

## Profiles in Student Success



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## Executive Message

For most of us, the thrill of receiving a diploma during college-graduation ceremonies is one of life's most-memorable milestones. Beyond the sense of achievement, the receipt of an academic certificate or degree opens vistas of new opportunity, including enhanced employment prospects and improved lifetime earnings.

For the past 45 years, USA Funds® has worked to help students reach this milestone and realize the benefits of higher education. In keeping with our nonprofit mission, we have delivered financial and other valued services that enhance preparation for, access to and success in higher education.

In this report of USA Funds' activities during 2005, we profile three student-success stories. The students who are the subjects of this report come from widely varying backgrounds, attend geographically diverse colleges and universities, and are pursuing degrees in very different fields of study. Yet they share a common goal — to receive a college diploma that will offer each of them a brighter future.

USA Funds is honored to have assisted these students and thousands of others in their pursuit of higher-education success during the past year. As the nation's leading education-loan guarantor, USA Funds supported a record \$10.7 billion in new loans to help students and their parents pay college costs. We drove our cohort-default rate to a record low, thereby saving former students and federal taxpayers billions of dollars.

To help students better manage the debt they incur to pay college expenses, we enhanced our award-winning financial-literacy program, USA Funds Life Skills®, with new materials for graduate and professional students and other adult learners. USA Funds assisted medical students, who typically accrue significant college debt, by developing a new exit-counseling tool that provides students with loan-repayment guidance and estimates based on each student's loan balance.

To assist low- and moderate-income students with college costs, USA Funds awarded nearly \$8 million in scholarships to 5,400 students nationwide through USA Funds Access to Education Scholarships®. In the wake of the extraordinary hurricane seasons of 2004 and 2005, USA Funds committed a total of \$2.8 million to an emergency fund that provides additional financial assistance to low-income students whose educations have been disrupted by these natural disasters.

USA Funds also worked with postsecondary institutions to ensure a smooth financial-aid process. Our continuing investment in new information technology offered financial-aid administrators enhanced education-loan-delivery services. To help campus financial-aid professionals cope with the myriad of regulations that govern federal student aid, USA Funds launched new training initiatives, including online courses and webcasts. USA Funds also developed a new Web-based tool, USA Funds Debt Manager<sup>SM</sup>, to help financial-aid offices ensure that their students and graduates remain on the path to successful repayment of the loans that helped finance their education.

In this report we celebrate student successes, which are the ultimate measure of the value of USA Funds' services.



**William R. Neale**  
Chairman

**Carl C. Dalstrom**  
President and Chief Executive Officer



Alison Do, right, turned to her family, including mother Lien Vuong, and to financial aid when her educational future looked bleak.

## *USA Funds helps immigrant realize family's dreams*

When Alison Do's family left Vietnam for the United States in 1987, her parents sought a life with better opportunities for their children. Do seized those opportunities, overcoming financial, academic and social obstacles to earn a bachelor's degree from the University of San Diego.

And now, with the help of USA Funds Access to Education Scholarships and USA Funds-guaranteed education loans, Do is on pace to earn a master's degree from USD in the spring.

Do's achievements are the realization of her parents' dreams, but they seemed unlikely only a few years ago. The eldest of three children, Do was a high achiever and became the first in her family to graduate from high school. She set her sights on postsecondary training, choosing to attend the University of San Diego because of its proximity to her family's home.

With siblings who have health problems and parents who do not speak English, Do says it's important that she be there when her family needs her.

"I'm the backbone for my family," Do says. "I have to be there for all the family affairs — transportation, paperwork, going to the grocery and doctor's visits. I just have a lot of family responsibilities."

But when Do began attending classes at USD, she was intimidated and unsure of herself. She struggled with her schoolwork, falling into academic probation and losing eligibility for the grants she received to pay for her first year of college.

Staff from USD's Educational Opportunity Program, which assists low-income and minority students, encouraged her to re-evaluate her major, seek assistance with writing papers, and give herself another chance. Her parents — both of whom ended their formal education in grade school — were equally insistent.

"My parents told me that even though I was on academic probation, I had exceeded this family's education level at third grade," Do says. "They told me that if I felt I had the ability to succeed and graduate, then I should go for it."

She did. Do took out student loans so she could continue her education, and then pushed herself to get involved in academic and social activities on campus. Over time her confidence — and grades — improved.

Do took classes each academic period, including summers and other sessions, to get back on track. She received her undergraduate degree, in psychology, in four years. Now she is wrapping up work on a master's degree in college counseling, hoping to one day assist first-generation, low-income students or international students just as she has received help at USD. She already has done volunteer work in the school's EOP office.

"It's my way of giving back," Do says.

She currently is a graduate assistant in USD's Office of International Services. Do also is active in the counseling honor society, graduate-student council and Graduate Student Association, serving as communication director for the GSA.

Among her other activities this academic year is a trip to Thailand for a two-week

*“I tend to think of scholarships as being for high-school students,” Do says, “and there are not a lot of scholarships in the field I’m pursuing. So I was really happy and really surprised when I learned I’d received the USA Funds Access to Education Scholarship.”*

course about multicultural counseling. It’s a trip made possible by her USA Funds Access to Education Scholarship.

The 2005 USA Funds Access to Education Scholarships program provided scholarships worth \$1,500 for full-time undergraduate, graduate and professional students and \$750 for half-time undergraduate students.

