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# HOUSE COMMITTEE REPORT

(9)

Date Referred: February 16, 1994

FURTHER REFERRALS:

Labor & Commerce  
Finance

Date of Committee Action: 3/8/94

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered:

HB 506

HOUSE BILL NO. 506

STUDENT LOAN PROGRAM

"An Act relating to student loans; to sanctions for defaulting on a student loan, including denial of a state occupational license or disbursement of state money; and providing for an effective date."

RECOMMENDATIONS:  
be replaced with CS HB 506 HESS  the same title  
 a new title

have attached amer. 'ments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact CED

fiscal note(s) \_\_\_\_\_

zero fiscal note Postsecondary

zero fiscal note(s) \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>		<i>[Signature]</i>		X	
<i>[Signature]</i>	✓	<i>[Signature]</i>		✓	
<i>[Signature]</i>	✓	<i>[Signature]</i>			X
<i>[Signature]</i>	✓	<i>[Signature]</i>		X	
		<i>[Signature]</i>			X
		<i>[Signature]</i>		✓	

*[Signature]*  
CHAIRMAN'S SIGNATURE  
*[Signature]*

# FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. HB 506

Revision Date: \_\_\_\_\_ Dept Affected: Alaska Commission on Postsecondary Education  
 Title: An Act relating to student loans; to sanctions BRU: Alaska Student Loan Corporation.  
 for defaulting on a student loan, including denial of a state . . . . Component: Student Loan Program  
 Sponsor: \_\_\_\_\_  
 Requestor: \_\_\_\_\_ COMPONENT SERIAL NO. 218

**Expenditures/Revenues**

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
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<b>CHANGES IN REVENUES ( 0.0 )</b>	0.0	0.0	0.0	0.0	0.0	0.0
------------------------------------	-----	-----	-----	-----	-----	-----

**FUND SOURCE**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY94) costs (\$): 0.0

**POSITIONS**

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS (Attach a separate page if necessary): Fiscal analysis of this bill is presented by bill section:

Section 1: this section directs Alaska Department of Commerce and Economic Development to withhold renewal of professional licenses upon notice from ACPE that a person has defaulted on an Alaskan Student Loan. Estimated cost to the ACPE to provide such notice:

FY95	FY96	FY97	FY98	FY99	FY00
0.0	0.0	0.0	0.0	0.0	0.0

(continued on reverse)

Prepared by: Douglas S. Hanon Phone Number: (907) 465-6757  
 Division: Alaska Commission on Postsecondary Education Date: 2/16/94  
 Approved by Commissioner: Joe L. McCormick, Executive Director Date: 2/16/94  
 Agency: Alaska Commission on Postsecondary Education

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HB 506 Analysis (continued):

**Section 2:** this section creates a variable interest rate that is tied to the cost of money.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 3:** this section amends the provisions defining the actions of the Commission if a loan is in default.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 4:** this section provides for loan consolidation.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 5:** this section changes eligibility for ASL if applicant has had a previous loan discharged through bankruptcy proceedings.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 6:** this section provides for assignment of wages on a defaulted loan.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 7 and Section 8:** these sections amend the requirements for family education loans.

NO Fiscal Impact. Zero (0) fiscal note.

**Section 9 and Section 10:** these sections direct the Department of Administration to withhold payments on person who have a defaulted Alaska Student Loan. See Section 1.

NO Fiscal Impact. Zero (0) fiscal note.

These changes to the loan servicing will create significant opportunities for operational efficiencies and, more importantly, enhance the collection efforts of the program and increase the flow of student loan receipts. The following estimate of increased receipts as a result of these changes is based upon the following assumptions: 1) collection on defaulted loans increases 6 percent per year as a result of the assignment of wages, administrations withholding of payments, and Commerce's withhold renewal of professional licenses; 2) loan consolidation will reduce the number of loans going into default by 15 percent; and 3) loan consolidation will improve collection (accounts not going into default) by 2 percent per year.

