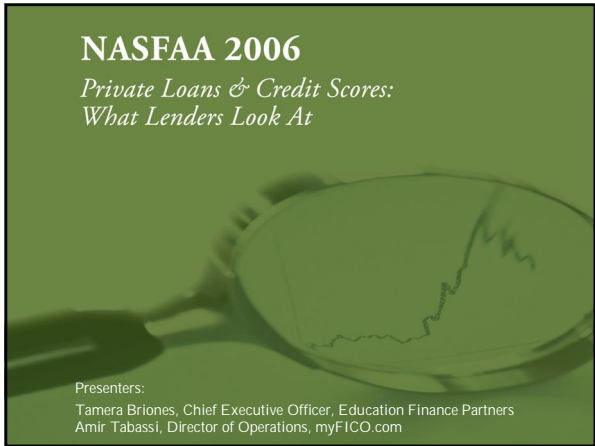


National Association of Student Financial Aid Administrators

**The following is a presentation
prepared for NASFAA's 2006
Conference in Seattle, WA
July 5-8, 2006**

NASFAA 2006

*Private Loans & Credit Scores:
What Lenders Look At*

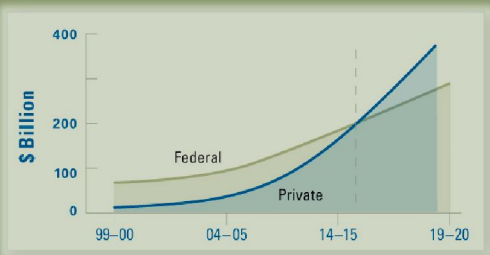


Presenters:
Tamera Briones, Chief Executive Officer, Education Finance Partners
Amir Tabassi, Director of Operations, myFICO.com

What We'll Look At

- The Evolving Financial Aid Landscape
- Understanding FICO
- Risk-Based Pricing
- Smart Debt
- Matching Lenders to Your Students

Evolving Financial Aid Landscape



Year	Federal (\$ Billion)	Private (\$ Billion)
99-00	~80	~20
04-05	~100	~50
14-15	~180	~180
19-20	~250	~380

Stafford subsidized & unsubsidized, PLUS and Grad PLUS.

Market Trends

Paying for School

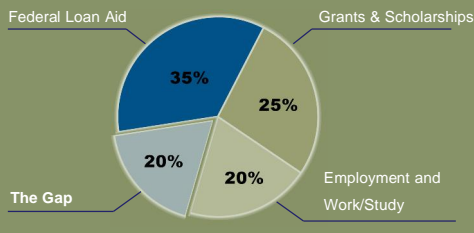
- Tuition rose 59% in the past decade
- Family income rose 2%
- Federal aid limits remain stagnant



Source: The College Board, 2005

Paying for School

Funding the Gap




Funding Source	Percentage
Federal Loan Aid	35%
Grants & Scholarships	25%
Employment and Work/Study	20%
The Gap	20%

Source: The College Board, 2005

Impact on Borrowers

- Greater choice of products
- Better pricing
- Increased financial fluency
- Greater transparency of lending practices



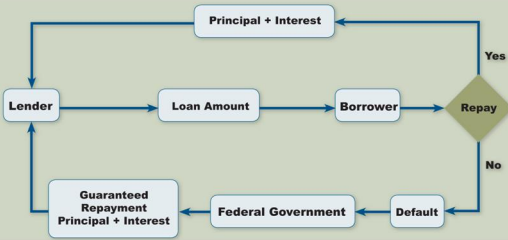
Impact on Schools

- Greater understanding of private loans
- Expanded financial counseling role
- Greater need to identify suitable options



