

**TESTIMONY TO THE
INDUSTRY BUSINESS & LABOR COMMITTEE**

MAY 27, 2010

ERIC HARDMEYER, BND PRESIDENT

Thank you for the opportunity to discuss with you the impact of the passage of the Health Care and Education Reconciliation Act on the Bank of North Dakota.

As I am sure you are aware, tucked into the Health Care bill was a provision that eliminated the Federal Family Education Loan Program (FFELP). This is effective July 1, 2010. The FFELP program has been the hallmark of the Bank of North Dakota's student loan program for over 40 years with a total student loan portfolio just recently surpassing \$1 billion. The portfolio can be broken down into two categories with the FFELP comprising about 80% or \$800 million and the Dakota Education Alternative Loan (DEAL) Program making up the balance or about \$200 million.

The question is what happens July 1, 2010? The answer is that the federal student loan program will now be administered completely by the Department of Education through four federal contractors. These contractors are all large, experienced student loan providers and servicers and were the biggest players in the industry prior to the elimination of the FFELP. They essentially will be delivering what is called the Direct Student Loan Program. This program uses federal funding from the US Treasury to make loans with and has been in existence since the early years of the Clinton administration. It is used extensively in other states including Minnesota. I have attached information detailing the breakdown of usage between the FFELP and the Direct Program. You can see that prior to 2008, the FFELP program delivered through financial institutions over 75% of all student loans.

Benefits of Direct Program

The Congressional Budget Office as part of their analysis determined that by eliminating the FFELP program, \$67 billion in savings could occur over a ten year period. This savings they contend comes from the subsidy they paid the "middleman" for making and servicing federal insured student loans. Following are the intended uses from the savings:

- \$36 billion for increased use of PELL grants
- \$2.0 billion for Community colleges
- \$2.6 billion for minority and historically black colleges
- \$1.5 billion to cap borrower's payments at 10% of discretionary income and for loan forgiveness
- Balance will be used for federal debt reduction

Impact to Bank of North Dakota

Attached you will find a series of attachments which display in graphical form the impact to BND earnings and loan volume. Also attached are the historical levels of FFELP loans for the past five years. You will note that the impact to earnings is minimal the first year but becomes more significant in years 2011-2013. In years past, earnings from student loans represented about one-third of total earnings for BND. In the last 3 years, this has been greatly reduced as a result of the College Credit Reduction Act which significantly reduced lender margins and imposed fees on banks to participate in the FFELP program.

BND has 55 employees working in the student loan area. This includes both the lending function and the Guaranty Agency. Responsibilities include: loan origination, servicing, default prevention activity, education and outreach activities.

At this point we are going through a methodical process of analyzing the impact of the loss of the FFELP program in regards to our FTE count. This is somewhat complicated by the fact that we are in the process of a system conversion with our existing student system to a new more robust system that will provide greater efficiency. Additionally we will continue to provide the DEAL Program. As mentioned earlier this is a Bank of North Dakota program that is designed to fill in gaps around the federal student loan program. As detailed in the graphs provided, this program has been a growth area for BND and we believe it will continue to be so after July 1, 2010.

BND has other opportunities to utilize existing student loan staff. We've been designated by Governor Hoeven as the agency to apply for the College Access Grant. This is a grant that would provide funding for education and outreach for low to moderate income areas in regards to financing education, it might also include funds to assist with counseling and default prevention. These are activities that BND had previously funded as part of the income received for our FFELP activity – now no longer part of the on-going funding stream. Additionally, in 2011 BND will become eligible to service Direct Student loans on behalf of the Federal Government. The Department of Education will open up contracts to non-profit state agencies to service up to 100,000 accounts. This would allow BND to potentially carve out North Dakota and surrounding areas. This is very preliminary at this point and much due diligence will need to be completed before we can go forward.

For now, I don't see any immediate reduction in our FTE count as we work through the conversion, College Access Grant and a potential service contract. This may result in a shift of job duties for some. In the long run, after system conversion we will have a better handle on our human resource needs. In the meantime, we will continue to seek new ways to deploy assets to continue to meet our mission to promote and encourage industry, commerce, and agriculture.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