Estimated increased revenues to the Corporation:

	in thousands					
	FY95	FY96	FY97	FY98	FY99	FY00
1) Increased collection vendor	250.0	259.1	282.8	308.8	337.2	368.1
2) loan consolidation	<u>1,200.0</u>	<u>1,236.0</u>	<u>1,298.5</u>	<u>1,364.2</u>	<u>1,433.3</u>	<u>1,505.8</u>
Total	1,450.0	1,495.1	1,581.3	1,673.0	1,770.5	1,873.9

# FISCAL NOTE

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

**BILL NO. HB 506**

Revision Date: 3/3/94  
 Title: An Act relating to student loans;...including  
denial of a state occupational license....  
 Sponsor: House HES  
 Requestor: House HES

Department: Commerce and Economic Dev.  
 BRU: Occupational Licensing  
 Component: Operations  
 COMPONENT SERIAL NO. 1844

Expenditures/Revenues		(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	
PERSONAL SERVICES	42.7	42.7	42.7	42.7	42.7	42.7	
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0	
CONTRACTUAL	48.0	48.0	48.0	48.0	48.0	48.0	
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0	
EQUIPMENT	8.0						
LAND & STRUCTURES							
GRANTS, CLAIMS							
MISCELLANEOUS							
<b>TOTAL OPERATING</b>	<b>99.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	

CAPITAL EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002 Federal Receipts							
1003 GF Match							
1004 General Fund							
1005 GF/Program Receipts							
1006 GF/MHTIA							
Other (Inter-Agency Receipts)	99.7	91.7	91.7	91.7	91.7	91.7	
<b>TOTAL</b>	<b>99.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	<b>91.7</b>	

Estimate of any current year (FY 94) cost: \$ None

POSITIONS		FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
FULL-TIME		1.0	1.0	0	1.0	1.0	1.0
PART-TIME		0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY		0.0	0.0	0.0	0.0	0.0	0.0

**ANALYSIS:** (Attach a separate page if necessary)  
 HB 506 amends AS 08.02 by adding a provision that would prohibit the renewal of an occupational or business license if the licensee has failed to comply with repayment provisions of the student loan program by the Alaska Commission on Postsecondary Education. Based on approximately 180 occupational licenses and 500 business licenses which may fall within the default category, the division anticipates approximately 90 cases may result in hearings for refusal to issue a renewed license based on this amendment. (Continued on attached page)

Prepared by: Jennifer Strickler, Administrative Officer Phone: 465-2144  
 Division: Occupational Licensing Date: 3/3/94  
 Approved by Commissioner: Paul Fuhs Date: 3/3/94  
 Agency: Commerce and Economic Development

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## CONTINUATION of FISCAL NOTE ANALYSIS FOR BILL/RESOLUTION NO. HB 506

Under the provisions of HB 506, the division anticipates receiving a list from the Alaska Commission on Postsecondary Education that will identify individuals within their respective license program who are in default of student loan repayment provisions. Based on this list, the division is required not to renew the license of the individual until notice is received from the Alaska Commission on Postsecondary Education that the individual is no longer in default.

Based on information received from the Alaska Commission on Postsecondary Education, there were approximately 1,800 occupational licenses which matched their lists of student loan recipients, of which approximately 10% (180 licensees) were possibly in default. In addition, there are 66,000 current business licenses of which approximately two-thirds are held by sole proprietors, and possibly 500 of those licensees could be in default of the student loan repayment provisions. Of these statistics, the division anticipates that at least 90 cases will result in hearing over refusal by the division to renew a license. These hearings will undoubtedly result in time and cost to the division. To effectively administer the division's responsibilities under HB 506, the division will require funding for costs identified in this fiscal note.

### PERSONAL SERVICES

1 - Paralegal I position, Range 13, PFT, located in Juneau \$42.7

This position is anticipated to prepare the division's case against the licensee who has requested a hearing. This position will coordinate with the State's AG's, work with the hearing examiners to schedule the hearing, take the hearing examiners findings to the licensing board if applicable, monitor licensees to ensure practitioners do not continue to practice after a license has been refused renewal, and respond to public inquiries regarding the case. This position will serve as liaison between this division and the Alaska Commission on Postsecondary Education to administer and seek compliance of HB 506.

