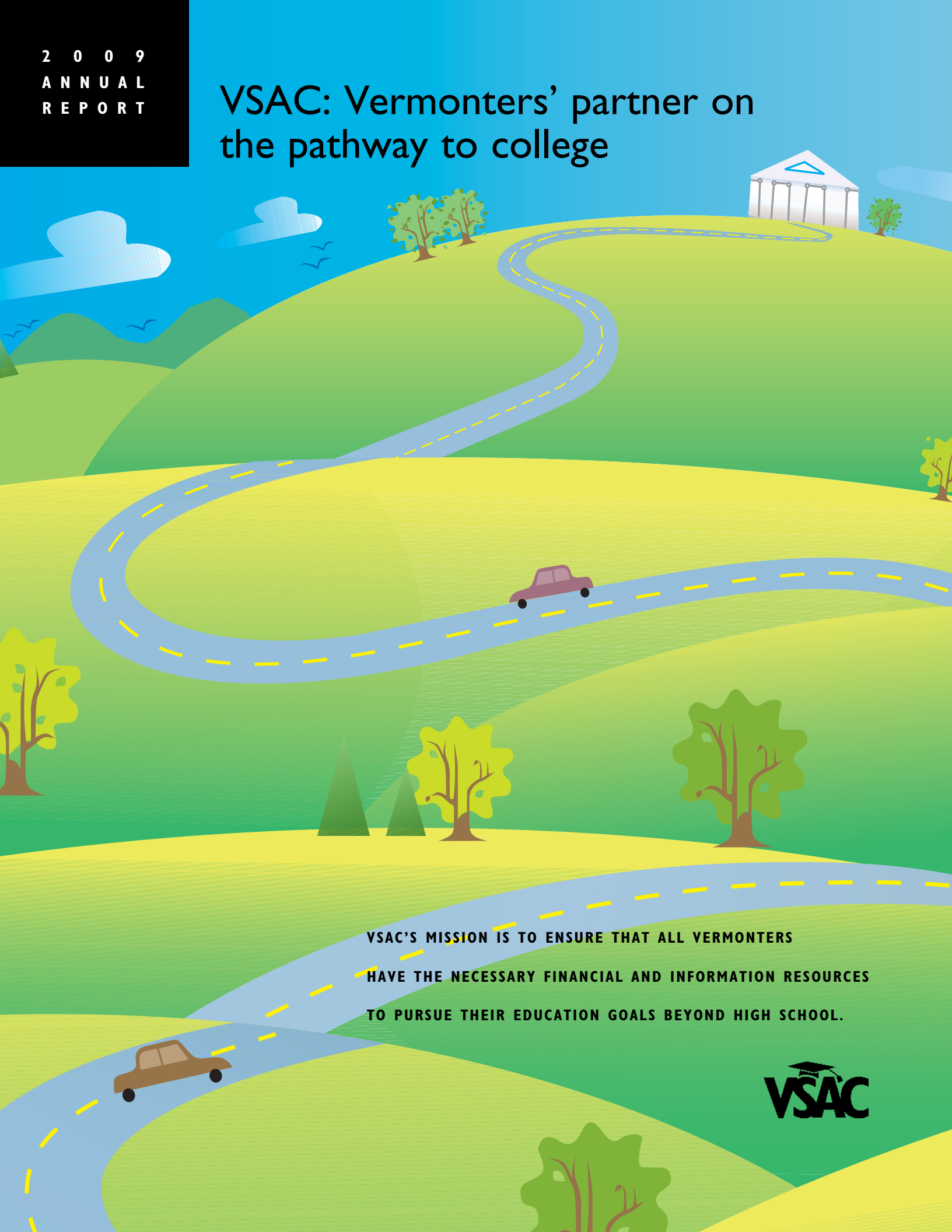


VSAC: Vermonters' partner on the pathway to college



VSAC'S MISSION IS TO ENSURE THAT ALL VERMONTERS
HAVE THE NECESSARY FINANCIAL AND INFORMATION RESOURCES
TO PURSUE THEIR EDUCATION GOALS BEYOND HIGH SCHOOL.



