

2010 *Annual Report*



Kentucky Higher Education
Assistance Authority
&
Kentucky Higher Education
Student Loan Corporation



Leadership

FY 2010 Board Members

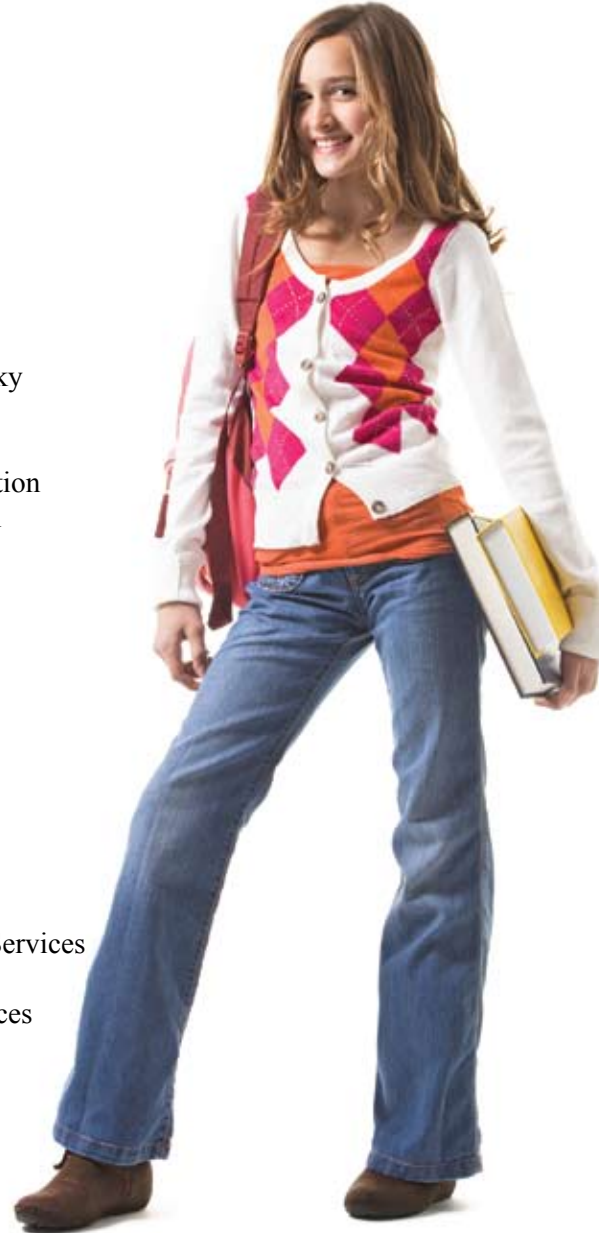
Charles B. Simpson, Chair, Somerset
David L. Allen, Frankfort
John Cheshire, III, Lexington
Dr. Barbara Holsinger, Wilmore
Erica L. Horn, Lexington
Dr. Jim A. Jackson, Frankfort
Brent A. McKim, Louisville
Kristi P. Nelson, Union
Barbara Sexton Smith, Louisville
Dr. James Henry Snider, Franklin

Ex Officio Board Members

Dr. Gary S. Cox, President, Association of Independent Kentucky
Colleges and Universities
Todd Hollenbach, State Treasurer
Terry Holliday, Commissioner, Kentucky Department of Education
Robert L. King, President, Council on Postsecondary Education
Jonathan Miller, Secretary, Finance and Administration Cabinet

Leadership Team

Edward J. Cunningham, Executive Director/CEO
James R. Ackinson, Executive VP
Diana Barber, General Counsel
Scotty Bryan, Chief Information Officer
Ted Franzeim, Senior VP for Customer Relations
Mary Henry, Senior VP of Operations
Matthew A. Korn, Senior VP for Finance and Accounting
Thomas Wantuck, Senior VP of Asset Management
David Bailey, VP of Guarantor Operations and School/Lender Services
David Carlsen, VP of Financial Management
Jo Carole Ellis, VP of Government Relations and Student Services
Linda Sewell, VP of Human Resources
Linda Grosshans, Controller



About KHEAA and KHESLC

The 1966 Kentucky General Assembly created the Kentucky Higher Education Assistance Authority (KHEAA) as a governmental agency to improve access to college and technical training. KHEAA provides state student financial aid and distributes information about college opportunities. Until June 30, 2010, when the Federal Family Education Loan Program (FFELP) ended, KHEAA administered federal student loan programs.