### CONTRACTUAL SERVICES

Hearing Costs \$45.0

Approximately 90 cases are anticipated to result in hearings at a minimum cost of \$500.00 per case. Depending on the complexity of the case, the estimated cost of \$500.00 per case may be extremely low.

**CONTINUATION of FISCAL NOTE ANALYSIS  
FOR BILL/RESOLUTION NO. HB 506**

CONTRACTUAL SERVICES. continued

Other Contractual Costs 3.0

Computer configuration management (to compare database lists), communication costs, advertising hearings and licensing actions, etc.

COMMODITIES

Daily operating supplies 1.0

EQUIPMENT (one-time costs) 8.0

This funding will provide one-time equipment and office set-up costs for the one position.

**TOTAL: 99.7**

FUND SOURCE: The division anticipates funding to be provided via RSA (inter-agency receipts) from the Alaska Commission on Postsecondary Education. Unlike the general fund program receipts funding from licensing fees, the requirement in this bill does not relate to regulation "of the profession", and therefore, would not be acceptable to increase licensing fees to fund activities under HB 506.

The division anticipates RSA funding for this program to be adjusted to actual on a yearly basis after the first year of operation.

If the business licensing program is to be excluded from the requirements of HB 506, the number of anticipated cases to result in hearings would be reduced. In addition, the need for a full-time position would also be reduced, possibly to a half-time position.



# Alaska State Legislature

House of Representatives  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

DATE: 3/8/94

PLACE: Capitol Room 106

SUBJECT OF MEETING:  
 \* HB 466: AHFC BANKS FOR UNIV OF AK USES  
 \* HB 234: UNIV. OF AK ENDOWMENT TRUST FUNDS  
 - BILLS HELD OVER -  
 HB 506: STUDENT LOAN PROGRAM  
 \* INDICATES FIRST PUBLIC HEARING

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Larson Deir	UAF					<input checked="" type="radio"/> Y <input type="radio"/> N	234
Brian Rogers	UA	207D Buttrick UA Fairbanks AK	99775		4747448	<input checked="" type="radio"/> Y <input type="radio"/> N	HB 466 HB 234
Chip Wagener	UAF Alumi	3294 Pioneer Ave Seward AK	99801		586-1867	<input checked="" type="radio"/> Y <input type="radio"/> N	H.B. 466
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	



**Alaska State Legislature**  
**House of Representatives**  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

SUBJECT OF MEETING:

DATE:

PLACE: Capitol Room 106

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Nick Abramczyk	UAF					<input checked="" type="radio"/> Y <input type="radio"/> N	HB 466
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	

H/HESS ROLL CALL FORM

BILL HB 4160 DATE 3/8/94  
 TAPE 94-510 NUMBER 043  
 SUBJECT OF VOTE TO MOVE HB 4160 OUT OF COMMITTEE

MEMBER	YEA	NAY	ABS
Rep. Cynthia Toohey	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Con Bunde	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Gary Davis	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Al Vezey	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Pete Kott	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Harley Olberg	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Bettye Davis	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Irene Nicholia	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Tom Brice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TOTAL	<u>7</u>	<u>1</u>	<u>    </u>

+++++

BILL HB 734 DATE 3/8/94  
 TAPE 94-403 NUMBER 1682  
 SUBJECT OF VOTE TO PASS HB 734 OUT OF COMMITTEE WITH  
INDIVIDUAL RECOMMENDATIONS

MEMBER	YEA	NAY	ABS
Rep. Con Bunde	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Gary Davis	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Al Vezey	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rep. Pete Kott	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Harley Olberg	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Bettye Davis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Irene Nicholia	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Tom Brice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rep. Cynthia Toohey	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TOTAL	<u>5</u>	<u>1</u>	<u>    </u>



