



NEWS RELEASE

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California Student Aid Commission Acts to Strengthen the Student Loan Guarantee Program

Sacramento – The California Student Aid Commission (Commission) acted at its September 4 and 5, 2008 meeting to strengthen the administration of the federal student loan guarantee program in California, but the Director of the Department of Finance refused to accept three critical actions:

- Freezing the executive compensation of EdFund management
- Removing the EdFund Board of Directors
- Replacing the Board with the Current Membership of the Commission

The Commission reviewed and took action on a number of governance issues that raised concerns about the effectiveness of the Board of Directors of the Commission's nonprofit auxiliary organization, EdFund, in directing EdFund's executive management. The Commission, as California's sole student loan guaranty agency, is responsible for ensuring that federal and state laws are followed in the administration of the federal student loan program. Peter Hankwitz, chair of the Commission said, "Working to clean up the existing structural disorder and dysfunctional, wasteful bureaucracy at EdFund is the best course of action for the strength of the State's federal student loan program."

The Commission took several actions to rein in unnecessary spending and to ensure proper accountability over the expenditure of public funds. In response to earlier attempts by the EdFund Board of Directors to award severance agreements that could have paid over \$4 million in public funds to seven EdFund executives, the Commission adopted a new compensation policy that prohibited any severance agreements or retention bonuses to be paid to EdFund executives.

Michael Genest, Director of the Department of Finance, in a letter dated September 5, 2008, stated that he was overturning the Commission's prohibition against severance agreements and retention bonuses, citing his authority under legislation (Senate Bill 89) allowing the Department of Finance to sell or transfer the State's loan program guaranty. This law provides that the Department of Finance can sell student loan guarantee program assets and allows that Commission actions involving the student loan guarantee program are effective only after approval by the Department of Finance.

"It concerns me that Director of Finance seems to be willing to let public funds be used as 'golden parachutes' for private individuals rather than the students that are served by the Student Aid Commission," said Commissioner Antonio Solorzano, Jr. "Mr. Genest seems to be ignoring the legislation that set up EdFund in 1997 and cites SB 89 as his source of authority for his unwarranted actions. In this time of financial crisis, it would behoove the Director of Finance to act in the best interest of students, the people of the State of California and the Governor."

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At its June Commission meeting, the Commission had expressed concern that the Board of Directors of EdFund had violated Open Meeting Act requirements in order to discuss the severance agreements. The Commission took actions to adopt new meeting and notice requirements to ensure that open meeting laws were followed. The Board of Directors of EdFund stopped their severance agreement discussions when the matter became public and was reported in the news media. Members of both houses of the Legislature expressed their objections to the use of public funds for severance packages for EdFund executive management.

At its September 4th meeting, the Commission also exercised its authority granted by California law to remove members of the EdFund Board of Directors and to replace them with the membership of the current Commission. Mr. Genest also overturned these actions in his September 5, 2008 letter.

The Commission voted 8-1 to replace the members of the EdFund Board of Directors with the current Commission. The action was taken by the Commission to improve and streamline the governance of EdFund by aligning the Commission's accountability for the activities of EdFund. The Commission replaced the EdFund Board in response to a number of policy and managerial concerns that established ineffective supervision by the EdFund Board of Directors over the EdFund executive management.

Chair Hankwitz states, "The Commission has been responsible for every aspect of the federal student loan program since 1978, and does not endorse the continuance of this longstanding structural problem. The Commission is ultimately responsible for appropriately administering the oversight that it is required to provide under federal and state law."

These concerns which were presented at the Commission meeting included;

- the flawed implementation of a new federal default fee strategy,
- documented contracts and request for proposals that EdFund executive management had entered into without informing the EdFund Board of Directors or the Commission, and
- expenditures of public funds inconsistent with the operational support EdFund was to provide to the Commission.

These contracts and request for proposals included the execution of a \$5 million contract in public funds without Board or Commission approval, and a national public awareness campaign to counter the potential impact that proposals to expand Direct Lending would have on the Federal Family Education Loan Program that the Commission administers.

The California Student Aid Commission is designated by the federal government as the student loan guarantee agency for California. Hankwitz stated, "The Commission is dedicated to ensuring that its designation as California's student loan guarantee agency remains intact and that the student loan guarantee program complies with all federal and state requirements. To this end, it will continue to take the necessary steps to strengthen the student loan guarantee program and to ensure that education beyond high school is accessible to all Californians."

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