



Loan Purchase and Participation Programs

Overview

U.S. Department of Education

July 1, 2008



Agenda

- Introduction – Sara Martinez Tucker, Under Secretary, U.S. Department of Education
- Program Overview - Dennis Cariello, Office of the General Counsel, U.S. Department of Education



Webinar Objectives

- Purpose: To provide high level overview of proposed FFEL loan purchase programs.
- Target Audience: FFEL lenders, secondary markets, loan holders, and guaranty agencies.
- Limitations: Will not include details on contract formats, process flows, data elements, cash flows, reconciliations, and compliance. This information will be provided in other formats, including in subsequent webinars.



Introduction

Sara Martinez Tucker
Under Secretary
U.S. Department of Education



Problem

Lack of required liquidity in financial markets impacting ability of FFEL Program lenders and secondary markets to find cost effective financing.



Response

- President's call for statutory authorities to address problem
- Congressional action
- Secretary Spellings' May 21 letter to FFEL lenders
- Secretary Spellings' June 17 letter to colleges and universities



Legal Authorities

- Ensuring Continuing Access to Student Loans Act of 2008 (P.L. 110-227)
 - HR 5715
 - Signed by the President on May 7, 2008
 - Strengthened GA Lender of Last Resort Program
 - Provided Secretary authority to purchase FFEL loans.
 - Cannot provide advanced funding to lenders
- Federal Register Notice
 - Required by statute
 - Draft Posted to IFAP on June 24, 2008
 - Official Publication July 1, 2008





Program Objectives

- Ensure that eligible students and parents receive federal student loans for the 2008-2009 academic year
- Support the FFEL Program as a successful private/public partnership
- Ensure no net cost to the federal government



Two Programmatic Components

- Loan Purchase Commitment Program
 - Commitment by ED to purchase eligible 2008-2009 FFEL loans through September 30, 2009
 - Called “put”
 - Any FFEL lender/holder
 - Loans must be fully disbursed to be purchased
 - 45 day advance notice of loans to be sold
 - ED’s commitment has value in financial markets



Two Programmatic Components

- Loan Participation Purchase Program
 - Commitment by ED to purchase “participation interests” in eligible 2008-2009 FFEL loans through September 30, 2009
 - ED’s purchase will provide immediate liquidity
 - To terminate ED’s participation interest lender repays ED with defined yield.
 - Loans can be redeemed by lender
 - Loans can be sold to ED



Program Overview

Dennis Cariello

Office of the General Counsel
U.S. Department of Education



Eligible Lenders and Eligible Loans (Both Programs)



Eligible Lenders and Eligible Loans

Eligible Lender –

- Any entity that holds eligible loans as an eligible lender as defined by section 435(d)(1) of the HEA.
 - Includes –
 - Secondary Markets
 - Eligible lender trustees
 - School lenders



Eligible Lenders and Eligible Loans

Eligible Loans –

- FFEL subsidized and unsubsidized Stafford and PLUS loans (parent and grad student):
 - Made for loan periods that include, or begin on or after July 1, 2008
 - First disbursed on or after May 1, 2008 but no later than July 1, 2009
 - Will be fully disbursed by September 30, 2009



Eligible Lenders and Eligible Loans

Eligible Loans –

- The following are not Eligible Loans
 - Consolidation loans
 - LLR Loans
 - Loans with a default claim filed with the guarantor
 - Loans with borrower benefits, other than –
 - Upfront borrower fee payments
 - Offer of .25% interest rate reduction for automatic repayment
 - See IFAP Electronic Announcement dated June 18, 2008





Loan Purchase Commitment Program



Loan Purchase Commitment Program

- ED will commit to purchase, through September 30, 2009, fully disbursed 2008-2009 eligible loans that are held by eligible lenders
- No minimum number of loans or dollar amount
- Purchase Price:
 - Current Outstanding Principal Balance
 - Accrued interest owed by borrower
 - Reimbursement of 1% lender fee
 - \$75 per loan

Loan Purchase Commitment

Program

Purchase Price:

- Interest on subsidized loans paid by ED to lender for the period the lender held the loan.
- Special Allowance Payments (SAP) paid as normal.
- Subsidized and unsubsidized eligible loans for the same borrower must be sold together (does not apply to PLUS).
- For \$75.00 per loan fee, subsidized



Loan Purchase Commitment Program

- To participate, each eligible lender must
 - Submit Notice of Intent to Participate
 - Submit a Master Loan Sale Agreement with supporting documentation
 - Receive ED approval

Loan Purchase Commitment

Program

Notice of Intent to Participate –

- Submission by lender creates option but does not obligate lender to sell loans to ED.
- ED's receipt of Notice of Intent to Participate establishes eligibility of loans.
 - Only loans where the first disbursement is made on or after ED's receipt of the Notice of Intent to Participate may be sold to ED, except –
 - If Notice of Intent to Participate received by ED within 15 days of Federal Register Notice (July 16, 2008), eligible loans made on or after May 1, 2008 may be sold to ED.

