STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

3030 VINTAGE BLVD.
JUNEAU, ALASKA 99801-7109
VOICE (800) 441-2962
In Juneau (907) 465-6740
TDD (907) 465-3143
FAX (907) 465-3293

March 14, 2012

The Honorable Alan Dick, Chair
House Education Committee
Alaska State Legislature
State Capitol Room 106
Juneau AK, 99801

Dear Representative Dick:

The following information is provided in response to requests made at the March 5, 2012 meeting of the House Education Committee regarding HB272.

1) **<u>The current default rate (and any supporting documents/graphs) for all loan programs.</u>**

The Commission calculates annual cohort default rates based on the ratio of loans that entered repayment between January 1st and December 31st of the cohort year, and were greater than six months in arrears at the end of the first 12 months of repayment.

The Commission publishes the alternative loan default rates in two modes:

1. Institutional Rate: Rate of default on Alaska Supplemental, Alaska Student and Teacher Education Loans at institutions administering education loan programs on behalf of Alaska students.
2. Program Rate: Rate of default by specified loan program.

Institutional Cohort Default Rate (CDR)

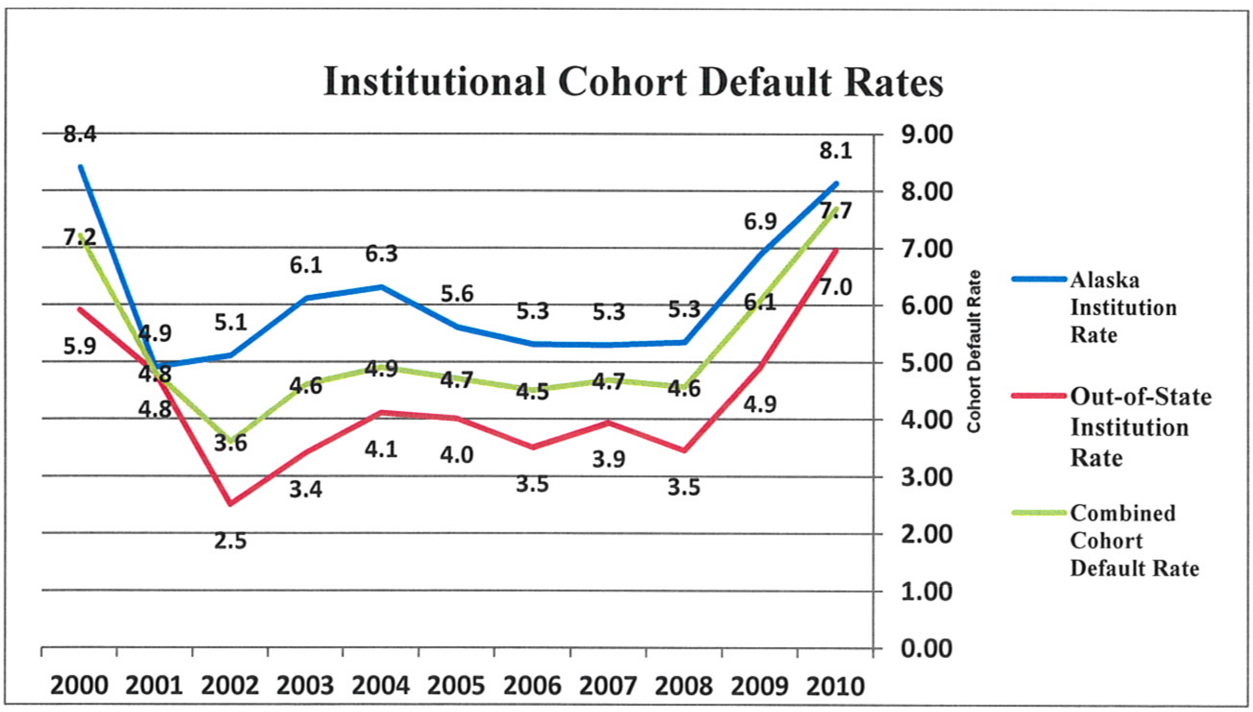
Institution Location	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Alaska	8.13%	6.88%	5.34%	5.29%	5.30%	5.60%	6.30%	6.10%	5.10%	4.90%	8.40%
Out-of-State	6.96%	4.90%	3.45%	3.93%	3.50%	4.00%	4.10%	3.40%	2.50%	4.80%	5.90%
Combined Rate	7.69%	6.08%	4.56%	4.68%	4.50%	4.70%	4.90%	4.60%	3.60%	4.80%	7.20%