VSAC

A message from VSAC's board chair and president

Two major events — the ongoing credit crisis and the change of administration in Washington — shaped fiscal year 2009 at the Vermont Student Assistance Corporation.

Although VSAC was able to arrange private capital for education loans for the 2008–09 school year, the picture changed by the end of the fiscal year, requiring us to utilize a new federal program for the following year. In addition, the new administration launched plans to replace the federal loan program in which VSAC participates with 100-percent direct lending, prompting much debate throughout the country and leading to changes that will affect what we, and other nonprofits in the U.S., are able to offer long-term.

Despite those challenges, VSAC remained focused on continuing to provide Vermonters with all the education and career planning and college financing services on which they have come to depend. Except for a small cut in full-time grants required by state budget shortfalls, VSAC was able to offer Vermonters the same or better planning tools, financing options, and customer support as in prior years.

The Vermont Higher Education Investment Plan saw healthy growth during the year, the state later restored the grant appropriation to its former level, and VSAC scholarship donors stepped up during difficult times. In addition, we experienced higher call volume, more visitors to our resource center in Winooski, and strong attendance at VSAC-sponsored events and programs. Many customers were either directly affected by the economic downturn or fearful of what lay ahead, and our staff worked diligently to assist customers with their college financing or loan payment challenges.

VSAC weathered the financial crisis by reducing our operating budget and cutting staff positions through attrition rather than layoffs. These steps resulted in an increased workload for remaining staff, and we are grateful for the many ways in which they rose to the occasion and continued to provide service with the same dedication and compassion as always.

VSAC is likely to undergo many changes in the years ahead in terms of organizational structure, services offered, and staffing. Still, we remain committed to fulfilling our mission so that all Vermonters can have the opportunities they deserve to obtain education or training beyond high school and fulfill their dreams for a better life.



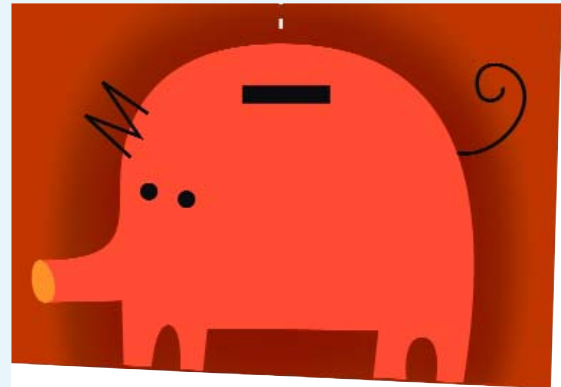
CHRIS ROBBINS
CHAIR, VSAC BOARD OF DIRECTORS



DONALD R. VICKERS
VSAC PRESIDENT & CEO



VSAC is a public, nonprofit corporation created by the Vermont Legislature in 1965 to help Vermonters plan and pay for education or training beyond high school. VSAC administers Vermont's 529 college savings plan; outreach services to encourage low-income students to aspire to college; college and career planning services for all Vermonters; need-based state grants for full-time, part-time, and non-degree study; dozens of public and private scholarship programs; and federal and private loans.



Saving for college with VHEIP

VSAC has run the Vermont Higher Education Investment Plan, Vermont's 529 college savings plan, since VHEIP was established in 1999. For the first 10 years of the program, VSAC contracted with TIAA-CREF Tuition Financing, Inc., a registered securities dealer, to provide asset and program management.

Midway through FY09, as the plan's 10th anniversary approached, VSAC issued a request for proposals to determine which company would manage VHEIP for the next contract period. VSAC received five responses, ultimately selecting TIAA-CREF for a new agreement based on three factors: a reduction in fees in the plan's most popular investment choice, the Managed Allocation Option; an increased commitment to marketing; and an expansion of investment options from three to six.

