Invest In Kids Finance Policy Group

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Discussion Moderator – Paul B. Sheldon

Discussion Moderator

The moderator of this discussion is Paul B. Sheldon, Managing Director and Co-Head of the Student Loan Group at Citigroup.

Background of Mr. Sheldon

Paul B. Sheldon is a Managing Director and Co-Head of the Student Loan Group. Mr. Sheldon joined Citigroup in 1991. Mr. Sheldon is responsible for various clients of the firm, and has completed numerous transactions involving publicly offered debt, the acquisition of student loan businesses, and the sale/purchase of whole loans.

He graduated from Columbia Business School with a Master of Business Administration degree.

Specialty

Mr. Sheldon specializes in Higher Education Finance.

Financing Early Education

Theory: It is easiest for society to pay for early education if the expenditures of cash are coincident with the economic benefits of the education

Comparison of Higher Education Finance to Early Education Finance

- What can be learned by studying the growth and maturation of the US government's student loan program?
- How is the student loan program similar, and how is it different from financing Early Education?
- How was the student loan program received by banks and Wall Street when it was introduced?
- What growing pains did the student loan program have?
- How did the student loan program change?

The Federal Student Loan Program

The Student Loan Program was started in 1965 and has morphed many times since

- **Federal Insured Student Loan Program:** FISL (nickname "fizzle") was a program where banks made loans, federal government guaranteed them.
- **Guaranteed Student Loan Program:** GSL changed the guarantee mechanism to a local guarantee- states created guarantee agencies
- **Direct Student Loan Program:** DSL Government makes the loan directly to the student
- **Federal Family Education Loan Program:** FFELP is the current moniker

