

## Tennessee Student Assistance Corporation

Thursday September 24, 2015

**DECISION ITEM D:** Wind-down of FFEL Program

**Staff Recommendation:** That the TSAC Board of Directors authorize TSAC staff to communicate with the U.S. Department of Education (ED) the intent to begin an official wind-down of the Federal Family Education Loan Program. This wind-down process will commence at the direction of ED to coincide with a target date of June 30, 2016, at which time all remaining loans in the loan portfolio will transfer to a service selected by ED.

**Background:** The Tennessee Student Assistance Corporation (TSAC) began guaranteeing federal student loans in 1974 as Tennessee's designated student loan guarantee agency. Beginning July 2010, Congress directed all new student loans to the Federal Direct Loan Program, resulting in no new accounts into TSAC's Federal Family Education Loan (FFEL) program portfolio. Since then, TSAC's portfolio has declined from over \$5 billion to \$3 billion (which includes \$600 million in default status). This represents about 145,000 active borrowers with 372,000 loans and an additional 23,000 borrowers in default.

Despite TSAC's efforts to maximize efficiencies and savings in the loan program, revenues will continue to decline in proportion to the size of the portfolio. Additionally, the U.S. Department of Education (ED) has made several changes to calculations used in generating program revenues, further decreasing the program's long-term viability.

TSAC is projecting sufficient revenue to offset program costs for at least the next six to nine months. Once costs begin to consistently outpace revenues, shortfalls will be covered through the program Operating Fund, decreasing funds available for use in postsecondary initiatives, including the Promise Scholarship program.

As noted in previous discussions with the Board of Directors, TSAC has determined that beginning an official wind-down of the FFEL program will help minimize depletion of program fund reserves, while maximizing opportunities for TSAC to provide needed resources to the state's postsecondary students and institutions. Therefore, staff recommends a wind-down of the FFEL program, with a termination date of June 30, 2016. Upon approval, TSAC would begin to work with ED to transition the portfolio to another loan servicer. During the wind-down period, TSAC would continue to work with the current loan servicer (Nelnet Guarantor Solutions/NGS) to manage the existing portfolio and assist student borrowers. TSAC's contract with NGS expires December 31, 2016; thus, a contract amendment would be required for continuation of services related to e\*GRandS (TSAC's

grant and scholarship database) and any additional services that may be needed following the June 30 transfer of the FFEL portfolio.

Moving forward, TSAC’s loan division intends to explore ways to continue default management and financial literacy services currently provided to students and postsecondary institutions. Specifically, the loan division will help postsecondary financial aid offices comply with state and federal regulations, provide financial literacy and default management assistance to postsecondary institutions, offer customized assistance to individual financial aid offices, and provide default aversion counseling to student borrowers.

These combined efforts have already resulted in dramatic decreases in TSAC’s two-year and three-year cohort default rates (noted below), making Tennessee one of the lowest default states in the country. Additionally, several institutions have relied heavily on TSAC’s assistance to lower their institutional default rates. TSAC believes that providing these services are an important component to the success of Tennessee’s postsecondary students and institutions.

Two-year Cohort Default Rate:

	2007	2008	2009	2010	2011*
U.S. Avg.	6.7	7.0	8.8	9.1	10.0
TSAC	9.7	9.4	8.4	7.5	5.5

Three-year Cohort Default Rate:

	2009	2010	2011*
U.S. Avg.	13.4	14.7	13.7
TSAC	12.3	10.1	8.4

\* Latest available rates from the U.S. Department of Education