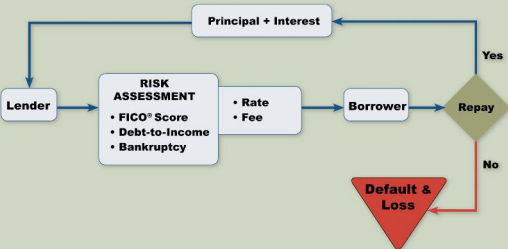
Federal Lending

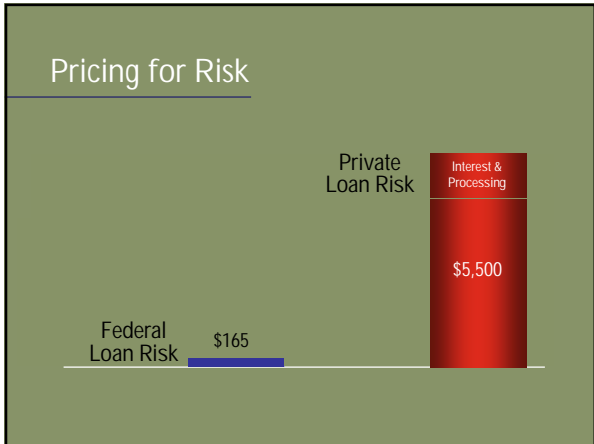
No Risk



Private Lending

Managing Risk





The FICO® Score

Presented by Amir Tabassi

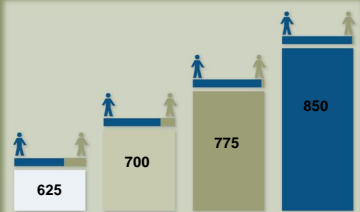
- What's a FICO Score?
- FICO Score Facts & Fallacies
- Components of a FICO Score
- Improving Your FICO Score

What's a FICO® Score?

- The credit score most commonly used by lenders
- Developed by Fair Isaac Corporation
- All three U.S. credit bureaus offer a FICO score
- Ranges from 300-850
- "Rank orders" (compares) consumers according to credit risk
- Higher score = Lower risk to lenders

Rank Ordering

Likelihood that consumers will pay as agreed
 Higher score = More likely to pay as agreed
 At any score, some won't pay as agreed



Why FICO® Scores Matter

Most lenders use FICO scores
 Scores determine interest rates, down payments & monthly payments
 Most U.S. credit card holders have a FICO score (>150 million people)



Why FICO® Scores Matter

FICO® score	Interest Rate	Monthly Payment
720-850	6.71%	\$969
700-719	6.84%	\$981
675-699	7.37%	\$1,036
620-674	8.52%	\$1,156
560-619	8.53%	\$1,157
500-559	9.29%	\$1,238

Based on data from Informa Research Services, Inc., for 6/26/06. Mortgage payments based on \$150,000 mortgage, 30-year fixed loan.

FICO® Score Facts & Fallacies

Closing unused credit cards will improve a FICO score.

True False

A FICO score should be the same at all 3 credit bureaus.

True False

Upon marriage, spousal credit reports are merged.

True False

Checking one's own credit score creates an inquiry that lowers the score.

True False

Annual household income is calculated into a FICO score.

True False

FICO® Score Facts & Fallacies

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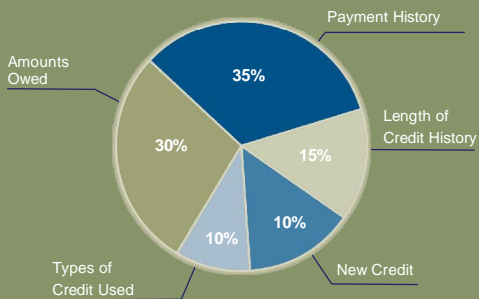
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Components of a FICO® Score

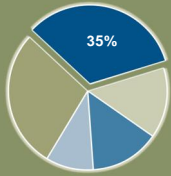


Payment History

HOW RECENT is the most recent delinquency, collection or public record?

HOW SEVERE was the worst delinquency?

HOW MANY credit obligations have been delinquent?

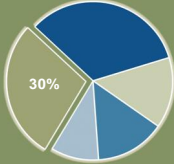


Amounts Owed

HOW MUCH is owed to creditors?

WHAT PERCENTAGE of available credit is in use?

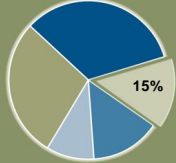
WHAT PERCENTAGE of open installment loans is outstanding?



Length of Credit History

HOW LONG have accounts been established?

NEW ACCOUNTS -- How recent is the newest account?