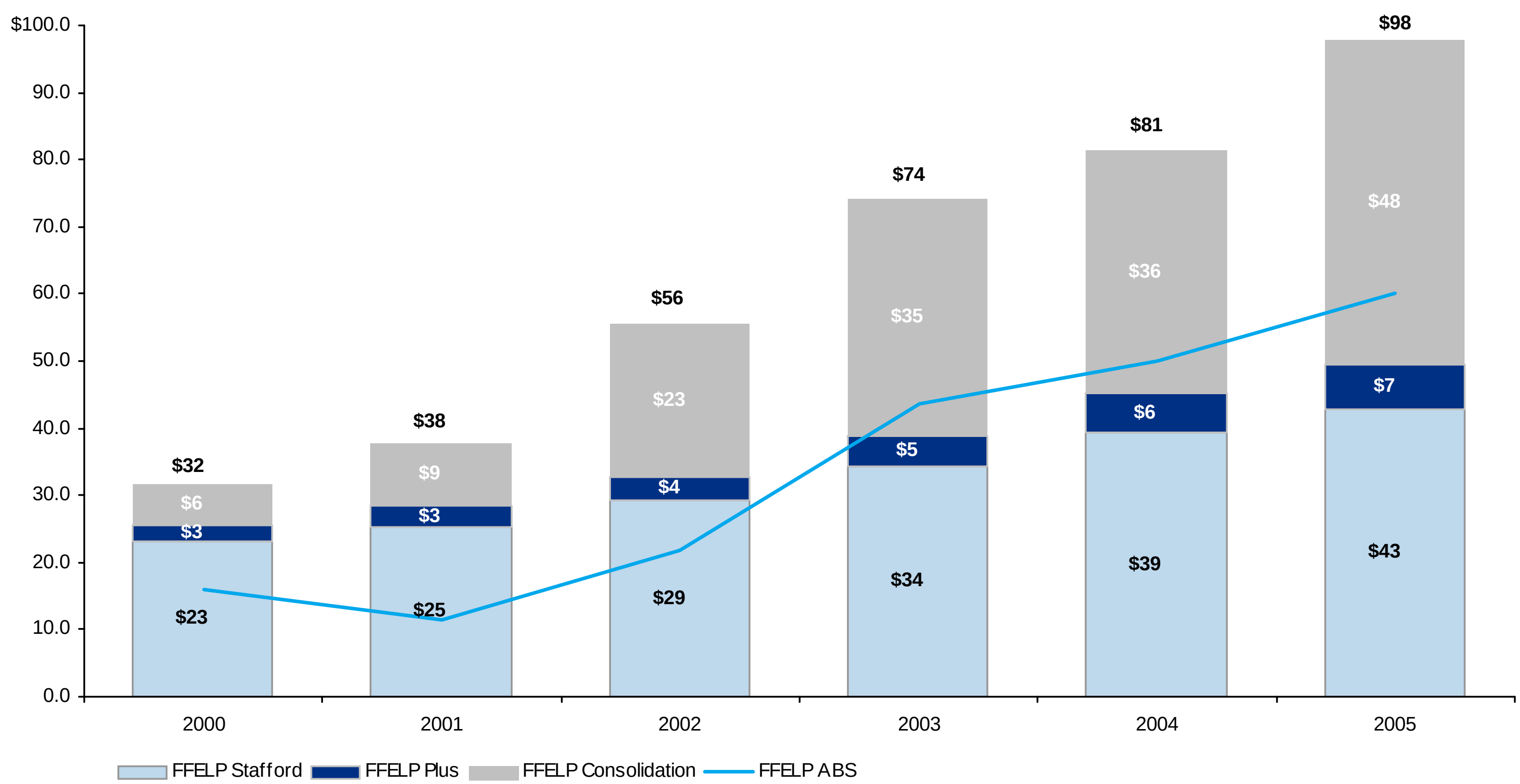
Lessons of the Student Loan Program

- Movement to make guarantee more local in mid 1970’s formed GSL
- Banks had more trust in local state institutions
- Proper servicing still required to keep guarantee
- Fraud and abuse in 1980’s - Proprietary school debacles - Senator Nunn’s Commission
- Movement back to national administration in early 1990’s plus DSL
- State Agency guarantee replaced with effectively federal guarantee

Lessons of the Student Loan Program

- In the late 1990's the program matured, servicing risk receded, and guarantees became federal
- Wall Street became important financing source - currently most loans financed through Wall Street

(Dollars in Billions)

