

SENATE FINANCE COMMITTEE
LOG NOTES
2/06/01

GENERAL SUBJECT (S):

Overview:
Alaska Commission on Postsecondary Education
Diane Barrans, Executive Director

The following overview was taken in log note format. Tapes and handouts will be on file with the Senate Finance Committee through the 21st Legislative Session, contact 465-4935. After the 21st Legislative session they will be available through the Legislative Library at 465-3808.

Time Meeting Convened: 9:02 AM

Tape(s): SFC-01 # 9, Side A and Side B

	PRESENT:
x	Senator Donley
x	Senator Kelly
x	Senator Austerman
x	Senator Green
x	Senator Hoffman
x	Senator Lemam
x	Senator Olsen
x	Senator Ward
x	Senator Wilken

ALSO PRESENT:
DIANE BARRANS, Executive Director, Alaska Commission On Postsecondary Education
SHEILA KING, Finance Officer, Alaska Commission On Postsecondary Education
Via Teleconference: JAMES CRIPPEN
DENNIS MILLHOUSE, Trendsetters School of Beauty

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LOG	Speaker	DISCUSSION
0	Co-Chair Donley	Introduction
14	DIANE BARRANS, Executive Director, Alaska Commission On Postsecondary Education, and Executive Officer, Student Loan Corporation	Presentation will involve historical briefing, financial briefing and technology briefing Power Point Presentation with accompanying handout, "30 Years of Helping Alaskans Help Themselves: A Report to Senate Finance on the Alaska Commission on Postsecondary Education and the Alaska Student Loan Corporation" [Copy on file.]
39		Page 2 - Agency Timeline (the 70s): Alaska student loan program in place almost 30 years now, started in 1971 (Pause on record)
59		1971-1974 administered through Department of Education 1974, the legislature established the Commission to administer student aid programs. At that time there was a community college system and the Commission was involved in the transfer of credits to the University of Alaska.
74		Page 3 - Timeline (the 80s): Upward growth pattern through the 1980s. By 1987 student loan program was issuing approximately \$65 million per year in general funded loans. Over 125 institutions around the state. Program was reaching an apex. Generous program offered 50 percent forgiveness for those who completed degrees and returned to the state. In 1987, there was a downturn in the economy, discussion on how to continue to offer the program without the drain on state's general fund.
89		Alaska Student Loan Corporation(ASLC) was created to issue bonds to fund low-cost education loans. State appropriations were to continue through the year 2000 with the objective for the need for bonding eliminated in the year 2003.
94		1992 funding was cut off as state resources continued to be strained.
98		1987 as result of economic pressures, community college was absorbed into statewide university system.
102		Page 4 - Timeline (the 90s): 1992 annual appropriations ceases and

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		<p>corporation was directed to develop strategies to ensure the fund would sustain itself, the program would continue to be available</p> <p>1994-98 with strong bipartisan support from the legislature and the administration, ASLC was able to develop statutory changes made to improve the quality of the loan collateral and collections.</p> <p>Reduction in losses and improvement in our ability to market our bonds at a very low cost on the market</p>
116		<p>By 1998 these efforts began to pay some returns to us. We went from an annual net loss to an annual net income.</p> <p>First year, income was small, \$300,000, but clearly on track to improve in the future.</p>
124		<p>1999 as a result of improvements to the portfolio, our servicing system, staffing resources, corporation received a full upgrade from A to AA</p> <p>This allowed us to reduce the cost of bonds and offer return to customers with lower interest rates.</p> <p>Mid 90s interest rate reached 9 percent. Origination fees, five-percent, were put in place to help us recoup losses from debt, default and bankruptcy write-offs.</p>
137		<p>1999 we were able to return these improvements in the form of reduced interest rates to borrowers</p>
140		<p>On-going process in improving service, efficiencies and reducing costs.</p>
145		<p>Page 5 - Timeline (2000/01):</p> <p>ASLC with strong bipartisan support, recommended a method to return to its primary investor, the state, some return of capital.</p> <p>Because not yet in positive equity, not considered a dividend, but is a return of capital on net income.</p> <p>Law allows any year with a net income of \$2 million or more, to return between 10-35 percent of that income to the state.</p> <p>Current fiscal year, \$2.2 million.</p> <p>For 2002, that will be \$4 million.</p> <p>ASLC also remains committed to reducing the cost to borrowers to ensure that Alaskans' perception is that they are able to help themselves in the form of borrowing for their education.</p> <p>In 2000, annual default rate dropped below ten-percent for first time.</p> <p>Accumulated default above 20 percent in early 1990s.</p>

