

Alaska State Legislature

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HB 109 **Sponsor Statement**

HB 109 requires that, as a condition of eligibility for an Alaska Supplemental Education Loan (ASEL), a borrower must have good credit or, if unable to document a history of good credit, must apply with a credit-worthy co-signer. Administered by the Alaska Commission on Postsecondary Education (ACPE), these loans are funded by the Alaska Student Loan Corporation (ASLC). ASLC issues bonds in the capital markets using its various AlaskAdvantage education loans as collateral pledged to support the bonds. The loans are in two categories: those with a federal guaranty (Stafford, Federal PLUS and Grad PLUS) and non-guaranteed State loans. With bonds collateralized by guaranteed loans, investors know they can rely on the backing by the federal government. ASELS have no guarantee and therefore the underlying quality is a primary concern. ASLC has determined that unless the credit quality of ASELS is improved, they will not be usable as collateral.

Compared to credit standards imposed by lenders in other states, ASEL credit requirements are among the least restrictive for alternative education loans. ACPE currently only reviews histories for bad credit. If an applicant has no credit history they may borrow without a co-signer. In today's national economic climate, bond investors are extremely averse to bonds backed by certain asset types. Unfortunately, in this new environment ASELS are viewed as subprime loans. ASLC financial advisors indicate there is little likelihood this conservative investor perspective will change in the future. Passage of HB 109 is intended to permit ACPE to improve ASEL quality so they will be more positively received in the bond market. If ASLC is unable to finance the ASEL program through the capital markets, in the future the State would have to directly fund this program or ASELS would be unavailable. ACPE estimates that its annual loan demand through the ASEL program will continue to be \$40 to \$50 million.

HB 109 also allows ASLC to set the interest rate for Family Education Loans (FEL) in accordance with the rate set for the ASEL (not to exceed 8.25%). The FEL program allows a family member to take out a loan on behalf of another family member. This program accounts for less than 2% of ASLC loans. Currently ASLC must charge the 5% interest rate set in statute for the FEL. HB 109 gives ASLC the flexibility to set the interest rate according to the current fiscal environment.

The Legislature should carefully examine changes that put limitations on borrowers. However, HB 109 is necessary for ACPE and ASLC to continue to meet their shared mission to promote, support, and provide access to postsecondary education for Alaskans and in Alaska, without relying on the State General Fund to finance its operations.