

2005-2006  
ANNUAL REPORT  
The Year In Review



MONTANA HIGHER EDUCATION  
STUDENT ASSISTANCE CORPORATION

# MESSAGE FROM THE PRESIDENT

I am pleased to present the 2006 annual report of the Montana Higher Education Student Assistance Corporation (MHESAC).

MHESAC is an important resource for Montanans. Since 1983, it has helped more than 110,000 Montana students finance and lower the cost of their higher education dreams – all without the use of one state tax dollar.

In FY05-06 alone we provided \$125 million in capital with our Montana lending partners for low-cost Federal Stafford and PLUS student education loans thereby allowing thousands of Montana students to attend school. We have provided almost **\$2 billion** in such capital to Montanans since 1983.

Starting this year, MHESAC paid the origination and default fees on every Stafford student loan in partnership with its Montana lending partners, which lowered the up-front cost of student loans to Montana students by 3 percent.

In helping lower the cost of financing education, MHESAC has already provided more than \$28 million in borrower benefits for Montana students by reducing interest rates, providing principal reductions on student loans and eliminating up-front student loan costs. In FY2006 alone, MHESAC delivered \$2.1 million in Montana student loan related benefits.

Additionally, MHESAC has provided more than \$399 million in capital in the last three years for long-term, low-cost, fixed rate Federal Consolidation loans to Montanans that provide flexibility that allows them to effectively manage their monthly student loan repayment obligations.

Our long-standing, statewide partnerships with public, private and nonprofit groups have been instrumental to our success. Our partners share our strong commitment to helping finance higher education for Montana students and assuring access to postsecondary education.

We also added new partnerships and expanded our relationships with national associations in FY2006, which produced more than \$112 million in non-Montana student loan volume. The surplus from this business line will be used to further enhance MHESAC programs and generate additional borrower benefits for Montana students.

All of MHESAC's daily business functions and the servicing of its loan portfolio continue to be performed by Student Assistance Foundation. We are pleased to be managed by an organization that shares MHESAC's commitment to high quality, customer-centric service and that has been designated an Exceptional Performer by the U.S. Department of Education. This business relationship, established in 2000, has resulted in outstanding service to MHESAC customers and allowed SAF to deliver more than \$7.1 million in public benefits to Montana citizens in the form of education grants, campus outreach and community programs.

It is clear that MHESAC's impact on students and Montana families is far-reaching. What is less apparent is the impact of MHESAC programs on Montana's economy. According to *Workforce Montana*, not only does a state with a well-educated populace see increased tax revenue from its citizens, it also is able to use the education level of its citizens as a powerful lure for business and industry.

MHESAC is good for Montana. It gives Montana children the chance to grow up and reach their dreams. It helps create a well-educated workforce, which stabilizes our families, enriches our communities and makes Montana a great place to live, work and raise our families. MHESAC is proud of the role it plays in enhancing Montana's future.

– DR. SHEILA STEARNS, PRESIDENT

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION

## A TRADITION OF PERFORMANCE

After 26 years of serving Montana students and their families, Montana Higher Education Student Assistance Corporation (MHESAC) is showing no signs of slowing down.

The company's dedication to students striving to obtain postsecondary education has prompted its board of directors to look beyond the state's borders and even across an ocean for new opportunities. This effort allows MHESAC to enhance its ability to deliver access to higher education funding for Montanans and provides additional sources of earnings that will be translated into even more benefits for students in Montana.

In the past three years alone, MHESAC increased the number of borrowers it is currently serving by almost 30,000 – from 48,019 Montana and non-Montana borrowers in FY2004 to 59,683 in FY2005 and a total of 74,003 borrowers in 2006.

Associated with the increase in Montana and out-of-state borrowers is corresponding growth in the outstanding principal in student loans included in MHESAC's portfolio. The principal rose from \$553 million in FY2004 to \$1.3 billion in FY2006.

MHESAC continues to provide \$125 million per year in capital to Montana lending partners for low-cost Federal Stafford and PLUS education loans. Since 1996, more than \$28 million in borrower benefits have been delivered to Montanans. Current projections show more than \$50 million will be available for Montana borrower benefits over the next 10 years.