In 1978, the state legislature created the Kentucky Higher Education Student Loan Corporation (KHESLC) to ensure funding would be available to Kentuckians by making, purchasing and financing FFELP loans. With the end of FFELP, KHESLC is developing new products to help expand access to college in Kentucky.

KHEAA is attached to the Finance and Administration Cabinet for administrative purposes. Both KHEAA and KHESLC are governed by a board of directors composed of the same 10 voting members appointed by the Governor. In addition, the President of the Association of Independent Kentucky Colleges and Universities, President of the Council on Postsecondary Education, Secretary of the Finance and Administration Cabinet, Commissioner of the Kentucky Department of Education and Kentucky State Treasurer serve as voting, ex officio members. The Board appoints the Executive Director/CEO and adopts rules and regulations to govern agency operations. By statute, the Executive Director/CEO of KHEAA also serves as the CEO of KHESLC.

Governor's Message



Dear Fellow Kentuckians:

Now more than ever it is important for Kentuckians to pursue higher education opportunities. Education plays a critical role in determining one's success, especially in today's fast-paced, technology-driven economy. The Commonwealth's economic viability depends greatly on the education level of our citizens.

We are fortunate in Kentucky to have several student financial aid programs administered by the Kentucky Higher Education Assistance Authority (KHEAA) and the Kentucky Higher Education Student Loan Corporation (KHESLC). For more than forty years, these programs have helped Kentuckians obtain the college education or technical training that improves lives and contributes to the economic well-being of the Commonwealth.

Again this year, I designated KHEAA as the state agency to apply for the federally funded College Access Challenge Grant. The grant will allow KHEAA to expand its nationally recognized outreach programs that counsel Kentuckians on the importance of higher education and the opportunities they have available here in Kentucky.

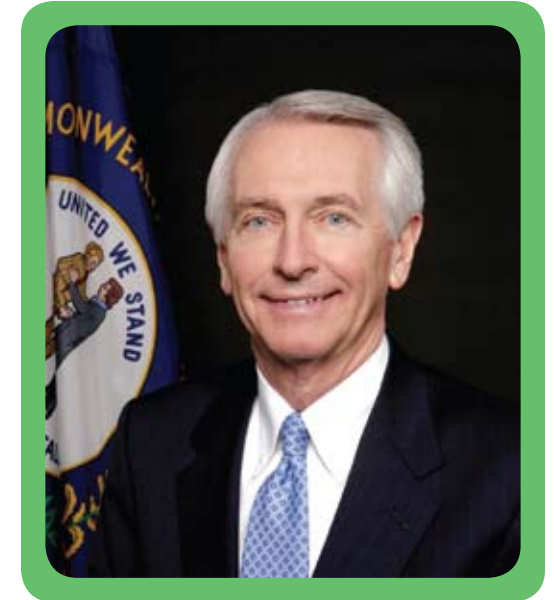
Working with other agencies and organizations across the Commonwealth, KHEAA and KHESLC will continue to ensure that Kentuckians realize the value of higher education and provide the means for them to achieve their educational goals.

Thank you for your interest in the activities of KHEAA and KHESLC. These agencies are here to help you.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven L. Beshear".

Steven L. Beshear
Governor of Kentucky



2010 in Review



Fiscal Year 2010 brought great changes to KHEAA and KHESLC. As part of its health care overhaul in the spring of 2010, Congress passed legislation that ended the Federal Family Education Loan Program (FFELP), through which KHEAA and KHESLC have helped tens of thousands of Kentucky students obtain a higher education. Nearly all of the Kentucky higher education institutions participating in federal loan programs had chosen to provide student loans through FFELP.