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166		As a result of a servicing audit last year, the ASLC board, asked the managers to continue on current path of improving services to Alaskans and products to Alaskans.
179		This year will be able to reduce lending interest rate to below eight percent for first time in ASLC history. Origination fee will be reduced from five to three percent. Borrower will annually save \$1.2 million in fees.
189		Plan to introduce legislation for reduction of interest costs for highest rate loans. ASLC has concerns that while progress has been made to reduce costs for new borrowers, others paying higher rates based of when they took out the loan. ASLC has set aside some income to reduce the cost of some of highest rate loans. Cannot do retroactively, but can do prospectively. Beginning in July of this year, those borrowers will see a cost reduction.
211		Page 6 - The Future...cont.: AlaskAdvantage Program is a redesigned AK student loan product that expands and improves financial assistance and service.
215		Program is a service oriented financial aid package and delivery system operated by the ASLC. Combines federal subsidies on federally guaranteed student loans with state loans.
221		Page 7 - AlaskAdvantage Borrower Benefits: Provide parents and students with a one-stop financial aid center. One form application for both federal and state loans.
225		Lowest cost of financial aid available to Alaskans. Increase options for students with poor credit histories.
228		Two years ago, legislature provided ASLC with the ability to do credit review, which is mild. Those with bad credit require co-signer; those with good or no credit are cleared to borrow. Federal program is an entitlement program and is available to Alaskans even if the non-guaranteed loans were not available because borrower could not find a co-signer.
237		Federal model there are expanded options

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		<p>for loan deferments, repayment or cancellation due to hardship. We have narrowed opportunities for deferment and cancellations that would otherwise be passed along to other borrowers.</p> <p>Federal program is underwritten by the federal government and has more generous provisions in terms of deferring loans, extending payments, contingent payment plans.</p>
248		<p>Ease of an on-line application renewal, Master Promise Note (MPN). Federal program has used MPN for several years. While borrowers still have to annually apply for loan, it is handled as a line of credit</p>
255		<p>Page 8 - AlaskAdvantage School Benefits Concept is how best to serve Alaska. Would try to create benefits that accrue to students that attend in Alaska. By creating automated efficiencies we can reduce lending rates to those who attend school in Alaska. Preferred rate for those borrowers</p>
266		<p>Because it is highly automated interface between institution and lender, offers streamlined packaging and delivering. Currently, University of Alaska has to coordinate federal loans with state aid, and track the two different processes. One file format, could properly give grant aid, subsidy, or other loan aid, to those who qualify.</p>
277		<p>Significantly reduce manual administration, improved control and oversight.</p>
284		<p>Believe preferred lending rate for students attending in Alaska would be a recruiting and retention tool for institutions in Alaska.</p>
289		<p>Long term objective Alaska is one of only two states with no need-based grant program. If ASLC is able to produce income, we would like to turn that into a fund source for a grant program, only available to students attending in Alaska. Might also garner federal aid to match with state dollars.</p>
302		<p>Page 9 - AlaskAdvantage Benefits for Alaska New funding options for Workforce Development. Legislative proposal would give the ASLC guiding principles to develop loan</p>

