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MHESAC Announces Revised Benefits, Details Barriers to Education Funding

(HELENA) The Montana Higher Education Student Assistance Corporation (MHESAC) this week announced reduced borrower benefits for future Montana students and the passage of a resolution by its board of directors to instruct its business manager, Student Assistance Foundation (SAF), to eliminate any unnecessary expenses incurred as it accomplishes MHESAC's business.

The action by MHESAC stems from a variety of factors including the recent disruption in U.S. financial markets and dramatic changes to lender yields authorized by Congress in October, according to Fred Flanders, MHESAC Board Chairman.

"MHESAC remains committed to helping Montana students access postsecondary education," he said. "However, the reality is that the current climate within the industry is making it increasingly difficult for us to provide our usual high level of borrower benefit products. At this time, we are taking necessary measures to ensure continued educational funding for Montana students."

Unlike some secondary markets within the student loan industry, MHESAC was able to secure \$175 million in financing for Montana 2008-2009 academic year students that will be available through its Montana lending partners.

In addition, several Montana lenders such as US Bank and Wells Fargo have informed Montana financial aid officers that they are committed to providing student loans to Montana students and their families.

While educational funding for Montana students for academic year 2008-09 is currently in place, Jim Stipcich, President of SAF explains that disruptions in the financial markets have increased MHESAC's borrowing costs on its outstanding financings by more than \$14 million in the past nine months.

"What that means is we expect MHESAC will incur a net operating loss for the first time in its existence," Stipcich said. "In turn, MHESAC will be able to deliver less than \$1.2 million in benefits — mostly in the form of interest and principal reductions — to borrowers in FY09. That's quite a difference when you consider that MHESAC provided more than \$4.2 million in benefits in FY08. Most significantly, academic year 08-09 Montana student loan borrowers will no longer have the benefit of having the borrower origination fee and the default fee on their loans paid on their behalf. "

He further added that changes made by Congress to the yield on post-Oct. 1, 2007 student loans forced MHESAC and other third-party servicing clients of SAF to cease acquiring non-Montana student loans last fall.

“The loss of this business line has prompted SAF to thoroughly examine its operations,” Stipcich said. “As a result, SAF has been implementing measures to cut costs, including shrinking its staff by 35 employees through attrition. While MHESAC has received lower costs as a result of SAF’s earlier cost reduction actions, the MHESAC Board of Directors’ recent resolution directs SAF to continue to examine areas in which it can streamline the business activities it provides to MHESAC.”

Flanders said the MHESAC Board of Directors will continue to diligently monitor current events in the student loan industry and continue to work in association with its business partners to ensure student educational financing needs in Montana.

Montana Higher Education Student Assistance Corporation is a 501(c)(3) nonprofit corporation organized under Section 150(d) of the U.S. Tax Code. MHESAC is dedicated to ensuring access to student loans and lowering the cost of financing postsecondary education by providing capital in the Federal Family Education Loan Program (FFELP) student loan secondary market, loan origination arena and providing borrower rebate programs. For more information, visit www.mhesac.org.