



## **Most Frequently Asked Questions Regarding AES/PHEAA's Decision to Temporarily Withdraw From Lending, Payment of the Federal Default Fee, and the 2008-09 KeystoneBEST Loan Program**

### **I. DECISION TO TEMPORARILY WITHDRAW FROM LENDING**

#### **1) Why did AES/PHEAA decide to temporarily withdraw from student lending?**

Though changes in regulations and the implementation of new federal laws, including the College Cost Reduction and Access Act, impacted our lending operations, it was the direct result of recent failed securities auctions in the troubled bond market, which restricted the funds available to make loans, and actually forced AES/PHEAA to make the decision to no longer participate as a lender in the Federal Family Educational Loan Program (FFELP). Therefore, AES/PHEAA will not act as a lender on any new loans effective March 7, 2008.

#### **2) What is a failed securities auction?**

AES/PHEAA is not a traditional commercial bank and, as such, has relied on student loan revenue bonds, such as auction rate securities (ARS) to fund Stafford and PLUS loans. These long-term auction rate securities (ARS) have been very successful for issuers and investors over the years. Investors can either buy, sell or retain the securities and because of the current economic conditions in the capital markets, there is limited trading of these securities and this circumstance creates a failed securities auction and the overall cost of debt increases dramatically.

#### **3) Does this mean AES/PHEAA is going out of business?**

AES/PHEAA is NOT going out of business. AES/PHEAA is one of the oldest, largest and most respected providers of educational loan services in the nation with more than 44 years in business and we plan to continue to be around for a long time.

AES/PHEAA will continue to operate and generate revenue by focusing on our other lines of business which include guaranty, origination and servicing of both federal and private student loans, as well as administering the Pennsylvania State Grant and Special Programs.

#### **4) What do you mean by other lines of business like guaranty, origination and servicing?**

**Guaranty** - AES/PHEAA was designated to administer FFELP under the Higher Education Act. Congress sets loan limits and interest rates. Each guaranty agency is free to set its own additional limitations, within Federal guidelines. Guarantors guarantee Stafford and PLUS loans, collect NSLDS data from lenders, perform post-default collection activity, and also conduct program oversight on behalf of the Department of Education. They also provide



outreach and early awareness services. AES/PHEAA has total guarantees of approximately \$50 billion.

**Origination & Servicing** - AES/PHEAA is one of the largest originators and servicers of both federal and private loans nationally. We are currently servicing student loan portfolios totaling \$56 billion for more than 400 lenders nationally. The origination and servicing functions performed for these individual lenders, include activities on student loans such as: application processing, disbursement, demographic changes, status changes, payment/deferment/forbearance administration, NSLDS and other reporting, inbound customer service, outbound collection activity, and claim filing. A service provider such as AES/PHEAA is paid by the lenders to manage their portfolios and perform the above stated services.

**5) What happens to students who had chosen AES/PHEAA as their lender previously and still need to borrow more funds?**

AES/PHEAA will continue to honor any second or subsequent disbursement on any Stafford and/or PLUS loan that has not yet fully disbursed.

For students who have eligibility and need to borrow additional funds now or for next academic year they will have to select another lender and complete a new Master Promissory Note (MPN). AES/PHEAA will contact schools to determine how they want their eligible students contacted.

If you have a loan already guaranteed but the first disbursement has not been sent as of March 7, 2008, our AES/PHEAA OneLINK system will automatically capture that borrower, cancel the pending disbursements and send the student borrower a cancellation letter, explaining that AES/PHEAA no longer is a participating FFELP lender. The borrower will need to select a new lender and complete a new MPN.