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		<p>programs. Partnerships with employers in Alaska who may want continued education programs for their employees.</p>
314		<p>Creation of Alaska grant/scholarship fund Incentive for students to stay in Alaska.</p>
318		<p>Increases federal loan forgiveness for teachers. Referenced current legislation, federal programs already forgive for teachers in certain needy areas. Because federal loans have not been historically the primary source in Alaska, this program has been of little benefit.</p>
327		<p>Currently, approximately \$24 million in federal loans borrowed by Alaskan students. Our loans are typically between \$50-55 million each year. But we've seen an increase in the need for federal loans.</p>
341	SHEILA KING, Finance Officer, Alaska Commission On Postsecondary Education	<p>Introduction</p>
346	Co-Chair Donley	<p>Difficulty in hearing witness.</p>
351	Ms. King	<p>Federal benefits in terms of cash flow that the Alaska Advantage program would bring to state.</p>
355		<p>Three main cash flow benefits. 1. Federal guarantee on the loans most substantial. Federal government underwrites those loans on 98 cents on the dollar. In a \$10 million portfolio, our loss on a ten-percent default rate would reduce from one million dollars to twenty thousand dollars. Currently when the ASLC loses that entire amount on a defaulted loan. Would increase cash-flow capability. 2. Interest subsidies. There are two types of Federal Stafford loans; one is subsidized, like the Alaska student loans, in that the in-school period is subsidized for the borrowers. Currently, the ASLC underwrites that subsidy, which gives them a free period of interest. Under this the federal government will underwrite that period of interest and pay the corporation. In Alaska, the unsubsidized loans make up about 40 percent of the federal borrowing in the state, which is about \$9.5 million</p>

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		<p>portfolio.</p> <p>3. Special Allowance Payment to compensate lenders during interest rate fluctuations. Reduces the interest rate risk. Fed government will pay the lender for extra piece that the lender is not receiving on the loan.</p>
387	Senator Hoffman	<p>Is the interest subsidy available for students during in school to re-finance their loans to take advantage of this option, or just for new loans?</p>
398	Ms. King	<p>Would not be able to refinance a state loan with a federal loan.</p> <p>This subsidy will only apply to new federal loans that the borrowers borrow through us. Currently all federal loans are made with out of state lenders.</p> <p>Loan consolidation feature, once student finished with school, they can consolidate all federal loans with one lender.</p>
408	Senator Austerman	<p>Request written account of the information relayed.</p>
411	Ms. King	<p>Will supply a summary of those benefits later.</p>
412	Senator Green	<p>Is any part of this program already in effect? Does it require any legislation or approval?</p>
416	Ms. King	<p>Can currently issue federal loans, but those loans are currently going to out of state lenders, so the state sees no benefits.</p> <p>Legislation would allow us to facilitate more efficiently and offer more benefits to the borrowers.</p>
423	Co-Chair Donley	<p>Are you proposing legislation?</p>
425	Ms. Barrans	<p>Yes, currently our proposal is in legal review since will have to leave existing program in place while implementing new program.</p> <p>Should be a new bill introduced before the end of the month.</p>
429	Senator Green	<p>Spent time with Medicaid representatives, who explained the federal Medicaid and State Medicaid and their requirements.</p> <p>By hooking into federal oversight, are you looking at our state being required to do things that we never intended or wanted to do?</p> <p>Don't want to learn in a few years that the federal government has imposed several conditions and restrictions that the state has to meet in order to receive federal money.</p> <p>Once the constituency is built there is no</p>

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		<p>turning back. Once federal government gets involved, a program is not the same.</p>
443	Ms. Barrans	<p>We are sensitive to that. We must meet certain servicing requirements Most federal loans are issued through private sector lenders, or non-profit lenders and have remained fairly flexible. We will retain state loan program through this model. To the extent that we can, we will align the two programs so that if someone gets a deferment on their federal loan, they get a deferment on their state loan as well. If in default on federal loan, they are in default on state loan also. We must consider that federal program is more liberal to the borrower than the state program has become. Tried to analyze if the benefits to the program is sufficient to pay for any additional risk that would be taken. Will carefully look at federal requirements when deciding to align with state. For administrative purposes, to package the aid, borrower can submit one check that would be applied to all loans, borrower can use only one form to apply for deferment, etc.</p>
466	Senator Green	<p>This was primarily administered by out of state financial institutions?</p>
469	Ms. Barrans	<p>There is a credit union in Mat-Su offering to their customers</p>
470	Senator Green	<p>Will this put them out of student loan business?</p>
472	Ms. Barrans	<p>Institutions actually name the lender. Ability of a local institution to be selected as a preferred lender is slim.</p>
478	Senator Green	<p>Local lenders are not considered though the University of Alaska. I went through a lot of trouble to get them to talk to local lenders and provide them the reference. Concerned about bypassing them and displacing them.</p>
487	Co-Chair Donley	
489	JAMES CRIPPEN	<p>Testified via teleconference off net from Anchorage. Disabled senior citizen attend classes at the University of Alaska, Anchorage. Applied for student loan in 90-91, but unable to attend for medical reasons. Asked for medical deferment. 1993 attended for one semester with a</p>

