



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Alaska Commission on Postsecondary Education

EXECUTIVE OFFICE

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February 13, 2015

The Honorable Bill Stoltze, Chair  
State Affairs Committee  
Alaska State Senate  
State Capitol Room 125  
Juneau, Alaska 99801

Dear Senator Stoltze,

I am writing in follow up to the February 10, 2015 State Affairs Committee hearing regarding Senate Joint Resolution 2, relating to authorizing state debt for postsecondary student loans. Thank you again for taking up this legislation so promptly. Two information requests were made of me during that hearing.

One was for additional information about how the Alaska Student Loan Corporation (ASLC) annually sets the interest rates on state education loans. The ASLC board annually approves education loan interest rates, which are in effect from July 1 through June 30 of the following year. Statutes and regulations set out formulas whereby interest rates are calculated and, specific to certain rate modes, also stipulate a floor and ceiling rate. The rate setting methodology has varied over time as the debt financing options have differed, but generally has associated the rate with that needed to cover the inclusive costs ASLC incurs in financing the loan plus a percentage to cover operations and loan servicing costs (which includes the costs of loan losses due to the death, disability and default of borrowers). ASLC's interest rate setting authority and methodologies are found at: AS 14.42.200. General Powers; and, 20 AAC 15.855. Loan interest rates, loan credits, and loan fees. Attached are three memos to the ASLC board relative to the setting of the 2014-15 interest rates.

The second information request was regarding loan write off rates. The bases upon which a loan may be written off are:

- Death of the borrower, if there is no cosigner on the loan.
- Default—defaulted loans considered eligible for discharge or write off are those which have been in repayment status for at least seven years with no payment, voluntary or involuntary, received for at least one year, if there are no cosigners.
- 100% Permanent Disability, if there is no cosigner on the loan and, through a review of the borrower's financial position, it can be determined that repayment of the debt would cause an undue financial hardship for them.

Loan discharge or write offs have varied over the years based upon a number of factors which include: the applicable credit criteria applicants were subject to, the loan program in which the borrower participated, and the availability of origination fees to offset write off expenses. Because of this, to both respond to the question and illustrate the variability, attached are three graphs of mature cohorts of loans issued from 1998 through 2000. These graphs and related notes reflect the net write off rates and amounts. Education loans, because of the extended in school period during which no payments are due from the borrower are particularly long lived. The degree to which the rates on these cohorts have varied (from 7% to .03%) is primarily attributed to an increase in the loan origination fee (from 1% to 5%) in 1996. Between 1996 and 2013 the origination fee varied between 3% and 5%. That change substantially increased the reserve available to the corporation to offset loan losses.

I hope this information is response to the committee's requests. Please don't hesitate to contact me if additional materials are needed.

Very respectfully yours,

A handwritten signature in cursive script, appearing to read "Diane Barrans".

Diane Barrans  
Executive Director

ATTACHMENTS



THE STATE  
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GOVERNOR SEAN PARNELL

## Alaska Student Loan Corporation

FINANCE OFFICE

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# Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer *CM*  
Date: May 1, 2014  
Re: Recommended Interest Rate for Fixed Rate Alaska Supplemental Education Loans (ASEL) awarded for the period beginning July 1, 2014 and ending June 30, 2015.

Pursuant to AS 14.43.174 and 20 AAC 15.855, the Corporation sets the annual interest rate for fixed rate ASELs on or after May 1 of each year. The Corporation resumed originating fixed rate ASELs on July 1, 2006. The rate set for a fixed rate loan remains in effect for the life of the loan.

Corporation regulations specify that the ASEL fixed interest rate be set based on the "current Municipal Market Data Scale that most closely reflects rates the Corporation would obtain on a new bond issue plus thirty basis points," plus the most recent five-year average cost of administering the loan program. That calculation for the period beginning July 1, 2014 results in a rate of 6.2% (3.4% + 0.3% + 2.5%).

The regulation further establishes a rate floor of not less than the weighted average true interest cost of the corporation's outstanding fixed-rate debt obligations plus the commission's and corporation's most recent five-year average cost of administering the state education loan program. The calculation for the rate floor results in a rate of 6.7% (4.2% + 2.5%).

Statute establishes a maximum rate of 8.25%.

Staff recommends that the ASEL fixed interest rate for the 2014-15 academic year be set at 6.7%, the minimum rate allowed by regulation.

