch, and issuing the Federal program at a local level to students and schools.

And so the enhancements to that are based on more defined rolls from state agencies, non-profits, guarantors. In addition it opens up the loan servicing operations for loans to stay more with their current servicers. So under this plan, loan servicing is more open to other players in the industry, as well as under the direct loan program and this new program.

I think those are the key differences.

(Molly Peterson): Okay, so that in terms of the loan servicing then, the students would choose who services their loan, instead of the education department? Is that...?

Jeff Noordhoek: That's correct.

(Molly Peterson): Okay.

Jeff Noordhoek: The student and the school.

(Molly Peterson): Okay. And under the Sallie Mae plan, it would have been the education department deciding? Is that right?

Jeff Noordhoek: As we understand it.

(Molly Peterson): Okay.

Tim Connell: This is Tim. Kind of one other thing I'd like to add to what Jeff's comments. It also adds and expands and preserves the roll of guarantors and the servicers that they provide to students. And that's an important component, I think, maintaining what has been a historic partnership between the Federal and State government in assisting students to pursue their post secondary education.

Operator: And there's a follow up question from the line of (Doug Lederman).

(Doug Lederman): Thanks. I don't want to dominate things, but I'll keep asking a couple. It's - there's obviously a lot of competition. This, as I read this proposal, the money for the default management would come from the college access and completion fund. I think I'm right about that.

There's obviously a lot of people with an eye on that money. A lot of different players. And I guess I just sort of wondering how confident you are that that money would be made available and how essential is that that money comes from there to make this whole thing work?

I don't know if that's - if the question was clear, but I guess I'm just trying to get a sense of if it turns out that there's just so much competition for that college access and completion fund money, that somehow the money's now available? I mean, it's sort of curious - does the thing stick together without that money or are they're potential other sources? Just wondering if you could react to that?

Ron Gambill: Doug this is Ron Gambill. The proposal does not request all of the funds that are there. There's a portion of those funds and those funds would be going to do the things that non-profits and secondary markets, guarantee agencies, those services that they are currently providing. And so this fund would expand on those services.

There is another portion of the proposal where it provides for specific funding for guarantee agencies to provide other services, including the financial literacy, the default prevention, and such as that.

So, there - it's not requesting that all of those funds be there, but those funds are scheduled to be in the President's budget right now and we are anticipating, that since they are going to go to states, that it would be those non-profit entities within those states, that would utilize a portion of those funds.

(Doug Lederman): Okay.

Operator: And there's a question from the line of (Stacey Katterer).

(Stacey Katterer): Hi. I'm with the Christian Science Monitor. I have a couple of questions. One is about the elimination of subsidies that was in the administration's proposal, then I guess is in your proposal as well. And without those subsidies do the private lenders still have incentive to participate? Where does the incentive come from?

Jeff Noordhoek: Sure. This is Jeff Noordhoek. Yeah. So the proposal eliminates subsidies. And so what we would be doing as a lender, in this case, is originating the loan on behalf of the Federal Government and during an interim period, under our proposal, we receive a fee for doing that.

So it's like spread while we hold the loan and then a fee to provide the retention services to the government. So that's the incentive we have to stay into the process and to originate the loan.

(Stacey Katterer): Okay. And then the advisory also talked about job savings. What was it in the administration's plan that would - that you feel would have eliminated jobs and how are you saving those and still saving the same amount of money?

Jeff Noordhoek: Sure. So let me explain to you the process of originating funding and servicing student loans. And that's the way I describe it.

There are three different distinct functions. So there is the origination function. So all of the contact with the students and the schools, through call centers and technology to make the loan, to create the loan. Then there's the actual funding piece where we use our own money or we borrow from markets to fund the loan. And there's the repayment servicing piece, that is done you know, sending out borrower statements, collecting, calls, things like that.

So think about those three functions. Under the Obama plan, they would take the middle function of funding, and they would contract out with the industry to do the repayment servicing, but they would eliminate the whole front end origination process.