# Alaska State Legislature

House of Representatives  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

DATE: 3/7/94

PLACE: Capitol Room 106

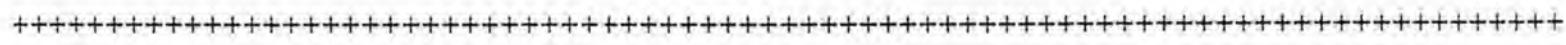
SUBJECT OF MEETING:  
 \* HB 478: EMT<sup>2</sup> AUTHORITY TO PRONOUNCE DEATH  
 \* HB 554: POST PONE D  
 HB 516: STUDENT LOAN PROGRAM  
 \* INDICATES FIRST PUBLIC HEARING

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
✓ MARK JOHNSON	DHSS, EMS	P.O. Box 110616 Juneau	99811-0616	463-5827	465-3027	(Y) N	HB 478
✓ PRIGE ADAMS	Coalition of Student Leaders	6-B Lifesaver Drive Sitka	99835	966-2244	747-7734	(Y) N	HB 506
✓ DON WAIVIE	DEPT. OF ADMIN. DIV. OF FINANCE	Box 110204 Juneau, AK 99811	99811	586-3608	465-3435	(Y) N	HB 506
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	

H/HESS ROLL CALL FORM

BILL HB 478 DATE 3/7/94  
 TAPE 94-38B NUMBER 283  
 SUBJECT OF VOTE TO PASS HB ~~487~~ 478 AS AMENDED  
OUT OF COMMITTEE WITH ACCOMPANYING FISCAL NOTE

MEMBER	YEA	NAY	ABS
Rep. Cynthia Toohy	✓	—	—
Rep. Con Bunde	✓	—	—
Rep. Gary Davis	✓	—	—
Rep. Al Vezey	✓	—	—
Rep. Pete Kott	✓	—	—
Rep. Harley Olberg	✓	—	—
Rep. Bettye Davis	✓	—	—
Rep. Irene Nicholia	✓	—	—
Rep. Tom Brice	✓	—	—
TOTAL	<u>8</u>	<u>0</u>	—



BILL HB 500 DATE 3/7/94  
 TAPE 94-38B NUMBER 599  
 SUBJECT OF VOTE AMENDMENT #1, TO ADOPT

MEMBER	YEA	NAY	ABS
Rep. Con Bunde	—	✓	—
Rep. Gary Davis	—	✓	—
Rep. Al Vezey	—	✓	—
Rep. Pete Kott	—	✓	—
Rep. Harley Olberg	—	—	—
Rep. Bettye Davis	✓	—	—
Rep. Irene Nicholia	✓	—	—
Rep. Tom Brice	✓	—	—
Rep. Cynthia Toohy	—	✓	—
TOTAL	<u>3</u>	<u>5</u>	—

Comments on HB506  
Prepared by  
Department of Administration - Division of Finance  
March 7, 1994

Three sections of the bill affect the Division of Finance; Section 6 which relates to assignment of wages and Sections 9 and 10 which relate to withholding of disbursements made by the Department of Administration.

Section 6:

We would want to point out the potential for problems associated with student loan repayment taking priority over garnishments already in effect for an individual. Employers typically have a priority scheme for processing multiple garnishments and levies with child support taking top priority in all cases. While we cannot speak for all employers, the state's practice is to process garnishments and levies in the order in which received. Subsection (c) would alter that process by requiring the state to cease withholding for garnishments already in place and instead begin withholding for student loan repayment. Garnishments in place are normally banking institutions or other third parties with a judgement against an employee.

Sections 9 & 10:

We believe there are three possible approaches to implementing the intent of these sections, each with a different impact.

1. As written, the bill charges the Department of Administration with responsibility for performing the computer file matches and subsequent research to make absolutely certain payments are withheld from the right person.
2. Language could be included in Title 14 that has the same effect as the current language but place responsibility for research and identification of the right person on Post Secondary Education. They would then notify the Department of Administration of specific individuals for whom payments are to be withheld.
3. Under language already in Title 9, Post Secondary Education could get a court order to direct withholding of payments to a vendor.

Option 2 or 3 are the preferred option from the Department of Administration perspective. They do not create new work for which a fiscal note would be required. Option 1 creates new work in the department and would require a fiscal note.