Note: 20 AAC 15.860 states that the interest rate on Alaska Supplemental Consolidation Loans is equal to the rate set under 20 AAC 15.855 (interest rate on ASELs). Therefore, the board is setting rates on both loan types when setting the ASEL rate.

### **Requested Motion:**

Move approval of 6.7% for fixed rate ASELs originated for the 2014-15 academic year.




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# Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer   
Date: May 1, 2014  
Re: Recommended 2014-15 Interest Rate for Variable Rate Alaska Supplemental Education Loans

Pursuant to AS 14.43.174 and 20 AAC 15.855, the Corporation sets the annual interest rate for variable rate Alaska Supplemental Education Loans (ASEL) on or after May 1 of each year. This rate will be in effect for the 12-month period beginning July 1, 2014 and ending June 30, 2015. The Corporation issued variable rate ASELs from July 1, 2002, through June 30, 2006.

Corporation regulations specify the ASEL variable interest rate is based on "the bond equivalent rate of the 91-day U.S. Treasury bills auctioned at the final auction held before May 1 of the loan year plus up to 2.8 percent." The final auction held before May 1<sup>st</sup> occurred on April 28, 2014.

Staff recommends the interest rate for variable rate ASELs be set as follows for the 12-month period beginning July 1, 2014:

1. During the in-school period and applicable grace and deferment periods, 2.7%<sup>1</sup> (91-day U.S. Treasury Bill rate set April 28<sup>th</sup> of 0.02% plus 2.70%.)
2. During the repayment period and applicable forbearance periods, 2.8%<sup>1</sup>, (91-day U.S. Treasury Bill rate set April 28<sup>th</sup> of 0.02% plus 2.80%.)

### **Requested Motion:**

Move approval of 2.7% for variable rate ASELs during the in-school and applicable grace and deferment periods for the year beginning July 1, 2014.

Move approval of 2.8% for variable rate ASELs during the repayment and applicable forbearance periods for the year beginning July 1, 2014.

<sup>1</sup> The base rate has been rounded to the nearest full tenth of a percent, consistent with past practice.






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# Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer   
Date: May 1, 2014  
Re: Recommended 2014-15 Fixed Interest Rate for Family Education Loans

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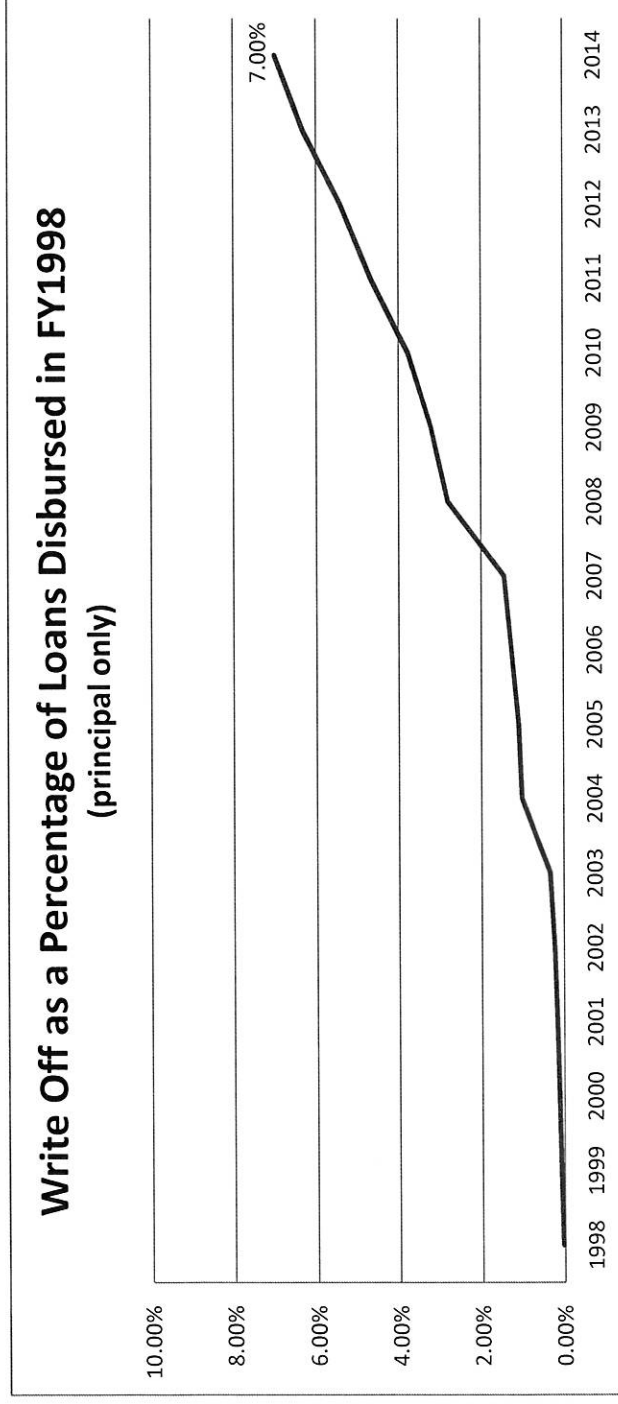
Alaska Statute (AS) 14.43.740 states, "The Corporation shall set the interest rate on a loan made under AS 14.43.710-14.43.750, but the annual rate may not exceed 8.25%". This section relates to the Alaska Family Education Loan Program (FEL). The rate set by the Corporation applies to FELs originated on or after July 1, 2014, and remains in effect for the life of the loan.