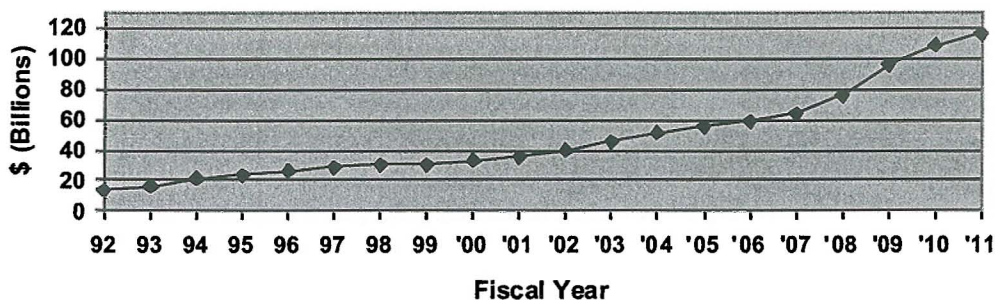
NEW STUDENT LOAN VOLUME

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010¹</u>	<u>2011¹</u>
New Loan Volume (\$M)							
FFEL	\$43,244	\$46,669	\$51,848	\$57,880	\$66,779	\$35,233	0
Direct Loans	\$12,570	\$12,176	\$12,507	\$17,846	\$29,739	\$73,529	\$116,394
Total	\$55,813	\$58,845	\$64,356	\$75,726	\$96,518	\$108,762	\$116,394
Number of loans (000s)							
FFEL	10,313	10,841	11,580	12,706	14,459	8,215	0
Direct Loans	2,971	2,814	2,726	3,744	6,110	14,791	24,349
Total	13,284	13,656	14,306	16,450	20,569	23,006	24,349

¹ Estimated volume

Notes: Details may not sum to totals due to rounding. Loan volume and number of loans reflect net commitments, excluding Consolidation Loans. **Loan volume in FY 2010 and 2011** is based on proposed policy of moving to 100 percent Direct Loans as of July 1, 2010. Estimated FFEL and Direct Loan amounts in 2010 and 2011 reflect this proposed policy shift.

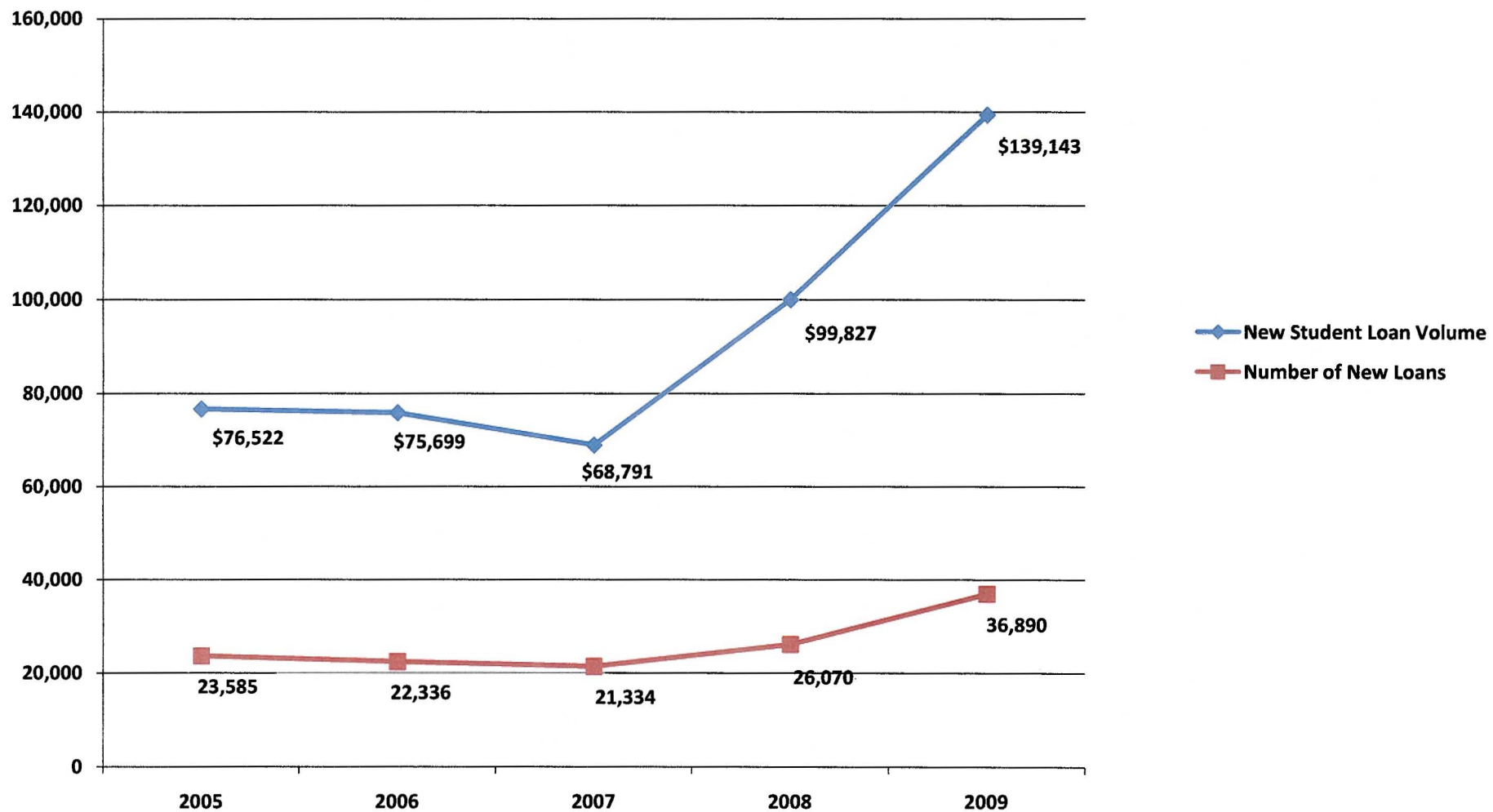
**Total New Student Loan Volume
(Non-Consolidation)**