At the close of the fiscal year, **VHEIP had assets of \$91.7 million invested in 9,469 accounts.** Since the inception of VHEIP, participants have made **qualified withdrawals of \$16.7 million on behalf of 1,017 beneficiaries.**

VHEIP account owners qualify for state and federal tax benefits, including a 10-percent Vermont income tax credit on contributions of up to \$2,500 annually, and federal and state income tax exemptions on the earnings portion of qualified withdrawals. **For the 2008 tax year, Vermont taxpayers enrolled in VHEIP received \$980,468 in state income tax credits on their contributions.**





The VSAC Resource Center

Career & college planning

In FY09, VSAC continued to offer free college and career planning information through publications, online tools, walk-in assistance at our resource center in Winooski, direct services at schools and other sites statewide, and a variety of presentations and events.

Paying for College presentations

Every fall, VSAC hosts Paying for College information sessions at high schools serving Vermonters. In the fall of 2008, we developed a 30-minute online version of the presentation for students and parents unable to attend a high school session or interested in a refresher.

College Pathways

In the spring of 2009, VSAC held its eighth annual College Pathways event, offered on college campuses in three regions of the state: Saint Michael's in northwestern Vermont, Castleton State in the south, and Lyndon State in the Northeast Kingdom. About **1,500 participants** attended, choosing among 13 workshop topics focused on all aspects of college preparation.

VSAC Resource Center

The VSAC Resource Center (VRC) served nearly **25,000 walk-in customers in FY09**, providing answers to any questions related to college and career planning, paying for college, applying for financial aid, and loan repayment. The VRC staff also managed the center's lending library and eight public access computers and provided free workshops on topics such as choosing a college, exploring careers, prepping for standardized tests, and applying for financial aid. In the spring of 2009, we taped a VRC scholarships workshop and made it available for online viewing year-round.



Outreach services

VSAC participates in three federal outreach programs — Talent Search and GEAR UP for students in grades 6 through 12 and Educational Opportunity Center for adult learners — designed to motivate and assist low-income and first-generation college-bound students as they prepare for education and careers.

In FY09, VSAC matched federal grants for these programs with both financial and in-kind support, providing individual counseling to **1,356 Talent Search participants at 50 schools, 1,716 GEAR UP students at 53 schools, and 2,443 EOC clients** at sites statewide. In addition, 5,449 students at 38 of the GEAR UP schools benefited from partnership activities such as after-school programs, tutoring, college visits, and college transition assistance.

Presentations and workshops

Outreach staff assumed responsibility for VSAC's Paying for College presentations in FY09, and continued to offer college planning and career development workshops for middle school, high school, and adult students throughout the state. Collaborations, particularly in the expanding area of college planning and financing services for foster youth, continued with state government, colleges, professional organizations, business groups, and social service agencies.

Start Where You Are

After launching the *Start Where You Are* college access campaign in 2007 with one-time funding from the Vermont Legislature, VSAC in FY09 was awarded a federal College Access Challenge Grant of \$660,000 over two years to support the program's continuation. The **startwhereyouarevt.org** Web site was honored with three awards; even so, VSAC began work to strengthen the teen portion of the site and create a new section for professionals who assist students with career planning.

Hannah Hurlburt, VSAC's first Start Where You Are "opportunist," with the branded vehicle used to disseminate information statewide.



Grant programs & state affairs

Midway through the fiscal year, the state addressed budget shortfalls by implementing two rescissions that resulted in a \$1.2 million reduction in VSAC's appropriation for student grants. This required VSAC to cut second-semester grants for the 2008–09 academic year by \$50 each for all 9,000 full-time recipients. In total, **VSAC in FY09 awarded \$19.2 million in Vermont grants to 12,177 students pursuing full-time, part-time, or non-degree study.** By using no state funds for program administration, VSAC again ensured that the entire appropriation went into student grants.

As the fiscal year drew to a close, with federal stimulus money hanging in the balance, the Legislature approved a VSAC appropriation for FY10 that would both restore the amount rescinded in FY09 and provide the same funding for the next academic year. The state also approved special funding for “Next Generation” non-degree and National Guard education assistance and for several incentive programs. Finally, VSAC and Vermont's public higher education institutions were to receive additional resources from higher-than-expected estate tax receipts that are funneled through the state's Higher Education Trust Fund.