The scholarships assist students in financial need, with a special emphasis on students

who are members of ethnic-minority groups or are physically disabled, and those in the states in which USA Funds is the designated guarantor of federal education loans.

“I tend to think of scholarships as being for high-school students,” Do says, “and there are not a lot of scholarships in the field I’m pursuing. So I was really happy and really surprised when I learned I’d received the USA Funds Access to Education Scholarship.”

After this school year, when she receives her master’s degree, Do’s family will continue to play an important part in her plans. She says she wants to set a good example for her siblings.

“I need to be a positive role model,” Do says, “because I know somebody down the line will follow.” ♦



Iris Do, middle, and David Do, right, turn to older sister Alison for advice about school and life.

## Financial-aid veteran continues to promote access

A first-generation student herself, Judith Lewis Logue, left, understands the importance of financial aid for first-generation college students like Alison Do.



Judith Lewis Logue credits her self-described “deep passion” for working in financial aid to her childhood and to the beginning of her career. The former first-generation college student was on the ground floor of the federal financial-aid program when she helped pilot the program in 1964.

“Financial aid is the primary means by which Americans can move from a low-income background to a middle-class or upper-class lifestyle,” says Logue, the director of financial-aid services at the University of San Diego.

“I feel financial aid is preserving democracy,” Logue adds. “It allows people who otherwise couldn’t get an education to do so and become productive members of our democracy.”

She points to her own background as evidence of the importance of access to education. Growing up as a would-be first-generation college student, Logue learned of the value of higher education from her teachers. They pushed their students to pursue rigorous courses and encouraged parents to send their children to college.

After becoming the first in her family to earn a college degree, Logue took a position at the University of Wisconsin-Madison — in an office that was piloting the federal financial-aid program.

“If the pilot colleges could make the concept work, other colleges would be able to apply for federal financial-aid funds,” Logue says. “If we’d failed in that mission, who knows what would have happened?”

For the last 16 years, Logue has been at USD, where she continues her quest to broaden access to higher education — particularly for first-generation students. She says USA Funds is a partner in those efforts.

A member of the California Dollars for Scholars board, Logue applauds USA Funds’ work to extend the reach of that organization in California. Dollars for Scholars, a national network of scholarship foundations, is one of the Scholarship America programs that USA Funds is helping to expand in the state.

Carl Dalstrom, USA Funds president and CEO, is on the Scholarship America advisory board and chairs the Indiana Dollars for Scholars board.

“Carl is the first person I’m aware of in the type of position he holds to take that first step and help us raise scholarship dollars,” Logue says.

She also praises the customized training that USA Funds University has provided at her campus, and the USA Funds Financial-Aid Workshops offered each fall and spring. In fiscal 2005 USA Funds University presented 102 customized financial-aid- and customer-service-training sessions nationwide, for nearly 2,500 participants. More than 3,400 financial-aid professionals took advantage of 136 Financial-Aid Workshops.

Logue says, “USA Funds has always provided us with dependability, stability and cutting-edge technology.”

The following highlighted products and services of 2005 are evidence of USA Funds' continued commitment to meeting the needs of postsecondary institutions. To support schools and the students and families they serve, USA Funds:

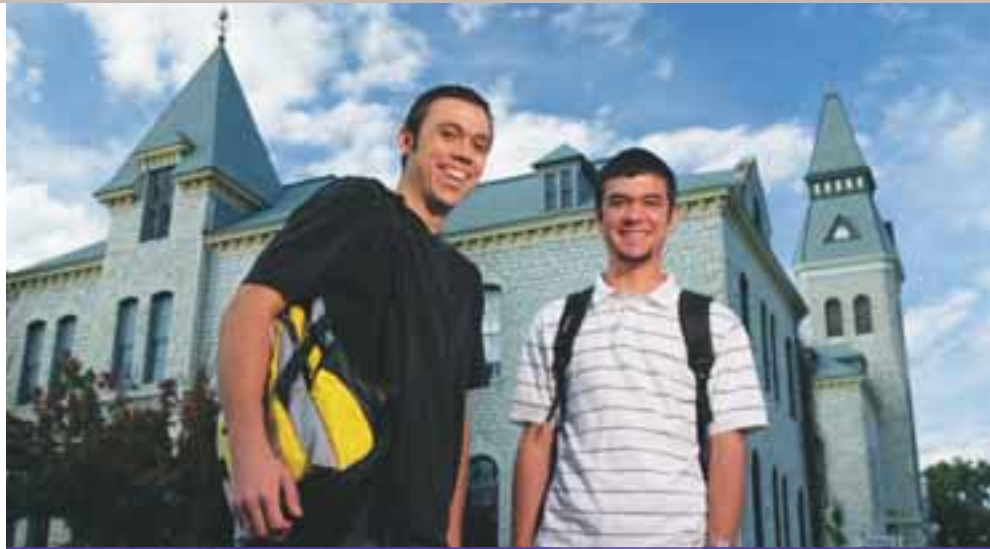
- ◇ Introduced USA Funds Debt Manager. The Web-based tool gives schools easy access to their borrowers' information, to design their own mail or telephone strategies for contacting borrowers. Nationwide 231 schools are taking advantage of USA Funds-provided tools that help students and graduates stay on the path to successful repayment.
- ◇ Supported enhancements to the Borrower Debt Management Information Service that give schools greater flexibility as they help students keep track of their education loans. A total of 1,564 school-customers use the service, often during student-loan exit counseling with borrowers.
- ◇ Continued to expand its array of training opportunities. In all, more than 19,000 participants took advantage of USA Funds University programs, including webcasts and 20 new online courses.
- ◇ Supplied funding and assistance in developing new features on OpenNet®, one of the Web-based loan-delivery methods supported by USA Funds. Schools gained more control in adding loans for students with additional loan eligibility.
- ◇ Launched MEDLOANS Online Loan Portfolio, in cooperation with the Association of American Medical Colleges. The online resource helps medical schools quickly and easily deliver exit counseling to their student-loan borrowers.
- ◇ Completed an affiliation with Northwest Education Loan Association®, providing enhanced education-loan services for schools, students and parents in the Northwest.
- ◇ Added technical consultants to its customer-support team. Three consultants help schools and lenders take full advantage of USA Funds' electronic and Web-based services.
- ◇ Continued to enhance its Web portal for school-customers. USA Funds Connection® provides a customized view of information, reports and applications that are on USA Funds' Web site, plus other value-added information and applications.