Staff recommends that the FEL interest rate for the 2014-15 school year be set at 6.7%, the same rate recommended for 2014-15 ASELs.

### **Requested Motion:**

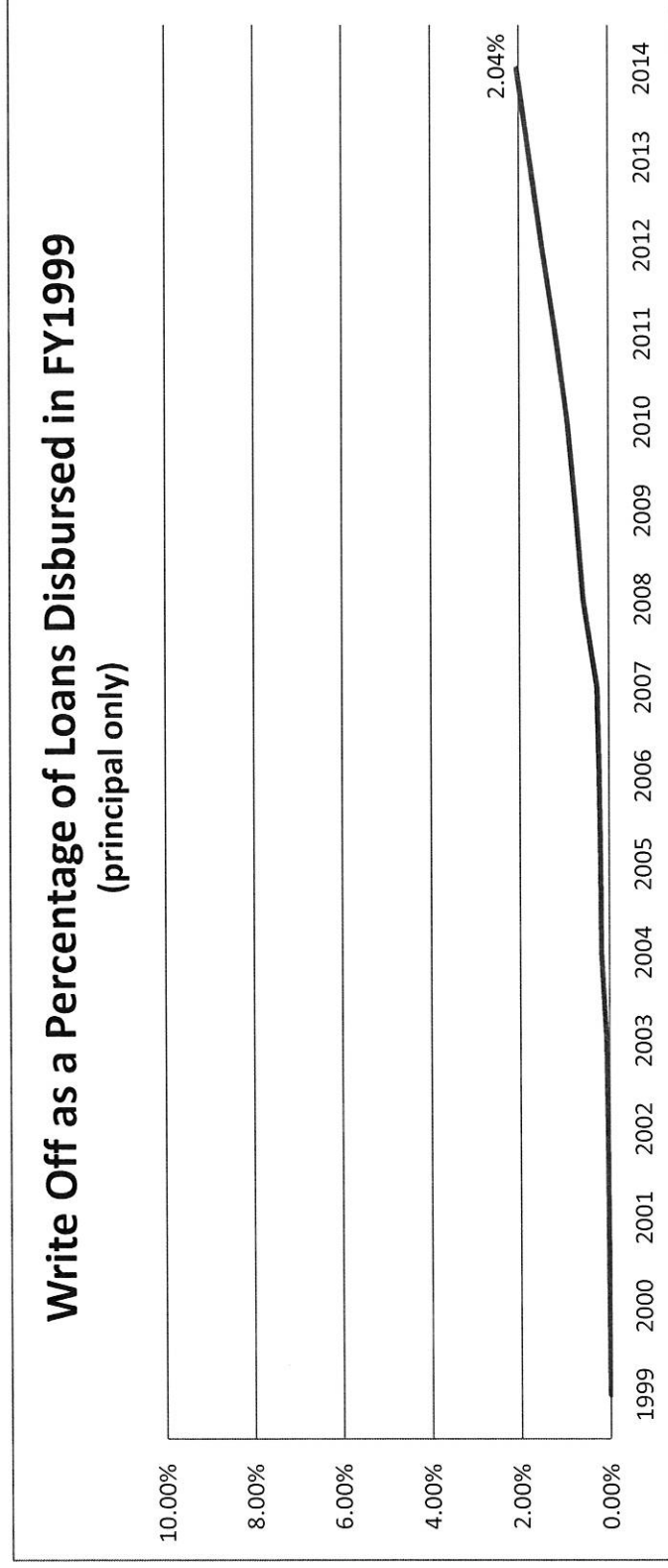
Move approval of 6.7% for fixed rate FELs originated for the 2014-15 academic year.