VSAC staff took steps in FY09 to simplify the grant awarding process, improving the way financial need is assessed and creating additional criteria for evaluating the status of independent students. Effective with the 2009–10 academic year, VSAC's board of directors approved **increases in the minimum grant from \$500 to \$700** and in the VSAC “level of aid,” a factor in determining the amount an eligible student receives in grant assistance.



“A lot of my non-Vermont friends have loans through bigger lenders and are often frustrated trying to get through or to get the help they need once they do. Every time I call VSAC, I talk to a thoughtful person who is invested in the conversation at hand. I will probably be talking to you for years to come, so I'm really thankful for what you do.”

— VSAC borrower



Scholarship programs & development

In FY09, VSAC administered 143 scholarship programs: 119 funded by private organizations or individuals, 11 by VSAC, 10 by the state of Vermont, and three by the federal government. Nearly 1,900 students received about \$5.5 million through these programs.

Although the year proved a challenging one for the financial markets, including the health of scholarship endowments, donors to VSAC scholarships were especially generous, ensuring that students could continue to depend on this vital source of funding during times of economic hardship. The year saw the creation of six new privately funded scholarships, including programs for aspiring music teachers, students with a background in 4-H, prospective journalists, and foster youth.

In 2009, VSAC switched from a system of rolling application deadlines to a single March 1 deadline for all VSAC-assisted scholarships. The new approach means applicants hear by mid-May whether they have received any awards and have more time to finalize college financing plans before September. The change required high schools to adjust to a different schedule and VSAC staff to handle an unprecedented number of applications at once. Going forward, the deadline will continue to be early March, with the precise date varying each year according to the school calendar and VSAC's administrative needs.



Corinne Douse, Margie Lemay, Serena Peck, and Andy Conlon of the VSAC scholarships program



Loan programs & federal affairs

In the summer of 2008, despite frozen credit markets throughout the U.S., VSAC was able to secure private capital within Vermont to provide federal student and parent loans for the 2008–09 academic year. Given VSAC’s favorable loan pricing and counseling, we served about 96 percent of borrowers attending Vermont schools, as well as many residents attending non-Vermont schools.

In FY09, VSAC provided \$324.8 million in federal Stafford (undergrad and grad) and PLUS (parent and grad) loans, nearly \$41.6 million in private student loans, and another \$41.9 million in federal loan consolidations, for a total of \$408.3 million in loans to more than 33,000 borrowers. In addition, we serviced an existing loan portfolio of nearly \$1.8 billion for more than 82,000 borrowers in repayment. Borrower benefits — representing discounts, rebates, and fee waivers — totaled \$11.7 million for the year, bringing to \$138 million the cumulative amount VSAC has saved its borrowers since FY95.

During a time in which some providers of private loans have been accused of predatory practices, VSAC received accolades for its private loan counseling and rates. VSAC offers private loans as a last resort but considers them an important option for certain students, particularly independent undergrads and those whose programs don’t qualify for federal student assistance.

The default rate on VSAC loans was again among the lowest in the country, a testament to VSAC’s dedication in assisting borrowers at risk of default. **VSAC’s rate was 4.3 percent, compared to the national rate of 6.7 percent.** VSAC collected \$19 million on defaulted loans, and rehabilitated 347 borrowers in default for a total of \$4.5 million.

Midway through the fiscal year, the new administration in Washington launched plans to replace the existing education loan system — offering both federal direct lending and the Federal Family Education Loan (FFEL) program in which VSAC participates — with 100-percent direct lending. Coming on the heels of federal intervention in the credit crisis to make loan capital available through ECASLA (the Ensuring Continued Access to Student Loans Act), this effort prompted some colleges to leave the FFEL program; it also made securing capital for new FFEL loans extremely difficult.