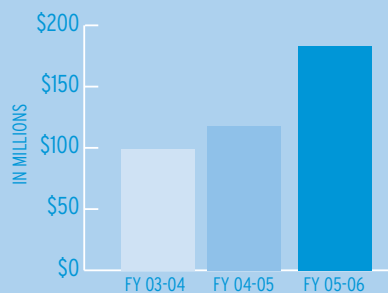
Overall, MHESAC's loan acquisitions also grew from \$203 million in FY2004 to \$776 million in FY2006, as did the issuance of annual financings necessary for these loan acquisitions which rose \$183 million in FY2004 to \$331 million in FY2006.

Combine those numbers with the fact MHESAC's Montana annual consolidation loan volume has climbed steadily over the past three years from \$99 million in FY2004 to \$182 million in FY2006, and it could only mean good things for Montana students.

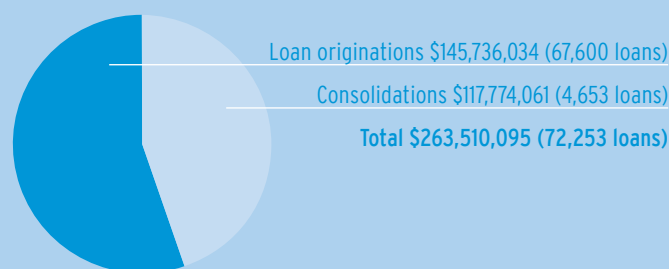
In addition to providing continued capital for student loans, MHESAC also continues to lower the cost of repaying student loans for Montana borrowers by reducing interest rates, providing principal reductions on student loans and eliminating up-front student loan costs. In FY2006, MHESAC delivered more than \$2.7 million in such borrower benefits.

Since 1996, more than \$28 million in borrower benefits have been delivered to Montanans. Current projections show more than \$50 million will be available for Montana borrower benefits over the next 10 years.

Montana consolidation volume



Total loans disbursed (FY05-06)



## NEW YEAR, IMPROVED PROGRAM, BETTER BORROWER BENEFITS

In 2006, MHESAC made the transition from the long-standing PayLe\$\$ loan program to its enhanced Montana's Choice program.

"Montana's Choice was something we were proud to develop for MHESAC and Montana students in order to enhance the level of Montana borrower benefits," said Don Oliver, executive vice president of sales and marketing for Student Assistance Foundation.

While the PayLe\$\$ program boasted annual, 1 percent rebates on customers' principal balances for each year they stayed current on their loans, Montana's Choice takes those savings to a higher level.

Now, Montana borrowers enjoy no fees on Stafford loans and receive a .5 percent principal reduction after 11 months of consecutive, on-time payments. Also, borrowers receive a 1.25 percent interest rate reduction after 33 months of consecutive, on-time payments and a .75 percent interest rate reduction after 44 months of consecutive, on-time payments.

Montana Parent PLUS borrowers have no guarantor/default fees to worry about and can take advantage of an annual, 1 percent principal reduction when they make 12, consecutive, on-time payments.

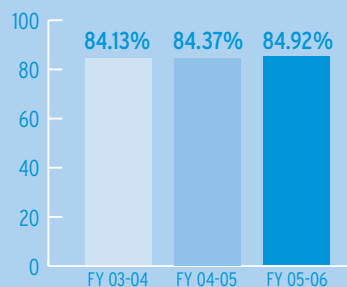
Graduate PLUS borrowers pay no guarantor/default fees and receive a 1 percent interest rate reduction upon final disbursement of the loan. Also, the borrower receives a 2 percent principal reduction of the original principal amount after 12, consecutive, on-time payments.

Montana's Choice offers borrowers an additional .25 percent interest rate reduction if they sign up for automated payment processing.

Montana's Choice is a solid program that reflects MHESAC's commitment to Montana's students.

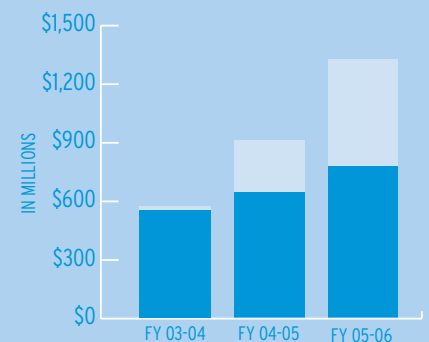
Since 1983, MHESAC has helped more than 110,000 Montana students lower the cost of financing their higher education dreams.