LTN1100-R01  
03/14/94

LEGISLATIVE TELECONFERENCE NETWORK

PAGE 01  
11:22:34

TCN: 40443

DATE & TIME: 03/07/94 15:00 TO 16:00 STATUS:7 STATS. IN

\*\*\*\* ORDER SUMMARY \*\*\*\*

SPONSOR: HHS HOUSE HEALTH, EDUCATION AND SOCIAL SERV. CHAIRS: TOOHEY  
PURPOSE: PUB PUBLIC HEARING LEGISLATIVE BUNDE  
CONTACT: LYNNE SMITH TEL#: (907)465-6825  
CHAIRING SITE: JUNEAU CAPITOL CAP106

SPONSOR REMARKS(PUB): TESTIMONY:Y ALLOWED 3 MINUTE LIMIT  
TESTIMONY WILL BE TAKEN WITH A 3 MINUTE LIMIT  
TCN REQUESTED ON 03/07/94 AND HAS 6 UPDATES

\*\*\*\* AGENDA \*\*\*\*

1 HR 478 EMT'S AUTHORITY TO PRONOUNCE DEATH

\*\*\*\* PARTICIPATING LIOS \*\*\*\*

ANC ANCHORAGE	716 W 4TH, #200	LOCATION STAFF
BAR BARROW	COURTHOUSE #305	LOCATION STAFF
BET BETHEL	301 WILLOW ST.	LOCATION STAFF
COR CORDOVA	705 2ND STREET	LOCATION STAFF
DJT DELTA JCT.	JARVIS CTR. #210	LOCATION STAFF
FBX FAIRBANKS	119 N CUSHMAN ST	LOCATION STAFF
GLN GLENNALLEN	COMMUNITY LIB.	LOCATION STAFF
* JNU JUNEAU	CAPITOL CAP106	LOCATION STAFF
KTN KETCHIKAN	352 FRONT STREET	LOCATION STAFF
SOL KEN/SOL	34824 KALIFONSKY	LOCATION STAFF

\*\*\*\* VOLUNTEER & OFFNET SITES \*\*\*\*

ZZZ OF1 OFFNET 1	MCGRATH	BRENT URSEL	(907)524-3299
ZZZ OF2 OFFNET 2	FT. YUKON	GIG GILMORE	(907)662-2462
ZZZ OF3 OFFNET 3	GALENA	JANET NORTH	(907)656-1381

PARTICIPANTS IN: ANCHORAGE ANC

1 RONNI SULLIVAN S. REGION EMS TSFY, HR 478  
6130 TUTTLE PLACE ANCHORAGE AK 99507 (907)562-6449

PARTICIPANTS IN: BARROW BAR

1 MR. DAVID POTASHNICK NORTHSLOPE FIRE 0 TSFY, HR 478  
PO BOX 69 BARROW AK 99723 (907)852-0307

PARTICIPANTS IN: BETHEL BET

1 GEORGE YOUNG CITY OF BETHEL OBSV, HR 478  
PO BOX 388 BETHEL AK 99589 (907)547-2411

23	TO	OBSERVE		OBSV. ALL ITEMS
24	TO	OBSERVE		OBSV. ALL ITEMS
25	RFP	PETE	KOTT	TSFY. HB 478
				AK (907)660-6000

PARTICIPANTS IN:KETCHIKAN KTN  
 1 MR. BILL KRIEGSMAN KTN. FIRE DEPT. TSFY. HB 478  
 319 MAIN STREET KETCHIKAN AK 99901 (907)225-9616

PARTICIPANTS IN:KEN/SOL SOL  
 1 MR. STEVE O'CONNOR CEN EMRGY SERV TSFY. HB 478  
 231 S. BINKLEY ST SOLDOTNA AK 99669 (907)262-4792  
 2 CHIEF JASON ELSON KEN FIRE DEPT TSFY. HB 478

LTN1100-R01 LEGISLATIVE TELECONFERENCE NETWORK PAGE 03  
 03/14/94 11:22:34  
 TON: 40443 DATE & TIME: 03/07/94 15:00 TO 16:00 STATUS:7 STATS. IN