Although some institutions switched from FFELP to the Direct Loan Program in anticipation of the federal change, KHESLC and KHEAA successfully served students and families at colleges and universities across the Commonwealth during Fiscal Year 2010. KHEAA disbursed over \$201 million through various state scholarship and grant programs. Those funds helped more than 125,000 Kentucky students pay the costs of higher education.

When scholarships and grants were not enough, KHESLC disbursed \$550 million and KHEAA guaranteed \$1.1 billion in FFELP loans. We take seriously our mission to help Kentuckians obtain a higher education, so we paid the origination and default fees out of agency income, providing \$13.6 million in borrower benefits to Kentuckians.

As part of that public mission, KHEAA and KHESLC used federal student loan-related income to provide additional student aid awards and comprehensive outreach, financial literacy and customer service programs. Through prudent management of our resources and funding from the federal College Access Challenge Grant, we were able to continue these successful programs on which so many Kentuckians have relied for decades.

Despite reduced revenue because of changes in the federal loan programs, we were able to allocate \$1.6 million for the Kentucky National Guard Tuition Assistance Program and Mary Jo Young Scholarship and \$2.8 million for the costs of administering state student aid programs and FFELP.

Although Congress chose to eliminate FFELP, KHEAA and KHESLC remain committed to helping Kentuckians pay for higher education and to providing the best possible customer service to all of our constituencies — students, parents, counselors, borrowers, college access providers, financial aid administrators and others. We are certain that both agencies will continue to play prominent roles in providing the citizens of this great Commonwealth the information they need to make informed choices about pursuing higher education and the financial aid many will need to attain their educational goals.

Charles Simpson
FY 2010 Board Chair



2010 in Review



Kentuckians can justly be proud of their Commonwealth and its leaders for their commitment to higher education. This is especially evident when we look at the state scholarship and grant programs administered by KHEAA and the dollars dedicated to them.

During these difficult economic times, states have struggled to fund their student financial aid programs, and many have made substantial cuts to the aid for their students. However, Kentucky has maintained its commitment to funding its programs, including the need-based College Access Program (CAP) Grant and Kentucky Tuition Grant (KTG), and the Kentucky Educational Excellence Scholarship (KEES), a merit-based early access and intervention program for all Kentucky high school students.

During the 2009-2010 academic year, in those three programs alone, the Commonwealth provided over \$193 million in financial aid to Kentucky students. That is a record of which the entire state should be proud.

But it is not enough to have just the funding for higher education available. Kentucky must foster an awareness among students and parents of the need for higher education, and we must help those students and parents navigate the admissions and financial aid processes. Our regional outreach program and free publications help do both. In this area, too, Kentucky sets the standard among other states.

The Commonwealth's commitment does not end there. Once students have completed their higher education, KHEAA and KHESLC provide high quality customer care to borrowers in repayment to make the process as smooth as possible. We take pride in helping our customers find solutions to their problems.

With the end of the Federal Family Education Loan Program, KHESLC and KHEAA have entered a transition period. We approach that period not with foreboding but with the expectation that we will develop new products and resources that will allow us to fulfill our mission to the Commonwealth of Kentucky. For more than 40 years, KHEAA and KHESLC have helped shape a better future for Kentucky. We will continue to do so.

Edward J. Cunningham
Executive Director/CEO
KHEAA/KHESLC



Outreach

Reaching out to students and families

KHEAA and KHESLC work together to provide multifaceted outreach programs to ensure students and families are aware of their higher education opportunities and student financial aid. These programs were previously funded with KHEAA and KHESLC's federal loan-related income. Since FY 2010, KHEAA outreach programs have been funded by the Federal College Access Challenge Grant. All KHEAA publications and outreach services are free to those we serve.

