

ALASKA STATE LEGISLATURE
SENATE EDUCATION STANDING COMMITTEE

March 23, 2009

8:04 a.m.

MEMBERS PRESENT

Senator Bettye Davis, Vice Chair
Senator Charlie Huggins
Senator Donald Olson

MEMBERS ABSENT

Senator Gary Stevens

COMMITTEE CALENDAR

HOUSE BILL NO. 109

"An Act relating to eligibility for the Alaska supplemental education loan program and to the interest rate for a loan made under the Alaska family education loan program; and providing for an effective date."

MOVED HB 109 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 109

SHORT TITLE: EDUC. LOANS: SUPPLEMENTAL & FAMILY

SPONSOR(s): EDUCATION

02/02/09	(H)	READ THE FIRST TIME - REFERRALS
02/02/09	(H)	EDC, FIN
02/09/09	(H)	EDC AT 8:00 AM CAPITOL 106
02/09/09	(H)	Heard & Held
02/09/09	(H)	MINUTE(EDC)
02/11/09	(H)	EDC RPT 7DP
02/11/09	(H)	DP: KELLER, MUNOZ, BUCH, GARDNER, EDGMON, WILSON, SEATON
02/11/09	(H)	EDC AT 8:00 AM CAPITOL 106
02/11/09	(H)	Moved Out of Committee
02/11/09	(H)	MINUTE(EDC)
02/25/09	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/25/09	(H)	Moved Out of Committee
02/25/09	(H)	MINUTE(FIN)
02/27/09	(H)	FIN RPT 7DP 3NR
02/27/09	(H)	DP: JOULE, FOSTER, AUSTERMAN, KELLY, FAIRCLOUGH, HAWKER, STOLTZE

02/27/09 (H) NR: GARA, CRAWFORD, SALMON
03/13/09 (H) TRANSMITTED TO (S)
03/13/09 (H) VERSION: HB 109
03/16/09 (S) READ THE FIRST TIME - REFERRALS
03/16/09 (S) EDC, FIN
03/23/09 (S) EDC AT 8:00 AM BELTZ 211

WITNESS REGISTER

KATIE KOESTER, staff to Representative Seaton
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Commented on HB 109 for the sponsor,
Representative Seaton.

DIANE BARRANS, Executive Director
Alaska Commission on Postsecondary Education
Juneau, AK

POSITION STATEMENT: Supported HB 109.

ACTION NARRATIVE

[8:04:31 AM](#)

VICE CHAIR BETTYE DAVIS called the Senate Education Standing Committee meeting to order at 8:04 a.m. Present at the call to order were Senators Huggins and Davis.

HB 109-EDUC. LOANS: SUPPLEMENTAL & FAMILY

[8:04:44 AM](#)

CHAIR DAVIS announced consideration of HB 109.

[8:04:57 AM](#)

KATIE KOESTER, Staff to Representative Seaton, presented the sponsor statement. HB 109 addresses the problem of the Alaska Commission on Postsecondary Education's (ACPE) inability to sell bonds to generate money for student loans. It was brought to Representative Seaton and the House Education Committee by Diane Barrans, Director of ACPE.

HB 109 requires that borrowers have good credit or a co-signer with good credit to get an Alaska Student Loan, and it is important to note that this only applies to Alaska Student Loans called Alternative Education Loans; it does not apply to federally guaranteed loans such as the Stafford Loan.

Currently, a borrower can get an Alaska Student Loan just as long as he or she does not have bad credit. This means that a borrower with no credit can still get a loan.

8:05:49 AM

SENATOR OLSON joined the meeting.

MS. KOESTER continued; if a borrower has no credit, investors in the current fiscal climate are not willing to back the loan. Consequently, ACPE cannot use the loans as they are currently structure as collateral to fund the program. Without this change, ACPE will either be forced to stop lending to Alaska students or the state will have to directly fund the program to the tune of \$40 or \$50 million in general fund dollars.

MS. KOESTER said HB 109 also changes the Family Education Loan (FEL), which allows a family member to borrow on behalf of another family member. The rate is currently set in statute at 5 percent; this would give the Alaska Student Loan Commission (ASCL) the flexibility to set that rate according to the current fiscal environment, not to exceed 8.25 percent.

