

STATE OF ALASKA

ALASKA STUDENT LOAN CORPORATION

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March 13, 2009

Sponsor Statement

HB 172 - An Act relating to an investment in the education loan fund; relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation; and providing for an effective date.

This legislation is necessary to avert a disruption in new education loan origination by the Alaska Student Loan Corporation (ASLC, or the Corporation) beginning in July 2009. The Corporation, since its establishment by the Legislature in 1987, has financed its education loan programs by issuing tax-exempt revenue bonds in the capital market. After 20 years of successful operation in this environment, catastrophic disruptions to the capital market resulted in ASLC being unable to issue bonds in 2008. Education loans continued to be available to Alaska students for the 2008-2009 academic year due to capacity within the Corporation to meet loan demand with available cash. However, after lending a projected \$95 million in new loans through June 2009, that capacity will be substantially exhausted. Until such time as sufficient funding is secured, loan application processing for the 2009-2010 academic year will remain suspended.

The modification of Alaska statutes set out in this legislation enables ASLC, in partnership with the Commissioner of Revenue, to meet the immediate need to accept and process loan applications for the upcoming school year, and, additionally, to create a bonding structure to re-access the capital markets in 2009.

The Corporation's largest education loan programs are AlaskAdvantage Stafford Loans (which carry a federal guarantee), and the AlaskAdvantage Supplemental Loans (state loans which carry no guarantee). This year, more than 8,100 Alaska students relied on one or both of these low-cost education loan programs to aid in financing their postsecondary education and training program. More than 60% of those students were attending schools in Alaska.

This bill enables the Commissioner of Revenue to: 1) provide a bridge loan and directly invest in the Corporation's education loans; and, 2) create a credit enhancement facility to assist ASLC in the issuance of bonds during the current economic crisis when, without this facility, it would be uneconomical to issue bonds.

The combination of these two authorities are projected to assist in meeting loan demand through 2010 without the need for a State appropriation, by which time ASLC expects capital markets will have normalized to the extent these State support mechanisms will no longer be required.