Maximizing the Value of Public Assets

State's Student Loan Guarantee Function—Operated Through EdFund

The Budget assumes the sale of, or other contractual arrangement for the operation of, California's student loan guarantee function, generating $1 billion in one-time revenue to the state. The state's student loan guarantee function under the Federal Family Education Loan (FFEL) Program is operated through a contract between the California Student Aid Commission (CSAC) and EdFund, a non-profit public benefit corporation established by CSAC.

EdFund services student loans for students attending schools in California and throughout the nation. In fact, over half of all loans serviced by EdFund are held by non-California students. EdFund is the second largest guaranty operator in the nation and currently maintains a loan portfolio in excess of $27 billion.

The state's participation in the FFEL Program through EdFund is an inherently valuable asset because the student loan guarantee business is a fundamentally attractive financial venture. The student loan guarantee business is not a core mission of government. Recognition of this fact led to spinning off the loan guarantee servicing business to a quasi-governmental, private non-profit that is now EdFund. Selling to, or contracting for the operation of this activity with, a private company could produce a significant one-time financial benefit to the state without adversely affecting students. There are many student loan guarantee firms throughout the country that compete vigorously with each other. Nearly all of them are private firms, not governmental entities. Potential buyers or operators of the state's participation in the FFEL Program will be attracted to the opportunity of benefiting from EdFund's substantial portfolio and brand name. In addition, potential buyers or operators may be attracted by the indications of recent analyses that there could be significant opportunities to increase the current efficiency of EdFund and diversify into other compatible lines of business such as loan servicing and collections, thereby generating higher revenues and profit margins. The Budget assumes that the sale or contracting for the operation of the state's participation in the FFEL Program would generate at least $1 billion.

This proposal will not adversely affect students' access to loans or the interest rates students pay for loans (which are set by the federal government). Neither CSAC nor EdFund sets loan interest rates or charge students fees. Revenues come primarily from the banks that EdFund does business with and the federal government.