PARTICIPANTS IN:KEN/SOL SOL  
 3 MR. 105 S. WILLOW KENAI AK 99611 (907)283-7666  
 E. GENE MERRILL SOL HIGH SCHOOL OBSV. HB 478  
 PO BOX 2003 SOLDOTNA AK 99669 (907)262-8321  
 4 MR. JOSH BEVEZIN SOL HIGH SCHOOL OBSV. HB 478  
 PO BOX 2014 SOLDOTNA AK 99669 (907)262-6293  
 5 MS. JENNIFER WAGNER SOL HIGH SCHOOL OBSV. HB 478  
 PO BOX 1356 SOLDOTNA AK 99669 (907)262-2563  
 6 MS. JOSLYN TINKER SOL HIGH SCHOOL OBSV. HB 478  
 373 KATMAI SOLDOTNA AK 99669 (907)262-5941  
 7 MS. LISA PARKER SOL HIGH SCHOOL OBSV. HB 478  
 HC1 BOX 1418 SOLDOTNA AK 99669 (907)262-7677  
 8 MS. SARAH COOPER SOL HIGH SCHOOL OBSV. HB 478  
 161 TRUMPTER AVE SOLDOTNA AK 99669 (907)262-3151

PARTICIPANTS IN:OFFNET 1 ZZZ OF1  
 1 MR BRENT URSEL TSFY. HB 478  
 MCGRATH AK (907)524-3299

PARTICIPANTS IN:OFFNET 2 ZZZ OF2  
 1 MR GIG GILMORE TSFY. HB 478  
 FT. YUKON AK (907)662-2462

PARTICIPANTS IN:OFFNET 3 ZZZ OF3  
 1 MS JANET NORTH TSFY. HB 478  
 GALENA AK (907)656-1391  
 2 TO TESTIFY TSFY. ALL ITEMS



Comments on HB506  
Prepared by  
Department of Administration - Division of Finance  
March 7, 1994

Three sections of the bill affect the Division of Finance; Section 6 which relates to assignment of wages and Sections 9 and 10 which relate to withholding of disbursements made by the Department of Administration.

Section 6:

We would want to point out the potential for problems associated with student loan repayment taking priority over garnishments already in effect for an individual. Employers typically have a priority scheme for processing multiple garnishments and levies with child support taking top priority in all cases. While we cannot speak for all employers, the state's practice is to process garnishments and levies in the order in which received. Subsection (c) would alter that process by requiring the state to cease withholding for garnishments already in place and instead begin withholding for student loan repayment. Garnishments in place are normally banking institutions or other third parties with a judgement against an employee.

Sections 9 & 10:

We believe there are three possible approaches to implementing the intent of these sections, each with a different impact.

1. As written, the bill charges the Department of Administration with responsibility for performing the computer file matches and subsequent research to make absolutely certain payments are withheld from the right person.
2. Language could be included in Title 14 that has the same effect as the current language but place responsibility for research and identification of the right person on Post Secondary Education. They would then notify the Department of Administration of specific individuals for whom payments are to be withheld.
3. Under language already in Title 9, Post Secondary Education could get a court order to direct withholding of payments to a vendor.

Option 2 or 3 are the preferred option from the Department of Administration perspective. They do not create new work for which a fiscal note would be required. Option 1 creates new work in the department and would require a fiscal note.

March 7, 1994

Alaska House of Representatives  
Health, Education and Social Services Committee

Co-Chairs Reps. Con Bunde and Cynthia Toohey:

I would like to submit written testimony pertinent to your consideration today of HB 506, Student Loan Reforms. I am testifying on my own behalf and on behalf of the Alaska State Chamber of Commerce, which stands in support of the proposed reforms after adopting a resolution to that effect at its October board meeting in Anchorage.

The provisions of HB 506 contain much-needed measures to help lower the default rate and to insure that borrowers in the program act responsibly as they progress into their careers after graduation.

Equally as importantly, the bill would set a floating rate, tied to the cost of funds and administration of the program, making future legislative revisions unnecessary as the bonds that provide money to lend vary in cost.