An increase in Kentucky's College Access Challenge Grant allocation from the U.S. Department of Education will allow us to expand our outreach efforts in FY 2011. The federally funded matching grant is aimed at increasing the number of students who are prepared to enter and succeed in postsecondary education. Plans include the addition of more outreach counselors, expansion of Individual Learning Plan (ILP) tools to private and home-schooled students and a college near-peer coaches program. The college coaches program will send recent college graduates into schools that either have low college-going rates or are in low-income areas to help students learn about access to higher education.

Outreach Staff

Outreach staff counseled more than 142,100 Kentuckians about higher education opportunities during FY 2010, touching the lives of citizens in all 120 Kentucky counties.

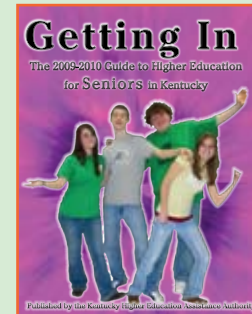
One valuable outreach tool is the College Info Road Show, a mobile classroom that travels the state promoting the importance of going to college and options for paying for higher education. The Road Show traveled over 16,300 miles in FY 2010, conducting presentations at middle schools, high schools and adult education centers, as well as participating in a variety of school and community exhibits, fairs and events.



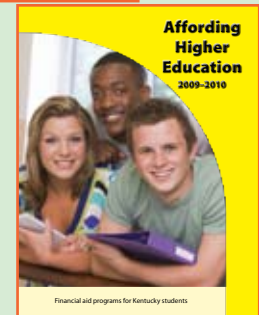
Publications

Staff distributed thousands of KHEAA college and career publications. Those publications include:

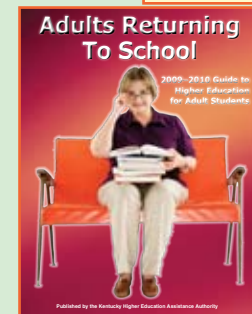
Getting In, a complete college admissions and financial aid guide for high school seniors. Copies are sent to public and private high schools in the state for distribution to all seniors.



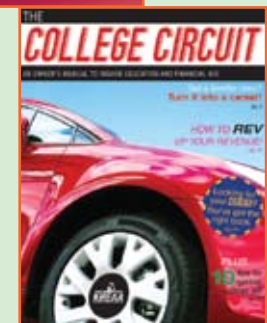
Affording Higher Education, which lists more than 5,000 financial aid programs available to Kentucky students at Kentucky colleges and universities. Copies are sent to school and public libraries and to college access providers throughout the state.



Adults Returning to School, geared toward nontraditional students. It not only contains the information included in *Getting In*, but also information specific to adult students.



The College Circuit, suitable for students from middle school to adults. Parents and counselors may also use it to help their students. *The College Circuit* includes information about careers, college preparation, student financial aid and financial literacy.



Outreach

New higher education website

KHEAA designed and developed a new splash page for higher education in Kentucky. The site, gotocollege.ky.gov, is a single gateway to connect students to existing online planning resources and to compare college costs. The website provides helpful information ranging from high school curriculum to guidance on how to pay for college.

