

CALIFORNIA STUDENT AID COMMISSION

OFFICE OF THE EXECUTIVE DIRECTOR



CALIFORNIA
STUDENT AID
COMMISSION

August 4, 2010

Dear Students, Parents, Members of the Financial Aid Community and Interested Parties,

Over the last few days, there have been several media reports on the California Student Aid Commission (Commission)'s role as the State of California's guaranty agency for the Federal Family Education (FFEL) Program and on its non-profit auxiliary organization, EdFund. On behalf of the Commission, EdFund has provided FFEL Program services since 1997 through a contractual operating agreement. This letter is to provide you with information concerning the federal government's decision to terminate the Commission's function as the guaranty agency and to clarify its impact on the Commission's Cal Grant and specialized programs.

In April 2010, President Barack Obama signed legislation increasing federal Pell Grant awards funded from the savings created by eliminating the FFEL Program and its subsidies to private lenders, and relying solely on the existing Direct Lending Program to issue new federal student loans. Colleges, universities and career schools that were FFEL schools are now completing the transition to the Direct Lending Program.

Since 2001-02, the Commission successfully advocated to the Legislature and two gubernatorial administrations to use over \$591 million of revenues from the Commission's administration of the FFEL Program to fund new Cal Grant awards, public awareness and outreach activities, as well as the Commission's Cal Grant administration. The revenues from the Commission's administration of the FFEL Program are state funds, deposited into the State's Student Loan Operating Fund and are authorized to be spent for financial aid related activities through laws enacted by the Legislature. The Commission also used some of the \$591 million to offset student loan borrower fees. These funds were critical to the Commission's efforts to support college access and success, particularly among low and middle-income students requiring financial aid to attend college and career education schools.

In 2007, the Governor proposed the sale of the State's student loan guaranty program assets, including EdFund, stating that the sale would provide \$1 billion to the State budget. Legislation known as California Senate Bill 89 (SB 89) was enacted authorizing the sale. However, in a July 20, 2010 letter, the United States Department of Education (USDE) essentially indicated that the State's student loan program assets are federal assets, not owned by the State, and that the transfer of any of those assets would be determined by the United States Secretary of Education. USDE also stated that no sale or transfer will occur under the provisions of SB 89. The letter further informed the Commission that USDE decided that USDE's "guaranty agreement with [the Commission] will be terminated no later than the close of business on October 31, 2010." It further states that the United States Secretary of Education and the Commission will work together to ensure the orderly termination of the Commission's loan guaranty operations.

How does this affect the Cal Grant Program? We are hopeful that any effect will be minimal. First, the most recent actions by the Legislature on the State budget for 2010-11 seek to use \$100 million from the Student Loan Operating Fund to partially support the proposed \$1.2 billion in Cal Grant funds allocated for the 2010-11 academic year. Current-year projections for the Student Loan Operating Fund balance now indicate that those monies are available for transfer to support the Cal Grant program. The final transfer will be dependent on the federal government's decisions on the disposition of assets and liabilities of the Commission's student loan program assets.

Second, since 2007, the Commission's Cal Grant operations budget has been funded by the State's General Fund, not through the Student Loan Operating Fund. The Commission's outreach programs, formerly funded from the Student Loan Operating Fund, are now funded from federal funds provided by the College Access Challenge Grant, which are not affected by the USDE decision to terminate the Commission's guaranty agency functions.

Finally, in the past, the Commission has been able to improve and maintain its Cal Grant delivery system at reduced cost, by taking advantage of efficiencies presented through contracting with EdFund. We will be working with USDE, the Legislature and the Governor to ensure that the termination of the Commission's guaranty agency functions will not jeopardize delivery of Cal Grants to students.

Today, the future of the Commission's participation in the federal student loan program remains in question. The Commission has communicated its concerns about the Department's decision and its impact on students.

As we get more information, we will keep you informed.

Sincerely,

/Diana Fuentes-Michel/

Diana Fuentes-Michel
Executive Director
California Student Aid Commission