**Montana Stafford loan market share (aggregated)**



**Total portfolio trend**

■ Non Montana ■ Montana



“As a nonprofit, MHESAC’s goal is to benefit its primary stakeholders – the students and citizens of Montana.”

– JOLENE SELBY, CHIEF FINANCIAL OFFICER  
STUDENT ASSISTANCE FOUNDATION

## COMPETING IN THE NATIONAL STUDENT LOAN MARKET

While MHESAC eased into the national student loan arena four years ago, Jolene Selby, chief financial officer for Student Assistance Foundation, said the company made major financial strides in 2006.

According to Selby, MHESAC recognized the risks of moving beyond Montana’s borders into the national student loan market – it costs more to go outside Montana to do business – but the company believed the effort ultimately would be in the best interests of students in Big Sky Country.

“As a nonprofit organization, MHESAC’s goal is to benefit its primary stakeholders – the students and the citizens of Montana,” she said. “By expanding its reach beyond the state, MHESAC will be better positioned to serve both Montanans and non-Montanans for the foreseeable future.”

Don Oliver, executive vice president of sales and marketing for Student Assistance Foundation, said the development of partnerships with an array of financial institutions and health professional associations to provide consolidation loans has been essential to MHESAC’s metamorphosis.

Selby said the main benefit of doing business on the national market is the gain in cost-efficiencies that expansion provides which results in a greater surplus for Montana borrower benefits. In addition, MHESAC finances national loans without taxable funds as opposed to using tax-exempt funds that are subject to arbitrage rules.

“This way, we’re dealing with market constraints, not governmental constraints,” she said.

At the close of the fiscal year in June, MHESAC’s loan portfolio was split at 54 percent in Montana holdings and 46 percent in non-Montana holdings, according to Selby.

## CORPORATE FACTS

- Founded in 1980 as a 501(c)(3) nonprofit corporation.
- Organized under Section 150(d) of the U.S. Tax Code, which requires MHESAC to operate exclusively for the purpose of acquiring student loans.
- Provides \$125 million per year in capital to Montana lending partners for low-cost Federal Stafford and PLUS education loans.
- Lowers the cost of repaying student loans for Montana borrowers by reducing interest rates, providing principal reductions on student loans and eliminating up-front student loan costs.
- Pays the origination and default fees on every Stafford student loan for its Montana lending partners, which provides Montana students 3 percent more with which to satisfy college costs.
- Provides student loan consolidation in Montana – \$182 million in FY2006.
- Holds more than \$1.3 billion in Federal Family Education Loans.
- In 2000, began acquiring loans in the national student loan market. Uses the surplus from this business line to enhance MHESAC’s programs and generate additional borrower benefits for Montana students.
- Governed by a seven-member board of directors.

“These funds can be used to finance non-Montana loans, which means we’re bringing revenue from non-Montana sources back into Montana.” – JOLENE SELBY, CHIEF FINANCIAL OFFICER  
STUDENT ASSISTANCE FOUNDATION

## MHESAC FINDING CAPITAL ALL OVER THE WORLD

MHESAC marked 2006 on its calendar by selling bonds on the international market for the second time in the company’s 26-year history.

According to Jolene Selby, chief financial officer for Student Assistance Foundation, European banks purchased about \$227 million of MHESAC floating rate notes in May. The remaining sum – about \$105 million – was sold on the U.S. market in the form of auction rate bonds.

MHESAC first ventured into the international financial arena in 2005 at which time it sold \$253 million in bonds.

Selby describes the increase in the amount of paper notes sold on the international market between 2005 and 2006 as “promising.”

She says it’s an indication that the international financial community is starting to recognize the benefits of investing in bonds secured by U.S. student loans – MHESAC’s bonds all have the highest possible ratings from S&P, Moody’s and Fitch.

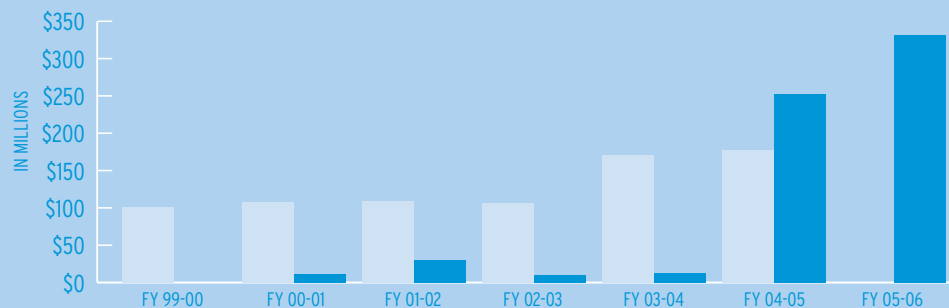
The acknowledgement of the company’s financial strength and reputation allows for lower bond costs, Selby said. In other words, it enables MHESAC to inject income back into Montana’s economy, and ultimately, its students.