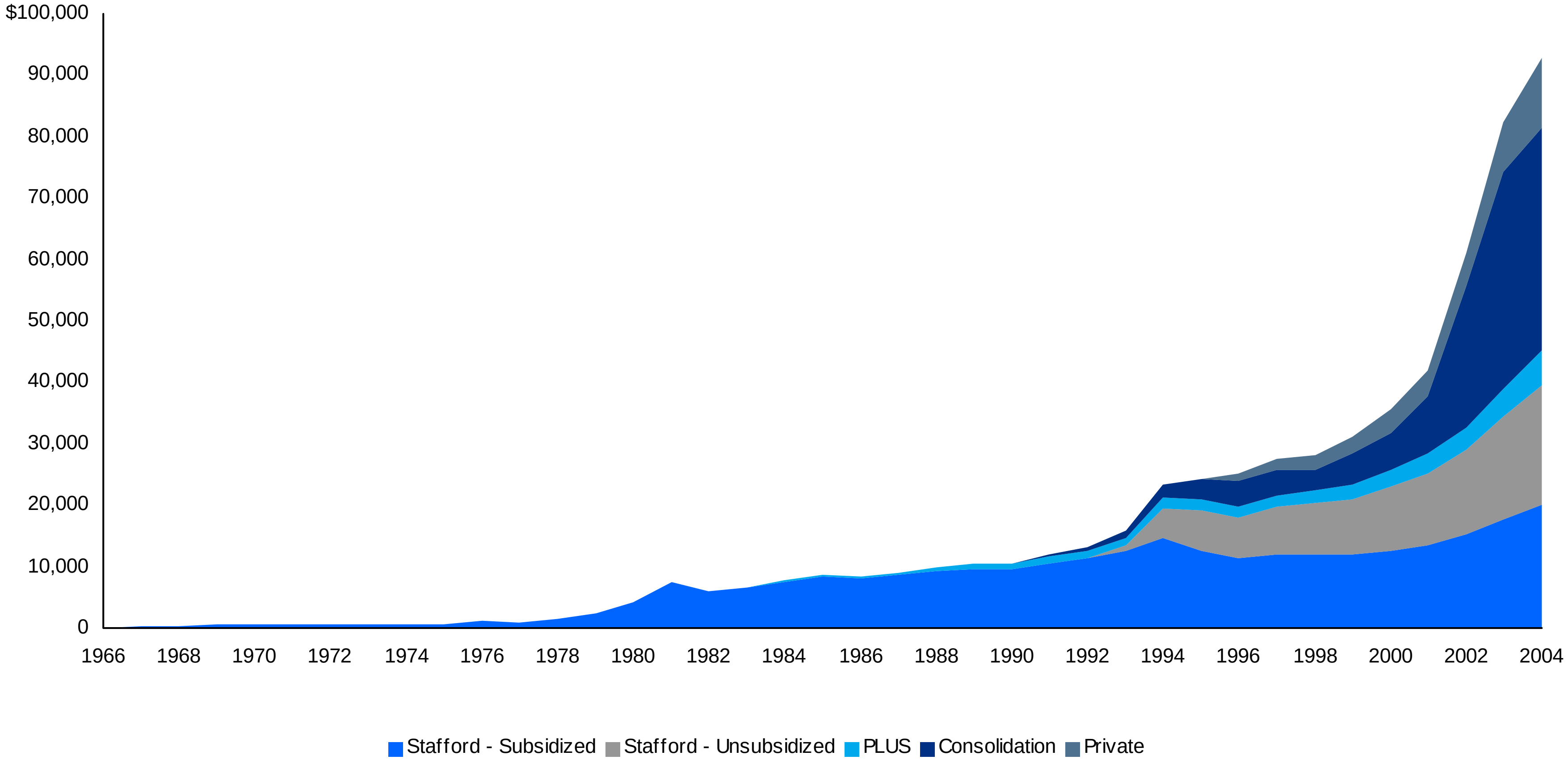


Who Are the Players In Current FFELP?

Role	Function	Key Participants
Originator	• Provides financing for students to attend schools	• Sallie Mae • Student Loan Corp • Brazos Group • Access Group • Other banks • State agencies • Direct-to-Consumer Loan Providers
Secondary Market	• Purchases loans mostly in repayment status	• Sallie Mae • Student Loan Corp • Nelnet • Brazos Group • Other banks • State agencies • Not-for-profit agencies
Servicer	• Responsible for collection of student loans in repayment	• Sallie Mae • PHEAA • Citigroup • Nelnet
Guarantor	• Reinsures generally 98% of principal and interest on FFELP loans	• Sallie Mae / USAF • California • Pennsylvania • Other state agencies

Basic Premise of Loan Program

The basic premise of the program is that loans are extended to students for higher education and the **student** will be able to repay the debt over a ten year period after graduation



Challenges to Financing Early Education

- Should a loan program be created to finance Early Education or should government just pay for it?
- Who would secure and pay back the loan?
- What is the maturity of the loan (should it mature when economic benefit is realized?)
- What is the expected life of the loan?
- Should the interest rate be subsidized? (For Whom? By Whom?)
- Would (Could) loans be guaranteed?

Similarities and Differences Between FFEPL and ECD

Similarities

- Both involve education = Strong political support [???]
- Both require significant public [entitlement] subsidy
- Both involve small loans = expensive servicing and administrative cost
- Both require economies of scale

Differences

- In FFELP the child is expected to pay back loan with interest and guarantee subsidy; in ECD someone else is expected to pay
- In FFELP most loans are 10 years. In ECD, it could be 20 years or longer

What Are the Macro Numbers?