And that's where a large portion of the jobs are in the industry, that and the repayment servicing. So, if you originate - if you eliminate that front end process, then you eliminate all the jobs associated with that.

And with this proposal, since private industry would still be doing that function, it would preserve the vast majority of those jobs.

(Stacey Katterer): Okay. And how you make up for - how to you save the money that those jobs cost?

Jeff Noordhoek: Well, it goes back to the fee - there would be a fee, obviously it would cost the government to originate also. But in this case, there would be a fee paid and we pay for that fee, as described in the first question, through various recommendations in this proposal, such as allowing consolidation loans to be

put into certain government funding facilities, such as extending repayments or monitor other ways that we come up with the savings within the proposal to pay for that fee.

(Stacey Katterer): Okay. But if it would cost the government to originate the loans, wouldn't they also have to employ people? So would there really be a net loss of jobs, or would the jobs just shift into the government sector?

Ron Gambill: One key think to remember, is that it preserves jobs already out there. I know that in my state of Georgia, if the President's proposal had gone forward or does go forward without change, it would probably have the effect of reducing the staffing levels at my organization by 40 to 50%.

So with this proposal, those jobs would be preserved as they would be in other states across the country, because those folks would continue with the same type of activities they are currently.

So the concept is, that instead of localizing jobs with just four entities or five entities, the jobs would be spread out across the country and there would actually be, let's say feet on the ground in each of the states to actually to be able to deliver these services that are being offered and will continue to be able to be offered under this proposal.

One of the things I had mentioned in my comments, was the fact that we visited over 600 high schools in Georgia.

(Stacey Katterer): I'm sorry. Who's speaking?

Tim Connell: My name is Tim Connell.

(Stacey Katterer): Okay.

Tim Connell: And if the - if those staff that I mentioned earlier had to be eliminated, there wouldn't be anybody visiting those high schools. And we think that's important component of informing students about their post secondary options.

(Stacey Katterer): Okay. I'm sorry. Who was speaking before you?

Ron Gambill: It's Ron Gambill.

(Stacey Katterer): Okay.

Operator: Again, ladies and gentlemen, to ask a question, simply press star, followed by the number one on your telephone keypad.

And there is a question from the line of (Justin Draeger).

(Justin Draeger): Hi. This is (Justin Draeger) from (NASFAA). I'm just am wondering if you can walk me through those functions and who is - one of the things that you've talked about is choice and who is doing the choosing?

So for example, with loan origination I see, from what I understand, qualified by the Department, but then chosen by the school. For servicing, again qualified by the Department, chosen by the student. And then when you get to the access and completion fund for financial literacy, etc., it looks like it's identified by the state and then chosen by the school.

Do I have those correctly?

Ron Gambill: Ultimately, the decision is made by the school, whether it's for servicing or it's going to be for loan origination or it's going to be for guarantee types of services, the fund that you referred to, would go to the state and the state would then designate who the guarantee agency, when it only applies to the instance of guarantee agencies, would be whether it's -one is based in the state or another guarantee agency that offers services in that state.

(Justin Draeger): And then so, okay. That's helpful. And then for the servicing part, I understand that those contracts are awarded through competitive bidding. And then is it the schools or the students who are choosing their servicer under this proposal?

Ron Gambill: The schools.

Tim Connell: It could be students also.

Operator: Again, ladies and gentlemen, to ask a question, simply press star, followed by the number one.

And there are no further questions at this time. Mr. Gambill do you have any closing remarks?

Ron Gambill: Yes. I just to let those know, that we will provide a link to the legislative language in a one page summary. That link is www.studentloanfacts.org. That's www.studentloanfacts.org. And that would be the legislative language that has been proposed and a one pay summary of that language.

And we do appreciate the participation of the media in this call today and any of the panelists, you have information regarding them, we would be happy to address any other questions that you might have at a later time.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Speakers hold the line.

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