THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
July 25, 2007

REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION
FOR A STUDENT LOAN PROGRAM

Prepared by Brady Hill.

APPLICANT: Educational Funding Services, Inc. (EFSI)

ALLOCATION AMOUNT REQUESTED: $210,000,000

PROGRAM TYPE: Direct Lending

PROGRAM FINANCING INFORMATION:

Proposed Issuance Date:	July 19, 2007
	(based on May 16, 2007 CDLAC Meeting date)
Bond Counsel:	Squire, Sanders & Dempsey, L.L.P.
Underwriter:	Citigroup
Credit Enhancement Provider:	None. Bonds will be issued utilizing a Senior/Subordinate structure with the senior bonds rated "Aaa" by Moody's and "AAA" by Fitch, and the subordinate bonds rated "A2" by Moody's and "A" by Fitch.
Private Placement Purchaser:	N/A
TEFRA Date:	March 20, 2006

PUBLIC BENEFITS:

Number of Students Expected to be Assisted with Requested Allocation:	40,875
Total Dollar Amount of Student Loans Expected to be Originated Which Assist Low-income Borrowers:	$173,880,000
Base Interest Rate to Borrower:	6.80% (Stafford), 8.50% (PLUS)
Discounts Available to Borrower:	2.00% (Stafford), 2.00% (PLUS)
Total Per-Borrower Savings Over Standard Non-Discounted Loans:	$1,799 (Stafford), unknown (PLUS)
Qualified California Non-profit:	Yes

LEGAL QUESTIONNAIRE:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of the Applicant.

RECOMMENDATION:

Staff recommends that the Committee approve $30,000,000 in tax-exempt bond allocation to EFSI Corporation.

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<u>**DESCRIPTION OF PROPOSED PROGRAM**</u>:

In order to be considered for an Allocation for a Student Loan Program, an Applicant must be a California nonprofit corporation organized pursuant to Section 150(d) of the Internal Revenue Code of 1986, as amended, that possesses the authority to directly or indirectly make or finance student loans under the Higher Education Act of 1965, as amended, with direct lending as a priority or be a State Agency.

Purposes of proposed Program:

Educational Funding Services, Inc. ("EFSI"), a California not-for-profit corporation states in their application they intend to use tax-exempt funds solely for the origination of student loans under the Federal Family Education Loan Program ("FFEL") as a direct lender. EFSI also stated they look to serve California's low- and median –income students still dependent on parents' income, independent students with low- or median-incomes and low-and median-income parents of college students. In addition, EFSI states in their application that they are the largest nonprofit originator of Stafford and PLUS loans to community colleges in California. According to the application, EFSI will continue to pay the origination fee (1.5% for Stafford and 3% for PLUS) and guarantee fee for Stafford and PLUS loans during the 2007-2008 academic year.

<u>**DESCRIPTION OF PUBLIC BENEFITS**</u>

Public Benefits Evaluation Criteria:

1) **The total dollar amount of student loans originated which assist low-income borrowers:**

   CDLAC Procedures Section 22.II.1, for student loan evaluation, asks for the total amount and corresponding percentage of student loans originated by the Program Sponsor which assists financially needy borrowers in California, as such term is construed by the U.S. Department of Education for the purposes of the federal student loan programs. The data relied upon may be direct or derived from sources deemed by the Executive Director to be accurate.
   (Financially needy borrowers is based on an evaluation of the percentage of borrowers with subsidized Stafford loans and PLUS loans associated with subsidized Stafford loans.)

   Based on past performance, approximately 83% of the loans originated by EFSI have been Stafford subsidized and combination (subsidized/unsubsidized) loans. PLUS subsidized loans were not included in this percentage, because the Project Sponsor didn't break out the percentage of PLUS loans that are associated with subsidized loans. Applying this percentage to the $210,000,000 in loan originations estimated for the coming academic year, it is estimated that EFSI will originate $173,880,000 in loans to the neediest borrowers during the 2007-2008 school year.

2) **The total cost of borrowing per borrower, including origination fees, interest costs, and all other fees or expenses incurred by a borrower:**

CDLAC Procedures Section 22.II.2, for student loan evaluation request information pertaining to the total cost of borrowing per borrower. This includes origination fees, interest costs, and all other fees or expenses incurred by the borrower.

EFSI stated in their application that borrowers will receive 0.25% interest rate reduction upon entering repayment and an additional 1.75% interest rate reduction for taking advantage of automated payments deducted from borrowers designated checking account. In addition, EFSI assumes the origination fee (1.5% for Stafford and 3% for PLUS) and the 1% guarantee fee.

The following three tables illustrate the total cost to the borrower. The first table shows the base interest rate and discounts realized by the borrower for each type of loan that the requested allocation will finance.

Educational Funding Services, Inc. (EFSI) Interest Rate Evaluation Applicant: EFSI (no origination fee or guarantee fee for all programs)				
Loan Type	**Subsidized Stafford**	**Unsubsidized Stafford**	**PLUS Parent**	**PLUS Graduate**
Interest Rate at Time of Application	6.80%	6.80%	8.50%	8.50%
On-Time Payment Discount	-0.25%	-0.25%	-0.25%	-0.25%
Automatic Payment Discount	-1.75%	-1.75%	-1.75%	-1.75%
Total Discount	-2.00%	-2.00%	-2.00%	-2.00%
Discounted Int. Rate at Time of App.	4.80%	4.80%	6.50%	6.50%

The following table shows the total amount of interest paid over the life of a loan, assuming that the borrower never qualifies for any discount. The last row of this table represents the maximum amount of interest that a borrower would pay, assuming no discounts for on-time payment or automatic payment.