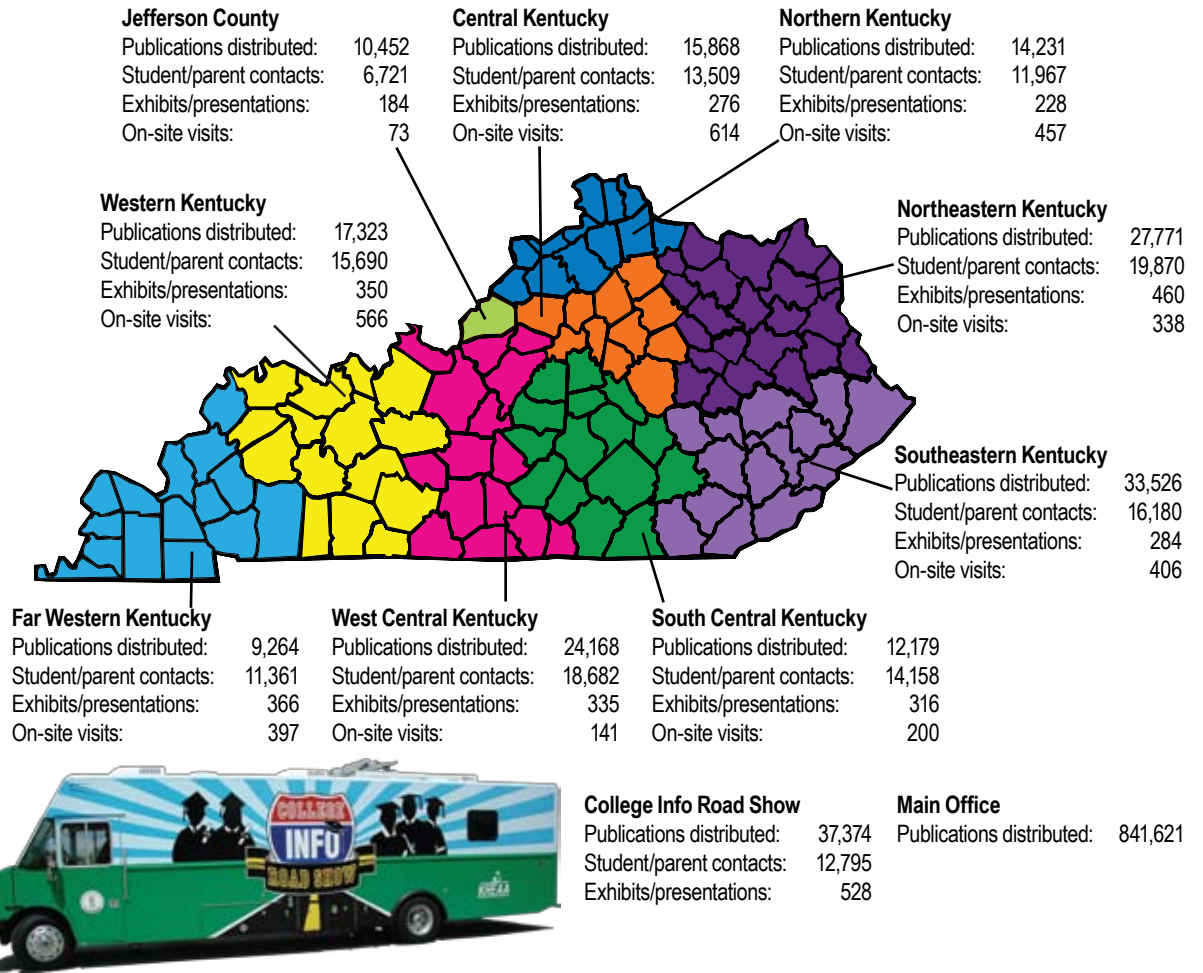
New newsletter for financial aid professionals

In FY 2010, KHEAA launched *ZipLine*, a new online newsletter for financial aid professionals. The newsletter contains pertinent information about KHEAA's services and products, the student loan industry, helpful tips on using ZipAccess and answers to compliance-related issues. *ZipLine* is distributed quarterly. Back issues are available on kheaa.com.

Reaching out through social media

Kentuckians who want to keep up with the latest college planning information can follow KHEAA on Facebook and Twitter. KHEAA's Facebook page is <http://bit.ly/KHEAAfacebook>. KHEAA's Twitter page is <http://twitter.com/KHEAA>.

Outreach and College Info Road Show Activities



Working with GEAR UP

KHEAA/KHESLC Executive Director/CEO Edward J. Cunningham was named a GEAR UP Advocate of the Year in FY 2010. GEAR UP, also known as the Gaining Early Awareness and Readiness for Undergraduate Programs, encourages middle and high school students to stay in school, study hard and take the courses necessary to prepare them for college. As part of the state GEAR UP partnership, KHEAA provides free financial aid information and college planning materials, as well as the services of KHEAA's College Info Road Show and regional outreach counselors to guide and encourage students to pursue a college education.