As shown by the historical graph above, total new loan dollar volume has increased significantly since 1992 and is projected to continue increasing in 2010 and 2011. FY 2011 new loan volume of \$116.4 billion represents a projected 7 percent increase over 2010. Stafford and Unsubsidized Stafford loans account for approximately 85 percent of this \$116.4 billion in student loans. A variety of factors such as programmatic changes that increased eligibility, State aid, Federal aid, economic conditions, college costs, and enrollment demographics may all interact to affect these demand patterns.

BND Annual Student Loan Volume/New Loans

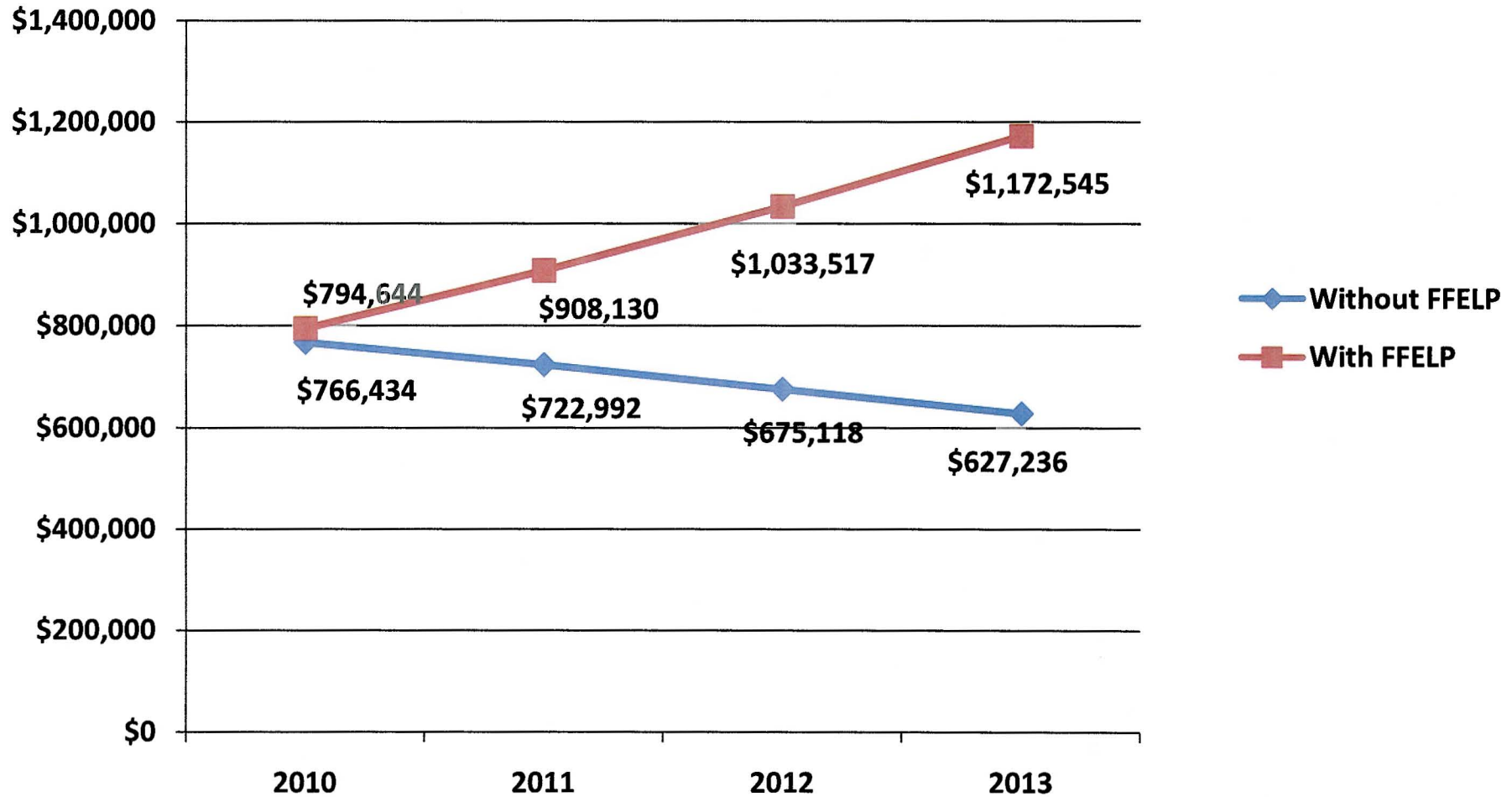
Volume in Thousands



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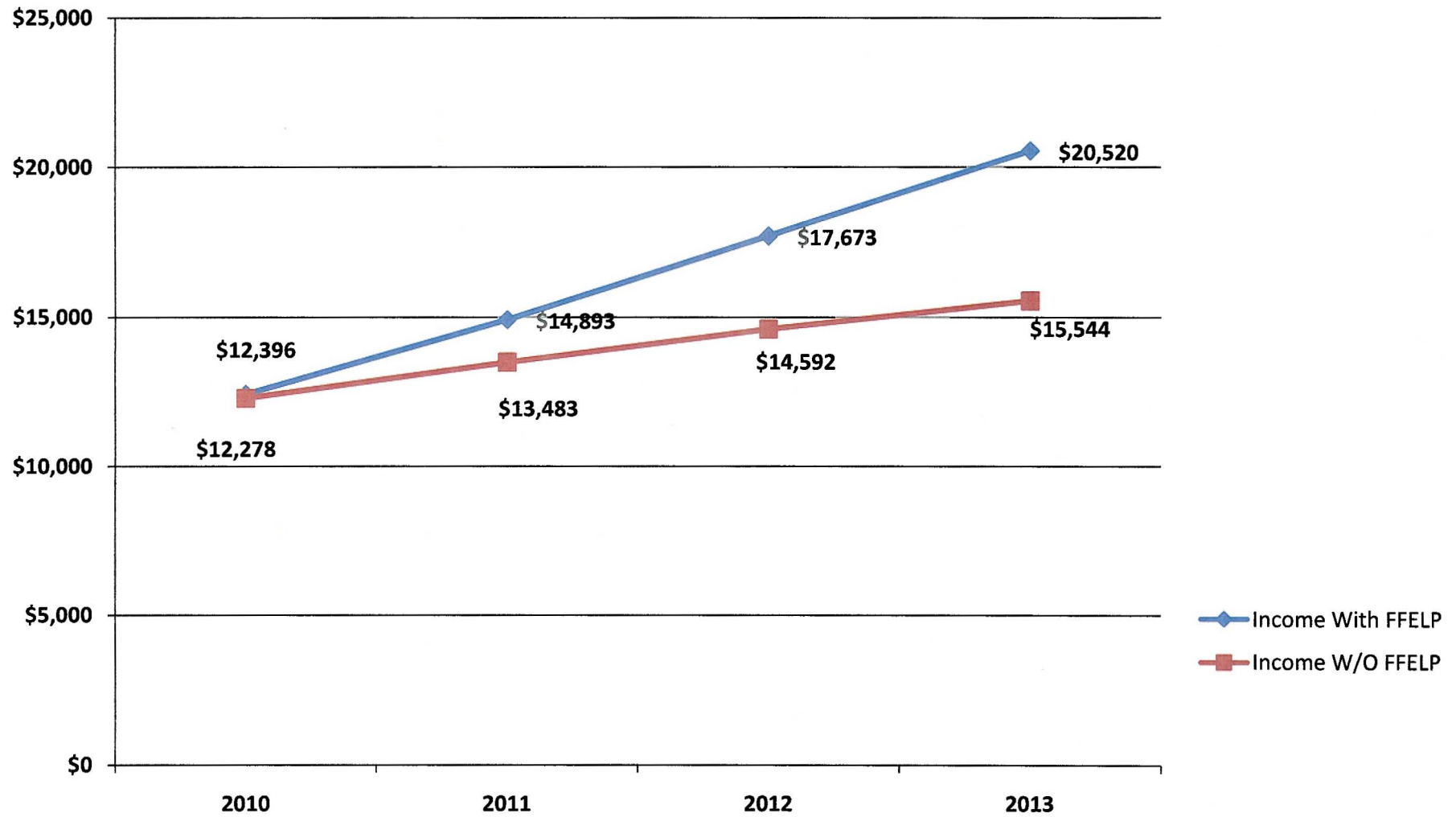
BND Federal Student Loan Average Balances