Program Cohort Default Rate

Program	2010	2009	2008	2007
Alaska Supplemental Education Loan	7.68%	6.04%	4.63%	4.85%
Alaska Student Loan	13.57%	8.48%	6.76%	2.97%
Family Education Loan	2.10%	0.00%	0.42%	1.40%
Teacher Education Loan	4.56%	3.01%	3.56%	2.72%
Winn Brindle Education Loan	4.54%	15.33%	0.00%	0.54%
Alternative Loan Consolidation	0.00%	0.00%	0.44%	0.00%

ASLC Federal Cohort Default Rate

2009	2008	2007
7.8%	5.1%	7.0%



2) Will HB 272 have an effect on the default rate?

It is unlikely that a potential to earn a 3% cost reduction will impact a borrower's likelihood of default. In the Commission's experience, borrowers typically default 1) due to failure to manage their loans, including failure to apply for deferments or other repayment options which would allow them to avoid default without having to make payments, or 2) because they lack an ability to repay due to over borrowing relative to their income potential (resulting from one or both of the following--failure to achieve an occupational/professional credential and/or incurring high levels of education/non-education debt due to lifestyle choices). Generally, regardless of the underlying reasons for the lack of capacity to pay as agreed, borrowers fail to be influenced or motivated by the consequences of delinquency or default, so it seems reasonable to conclude that the default rate would not be materially impacted by this new potential benefit.

3) **<u>Percent of students who are completing within 150% of time?</u>**

According to NCHEMS (higheredinfo.org), rates of completion within 150% of expected time in 2009 (most recent year available) for first-time, full-time freshmen are:

	Alaska Rate	US Rate
Three-year rate for associate degree completers	13.3%	29.2%
Six-year rate for baccalaureate students	26.9%	55.5%

Specific to the University of Alaska, rates for 2008 cohorts (most recent available) are:

<u>Two-Year Programs</u>

For full-time, first-time freshmen entering UA two-year certificate or associate programs in fall 2008:
28.9 percent of certificate degree seekers earned the degree in 3 years by FY11 and
8.3 percent associate degree seekers earned the degree within 3 years by FY11.

For all two-year public institutions, about 21 percent of all associate and certificate degree seekers complete the degree within 3 years.

<u>Four-Year Programs</u>

For full-time, first-time freshmen entering UA four-year baccalaureate programs in fall 2005:
28.9 percent earned a baccalaureate degree in 6 years by FY11.

For all four-year public, open admission institutions, 31 percent of baccalaureate degree-seeking students complete the degree within 6 years.

4) **<u>How would the provision regarding no principal reductions for loans otherwise eligible to be repaid or forgiven by the state (14.43.123(a)(4) operate relative to the provision that the principal reduction would be provided in addition to any other reduction of principal or interest (14.43.123(c)?</u>**

It is my understanding that the bill's sponsor seeks to exclude from this new benefit any loans for which the borrower can qualify for full forgiveness or repayment by the state. For example, if the state establishes a program wherein a borrower could perform in an occupation or profession in Alaska and in return the state would repay all of their state education loans, borrowers participating in that program would *not* qualify for this principal reduction *in addition to* their loan repayment benefit. In the latter provision, the bill would allow otherwise-eligible borrowers who may qualify for a borrower benefit provided by the Alaska Student Loan Corporation, such as the recurring web-pay benefit, whereby borrowers who make their loan repayment electronically receive a .25 interest rate reduction, to receive the principal reduction *in addition to* the web-pay benefit.

5) How would the annual appropriation process, by which the principal reduction would be funded, work?

While an applicable business process has yet to be developed, conceptually, in October of each year the Commission would engage with a third-party aggregator of degree completion information to determine which borrowers, with loans in repayment, were shown to have received a postsecondary credential. Based upon the outstanding balance of loans held by those borrowers, the projected cost of a three percent principal reduction would be developed for the purpose of providing that cost figure to the legislature. The Commission would contact potentially-eligible borrowers to advise them of the potential benefit available to them upon application and documentation of their eligibility. In December of the subsequent year, borrowers determined to have meet all eligibility criteria for that year ending would, subject to the adequacy of the appropriation, receive a credit up to three percent of their outstanding principal balance.

I hope this information is responsive to your members' inquiries and I look forward to making myself available to them for further discussion of HB 272.

Sincerely,

Diane Barrans
Diane Barrans
Executive Director