- ◇ Conducted nearly 100 debt-management workshops across the nation to help schools learn more about the USA Funds Life Skills financial-literacy program, and about student retention and its role in default prevention.
- ◇ Added to its Web site, [www.usafunds.org](http://www.usafunds.org), a variety of resources, including worksheets to help schools gauge the financial benefits of enhancing student retention at their schools.



Administrators from Minority-Serving Institutions discuss student-retention issues at the USA Funds symposium "It Takes a Campus to Retain a Student."

- ◇ Gave 170 administrators from 57 institutions serving large numbers of minority students the opportunity to discuss student-retention issues. The national symposium "It Takes a Campus to Retain a Student" was the fourth-annual event of its kind sponsored by USA Funds.
- ◇ Presented for the second-consecutive year the Excellence in Debt Management Awards. Recognized for creative debt-management efforts in 2005 were Nova Southeastern University, Fort Lauderdale, Fla.; Bennett College for Women, Greensboro, N.C.; and Oakwood College, Huntsville, Ala.



Brothers Mark, left, and Stephen Heimsoth are alike in many ways, including their choice of university and the USA Funds scholarship they received.

### Scholarship is brothers' latest shared experience

Being involved in the same programs and activities is nothing new for brothers Mark and Stephen Heimsoth. Since their childhood in Shawnee, Kan., Mark says, “for the most part, we’ve always done everything together.”

They’ve played the same sports, traveled the world together, become Boy Scouts of America Eagle Scouts on the same day, and worked side-by-side in their own business. Now the brothers are pursuing higher education together, and they’re getting help paying for it through the same program: USA Funds Access to Education Scholarships.

Mark is a junior at Kansas State University in Manhattan, Kan. Stephen also attends K-State, where he is a freshman. Mark is in his third year of receiving the renewable award, while 2005-2006 marks Stephen’s first year as a USA Funds Access to Education Scholarship recipient.

In the case of the USA Funds Access to Education Scholarships, though, the brothers weren’t intentionally trying to be a part of the same program. When he applied for

the USA Funds award, Stephen says, “I didn’t know that Mark had ever received the scholarship.”

USA Funds Access to Education Scholarships are easing the pinch that the Heimsoth family feels in paying for the brothers’ postsecondary education. Mark and Stephen’s father, a financial adviser, was out of work more than a year after being downsized in 2002. He still is rebuilding his customer base.

“It’s been a hard financial time,” says Mark, who is studying finance and hopes to pursue that field at the corporate level or start his own business.

Each brother has his own additional reasons to appreciate USA Funds Access to Education Scholarships.

For Stephen, the scholarship helps ease the disappointment that he’s felt since early in his teen years, when the diagnosis of a rare connective-tissue disorder dashed his dreams of attending college on an athletic scholarship. Prior to being diagnosed with mixed

connective-tissue disease, he had excelled in soccer, basketball, track and street hockey.

Up to half of USA Funds Access to Education Scholarships go to applicants who have physical disabilities or are members of ethnic-minority groups.

“The disease made it impossible for me to continue playing sports, so I learned to concentrate my time and energies into my studies and volunteer activities,” says Stephen. “I am thankful now that I did.”

An actuarial-math major who earned 30 college-credit hours while still in high school, Stephen is the leader of a Manhattan Boy Scouts troop. He also is active in a student group at a local church and in the campus entrepreneurship club; Mark takes part in the these organizations as well, serving as president and vice president of promotions, respectively.

Scholarships cover Stephen’s costs for his freshman year. For Mark, education loans — including those guaranteed by USA Funds

*“A lot of the scholarships that I got my first year in college were one-time deals, and you couldn’t apply for them if you weren’t a freshman anymore,” Mark says. “I really appreciate this scholarship.”*

and borrowed through Kansas State Bank — supplement his scholarship funding. On breaks from school, the brothers earn spending money through jobs including operating their own lawn-mowing business.

Mark praises the fact that USA Funds Access to Education Scholarships are renewable. The awards may be renewed annually, if the student meets academic criteria, to a total award of \$6,000.

“A lot of the scholarships that I got my first year in college were one-time deals, and you couldn’t apply for them if you weren’t a freshman anymore,” Mark says. “I really appreciate this scholarship.” ♦



Stephen Heimsoth’s, left (second row), time with his brother, Mark, right (second row), includes activities such as Kansas State University football games.

## Interaction with students extends 'temporary' job



Judy Bonjour, right, Kansas State Bank assistant vice president, counts meeting with students such as Mark Heimsoth, left, and Stephen Heimsoth as a highlight of her job.