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		<p>student loan. Then had more medical problems. Starting in the Spring of 1994 and every year since, been trying to get consideration for medical determent under the language in the statutes regarding federal reimbursement. Have sufficient documentation attesting to total disability. Was told student loan office needed just a little more information. Next learned my file had gone to collection agency by mistake and Laurie would try to get it back. Later was told file was lost-probably because he filled out wrong forms. Found this odd since they were the ones who supplied the forms. Continued medical difficulties. Deferment application was never approved or disapproved. Was told they are not required to consider every medical application for court reasons. Difficulties with paperwork requirements. Took issue to Representative Kevin Meyers, and the governor's office. Learned that the person involved is a personal friend of the governor and therefore above reproach.</p>
587		Would like a non-biased referee to look at this issue.
592		SFC 01 - #8, Side B 9:49 AM
	Mr. Crippen	<p>Cont. Relayed instances of other disabled students. Would like the university to be involved.</p>
582	Co-Chair Donley	Will work with you to come up with specific proposals
577	DENNIS MILLHOUSE, Trendsetters School of Beauty	<p>History of company. Deal with two state agencies, the student loan corporation and the Department of Community and Economic Development. Difficult to work with both sets of regulations. Issue is with defaults, if too high of a default rate, the school is put on notice and could loose their ability to participate. Smaller communities don't require certification and license for beauticians. Therefore, no incentive for repayment of loans. Approached one former student and was met with indignation that the matter was none</p>

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		<p>of his business. Year ago opted out of student loan program and went with other programs, Native corporations, Workforce Development, Alaska Family Loan, etc. Heard that Family Educational Loan program would be phased out, disappointed since this is a good program. Unfair to us, they are trying to tie us into federal regulations Mostly care about the paperwork. Defeats our main purpose of education. Would rather hire more teachers than bookkeepers. Current director is good, but all directors go back to regulations. Could apply for non-profit status since I haven't been able to make a profit, been regulated out of business, not intentionally, but as a means of addressing every situation that arises.</p>
493	Co-Chair Donley	
490	Senator Austerman	Repeated request for written information and financial statements from ASLC
488	Co-Chair Kelly	Default rate down to under ten-percent. How does that compare to other student loan programs?
485	Ms. Barrans	Still higher than other programs, other lenders that do credit review build their programs with a three-percent default allowance. We don't expect to get to that level.
477	Senator Wilken	Money owed to general fund?
475	Ms. Barrans	State transferred to \$307 million to the corporation, you referred to the net deficit and we have turned that around. Our goal is to combine a few objectives to recuperate some of those losses and return capital to state over time.
463	Senator Hoffman	Defaults, don't we have an advantage over other states in our ability to garnish permanent fund dividends (pfd)?
459	Ms. Barrans	Yes, but several don't qualify for pfds, or have other garnishments such as child support that are taken out first. We are third on the priority list.
454	Senator Hoffman	How many of those borrowers don't apply for pfd, knowing it will be garnished? There are other agencies that apply on behalf of the client in order to collect.
453	Ms. Barrans	Wouldn't know what that number was.
450	Senator Hoffman	Because dividend is so high, it could be a significant portion of loan.
446	Ms. Barrans	I don't think it is a high number.

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		I know it occurs because I get letters from some saying they are never going to apply for their dividend. Some are just out of our reach and we will continue to look for ways to collect from them.
445	Senator Hoffman	It is worth finding out that number or percentage, since the amount potentially collected could be substantial. This could possibly reduce the default rate even further. You highlighted the incentive for students to stay in Alaska. Can you give some examples?
438	Ms. Barrans	Depending on success of program and the amount of federal loan dollars that come into the state. The more federal loans we can make, the more income. Would like to offer preferred lending rate to those who attend school in Alaska or return to Alaska after their education is completed.
431	Senator Hoffman	All fields or specific fields?
429	Ms. Barrans	To all fields, no strings attached.
427	Senator Olson	Options for students with poor credit history. Those with poor credit history sometimes have the feeling of being trapped.
422	Ms. Barrans	Federal loan is an entitlement; borrowers are still eligible with a co-signer.
418	Co-Chair Donley	Recess 10:07 AM