Having attended sessions of the statewide student group as a guest, while they considered this matter, I was impressed with the resolve of the students to support the anti-default measures. They recognized that, while it might be some of their heads on the block one day, the concept was an important one for the viability of the program and the sale of bonds in the private market.

Aside from general support of this bill, the one point I want to make is that continuation of a healthy Alaska Student Loan Program is an important public policy move for the state, to encourage retention of our youth as workers and business owners in a healthy Alaskan economy. The dollars lent in this program return, in large part, to Alaska as tuition and fees in both the UA system and at the private colleges in our state. It's a very positive way to inject outside dollars into the state's economy.

Thank you for taking the time to consider my testimony.

Steve Levinson, Managing Director/USA  
Alaska European Sales Co.  
Box 930  
Dillingham, Ak 99576

by Vezev

Amendment to HB 506

Page 5 Line 19. after court add " or  
until the employment of the obligee  
is terminated."

# STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

BOX 110505  
JUNEAU, ALASKA 99811-0505  
PHONE (907) 465-2962  
FAX (907) 586-4002

## SUGGESTED AMENDMENTS TO HB506

Restrict the impact of Section 1 to persons licensed for professional and/or occupational licenses only.

Provide the Department of Commerce and Economic Development with the authority to require that applicants for professional/occupational licenses disclose their Social Security Numbers to provide for tracking and eligibility determination information.

Amend Section 4, dealing with loan refinancing, so that the weighted average of the interest rates be rounded to the nearest tenth of a percent.

Amend Section 9, dealing with the withholding of State warrants, so that only disbursement of payments for good and services provided by an individual contractor would be withheld.

RE: Potential amendment to cap variable interest rate. If the committee seeks to amend the bill to include an eight percent cap, that the cap be placed on the **true interest rate and not the rate as subsidized by the state through interest deferment.**

RE: Questions regarding appeal/hearing processes. Commission statutes already provide for an appeal process and Commission has in place a hearing process that is used for borrowers who protest the garnishment of their Alaska Permanent Fund Dividend.

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE BRICE

TO: HB 506

Page 2, lines 6 - 14:

Delete all material and insert:

"(f) Except as provided in this section, interest on a loan made under AS 14.43.090 - 14.43.160 is equal to the interest rate (1) paid in each year on bonds issued by the Alaska Student Loan Corporation under AS 14.42.220; and (2) necessary to pay a percentage of the administrative cost of the student loan program that is represented by the loan; in determining a rate of interest under this paragraph, the commission shall use a method that ensures that the rate of interest is as low as possible without precluding the ability of the commission to administer loans made under AS 14.43.090 - 14.43.160. Interest on a loan described in this subsection may not exceed 15 percent a year."



# Alaska State Legislature

House of Representatives  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

DATE: 3/3/94

PLACE: Capitol Room 106

SUBJECT OF MEETING:  
 \* HB 506: STUDENT LOAN PROGRAM  
 \* HB 356: LIVING WILLS AND MEDICAL CARE DECISIONS  
 BILLS HELD OVER FROM PREVIOUS CALENDARS  
 \* HB 337: DRUG FREE RECREATION AND YOUTH CENTERS  
 \* HB 52: INCREASE IN FEDERAL MATCH FUNDING

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
MARK JOHNSON	DHSS, EMS	P.O. BOX 110616 Juneau	99811-0616	463-5807	465-3027	(Y) N	HB 356
Vona Hall	AARP PASEL	23590 640 ie rt hwy kno	99801	480-4089	780-4089	(Y) N	HB 356
Rupe Andrews	AARP	9416 Long Run, Juneau	99801		789-7722	Y (N)	HB 356
Kim Bunch	DHSS				465-3331	(Y) N	H. 51252
<del>Stacie Hon</del>						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	

LTN100-R01  
03/11/94

LEGISLATIVE TELECONFERENCE NETWORK

PAGE 01  
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TCN: 40411 DATE & TIME: 03/03/94 15:00 TO 17:00 STATUS:7 STATS. IN