Judy Bonjour swore she'd never work at a bank.

She accepted an entry-level position in the student-loan department at Kansas State Bank shortly after she moved to Manhattan, Kan., thinking she'd stay only long enough to earn some shopping money. A long-term stint at a bank, Bonjour thought, sounded "too stuffy."

But she found that life at Kansas State Bank was not so stuffy after all. Bonjour's "temporary" job turned into a career at the bank that so far has lasted 27 years, with the last year-and-a-half as an assistant vice president.

"I enjoy talking with the students," she says.

Bonjour says it's that personal attention Kansas State Bank gives its customers that keeps her excited about her job. From one-on-one meetings with parents who wonder if they can afford to send their children to school, to sitting down with a student to review stacks of loan-consolidation information the student received, she says, "we sure do try hard to make families' lives easier."

Her love for direct interaction with students and their families has been a constant — but her reasons for enjoying that aspect of her job have changed over the years.

When she began her career at Kansas State Bank, Bonjour says, she was 25 years old, just a few years out of college herself, and living in a new town. She enjoyed talking to students who were close to

her age, and learning more about the community. Now, as a longtime resident of Manhattan with two children of her own — including a daughter who is in college — another thought drives her passion for serving students and their families.

"If I can help these kids, who are away from home," Bonjour says, "I always think, 'I hope someone's helping my daughter like this.'"

She believes that USA Funds shares Kansas State Bank's commitment to supporting students and families. The USA Funds Life Skills financial-literacy program is just one example, says Bonjour, a member of USA Funds' Kansas Advisory Council.

When Bonjour provides assistance with education-loan exit counseling on campuses, students often note that the facts covered in the counseling are familiar to them. They tell Bonjour that they learned the information during previous USA Funds Life Skills sessions.

USA Funds continued to enhance its financial-literacy program in 2005, introducing two additional modules and a CD-ROM to address specific concerns of graduate and professional students and other adult learners. Nearly 600 schools nationwide are in various stages of implementing USA Funds Life Skills.

"It's great to work with a great group of people at USA Funds, who help us keep up and provide what schools want," Bonjour says.

Enhanced attention to customers as well as technological innovations mark the highlights of USA Funds' service to lenders in 2005. During the fiscal year, USA Funds:

- ◇ Supplied funding and assistance with enhancements to loan-delivery systems supporting USA Funds' guarantee. New features on OpenNet expand lenders' options for custom reporting, e-mail notifications, promissory-note printing, and making loan updates online.
- ◇ Became a participant in a program that provides a single source of student-enrollment information. Through its involvement in the Total Enrollment Reporting Process, USA Funds supplies enrollment information to the National Student Clearinghouse to distribute to lenders and lender-servicers.
- ◇ Expanded its lender-relations team. Brent Dove, USA Funds' lender-relations manager, is the liaison between USA Funds and its national and regional lender-customers. Elaine Yednak, lender-operations manager, focuses on contracts, setups and system enhancements.
- ◇ Presented forums to help lenders stay up to date on developments in the education-finance marketplace. Eight USA Funds Education-Lender Forums hosted more than 100 participants in Baltimore; New York City; Denver; Kansas City, Mo.; Dallas; Jackson, Miss.; and Orlando, Fla.
- ◇ Encouraged exemplary customer service. Through its "There for You" awards, USA Funds recognizes staff members who provide excellent service on behalf of USA Funds. Lenders, schools, borrowers and USA Funds and USA Funds Services employees nominated the year's 28 recipients. Among them are lender-service professionals who went the extra mile to assist lenders in making setup changes, resolving issues, and handling work that resulted from one lender's acquisition of another.



Shelly Sherrill, USA Funds University customer-training representative, assists with USA Funds Education-Lender Forums.

- ◇ Began posting on its Web site monthly volume updates to lenders. USA Funds' top-100 lender-partners also can receive reports of USA Funds fiscal-year-to-date guarantee volume through Document Direct for the Internet.



Edison College student Lianne Murray, left, and her son, Daniel, are daily study partners.

## *Single mother overcomes hurricane, other challenges*

Edison College nursing student Lianne Murray follows an exhausting schedule that leaves no time for a full-time job.

She travels 40 miles to get herself and her 13-year-old son to school in the mornings, transports him to his sporting events and other activities, does homework alongside her son, and recently began one overnight shift each week as a nurse's assistant. She also lends a hand to her parents, who operate a tropical-fruit nursery.

To supplement her earnings from the nursery, Murray relies on aid for school including grants, a USA Funds Access to Education Scholarship and USA Funds-guaranteed Federal Stafford loans. She also earns aid as a student mentor through a Federal TRIO program on campus.

Murray maintains a 3.7 grade-point average and is on her way to earning an associate of science degree in nursing from Edison College in December 2006.

"It's hard for me because I have work and kids and everything else too," says Murray.

Pursuing a college degree wasn't a financial necessity for Murray, who once was a certified cosmetologist for 10 years and, later, a Realtor for five years. But with one grown child — a daughter, who is a nurse — and 20 years out of high school herself, Murray decided to pursue her lifelong dream.

"I've always wanted to be a cardiac nurse," says Murray. "I just think the heart is a fascinating organ, and all the technology available can give people a new lease on life. I'd like to be a part of that."