Loan Purchase Commitment Program

Master Loan Sales Agreement—

- Contract between eligible lender and ED.
- May be submitted at any time after Notice of Intent to Participate.
- ED's OGC will review Agreement and supporting documents.
- Lender will be notified with fully executed agreement.
- Lender must provide ED with 45-day notice of intent to sell a loan(s).
- Servicing of loans after sale will be determined by ED.

Loan Purchase Commitment Program

Each eligible loan to be sold must –

- Have a signed promissory note.
- Have been first disbursed no later than July 1, 2009.
- Be fully disbursed.
- Have been originated and serviced in compliance with all requirements of applicable law.
- Bear interest at the stated statutory rate under the HEA.
- Satisfy the terms, conditions and representations and warranties of the Master Loan Sale Agreement.

Loan Purchase Commitment Program

Dates and Deadlines:

- May 7, 2008 - Law Enacted
- July 1, 2008 - Federal Register Notice Published
- July 16, 2008 - If Notice of Intent to Participate received, loans eligible back to May 1, 2008
- March 31, 2009 - Last date to submit Master Sales

Agreement

- July 1, 2009 - Last date for first disbursement
- August 14, 2009 - Last date to provide 45-day notice
- September 30, 2009 - Last date to sell loans



Loan Participation Purchase Program



Loan Participation Purchase

Program

Concept – ED provides lender liquidity by purchasing “participation interests” in eligible FFEL loans that the lender has placed in a “participation” facility controlled by a Custodian. Lender reduces ED’s participation interest by repaying ED amount ED paid plus ED’s yield with cash or by completing sale of loan(s) to ED.

Loan Participation Purchase

Program

Players:

ED: U.S. Department of Education
(Participant)

Sponsor: Eligible FFEL lender or holder
of FFEL loans

Custodian: Holds legal title to the
Purchased Eligible Loans

- Must be an eligible lender
- Must be a National or State-chartered bank
- Must not be affiliated with the Sponsor



Loan Participation Purchase Program

Minimum Participation Amount –

- Sponsor must commit to participation of at least \$50 million.
- Smaller lenders may aggregate with each other or with larger lender by transferring title.

Loan Participation Purchase

Program

Steps –

- Eligible lender, after making first disbursement of eligible loans, using its own or short-term borrowed funds, places loans into a “participation” facility that is under the control of a Custodian who takes title of the loans.
- Lender (now Sponsor) responsible for servicing of loans.

Loan Participation Purchase

Program Steps –

- In exchange for title to loans, Custodian provides Sponsor with two participation interest certificates.
- The 'A' Certificate (a Participation Interest in the loans that were transferred) is purchased by ED. 'A' Certificate is the senior certificate.
- Sponsor holds 'B' Certificate, which entitles them to:
 - Redeem eligible loans, or
 - To exercise the purchase option to sell loans to ED
 - Entitled to residual amounts



Loan Participation Purchase Program

ED buys a Class A Participation Interest from Sponsor, which entitles ED to:

- 100% beneficial ownership interest in the principal portion of eligible loans
- ED's Yield: Commercial paper rate plus 50 basis points



Loan Participation Purchase

Program Steps –

- After subsequent disbursements are made on the loans ED provides additional funds to Sponsor (through the Custodian) by purchasing increased participation in the loans.

Loan Participation Purchase

Program

Reducing ED's Participation Interest

- ED's participation interests are reduced by Sponsor repaying ED its principal payments plus ED's yield (CP+50bp).
- To reduce ED's participation, loans may be
 -
 - Redeemed by the Sponsor
 - Sold to ED through Loan Purchase Program
 - Same loan value
 - Sponsor must have Loan Purchase Agreement on file with ED
 - Must provide ED with 45-day notice of

Loan Participation Purchase

Program

Each loan included in participation must:

- Have a signed promissory note
- Have had at least one disbursement
- Have been originated and serviced in compliance with all requirements of applicable law
- Bear interest at the stated statutory rate under the HEA
- Satisfy the terms, conditions and representations and warranties of the Master Participation Agreement



Loan Participation Purchase

Program

To participate, each eligible lender must

- Submit Notice of Intent to Participate
- Submit a Master Participation Agreement with supporting documentation
- Receive ED approval
- Submit a monthly rolling forecast report
- Submit Participation Purchase Request with Loan Schedule (Custodian)

Loan Participation Purchase

Program

Minimum Participation Amount –

- Sponsor must commit to participation of a total of at least \$50 million by end of program.
 - Smaller lenders may “aggregate” with each other or with larger lender.
 - The same SAP rate must apply to all loans being aggregated.

Loan Participation Purchase

Program

When Sponsor sells eligible loans to ED:

- Sponsor and ED net all amounts due
 - Sponsor owes ED principal and ED's yield
 - ED owes Sponsor value of purchased loans as determined in Loan Purchase Program, (principal balance, accrued interest, lender fee rebate and \$75 per loan)

Loan Participation Purchase

Program Dates and Deadlines:

- May 7, 2008 - Law Enacted
- July 1, 2008 - Federal Register Notice Published
- July 16, 2008 - If Notice of Intent to Participate received, loans eligible back to May 1, 2008
- March 31, 2009 – Last Date to Master Loan

Sales Agreement

- July 1, 2009 - Last date for first disbursement
- August 14, 2009 – Last date to provide day notice