She advised that the committee members' packets should contain a sponsor statement, fiscal note, some bullet points that go into more detail, some articles about how this problem is affecting student loan corporations across the state and explanations of the various loans that this bill will affect.

8:07:30 AM

SENATOR HUGGINS said he was looking through the ACPE Quick Loan Comparison charts included with her handouts and had a question about the one showing the 2008-2009 interest rates with benefits. He pointed to footnote 3 on the annual percentage rate for the Family Education Loan, which shows a higher rate and asked if she can explain the differences between the two rates.

MS. KOESTER said that the best person to describe the details of this chart would be the executive director.

SENATOR HUGGINS thanked her.

8:08:21 AM

SENATOR OLSON asked what prompted Representative Seaton to bring this legislation forward and if a large number of students who cannot finance their educations have been contacting his office.

MS. KOESTER answered that Ms. Barrans contacted Representative Seaton's office to discuss her concern about keeping the commission running.

SENATOR OLSON opined that this is more of a preemptive strike than a response to an immediate situation.

MS. KOESTER said yes, but just barely; Ms. Barrans has been told by a number of investors and potential investors that there is no way they can back the commission's bonds. Students will be applying for loans soon, and the commission can't accept new applications because of the current problem.

8:09:30 AM

CHAIR DAVIS recalled the recent legislation passed by her committee which provided for the Department of Revenue to back ACPE bonds; she asked Ms. Barrans exactly what this piece of legislation will do for them for the next school term.

8:09:55 AM

DIANE BARRANS, Executive Director, Alaska Commission on Postsecondary Education, responded that student loans have been subject to the same kind of skepticism and concern that is related to subprime mortgages, a residual effect on any asset that doesn't have a particular credit standard applied to it. In the past, the commission has been able to use its loans to back bonds with the modest credit criteria that have been in place since 1998, but ACPE has been advised by potential bank partners as well as rating agencies and insurers that the current loans will not be considered adequate collateral. One bank that they had hoped to partner with indicated that, at best, they would value these loans at 50 percent of their face value.

With respect to Senator Davis's question regarding the other bill that was before the committee, the commission needs to do a variety of things this year in order to finance loans for the 2009/10 school year. There currently is not a market in which they can issue bonds, regardless of the quality of their collateral; the price of issuing bonds at this time would not allow them to make low-cost loans. So the bill the committee heard earlier is to allow interim financial support from the State of Alaska working in partnership with the Student Loan Corporation. Even with that support, when they issue bonds in the future, while the federally guaranteed student loans can be used as collateral because of the federal guaranty, these alternative state loans could not be effectively used because of the lack of credit quality.

[8:12:37 AM](#)

CHAIR DAVIS asked if the rate on the Family Education Loans would go up to 8.25 percent immediately.

MS. BARRANS answered no; they would expect it to be set at the same rate they charge on the state alternative loans, which is 7.3 percent. With that rate they offer some credit and benefits that can drive the rate down lower, depending on borrower choices. For example, if students attend school in Alaska they get a discount; if they are in repayment and use an automated payment method they can also get a rate reduction.

[8:13:39 AM](#)

SENATOR HUGGINS said, while the committee is supportive of the educational loan program, there is some risk to the state in the present environment. He asked if that is an accurate statement.

MS. BARRANS asked if he means there is some risk based on the changes represented by this bill.

SENATOR HUGGINS clarified that he is referring to the fact that the state has agreed to back the loans.

MS. BARRANS agreed that under the legislation the committee heard previously, the state will bear some risk.

SENATOR HUGGINS observed that the state is providing financial backing for a number of things, and that could present a frightening scenario at some point in time if things don't turn around.

[8:14:36 AM](#)

MS. KOESTER thanked the committee for taking up this legislation. She said that Representative Seaton is concerned about the state placing any limitations on borrowers, but that this is a needed change to lending for students in Alaska.

[8:15:08 AM](#)

CHAIR DAVIS closed public testimony on HB 109.

SENATOR OLSON moved to report HB 109 from committee with individual recommendations and attached fiscal note(s). There being no objection, the motion carried.

[8:16:10 AM](#)

There being no further business to come before the committee,
Vice Chair Davis adjourned the meeting at 8:16 AM.