Murray sold her home and other property in Texas and moved into a home her parents had bought for employees of their nursery in Bokeelia, Fla. She enrolled at Edison College in Fort Myers, Fla.

Murray admits that going back to school was difficult and required her to relearn good

study habits. But she found that her instincts had been correct: She had a natural talent for the subject areas required for a nursing degree.

She worried that her dreams were dashed, however, when hurricanes swept through Florida in 2004. Hurricane Charley damaged 90 percent of her family's nursery, and wreaked havoc on Murray's home as well.

Cleaning up after the hurricane was a long process that left Murray without a main source of financial support for school. But she was diligent about pursuing financial aid and has remained in school.

"I find out about financial-aid opportunities by being nosy and asking around," Murray says. "I always ask what I can apply for. There are so many resources that I've got to believe that our country wants us to get an education. If you really start digging, you'll find a way to make it happen."

*"I was very glad to be chosen," she says. "I realize that I'm an older person going back to school, but I have a lot to contribute. I know what I want, and I'll stay with it."*

Murray learned about USA Funds Access to Education Scholarships through a single-parent program on campus. She was surprised to receive a USA Funds scholarship for 2005-2006.

"I was very glad to be chosen," she says. "I realize that I'm an older person going back to school, but I have a lot to contribute. I know what I want, and I'll stay with it."

After she earns her degree in 2006, Murray plans to work toward a bachelor's degree and, ultimately, a master's degree. She might pursue a career as a nurse anesthetist.

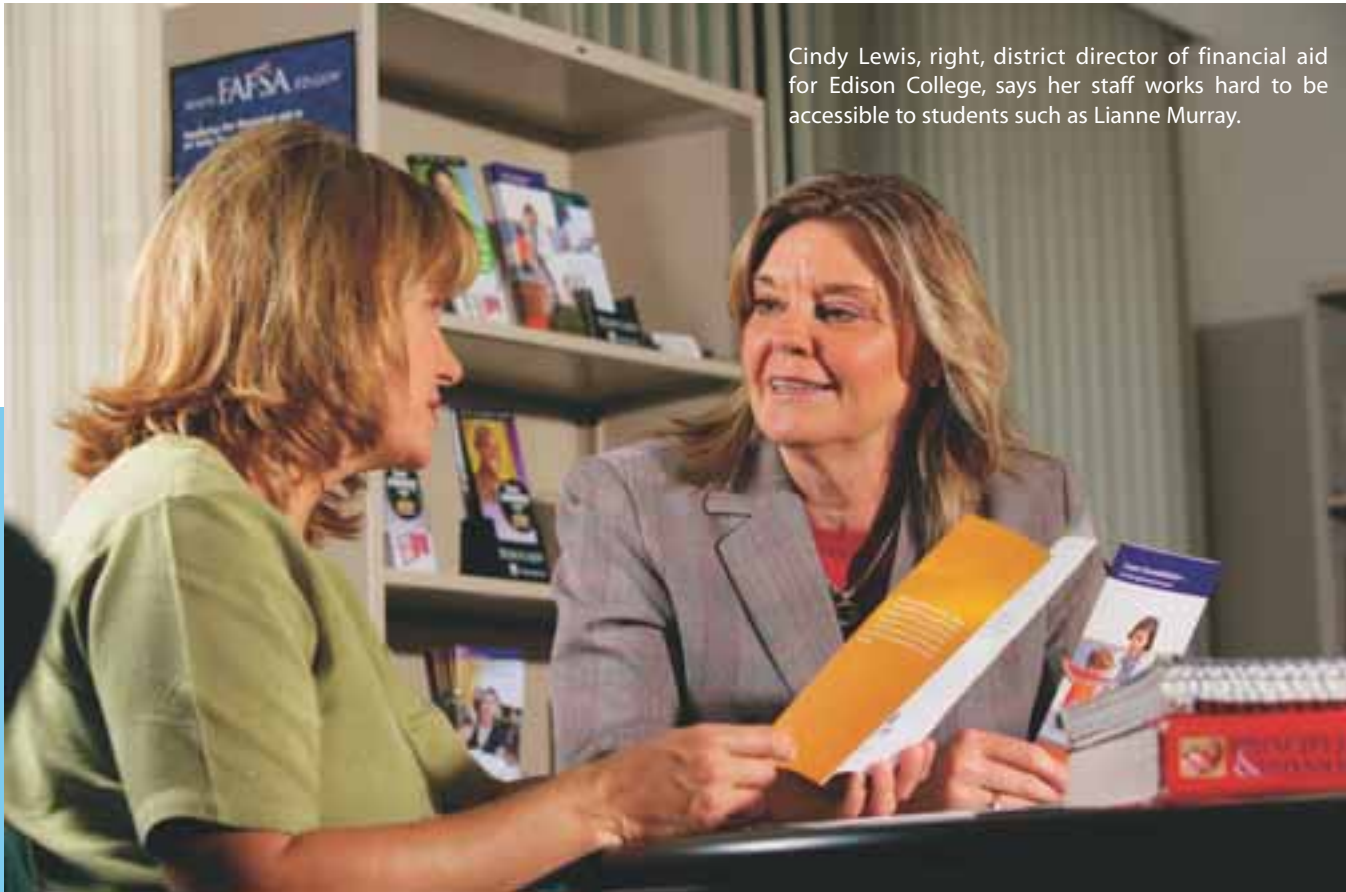
"To me, I will be a success when I'm finished with school, in my own home again and know I have a job I can rely on," Murray says. "My family is proud of me, and I'm proud of me — but to see someone leave a

doctor's office where I work, and their health has improved, that would mean so much to me." ♦



In addition to a scholarship, loans and other aid, a tropical-fruit nursery helps finance Lianne Murray's education.