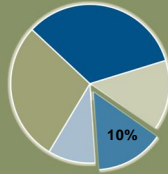


New Credit

NUMBER of inquiries in the past 12 months

NUMBER of new accounts opened in the past 12 months

Multiple mortgage or auto inquiries are treated as a single inquiry in any 45-day time period



Types of Inquiries

FICO® scores consider only consumer-initiated inquiries posted in the last 12 months

FICO scores do not count inquiries for:

- Promotions
- Account reviews
- Consumer disclosures
- Insurance
- Employment

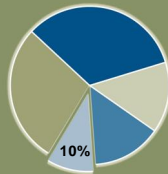


Types of Credit Used

MIX of credit product types

NUMBER of revolving credit lines

PERCENT of installment trade lines



What's *Not* in a FICO® Score?

- Race, color, religion, national origin, sex and marital status
- Salary, occupation, title, employer, date employed or employment history
- Child/family support obligations or rental agreements
- Certain types of inquiries
- Any information not found in credit report
- Any information not predictive of future credit performance
- Participation in credit counseling of any kind

Improving Your FICO® Score

FICO® Score Component	Score Weight	Advice to Improve Your Score
Payment History	35%	Pay your bills on time
Amounts Owed	30%	Decrease your revolving balances
Length of Credit History	15%	Keep older accounts open. Don't swap accounts constantly
New Credit	10%	Apply for new credit only when you really need it
Types of Credit Used	10%	Have a sensible mixture of credit
Total	100%	

College Payment Options

- Home Equity Loans
- Investments / Savings
- 401(k) Funds
- Credit Cards
- Private Loans



Understanding Risk-Based Pricing

Managing Risk


Consumer Loans	Average Interest Rates
Mortgage (5/1 ARM) ¹	6.32%
Mortgage (30 year fixed) ¹	6.69%
Equity Line of Credit (\$30,000) ¹	8.07%
Car Loan (60 month, new car) ¹	8.10%
Private Education Loan ²	10.79%
Credit Card (student class) ¹	16.55%

1. Bankrate.com, 6/15/06 2. Survey of top 6 private lenders, 6/15/06

Paying for School

Undergraduates & Credit Cards

- 76% have credit cards
- 24% use credit cards for tuition
- 56% graduate with four credit cards & an average total balance of \$6,400




Source: Nellie Mae, 2005

Smart Debt

Meet Frank

- Frank Needs an \$8,000 Private Loan
- He has: Established Credit
Parents Willing to Co-Sign
850 FICO Score
- His Rate: 7.5%



Smart Debt

Increases Access to Education

When payments are deferred while in school

When it's the best rate a student can get

When it allows a student to stay in school



Student Loan Debt

How Much is Too Much?

55% - Feel burdened by school debt

76% - Loans mean attending the college of choice

85% - The benefits are worth it



Source: Nellie Mae, 2005

Advising Your Students

A private loan is credit-based

Rate reflects risk profile


A creditworthy co-borrower or sponsor provides a better rate



More Access for More Students

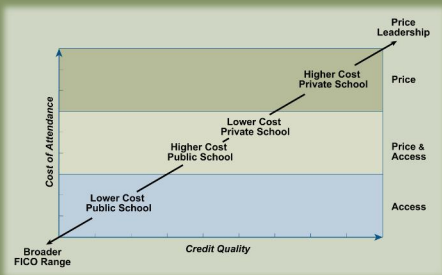
Choosing the Right Lender

- Consumer-lending focused
- Student-focused
- Match the lender to your students



Choosing the Right Lender

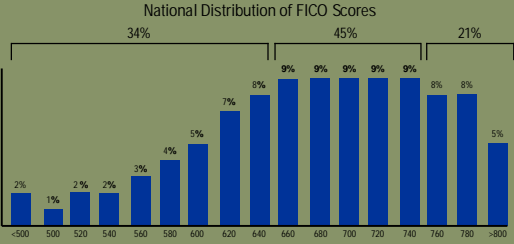
Know Your Students



Choosing the Right Lender

Know Your Demographic

National Distribution of FICO Scores



Finding the Best Options

For Your Students

Every student's financial situation is unique

Every lender has its own risk model

Know your student population

Choose lenders to fund the majority of your students



Wrapping it Up

Private loans will become the primary source of education financing.

As the market evolves, schools will help students and families make smart choices.

Choose lenders to fund the majority of your students.

The Result

More students get the money they need to achieve their education goals.