- Several out-of-state schools that enroll many Vermonters decided in the spring of 2009 to switch to direct lending for the 2009–10 academic year, depriving Vermont students of the competitive rates and borrower benefits they had previously received from VSAC and prompting calls and letters to VSAC from concerned families.
- In light of the federal legislation, investment banks with which VSAC might have arranged new financing were reluctant to pursue agreements, requiring VSAC to utilize the ECASLA program for the 2009–10 school year.
- ECASLA prohibited FFEL lenders from continuing to offer federal loan consolidation, requiring VSAC to discontinue this service. Instead, our counselors began advising customers about the variety of payment options available within FFEL or referring them to the direct loan program.



As the fiscal year drew to a close, VSAC became increasingly concerned about the direct lending proposal's impact on Vermonters.

The potential loss of FFEL revenues, coupled with budget difficulties facing the state of Vermont, would make it unlikely that VSAC could continue offering all of its outreach, financial aid counseling, and other services at current levels. Among many subsidized activities, VSAC runs VHEIP at no cost to the state, underwrites administration of the Vermont grant program so that the entire state appropriation goes to students, and spends about \$2.5 million annually to match its federal educational opportunity grants.

In addition, federal Pell grants would increase by only modest amounts; interest rates on some federal loans would remain at above-market rates, resulting in the government continuing to profit on these loans and some borrowers essentially subsidizing other federal goals; and a portion of projected savings would be diverted to activities not related to higher education.

VSAC began communicating with state and federal officials and professional partners about the unintended consequences of direct lending on the state and individual families, prompting a great deal of discussion and activity. Groups such as college officials, K–12 educators and counselors, and VSAC outreach clients began coming forward asking to write or speak on VSAC's behalf. VSAC's public affairs team also began meeting with newspaper editorial boards to discuss the impact of federal legislation.



Customer relations

VSAC's customer relations counselors collaborated with outreach and VRC staff to assist families with planning for college and applying for financial assistance through VSAC, and also provided service to families as they repaid loans and managed their education debt. **In FY09, counselors handled more than half a million telephone calls** — an increase of more than 98,000 from the prior year — **and more than 15,000 e-mails**, some of which were triggered by the worsening economy. Families with students about to enroll or continuing their education requested information about all forms of college financing, and students and parents already repaying loans sought help with payment options. Unemployment deferments rose 80 percent from the prior year.

The Customer Relations Department, in collaboration with staff from the Information Technology and Integrated Data & Project Management departments, also took time in FY09 to enhance online account access features for borrowers. The new features were designed to improve the customer experience through better display, navigation, and functionality; increase efficiency by promoting online loan application and payment systems; and utilize new technology that provides a foundation for further improvements.



Budget & finance

In FY09, VSAC reduced its operating budget by 8 percent and its staffing by 12 percent. Plans for FY10 included an additional 5 percent cut in both budget and staff, for a total reduction of 61 positions in two years. Staff cuts were made through attrition rather than layoffs, and required some employees to be retrained for different positions within the agency.

In addition to securing new capital for federal loans, VSAC in FY09 began moving some of its existing bonds out of the frozen auction-rate security market into variable-rate demand obligations. Toward the end of the fiscal year, the Vermont Legislature approved \$50 million in limited state moral obligation authority to assist VSAC with overcollateralization requirements on new financings. (To date, VSAC has not drawn upon this authority.)

VSAC's board of directors changed its committee structure, breaking the Finance and Audit Committee into two separate committees. At the request of the state Auditor of Accounts, the Legislature revised VSAC statute to make the auditor a non-voting member of the newly constituted Audit Committee. VSAC was subject to numerous federal, state, and independent audits during the year with no significant findings.

As FY10 approached, VSAC prepared to use all three of the federal loan financing programs created by ECASLA — the conduit, participation, and put. The conduit would allow VSAC to borrow money to pay off existing debt backed by student loans, while the participation option would enable VSAC to fund federal education loans for the 2009–10 academic year. VSAC would maintain ownership and servicing of the loans, but as a last resort could eventually sell, or “put,” the loans to the federal government to pay off bonds.