## Aid administrator helps diverse group



Cindy Lewis, right, district director of financial aid for Edison College, says her staff works hard to be accessible to students such as Lianne Murray.

Women with children, older adults changing careers, recent high-school graduates — Edison College's students have diverse backgrounds and a wide range of reasons for being at the school. Despite their differences, Cindy Lewis says, many Edison students have one characteristic in common: They have overcome challenges to attend college.

So Lewis and her financial-aid staff strive to be sensitive to the needs of students for whom, she says, "it takes a lot of courage just to come to our office and ask for help."

Lewis is district director of financial aid for Edison College, whose largest campus is in Fort Myers, Fla. "We work very hard at trying to be accessible and friendly," Lewis says of the financial-aid administrators. "It's important that we have a positive atmosphere and help students through the application process."

Serving students who live in five southwestern-Florida counties presents another special consideration: Mother Nature. Hurricanes over the last two years have added to the challenges that many Edison College students face.

"It's been tough, because the students wanted their lives back," says Lewis, who has been at Edison 26 years. "But they were dealing with so many issues that it was hard to do that."

Lewis' expertise in working with students and staff affected by hurricanes helped to shape USA Funds' 2005 plans for the Disaster Relief Fund for Postsecondary Education Students.

Lewis, a member of the USA Funds Florida Advisory Council, provided input about the hurricane-relief initiative. Started following hurricanes a year earlier, the fund received \$2.3 million from USA Funds in 2005, to help low-income students who have additional need for financial aid because of hurricanes. USA Funds' support of the Disaster Relief Fund for Postsecondary Education Students later would draw praise in a letter from President George W. Bush.

USA Funds' efforts to assist those affected by hurricanes is just one example of the ways that USA Funds helps Edison's financial-aid staff provide outstanding service to students, Lewis says.

"USA Funds provides support for our office when we need it — from supporting our efforts to move services online for students, to staff training, to scholarship programs," Lewis says. "USA Funds sees being a student-loan guarantor as one piece of what needs to be done to help students reach their goals."

## USA Funds strengthened its commitment to enhancing students' postsecondary preparedness, access and success. In 2005 USA Funds:

- ◇ Joined a coalition of organizations committed to improving access to postsecondary education for low-income students in six communities. The 10 organizations of the Learning Communities Coalition are targeting communities in Arizona, Florida, Indiana, Mississippi, Wyoming and Washington, D.C. USA Funds is providing more than \$500,000 in funding as well as staff and programmatic support to the effort.
- ◇ Supported organizations that provide higher-education scholarships to minority students. For the fourth-consecutive year, USA Funds awarded \$100,000 each to the American Indian College Fund, the Hispanic Scholarship Fund and the United Negro College Fund.
- ◇ Continued to show results in preventing student-loan default. USA Funds achieved another record-low default rate, 4 percent. The 2003 cohort-default rate shows that, compared with the previous two-year cohort period, nearly 1,200 fewer borrowers who entered repayment on USA Funds-guaranteed Federal Stafford loans during fiscal 2003 had defaulted by the end of fiscal 2004. USA Funds has reduced its default rate by nearly 29 percent during the past five cohort periods and by more than 65 percent during the most-recent 10-year period.
- ◇ Recognized 191 USA Funds Scholars. USA Funds awarded \$286,500 in scholarships to selected graduating seniors from high schools in communities in Arizona; Florida; Washington, D.C.; Hawaii; Indiana; Kansas; Maryland; Mississippi; North Carolina; and Wyoming. These states include those in which USA Funds is the designated guarantor of federal education loans and those in which USA Funds has offices.
- ◇ Sponsored a national study of student aid for Latinos. USA Funds supplied \$56,000 for the study by *Excelencia* in Education and the Institute for Higher Education Policy. The research endeavored to inform national policy debates, assist policy-makers in formulating state policies and initiatives, aid in budget decision making, and contribute to discussions about higher-education access and success for Latino students.



Craig Brosius, left, science teacher at Washington Community School in Indianapolis, assists senior Jacqueline Walters. The school is a Learning Communities participant.

- ◇ Provided more online help for borrowers with loan-payment problems. Enhancements to the "Loan-Payment Solutions" section of USA Funds' Web site assist borrowers in temporarily postponing their loan payments or reducing their monthly payment amounts.
- ◇ Offered an array of student-aid publications. USA Funds' brochures kept students and their families abreast of topics such as loan consolidation and higher-education tax benefits.

### USA Funds supported a record level of education-loan services during the fiscal year ending Sept. 30, 2005.

Under the federal Higher Education Act, two distinct funds finance the activities of an education-loan guarantor. The Agency Operating Fund includes guarantor-owned assets that may be applied to a wide range of initiatives in support of financial-aid-related activities to promote access to education. The Federal Reserve Fund consists of federally owned resources managed by the guarantor to pay lender claims and support the guarantor's default-prevention efforts.

#### Agency Operating Fund

USA Funds' total operating assets of \$473 million support most of its services (Table 1). USA Funds' assets, in both the Agency Operating Fund and the Federal Reserve Fund, consist largely of cash, investments and receivables. USA Funds has no significant fixed assets in either fund, because most of its operational support is provided under contract by Sallie Mae®, the premier guarantor-servicing organization. USA Funds employs its net assets to deliver exceptional default-prevention services, support its philanthropic programs in support of higher-education access, invest in new technologies that enhance education-loan services, and meet unexpected contingencies.