## Alaska Student Loan Corporation Education Loan Portfolio



- a. The principal balance of loans disbursed in FY1998 was \$80.7 million and interest capitalized on that balance through 12/31/14 was \$14.7 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY1998 through 12/31/14 was \$10.7 million, \$4.0 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY1998 at 12/31/14 was \$14.5 million.

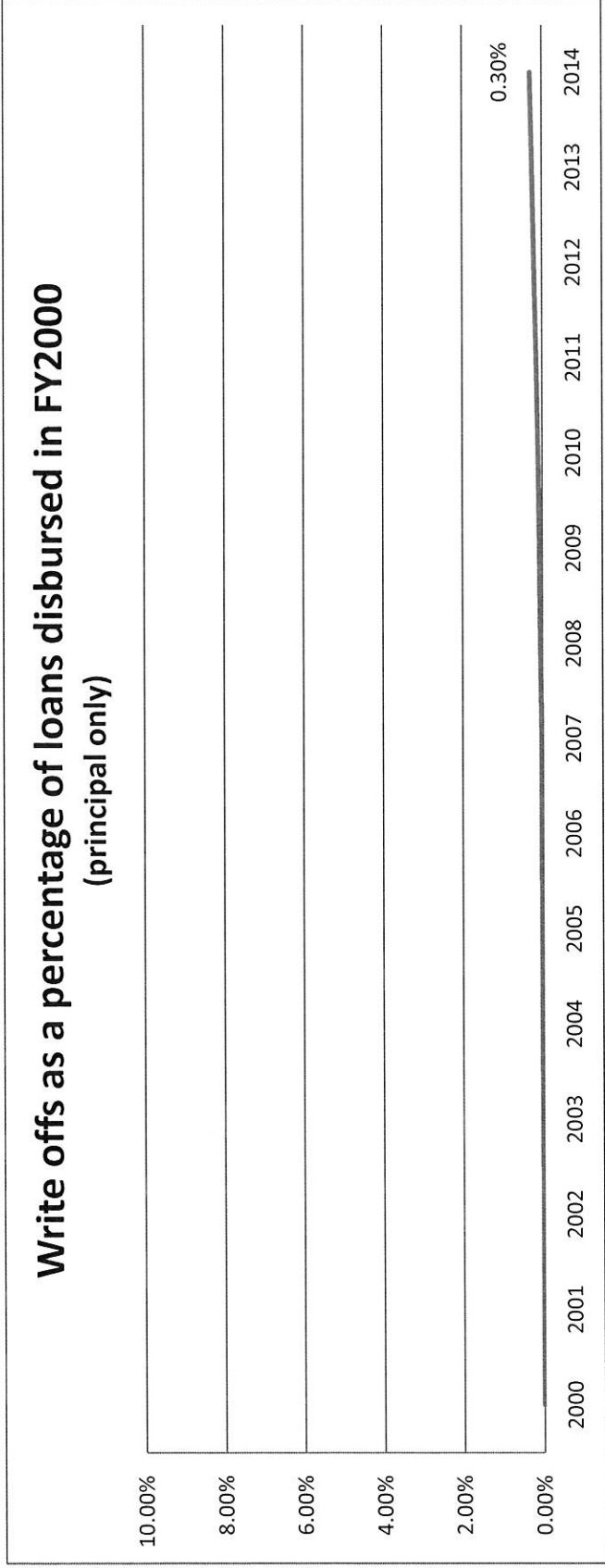
## Alaska Student Loan Corporation Education Loan Portfolio



- a. The principal balance of loans disbursed in FY1999 was \$65.6 million and interest capitalized on that balance through 12/31/14 was \$11.1 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY1999 through 12/31/14 was \$4.8 million, \$3.3 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY1999 at 12/31/14 was \$11.6 million.

# Alaska Student Loan Corporation

## Education Loan Portfolio



- a. The principal balance of loans disbursed in FY2000 was \$57.5 million and interest capitalized on that balance through 12/31/14 was \$9.3 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY2000 through 12/31/14 was \$3.1 million, \$2.9 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY2000 at 12/31/14 was \$12.2 million.