

For 35 Years Student Loan Finance Corporation Survives & Thrives With Big Ideas

"A college friend and I had an idea; we'd create a Guarantee Agency in the basement of his house. Our wives would run it and he and I would get wealthy. That was the entire business plan in 1976."

- Norg Sanderson, SLFC

Identifying problems and coming up with solutions has been a constant theme throughout the history of Student Loan Finance Corporation (SLFC) of Aberdeen, SD. In 1978, it took one Big Idea to get SLFC started, however, throughout the years it has taken many more Big Ideas to survive.

Big Idea #1 – Service Federally Guaranteed Loans (1978)

Originally, SLFC primarily provided capital and servicing for federally guaranteed student loans. Norg Sanderson, SLFC President/CEO says, "A big part of our strategy was that we would buy any loan at any time for any amount and at any status." By doing so, SLFC provided the funding for South Dakota banks so they wouldn't have liquidity issues, wouldn't have to staff a student loan office or program, and wouldn't have to see their good bank customers go down the street to a competitor.

That idea worked. In 1978, the volume of business was about \$14 million. That had increased after one year to \$25 million, and after four years, nearly \$89 million. From 1978 through 2003, SLFC was able to provide college financing to over 300,000 borrowers in the amount of \$4,642,45,000.

Big Idea #2 – Convert From a Not-For-Profit to a For-Profit (1997)

In 1997, SLFC had another Big Idea—to convert the corporation from a not-for-profit to a for-profit that was owned by the employees (ESOP). The conversion required SLFC to repurpose its "surplus capital," which they did by setting up the Great Plains Educational Foundation for \$87,500,000. From 1997 to 2012, the foundation provided 208 grants for \$38,818,423 to a variety of South Dakota educational endeavors.

"Success is a lousy teacher. It seduces smart people into thinking they can't lose."

- Bill Gates

By 2004, business was going well for SLFC. "We were growing the company, we were doing the government program and our own private program, we were getting U.S. Bank more interested in what we were doing, and they were doing a lot more for us," says Steve Kohles, SLFC. About that time, a series of external events created significant turmoil for SLFC: A joint venture was not working, a trustee became uncooperative, the CPA firm was not performing, audits weren't completed in a timely matter, and SLFC was engaged in a lawsuit with six other secondary markets.

When it seemed like things couldn't get any worse, the stock market crashed in 2008 which ended secondary markets, SLFC's primary funding source. At the same time, the Federal government decided it

would handle all student loans directly with the borrowers. “We were trying to pull out of a series of bad deals when we got hit with a worse one...no business model at all,” says Norg Sanderson, President/CEO of SLFC.

For 30 years SLFC’s business had worked quite well. They paid premiums to lenders who marketed to borrowers and the guaranty agency that marketed to schools. It provided SLFC with a model that was so simple and worked so well that no one imagined it could stop so abruptly. But it did.

Big Idea #3 – Provide “Gap” Financing and College Planning Services (2008)

In 2008, SLFC was left with a company that was struggling to get back to normal once normalcy had ended. They knew if they were going to survive they would have to come up with a brand new business concept. SLFC shifted its emphasis to providing and servicing private student loans. For the first time in SLFC’s history, it had to become a marketing company because the capital sources it formerly relied upon had been destroyed. The new idea was to start a private loan program using capital from private banks. SLFC changed its focus and allied with the Community Banks. It was called the iHELP Student Loan Program.

“2008 was so similar to 1978. There were times in 1978 when we were starting Student Loan Finance Corporation that we did not sleep, wondering if we’re going to make it the next day,” says Sanderson. He adds, “2008 was exactly the same position as we were in during '78. We were a start up with 30 years of experience, but having that 1978 experience gave us the courage to say we can do this again.”

“Whether you think you can, or you think you can’t – you’re right.”
- Henry Ford

The iHELP Student Loan is a private, credit-based loan with competitive rates and good borrower benefits. It is offered through local community banks and is designed to cover educational costs that aren't covered by a student's traditional financial aid package, generally consisting of scholarships, grants, and federal student loans.

“The people from Student Finance Corporation talked to us about this concept of providing gap financing for students to fund their education,” says Dick Behl, President of Farmers & Merchants State Bank in Scotland, SD. He adds, “I tell you what, that just triggered me. That's a great idea, and we want to be a part of that.” Behl is also a National Director of the Independent Community Bankers Association.

In addition to the iHELP Loan program, SLFC developed a comprehensive College Planning Services website. It provides free resources on colleges and their costs, available scholarships, and career paths to help make those critical decisions as students plan their financial future.

To their credit, SLFC believed in their people and processes to work through whatever strategy they had to develop to bring the company back...and it worked.

Big Idea #4 – Provide “Private Consolidation Financing for Outstanding Student Loan Balances” (2014)

With SLFC back on its feet and a renewed enthusiasm for building the company, it began to look for new opportunities. Soon another opportunity in the private student loan business presented itself. Currently, there are approximately \$158 billion worth of student loan business from potential customers who have already borrowed private loans and are in repayment. Major headlines tout the struggles of recent college graduates in their search for good paying jobs, repaying their college loans, and trying to maintain a reasonable lifestyle. Finding a solution to help borrowers consolidate their student loans in a manageable way seemed like another good idea. A potential partner with expertise in loan consolidation emerged; Reunion Financial Services Corporation of Macon, Georgia.

Says Wayne Johnson, President/CEO of Reunion Financial Services, “We are committed to ensuring that college graduates have the financial tools necessary to make informed decisions that provide peace of mind by locking in a monthly payment at a competitive fixed rate.” Johnson adds, “We’re very good at identifying prospects and getting those prospects to take action on a marketing message. SLFC is very, very good at taking people that respond to these offers and putting them through the mechanisms to be able to enter into a new loan and to pay off their loans.”

While default rates for student loans continue to rise nationally (according to the Department of Education, the three-year cohort default rate rose from 13.4 percent for FY 2009 to 14.7 percent for FY 2010), SLFC borrowers have typically had default rates significantly below the national averages.

Says Kohles, “Reunion has a process that they bring to this new company that better pre-qualifies the borrowers, which makes our jobs from the origination, servicing, and collection side much easier and simpler. It’s a game changer for us.”

“You may not realize it, but a kick in the teeth may be the best thing in the world for you.”
- Walt Disney

In January of 2014, Reunion Student Loan Finance Corporation was formed combining SLFC and Reunion Financial Services, with a future dedicated to helping parents, students, and institutions understand the important role that private student loans can play, making sure that a good and fair product is brought to the people who need these loans and are able to take advantage.

SLFC is a South Dakota company with 300 employees that has thrived and learned to survive with Big Ideas. Says Sanderson, “From 2002 to 2010, we were this nearly destroyed company, then a transforming company, and finally a company that has a business plan and strategy that will make us competitive in today’s market.” Throughout its history in good times and bad, SLFC has maintained its mission to help educate students. With Big Ideas and good fortune, SLFC has accomplished that and more. To which Sanderson concludes, “I’m pretty proud of that.”