Excess operating revenues over expenses decreased between 2004 and 2005 due largely to reduced default-collection revenue. The decline in default-collection revenue was due to several factors, including USA Funds' emphasis on loan rehabilitation. Although loan rehabilitation is the most-favorable default resolution for many borrowers, it is more difficult to achieve, because borrowers must make 12 consecutive, voluntary, on-time monthly payments to rehabilitate their defaulted loans. Default collections were further reduced due to delays in certain processing of consolidation loans for defaulted borrowers. The delays were the result of the enormous demand for loan consolidation spurred by an increase in variable-rate student loans effective July 1, 2005.

During the year, USA Funds made a significant investment of nearly \$33.5 million in the research and development of new and enhanced products to improve education-loan service. Included in this investment were new initiatives to enhance customer service and to help schools access the comprehensive array of default-prevention and student-retention services that USA Funds offers.

USA Funds also provided \$18 million to philanthropic programs that promote higher-education preparedness, access and success. These expenditures include support of need-based scholarships for postsecondary studies.

#### Federal Reserve Fund

As a guarantor of federal education loans, USA Funds is required to maintain sufficient reserves to back the outstanding loans in its portfolio. As of Sept. 30, 2005, USA Funds' federal reserves totaled more than \$312 million, or 0.45 percent of the value of its outstanding loan guarantees (Table 2). Note that these figures are based on a newly agreed-upon definition of federal reserves that takes into account net assets, an allowance for future defaults, and deferred revenue. USA Funds previously reported its reserve and reserve-ratio figures based only on current assets and investments.

Effective April 1, 2005, USA Funds resumed waiving the maximum 1-percent guarantee fee that federal law permits a guarantor to assess to borrowers.

#### Education-Loan Operations

USA Funds guarantees loans on behalf of thousands of financial and educational institutions for millions of students and parents nationwide. The volume of Stafford and PLUS loans that USA Funds guaranteed grew to more than \$10.7 billion during fiscal 2005. This figure represents an increase of 8 percent in loan volume over the previous fiscal year (Chart 1). In addition, USA Funds guaranteed more than \$9.8 billion in Federal Consolidation loans to help

(Table 1)

#### Agency Operating Fund

(in thousands)	FY 2005	FY 2004
Total Assets	\$472,764	\$448,352
Total Liabilities	\$184,559	\$173,933
Net Assets	\$288,205	\$274,419
Total Revenue	\$386,303	\$380,991
Excess Revenue Over Expenses	\$ 25,005	\$ 26,840

(Table 2)

#### Federal Reserve Fund

(in millions)	FY 2005	FY 2004
Total Reserves	\$312	\$362
Total Loan Guarantees		
Outstanding	\$69,101	\$64,966
Reserve Ratio	0.45%	0.56%

student- and parent-borrowers manage education debt. USA Funds' consolidation-loan volume jumped nearly 49 percent from the previous year, as thousands of student- and parent-borrowers locked in fixed interest rates on consolidation loans prior to the July 1, 2005, increase in the variable rates on federal student loans and parent loans.

USA Funds invests significant resources to help borrowers avoid default on their education loans. These default-prevention efforts spare borrowers the severe financial consequences of loan default, preserve the favorable default records of postsecondary institutions, and protect the federal fiscal interest.

During the fiscal year, USA Funds' default-prevention efforts successfully averted default on more than 93 percent of seriously past-due accounts, thereby preventing \$14.4 billion in potential loan defaults. USA Funds' annual default rate rose slightly to 1.41 percent from the previous year's rate of 1.13 percent. (Chart 2). The rise in this rate reflects an increase in lender default-aversion-assistance requests that were not satisfactorily resolved. The annual default rate compares the dollars in default on loans guaranteed by USA Funds against the dollar value of all USA Funds-guaranteed loans in repayment at the beginning of the year. This default rate often is called the trigger default rate, because higher default rates trigger lower federal reimbursement to a guarantor.

If, in spite of intensive default-prevention efforts, a borrower defaults, USA Funds continues to pursue payment of the education-loan obligation. During fiscal 2005 USA Funds' default-recovery efforts collected nearly \$950 million, of which \$725 million was remitted to the federal government (Chart 3). This figure excludes collections from Internal Revenue Service federal tax-refund offset.

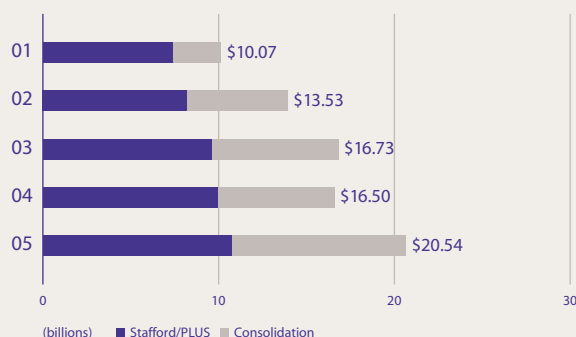
USA Funds' default collections included nearly \$354 million in loan rehabilitation. Loan rehabilitation provides a more-satisfactory resolution for many borrowers in default, because a successful rehabilitation removes the guarantor's reporting of the default from the borrowers' credit records. Loan rehabilitation represented 38 percent of USA Funds' total default recoveries, up from 35 percent for the previous year.