Student Financial Aid

Helping Kentucky Students Pay for College

KHEAA-administered student financial aid programs play an important role in helping Kentuckians obtain a higher education that will equip them for full participation in our global economy. The Kentucky Educational Excellence Scholarship (KEES), Kentucky's merit scholarship program, rewards academic achievement and encourages the best and brightest students to stay in Kentucky. The College Access Program (CAP) Grant and Kentucky Tuition Grant (KTG) help financially needy students pay for college.

During FY 2010, KHEAA disbursed over \$201 million from grant, scholarship, and work-study programs, including \$95.8 million in need-based grants and \$93.8 million in KEES awards funded by Kentucky Lottery revenue. To provide additional awards to students, KHEAA and KHESLC contributed \$1.6 million for the Kentucky National Guard Tuition Award Program and Mary Jo Young Scholarship.

New Pharmacy Scholarship

House Bill 2, passed during the Special Session of the 2010 Kentucky General Assembly, created a new scholarship program to provide Kentucky residents of coal-producing counties the opportunity to attend an accredited school of pharmacy in Kentucky and to become certified pharmacists. Scholarship recipients must agree to practice pharmacy in a coal-producing county for each year a scholarship is provided. KHEAA has been charged with administering the new scholarship program. The first of the Pharmacy Scholarships are expected to be awarded during the 2011-2012 academic year.



Student Aid Funding

Kentucky Lottery revenue funds the vast majority of state student aid awards disbursed by KHEAA. The remainder is funded by Federal LEAP/SLEAP Funds, Coal Severance Tax, Tobacco Settlement Funds, federal funds, civil penalties under KRS 199.990 and KHESLC revenue transfers. Traditionally, KHEAA's revenue from the Federal Family Education Loan Program (FFELP) has covered administrative costs of Kentucky's state student aid programs, allowing all General Funds to go directly to students in the form of awards.

State Student Aid Expenditures

	Recipients (in thousands)	FY 2010 Amount
Kentucky Educational Excellence Scholarship	67,930	\$93,845
Recognizes students based on GPAs/ACT scores		
College Access Program Grant	40,330	63,334
Provides access to students with financial need		
Kentucky Tuition Grant	12,490	32,420
Allows students with financial need to attend an independent institution		
Kentucky National Guard Tuition Award	1,130	4,581
Provides tuition for active Guard members in good standing		
Teacher Scholarship*	149	2,213
Assists education majors demonstrating financial need		
Early Childhood Development Scholarship	1,140	1,262
Assists students working in early childhood education		
Osteopathic Medicine Scholarship*	12	762
Assists Pikeville College School of Osteopathic Medicine students		
KHEAA Work-Study Program	880	624
Enables students to earn wages to help pay for higher education		
Robert C. Byrd Honors Scholarship	360	534
Rewards students demonstrating academic achievement		
Mary Jo Young Scholarship	450	334
Pays for AP or dual credit courses for disadvantaged high school students		
Go Higher Grant	240	223
Assists adult students with education costs		
Teacher Loan Forgiveness	3,940	1,340
Total	129,051	\$201,472

	FY 2010 Amount
(in thousands)	
Other Program Benefits—Benefits Paid	
Kentucky's Affordable Prepaid Tuition Plan	10,047
Allows families to prepay tuition	
Kentucky Education Savings Plan Trust	6,276
Encourages families to save for future college costs	

*These programs provide loans that are forgiven if service requirements are met. The figures provided are the FY 2010 service credit and write-off amounts provided for loans previously disbursed through these programs. In FY 2010, new Teacher Scholarship loan disbursements of \$596,000 were made to 175 students and new Osteopathic Medicine Scholarship loan disbursements of \$811,000 were made to 105 students.