	FFELP	ECD
• Annual Population of Borrowers	14,000,000	7,000,000(1)
• Annual Cost of Enrollment	$10,000	$6,000
• Annual Borrowing	$50,000,000,000	$42,000,000,000
• Average Borrower Indebtedness	$20,000	$12,000
• Target Population Age Range	18 - 24	3 - 4

1. Assumes 75% of population attends ECD and all borrow to attend

 Source: College Board, CED and Citigroup estimates

Trial Balloon Structure for Early Education Loan Program

- Private pre-school educational institutions form and provide service for a fee
- Not-for-profit corporations (State Agencies?) are formed to make pre-school loans
- Not-for-profits borrow in the capital markets and make the loans
- Capital market securities are insured by bond insurers
- Loans have floating interest rate, and long term pre-payable maturities
- Interest and principal is paid by “economic beneficiaries” at the point that the early education begins paying economic dividends

Who Makes FFELP Loans?

Top 10 largest FFELP participants sorted by 2005 volume as reported by DOE and SLSA servicing volume survey

Originators

(Dollars in millions)

Rank	Originator	2005	2004	% Change
1	JPMorgan Chase	5,358	6,477	-17.3%
2	**SLM Corporation**	**5,106**	**4,209**	**21.3%**
3	Student Loan Corp	3,346	3,423	-2.2%
4	Bank of America	2,862	2,414	18.5%
5	Wells Fargo	2,345	2,253	4.1%
6	Wachovia	2,142	1,893	13.1%
7	**Nelnet**[a]	**1,242**	**1,119**	**11.0%**
8	**College Loan Corp**	**1,171**	**777**	**50.6%**
9	US Bancorp	1,143	1,124	1.7%
10	**EdAmerica**	**1,008**	**894**	**12.7%**
	Total Top 10	19,357	17,212	12.5%

Holders

(Dollars in millions)

Rank	Holder	2005	2004	% Change
1	**SLM Corporation**	**$102,334**	**$85,095**	**20.3%**
2	Student Loan Corp	24,644	21,548	14.4%
3	**Nelnet**[a]	**19,734**	**16,633**	**18.6%**
4	Wachovia	10,734	10,071	6.6%
5	Wells Fargo	9,647	8,567	12.6%
6	**Brazos Group**	**8,978**	**7,533**	**19.2%**
7	**College Loan Corp**	**7,837**	**6,314**	**24.1%**
8	**PHEAA**	**6,759**	**5,448**	**24.1%**
9	JPMorgan Chase[b]	6,243	4,894	27.6%
10	**Goal Financial**	**5,326**	**4,042**	**31.8%**
	Total Top 10	$202,238	$170,145	18.9%

Who Would Make the ECD Loans?