Notably, USA Funds' fiscal-2005 default recoveries again exceeded the dollar value of default claims paid during the year, thereby reducing USA Funds' outstanding default portfolio.

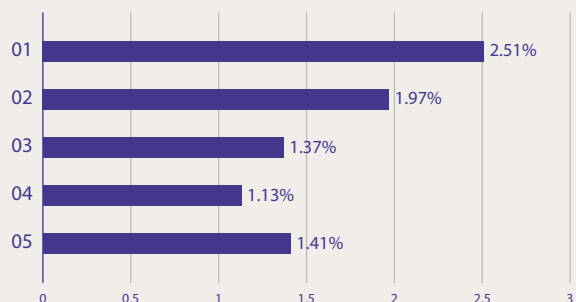
### Outlook for 2006

USA Funds continues to enhance the value that it delivers to postsecondary institutions, education lenders, students and parents by investing in powerful debt-management and default-prevention programs, nationally respected training programs for financial-aid and education-lending professionals, new technology, and the support of programs that promote preparation for, access to and success in higher education.

(Chart 1)  
New Loan Volume



(Chart 2)  
Annual Default Rate



(Chart 3)  
Default Recoveries



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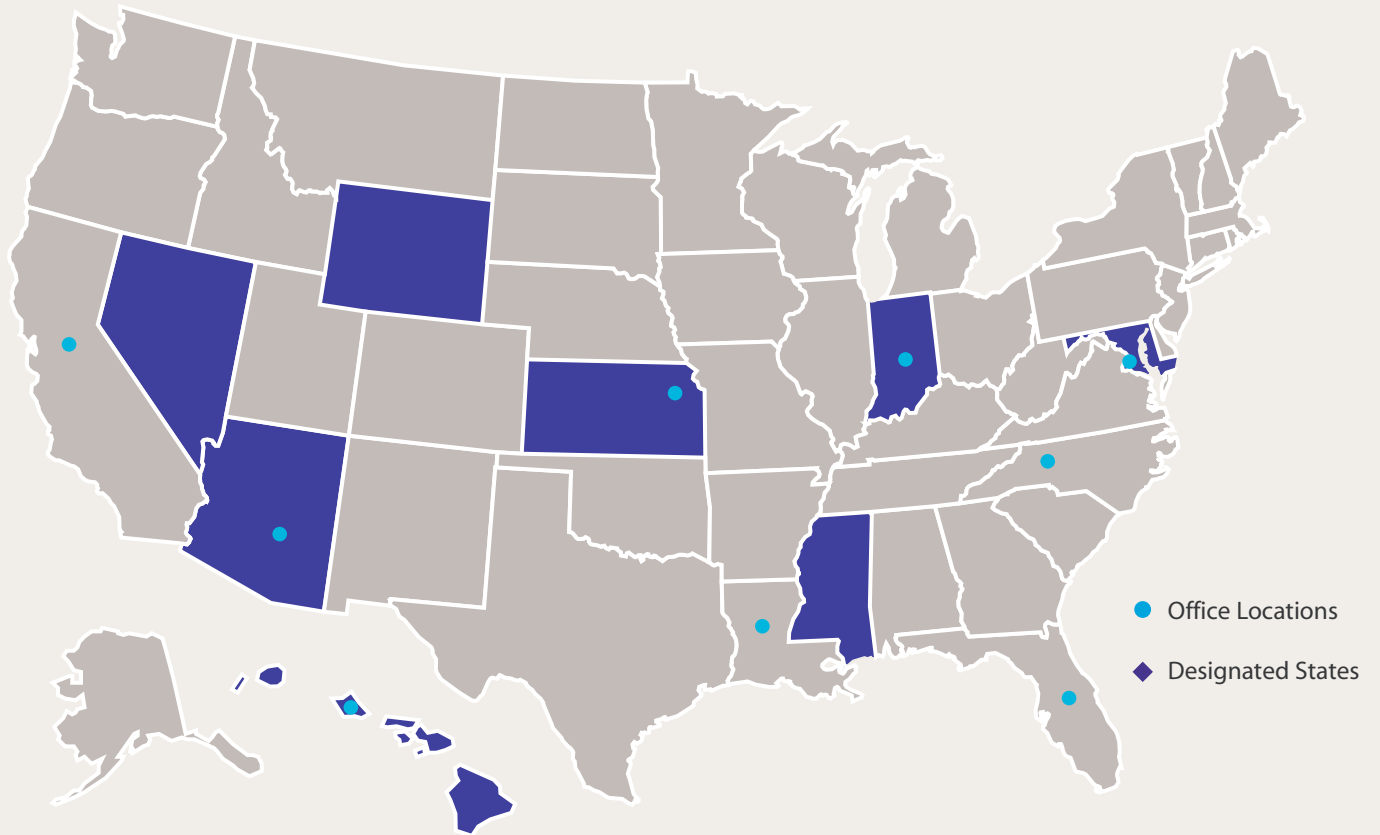
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Headquartered in Indianapolis, USA Funds serves students and parents, as well as educational and financial institutions, nationwide. In addition, USA Funds is the designated guarantor of federal education loans for eight states (purple).

USA Funds® is the nation's leading education-loan guarantor. A nonprofit corporation, USA Funds works to enhance postsecondary-education preparedness, access and success by providing and supporting financial and other valued services.



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