

Lee Donner

Regional Managing Director

Date: April 6, 2021

To: Sana Efird, Executive Officer
Alaska Student Loan Corporation

Cc: Julie Pierce, Chief Financial Officer
Alaska Student Loan Corporation

Subject: Senate Bill 94 and House Bill 114

You have asked that Hilltop Securities (HTS) in its fiduciary role as Financial Advisor to the Alaska Student Loan Corporation (ASLC), review and comment on the implications of the proposed changes to AS 14.43 as set out in Senate Bill 94 (SB 94) and House Bill 114 (HB 114) for the operation of the affected portions of the student loan offerings of the Alaska Student Loan Corporation (ASLC).

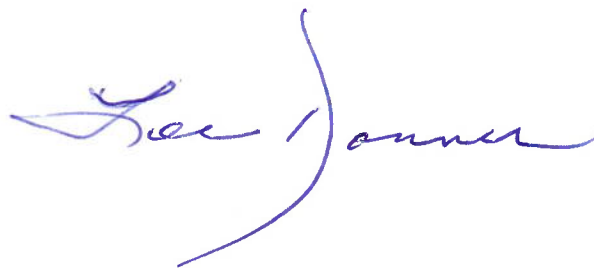
The proposed changes to AS 14.43.122 (b) would expand the pool of borrowers eligible to apply for and receive a consolidation or “refinance” loan from ASLC, but still limit the pool to borrowers who meet the standard “nexus” definition utilized in the federal tax code (i.e. either a current or former resident of the state attending (or who attended) any eligible institution anywhere in the U.S. or its territories, or a non-resident attending (or who attended) an in-state secondary or post-secondary eligible institution. This proposed change offers several positive outcomes for the program: (a) the larger pool would increase the pool of eligible borrowers (and presumably the volume of loans originated) without lowering the current credit based underwriting standards utilized by the Corporation, (b) more borrowers with an established Alaska nexus would benefit from the competitive lending rates offered by ASLC, and (c) the new loans originated under the expanded eligibility criteria would continue to be eligible for tax-exempt financing, assuming compliance with other criteria in Section 144(b)(1)(B) of the federal tax code (including school certification of Cost of Education Less Aid or COELA).

The proposed changes to AS 14.43.173 transfer the program’s loan size limitations from being embedded in the statute to determination on an “as needed” basis by the governing body of ASLC. In our experience providing financial advisory services (currently) to ten different state agency and not-for-profit student loan providers, the only other case where loan size limits are embedded in the governing statutes is the State of Texas, and that is because student loan bonds issued under the Texas private student loan program are general obligations of the State of Texas unlike the limited recourse student loan revenue bonds issued by ASLC. This proposed change offers a couple positive outcomes

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for the program. Amending enabling legislation for state agency or not-for-profit student loan programs is inevitably a lengthy and uncertain process, resulting in limited or no capacity for loan programs to adjust to changes in the cost of education. If enacted, this change would allow ASLC to evaluate costs of education and adjust loan limits on a “real time” basis. Loan limits based on considerations other than actual costs of attendance can contribute to defaults by leaving borrowers with unmet financial needs that result in failures to complete an entire course of education and receive a certificate or degree. Furthermore, larger loan balances made to credit-worthy borrowers are more cost-efficient to administer and service than smaller loans and statistically have lower default rates, all of which helps ASLC lower the operating costs of the program.

The proposed change to AS.14.43.175 would allow ASLC to introduce, and presumably encourage the use of, an immediate repayment option or options with respect to its “in-school” loan offerings. Multiple studies have demonstrated that a borrower who enters repayment status immediately (even if such immediate repayment is interest-only during the in-school period) have lower delinquency and default rates than loans that fully defer payment until some period after the borrower is no longer enrolled on at least a half-time basis. This lower delinquency and default rate outcome benefits both borrowers (fewer damaged credit records) and ASLC (lower default costs), and over time can improve ASLC’s credit ratings and cost of borrowed funds. In addition, borrowers who utilize the immediate pay option lower their cost of borrowing by reducing or eliminating the compounding effect that occurs when accrued interest is capitalized.

A handwritten signature in blue ink, appearing to read "Greg Lanner". The signature is fluid and cursive, with a large loop at the end of the last name.

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