Looking ahead

As FY09 came to a close, VSAC was confronted with the biggest challenges and changes it has encountered in its 44-year history, but remained mindful of its duty to Vermonters, individually and collectively. If Vermont is to prosper, it must continue to offer residents a pathway to education and rewarding careers; given the state's declining high school population, the need has never been greater to make sure every Vermonter has an opportunity to participate and succeed. State government, schools and agencies, and individuals depend on VSAC as an unbiased source of information and guidance on colleges, careers, and financial aid. Regardless of our future scope or size, our commitment is to do everything possible to continue fulfilling our mission for years to come.

“If there has been one community partner worth celebrating it is VSAC. You have stepped up in unimaginable ways.”

— Middle school official

Statement of Net Assets (in thousands)**2009****2008****Assets**

Cash and investments	\$ 127,084	\$ 93,349
Education loans receivable (plus interest)	2,290,257	2,103,775
Other assets	35,056	34,722
Total assets	<u>\$2,452,397</u>	<u>\$2,231,846</u>

Liabilities

Bonds and notes payable (plus interest)	\$2,308,911	\$2,068,471
Arbitrage earnings rebatable	17,686	25,390
Other liabilities	11,826	13,140
Total liabilities	<u>2,338,423</u>	<u>2,107,001</u>

Net Assets

Restricted	74,816	62,302
Unrestricted	36,894	60,068
Net investment in property and equipment	2,264	2,475
Total net assets	<u>113,974</u>	<u>124,845</u>

Total liabilities and net assets

\$2,452,397 \$2,231,846**Statement of Revenues and Expenses (in thousands)****2009****2008****Revenues**

Interest earned from education loan financing	\$ 105,949	\$ 142,286
Other loan and guarantee program revenues	6,392	5,804
Investment interest	2,104	7,676
Vermont state appropriations	19,539	20,459
Federal grants	4,883	4,867
Scholarship and gift revenue	3,591	3,937
Other revenue	(241)	462
Total operating revenues	<u>142,217</u>	<u>185,491</u>

Expenses

Student aid	24,744	26,345
Interest rebated to borrowers	6,346	6,749
Interest on debt	57,156	100,478
Other loan financing costs	29,783	28,309
Corporate operating expenses and depreciation	35,059	37,595
Total expenses	<u>153,088</u>	<u>199,476</u>

Excess (deficit) of revenues over expenses

(10,871) (13,985)

Total net assets at the beginning of the year

124,845 138,830

Total net assets at the end of the year

\$ 113,974 \$ 124,845

A complete set of financial statements as audited by an independent public accounting firm is available on VSAC's Web site or by request.

VSAC Executive Committee

Donald Vickers, *President & CEO*

Scott Giles, *Vice President, Policy, Research & Planning*

Pat Kaiser, *Vice President, Student Services & Information Technology*

Mike Stuart, *Vice President & Chief Financial Officer*

Tom Little, *Vice President & General Counsel*

VSAC Board of Directors

Chris A. Robbins, *Chair*

Rep. Martha P. Heath, *Vice Chair*

David Larsen, *Secretary*

Pamela A. Chisholm

David Coates

Virginia Cole-Levesque

Sen. Ann E. Cummings

Dorothy R. Mitchell

G. Dennis O'Brien

Jeb Spaulding, *State Treasurer*

T. Spencer Wright

VSAC Staff Directors

Wanda Arce, *Research*

Donna Austin-Hawley, *Human Resources*

Marilyn Cargill, *Financial Aid Delivery & Operations*

Cody Fiala, *Customer Relations*

Joe Gallagher, *Claims & Collections*

Bruce Hicken, *Finance/Controller*

Patrick Leduc, *Information Technology*

Gregg Mousley, *VSAC Resource Center*

Laurie M. Oliver, *Internal Audit & Risk Management*

Irene Racz, *Public Affairs*

Linda Shiller, *Career & Education Outreach*

Dan Sullivan, *Integrated Data & Project Management*

Mary Welz, *Development*

Richard Westman, *Vermont Higher Education Investment Plan*



Vermont Student Assistance Corporation

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Toll-free **800-642-3177** In the Burlington area **655-9602**

Visit us online at www.vvac.org E-mail us at info@vsac.org

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JUNE 30, 2009