Loan Evaluation without Discounts				
Applicant: EFSI				
Loan Type	**Subsidized Stafford**	**Unsubsidized Stafford**	**PLUS Parent**	**PLUS Graduate**
Repayment Term	10 years	10 years	10 years	10 years
Amount Borrowed	$10,000	$10,000	$10,000	$10,000
Origination Fee	$0	$0	$0	$0
In-School Capitalized Interest	N/A	unknown	unknown	unknown
Total Principal Balance	$10,000	unknown	unknown	unknown
Total Interest Paid Over Life of Loan[1]	$4,110	unknown	unknown	unknown

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[1] **includes borrower's payment of origination fee and guarantee fee**

The following table shows interest paid over the life of the loan assuming all discounts are maintained throughout the life of the loan. The last row of this table shows the value of EFSI's discounts compared to the same loan program without discounts (see table above).

Loan Evaluation with Discounts				
Applicant: EFSI				
Loan Type	**Subsidized Stafford**	**Unsubsidized Stafford**	**PLUS Parent**	**PLUS Graduate**
Repayment Term	10 years	10 years	10 years	10 years
Amount Borrowed	$10,000	$10,000	$10,000	$10,000
Origination Fee	$0	$0	$0	$0
In-School Capitalized Interest	N/A	unknown	unknown	unknown
Total Principal Balance	$10,000	unknown	unknown	unknown
Total Interest Paid Over Life of Loan	$2,311	unknown	unknown	unknown
Total Savings Over Life of Loan[2]	$1,799	unknown	unknown	unknown

3) **The extent to which the Program Sponsor timely markets and disburses student loans as evidenced by its previous and existing allocations for direct lender programs:**

CDLAC Procedures Section 22.II.3.a, for student loan evaluation requests information on the extent to which the Program Sponsor effectively markets its student loan program as evidenced by 1) the number of California schools that have bestowed "preferred lender" status upon the Program Sponsor, or by other forms of endorsements which are, at the discretion of the Committee's Executive Director, deemed to be appropriate and acceptable evidence of this criterion, and 2) the strength of its marketing plan as evidenced by the number and type of outreach activities.

To evaluate this criterion, staff reviewed the extent to which the lender has marketed and disbursed proceeds in the past. The following table illustrates the track records of the applicant with recent allocations.

Applicant	EFSI
Status of Unused Bond Proceeds	$0

The Application indicated that EFSI issued $20,000,000 of tax-exempt bonds on August 16, 2006. All of the proceeds of the bond issue were utilized to originate student loans under our program. Accordingly, EFSI has no leftover or unused volume cap. All of the benefits of this tax-exempt bond financing have been passed along to California students.

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[2] **includes savings from EFSI payment of the origination fee and guarantee fee on behalf of the borrower**

The following table lists the marketing activities listed by the applicant:

Infrastructure Contributing to the Timely Marketing and Disbursement of Bond Proceeds	
Number of Schools at which the Applicant is a Preferred Lender	**Information not provided**
Financial Aid Literacy Sessions	EFSI provides these sessions, which are designed to educate students on their rights and responsibilities of borrowing under the Federal Family Education Loan Program.
Financial Aid Clinics	EFSI sponsors clinics to assist students in completing their student loan applications. Specifically, to assist students in completing and submitting the FAFSA, they have sponsored and conducted FAFSA workshops for numerous institutions. In addition, EFSI sponsors clinics that assist in the training of student aid administrators.
Boss 400 Loan Origination System	EFSI utilizes the proprietary Boss 400 servicing and origination platform to originate student loans under the program. This process helps provide an integrated and seamless product to students and schools.
Multilingual Financial Aid Information	EFSI has developed and printed financial aid information in Russian, Spanish, English and Vietnamese.
Promotion of State Enrollment Fee Waiver Programs	EFSI has designed, printed and distributed California Community Colleges Board of Governors Fee Waiver instruction forms, posters and brochures supporting the premise that educational opportunity and a better future should not be denied due to income or lack of resources.

Use of Allocation:

The bond proceeds requested in this application are to be utilized to finance direct loan originations under the Federal Family Education Loan Program. The following table provides information relating to the expected use of proceeds from the proposed bond issue for the 2007-2008 school year:

Type of School (4-year, 2-year, Trade School)	Estimated Number of Loans to be Originated	Estimated Dollar Amount of Loans to be Originated
4-year	21,800	$127,000,000
2-year	17,300	$75,000,000
Trade School	1,775	$8,000,000
Total	**40,875**	**$210,000,000**

COMMENTS:

1. Staff has received 34 letters supporting EFSI direct lending program and its current application for allocation.
2. In the review of this application, staff has referenced the 2005 and 2006 Student Martketmeasure reports. These documents provide an impartial third-party perspective on Student Loan Direct Lending in which the volume of loan originations is reported. Staff asserts that these documents provide a valuable and objective assessment of an applicant's public benefit to students, inasmuch as it shows how many loans the applicant has provided to students in the past.