Former 150(d) Corporations

- Nellie Mae
- SLFC
- CHELA
- MELMAC

Current 150(d) Corporations

- Brazos
- EdAmerica

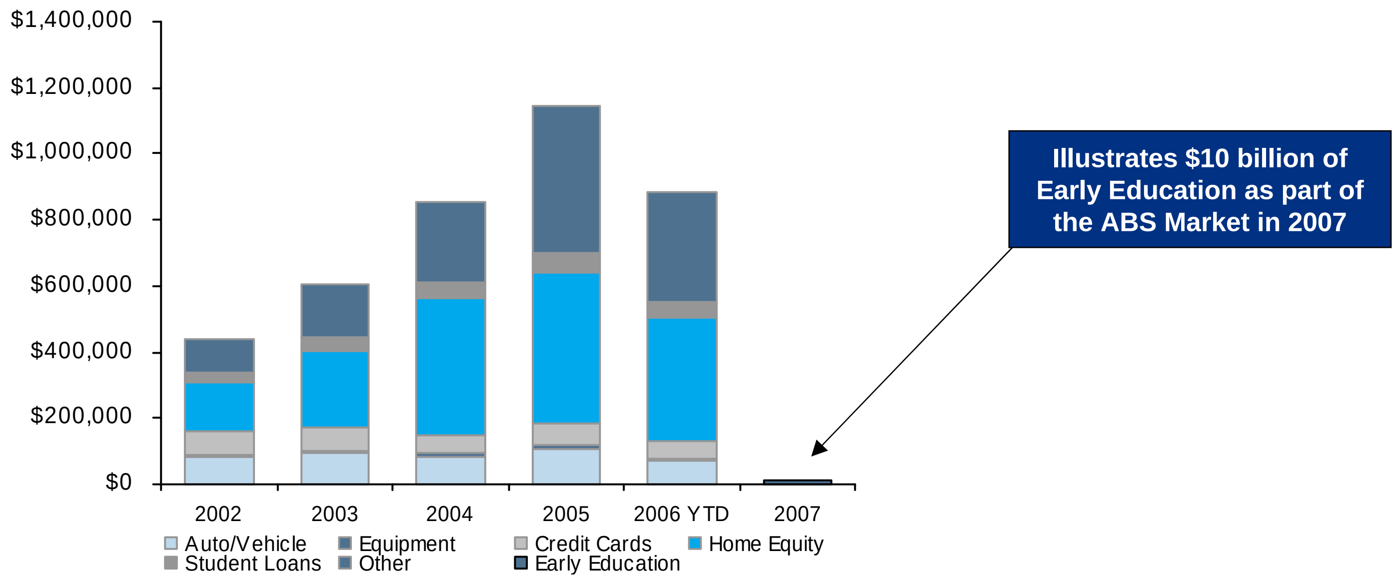
Other Student Loan Companies

- Sallie Mae
- CLC

Banks

Where Would the Money Come From?

ABS Market Growth
(Dollars in Millions)



ABS Issuance Review
(Dollars in Millions)

	2002	2003	2004	2005	2006 YTD
Auto/Vehicle	$82,869	$93,566	$84,148	$109,412	$68,363
Equipment	$5,208	$9,678	$8,925	$9,828	$6,909
Credit Cards	$70,256	$66,730	$53,677	$64,512	$54,224
Home Equity	$152,870	$233,478	$415,856	$454,585	$373,034
Student Loans	$26,139	$40,690	$46,399	$61,836	$51,961
Other	$102,562	$160,177	$247,339	$442,936	$327,043
Total	$444,524	$604,718	$856,713	$1,143,109	$881,534

Source: Thomson Financial. Other includes CDO/CLO Issuance. As of October 6, 2006.

Who Would Pay Back the Loans?

Same entities who are now proposed to pay currently

- States
- Federal Government
- Corporations
- Parents

If You Build It They Will Come

Infrastructure required for loan program will form by private initiative

- Lenders
- Bond Insurers
- Servicers
- Administrators
- Philanthropy Venture Capitalists

Proposed ABS Bond Issue

$750,000,000

Southwest ECD Acceptance Corporation

Early Childhood Education Revenue Bonds

Due 2035

$50,000 Per Bond

Bonds Insured by MBIA

Bonds Rated By Moody’s & Standard and Poor’s

Southwest ECD Acceptance Corporation provides early education loans to students attending pre-school. This advertisement shall not constitute an offer to sell or a solicitation of an offer to buy which is made by Prospectus only in the states listed herein.

Proposed ABS Bond Issue (continued)

Sources and Uses

Sources

Bond Proceeds:	$750,000,000
Equity Contribution:	$10,000,000
Total:	$760,000,000

Uses

Loans:	$747,000,000
Reserve Fund:	$1,000,000
Capitalized Interest and Expense:	$10,000,000
Cost of Issuance:	$2,000,000
Total:	$760,000,000

Summary

- Financing Early Education is similar to financing Higher Education
- There are private companies that would get involved quickly to finance Early Education
- There are capital markets that would accept this type of financing
- The constituents that currently pay for Early Education could delay this cash outlay by promising to pay over time
- Education participants that would be needed will quickly fall into place

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