(In Thousands)



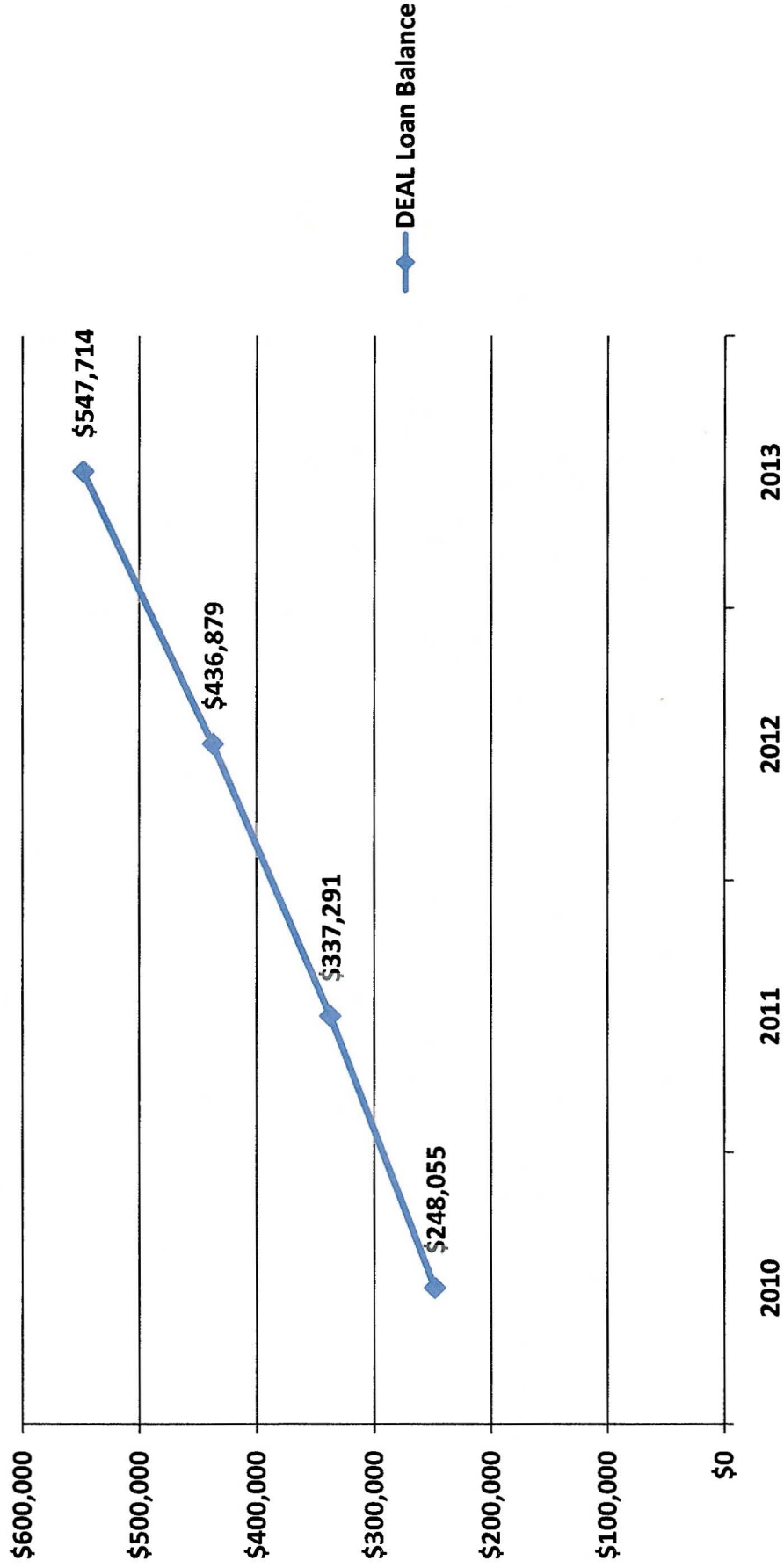
BND FFELP Income

(In Thousands)



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BND Projected DEAL Average Balances



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