**6) If we have more questions regarding AES/PHEAA temporarily withdrawing from lending or if our students have questions regarding their loan applications where do we call?**

- Financial Aid Officers should call – 800.443.0646
- Bursar/Business Officers should call – 800.443.0646
- Student/Parent Borrowers should call – 800.692.7392

**II. DEFAULT FEE**

**1) Will AES/PHEAA continue to pay the Default Fee for the remainder of 2007-08?**

Effective April 1, 2008, AES/PHEAA will only pay the Default Fee on new loan applications where the student is either a Pennsylvania resident or non-Pennsylvania resident attending a Pennsylvania school **and** has borrowed through a KeystoneBEST participating lender for either Stafford and/or PLUS (parent and graduate) loan.

**2) Why is AES/PHEAA making this change at this time for the 2007-08 academic year?**

Due to the current economic environment, AES/PHEAA has made the decision to not continue to underwrite the Default Fee for ALL student and parent borrowers. By doing so, we are able to ensure that we continue our mission to provide lower cost loans to our Pennsylvania students and schools.

**3) Will AES/PHEAA charge a Default Fee for 2008-09?**

AES/PHEAA will continue to underwrite the Default Fee for all students who are Pennsylvania residents or non-Pennsylvania residents attending a Pennsylvania school and who borrow through a KeystoneBEST participating lender for either Stafford and/or PLUS (parent and graduate) loans.

AES/PHEAA will charge the Default Fee for any student who chooses to borrow through a non-participating KeystoneBEST lender or who does not meet the borrower eligibility requirements.

**4) Why is AES/PHEAA not paying the Default Fee for all borrowers?**

Unfortunately, due to the passage of the College Cost Reduction and Access Act, coupled with the dramatic changes in the financial markets it became necessary to reevaluate our benefits, products and services.

**5) Will lenders pay the Default Fee if AES/PHEAA is not?**

Since not all Guarantors underwrite (pay) the Default Fee, it is up to the FFELP lenders to either allow the fee to be assessed to their borrower or pay the fee on behalf of their borrower. Students should check with their lender to determine what upfront fees are the borrower's responsibility.

**III. KeystoneBEST Loan Program**

**1) What are the benefits of the 2008-09 KeystoneBEST Loan Program?**

- The KeystoneBEST loan program offers a zero Default Fee to all Stafford and PLUS borrowers and the 1% normally charged will be underwritten by AES/PHEAA.
- Each KeystoneBEST participating lender may offer additional up-front and repayment benefits. Borrowers will have the ability to choose the BEST benefits.
- Since all KeystoneBEST Stafford and PLUS loans will be guaranteed, originated and serviced at AES/PHEAA this provides borrowers with organized and simplistic loan portfolio management.

**2) Where do I find a list of the KeystoneBEST participating lenders?**

The current list of more than 400 lenders who participate in the 2007-08 KeystoneBEST loan programs will be available on our website at [www.aesSuccess.org](http://www.aesSuccess.org) through **June 30, 2008**.

For the 2008-09 academic year, lenders will be required to sign new participation agreements. We are working towards placing the 2008-09 KeystoneBEST participating lenders list on [www.aesSuccess.org](http://www.aesSuccess.org). We are anticipating that this will be in place by the beginning of April. In addition, a borrower can also check with their school's financial aid office.

Keep in mind, lenders must contract with AES/PHEAA for participation in the program and this process could take some time but, again, as soon as the agreements are completed the lenders will be identified on our Website.

**3) Can you define a KeystoneBEST participating lender?**

A KeystoneBEST participating lender is one who partners with AES/PHEAA for the purpose of making KeystoneBEST Stafford and PLUS loans and who agrees to have all of the loans guaranteed, originated, and serviced by AES/PHEAA.

**4) What will happen to serial/renewal borrowers whose lender is no longer a KeystoneBEST participating lender?**

Serial/Renewal borrowers who decide to choose a new lender because their lender's KeystoneBEST participation has changed **MUST** complete a new MPN. If the borrower's lender is still participating in FFELP, but not retaining their KeystoneBEST participation and the borrower would like to change lenders, it is the responsibility of the borrower to initiate the new MPN process by submitting an MPN which indicates the new lender selection.