“These funds can be used to finance non-Montana loans, which means we’re bringing revenue from non-Montana sources back into Montana,” she said.

Selby said MHESAC will continue to pursue both taxable and tax-exempt financing to meet the needs of continued growth.

### Bonds Issued

■ Tax Exempt ■ Taxable



Montana Higher Education Student Assistance Corporation

CONDENSED BALANCE SHEET

June 30, 2006 and comparative totals for 2005 (expressed in thousands)

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
CURRENT ASSETS	\$ 9,008	\$ 8,281
RESTRICTED ASSETS	1,637,554	1,364,941
OTHER ASSETS	14,926	13,960
<b>TOTAL ASSETS</b>	<b>\$ 1,661,488</b>	<b>\$ 1,387,182</b>
<b>LIABILITIES AND NET FUND ASSETS</b>		
CURRENT LIABILITIES	36,975	51,837
LONG-TERM DEBT	1,582,051	1,298,836
OTHER LIABILITIES	19,617	16,724
<b>TOTAL LIABILITIES</b>	<b>1,638,643</b>	<b>1,367,397</b>
<b>FUND NET ASSETS</b>	<b>22,845</b>	<b>19,785</b>
	<b>\$ 1,661,488</b>	<b>\$ 1,387,182</b>

Montana Higher Education Student Assistance Corporation

CONDENSED STATEMENT OF REVENUE, EXPENSE  
AND CHANGES IN FUND NET ASSETS

June 30, 2006 and comparative totals for 2005 (expressed in thousands)

	<b>2006</b>	<b>2005</b>
TOTAL OPERATING REVENUE	\$ 88,765	50,771
TOTAL OPERATING EXPENSE	80,867	48,607
OPERATING INCOME	7,898	2,164
NONOPERATING REVENUES (EXPENSES)	(4,838)	(633)
INCREASE IN NET ASSETS	3,060	1,531
FUND NET ASSETS, BEGINNING OF YEAR	19,785	18,254
<b>FUND NET ASSETS, END OF YEAR</b>	<b>\$ 22,845</b>	<b>\$ 19,785</b>

MHESAC BOARD OF DIRECTORS

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GARY BUCHANAN, Vice Chair  
Billings

ROYAL JOHNSON  
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BILL THOMAS  
Great Falls

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SHEILA STEARNS, President  
Helena

MICK ROBINSON, Vice President  
Helena

JUDY CHAPMAN, Secretary  
(effective 7/1/06)  
Billings

MELINA HAWKINS, Secretary  
Billings

BRUCE MARKS, Treasurer  
Helena

# MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION (MHESAC)

is a not-for-profit organization dedicated to helping assure financial access to postsecondary education opportunities for Montana citizens. We do this by ensuring access to student loans and lowering the cost of financing postsecondary education. This is accomplished by providing capital in the Federal Family Education Loan Program (FFELP) student loan secondary market, loan origination activities and borrower rebate programs.

For general information  
call MHESAC's business  
manager, Student  
Assistance Foundation:  
(406) 495-7800

For loan-related questions call:  
(800) 852-2761

For lender services call:  
(800) 223-2914

THE MHESAC BOARD OF DIRECTORS THANKS THE LENDERS, SCHOOLS AND BUSINESS PARTNERS WHO HAVE CONTRIBUTED TO MHESAC'S SUCCESS IN OUR MISSION OF ASSURING ACCESS TO STUDENT LOANS FOR MONTANA CITIZENS AND LOWERING THE COST OF FINANCING POSTSECONDARY EDUCATION. THANKS ALSO TO THE STAFF OF STUDENT ASSISTANCE FOUNDATION FOR CONTINUING TO PROVIDE THE QUALITY SERVICE THAT MHESAC BORROWERS HAVE COME TO EXPECT.



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Helena, MT 59601-4901  
[www.mhesac.org](http://www.mhesac.org)

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