Student Loans

\$1.1 Billion in Guarantees

Guaranteed by KHEAA ¹	Loans	Borrowers	FY 2010 Amount (in thousands)
Subsidized Stafford Loan Based on financial need for undergraduate, graduate and professional students	127,600	111,200	\$488,558
Unsubsidized Stafford Loan Without regard to financial need for undergraduate, graduate and professional students	126,600	104,200	558,034
PLUS Loan For graduate and professional students and parents of undergraduate students	6,500	5,500	47,497
Total	260,700	220,900	\$1,094,089

\$550 Million in Low-cost Loans

Disbursed by KHESLC	Loans	Borrowers	FY 2010 Amount (in thousands)
Stafford	142,500	70,700	\$506,236
PLUS	3,800	3,000	24,925
Purchases and Repurchases	5,300	2,100	18,364
Total	151,600	76,100	\$549,526

¹ Represents original amounts guaranteed.

“Best In” Awards

Funds totaling \$5 million were set aside for borrowers who are grandfathered into the “Best In” loan forgiveness program for teachers, nurses and public service attorneys. To further assist teachers with student loans eligible for the Best in Class program, the 2009 Kentucky General Assembly passed House Bill 480, which utilizes Teacher Scholarship funds to provide loan forgiveness. After renewal applicants for the KHEAA Teacher Scholarship are awarded, remaining funds will be allocated to loan forgiveness for eligible Best in Class borrowers. The total “Best In” forgiveness amount for 2010 is up to \$1,388 per teacher and \$804 for nurses and public service attorneys.

A New Era

In anticipation of an end to FFELP, KHEAA and KHESLC began pursuing other opportunities that will enable us to continue providing higher education programs and services to Kentuckians.

During FY 2010, KHEAA partnered with Overture Technologies to create the Student Loan Marketplace, an online comparison tool that allows students to compare reliable private loan products and terms from multiple lenders in an open and transparent network. The online tool also encourages students to engage in smart borrowing practices, including maximizing scholarships, grants and federal loans before applying for private loans.

KHEAA also partnered with StudentAid.com to offer Kentucky colleges and universities a new online tool that can help students and parents understand the costs of higher education. The ThinkAhead Net Price Calculator provides accurate estimates of how much families can expect to pay toward a student’s college costs. Federal law will require all college websites to provide a net price calculator by October 2011.

Another initiative is the development of a supplemental alternative loan. KHESLC plans to begin offering an alternative loan in FY 2011 to help students afford to attend the college they choose.

Income Based Repayment

The new Income Based Repayment (IBR) option became available in FY 2010 for borrowers experiencing a partial financial hardship (PFH). PFH is based on income, household size and the amount of student loans to be repaid. PFH occurs when the annual amount due on all of the borrower’s eligible loans under a standard 10-year repayment plan exceeds 15% of the difference between the borrower’s adjusted gross income and 150% of the poverty guideline for the borrower’s family size. If a borrower qualifies for IBR and makes 300 qualifying payments, the loan may be forgiven after 25 years.



Customer Service

High quality customer services remains a top priority for KHEAA and KHESLC. Staff members receive hundreds of inquiries from students and families every day, answering any questions they may have and helping resolve any issues they may be dealing with regarding financial aid and loans. Our Customer Care Call Center received over 64,000 calls in FY 2010, answering a multitude of questions regarding financial aid.

KHEAA and KHESLC work hard to provide friendly and knowledgeable customer service for our borrowers. Our goal has been, and will continue to be, making repayment as simple and convenient as possible. Borrowers can access their account information through our VRU or securely online at any time. Those who want to talk directly with one of our customer service representatives may do so quickly and easily. Loan servicing staff received nearly 130,000 calls and over 10,000 e-mails in FY 2010. Loan administration staff provided over 120,000 borrower-initiated transactions on behalf of the borrower. These include deferments, forbearances, claims, credit bureau updates, status updates and more.

Praise from our customers

We often receive kind words from those we serve. Here are a couple of examples.

- *I just want to thank everyone there for the fine service and generous reduction to my account (Best in Care) — over the many years I have had an account with you. Each year you all work together to see that we are taken care of, so this year I want to let you all know that I truly appreciate all that you do. Friends like you are what the world should be all about. Thank you and God bless. Please share this message with your fellow neighbors, co-workers and anyone you meet. Again, thank you from my heart.*
- *My husband and I both have student loans and any time that we have ever called or needed to contact you, your staff has been knowledgeable and nice. We will be happy when we get our student loans paid off. Until then — even when we have to call for an unpleasant reason — we rest assured that your staff will be kind in their words and try to help us as much as we can be helped. Have a blessed year and know that your efforts are appreciated.*



Customer and Loan Servicing

Customer Care Call Center

Financial aid experts for student and parent callers

Zip Answer

Online database of financial aid questions and answers

Zip Access for Schools

Allows web-based loan certifications, loan changes and standard and customized reports

Financial Literacy Activities

Publications, videos and onsite training for students

EPIC

Electronic delivery of student loan statements and correspondence

KHEPAY

Online student loan payment system

Borrower Advocates

Personalized assistance for borrowers on ways to keep their loans in good standing

Repayment Options

A choice of standard, graduated and income-sensitive and income-based repayment

Deferments and forbearances

Temporary reduction or suspension of payments due to economic hardship, military service or other circumstances

School and Lender Training Opportunities/Technical Support

State student aid system, loan processing, default prevention or other related topics

Default Aversion Assistance

Potential default reports, account summaries and proactive borrower contacts to assist with successful loan repayment

Selected Financial Information

As of June 30, 2010, and for the fiscal year then ended.
Dollars expressed in thousands.



Statement of Net Assets

	Governmental and Fiduciary Funds				Proprietary Funds	
	Governmental Fund	Federal Student Loan Reserve Fund	Kentucky's Affordable Prepaid Tuition	Kentucky Education Savings Plan Trust	Agency Operating Fund and Internal Service Fund	KHESLC Operating Fund and Education Finance Fund
Current assets	\$ 4,683	\$ 38,100	\$ 3,294	\$ 110,205	\$ 16,738	\$ 86,505
Loans, net						2,446,867
Noncurrent assets	10,781		114,317		41,133	137,383
Total assets	15,464	38,100	117,611	110,205	57,871	2,670,755
Current liabilities	246	8,932	86	140	653	574,426
Noncurrent liabilities		18,360	179,717		5,265	2,000,506
Total liabilities	246	27,292	179,803	140	5,918	2,574,932
Total Net Assets	\$ 15,218	\$ 10,808	\$ (62,192)	\$ 110,065	\$ 51,953	\$ 95,823

Statement of Activities

Program revenue/additions	\$ 200,500	\$ 146,369	\$ 13,848	\$ 48,495	\$ 30,877	\$ 63,476
Direct expenses/deductions	204,282	145,552	16,892	33,281	27,664	51,322
Total	(3,782)	817	(3,044)	15,214	3,213	12,154
Interfund transfers			148		(1,063)	915
Change in Net Assets	(3,782)	817	(2,896)	15,214	2,150	13,069
Net assets at beginning of year	19,000	9,991	(59,296)	94,851	49,803	82,754
Net Assets at End of Year	\$ 15,218	\$ 10,808	\$ (62,192)	\$ 110,065	\$ 51,953	\$ 95,823

KHEAA and KHESLC's audited financial statements are available at www.kheaa.com, www.kheslc.com, or by calling (502) 696-7421.

KHEAA and KHESLC do not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or services and provide, upon request, reasonable accommodations to afford individuals with disabilities an equal opportunity to participate in all programs and services. Printed 11/10.

**Kentucky Higher Education
Assistance Authority**
P.O. Box 798
Frankfort, KY 40602-0798
Toll Free (800) 928-8926
www.kheaa.com

**Kentucky Higher Education
Student Loan Corporation**
P.O. Box 24266
Louisville, KY 40224-0266
Toll Free (888) 678-4625
www.kheslc.com