\*\*\*\* ORDER SUMMARY \*\*\*\*

SPONSOR: HB'S HOUSE HEALTH, EDUCATION AND SOCIAL SERVI CHAIRS - TOOHEY  
PURPOSE: PUB PUBLIC HEARING LEGISLATIVE BUNDE  
CONTACT: LYNNE SMITH TEL#: (907)465-6825  
CHAIRING SITE: JUNEAU CAPITOL CAP106

SPONSOR REMARKS(PUB): TESTIMONY:Y ALLOWED 5 MINUTE LIMIT  
HB 356 WILL NOT BE THE FIRST BILL ON THE CALENDAR.  
TESTIMONY WILL BE TAKEN WITH A 5 MINUTE LIMIT.  
TCN REQUESTED ON 03/03/94 AND HAS 7 UPDATES

\*\*\*\* AGENDA \*\*\*\*

- 1 HB 356 LIVING WILLS AND MEDICAL CARE ORDERS
- 2 HB 506 STUDENT LOAN PROGRAM

\*\*\*\* PARTICIPATING LTOS \*\*\*\*

COR CORDOVA	705 2ND STREET	LOCATION STAFF
FBX FAIRBANKS	119 N CUSHMAN ST	LOCATION STAFF
HOM HOMER LTC	126 W PIONEER #4	LOCATION STAFF
* JNU JUNEAU	CAPITOL CAP106	LOCATION STAFF
MAT MATSU	145 E PARKS HWY.	LOCATION STAFF
PSG PETERSBURG	101 GJOA STREET	LOCATION STAFF
SEW SEWARD	2001 SEWARD HWY	LOCATION STAFF
SIT SITKA	210 LAKE STREET	LOCATION STAFF
SOL KEN/SOL	34824 KALIFONSKY	LOCATION STAFF

\*\*\*\* VOLUNTEER & OFFNET SITES \*\*\*\*

ZZZ OF1 OFFNET 1 FAIRBANKS CRAIG LEWIS (907)456-3978

PARTICIPANTS IN:FAIRBANKS FBX

1 MR.	BRIAN BRUBAKER	COAL.STUD.LEADER TCFY. HB 506
	PO BOX 84791	FAIRBANKS AK 99708 (907)474-9052
2 MR.	NICHOLAS ABRAMCZYK	ASUAF TCFY. HB 506
	PO BOX 99775	FAIRBANKS AK 99775 (907)474-5156

PARTICIPANTS IN:HOMER LTC HOM

1 MRS.	MILDRED MARTIN	OBSV. HB 356
	PO BOX 2652	HOMER AK 99603 (907)235-6652
2 MS.	BRENDA STEENBLOCK	SENIOR CITIZENS OBSV. HB 356
	3935 SVEDLUND ST	HOMER AK 99603 (907)235-7675

PARTICIPANTS IN:JUNEAU JNU

1	TO	OBSERVE	OBSV. ALL ITEMS
2	TO	OBSERVE	OBSV. ALL ITEMS
3	TO	OBSERVE	OBSV. ALL ITEMS
4	TO	OBSERVE	OBSV. ALL ITEMS
5	TO	OBSERVE	OBSV. ALL ITEMS
6	TO	OBSERVE	OBSV. ALL ITEMS
7	TO	OBSERVE	OBSV. ALL ITEMS
8	TO	OBSERVE	OBSV. ALL ITEMS
9	TO	TESTIFY	TSFY. ALL ITEMS
10	TO	TESTIFY	TSFY. ALL ITEMS
11	TO	TESTIFY	TSFY. ALL ITEMS

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03/11/94

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TCN: 40411 DATE & TIME: 03/03/94 15:00 TO 17:00 STATUS:Y STATS: IN

PARTICIPANTS IN: JUNEAU

JNU

13	TO	TESTIFY	TSFY. ALL ITEMS
14	TO	TESTIFY	TSFY. ALL ITEMS
15	TO	TESTIFY	TSFY. ALL ITEMS
16	TO	TESTIFY	TSFY. ALL ITEMS
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27	TO	TESTIFY	TSFY. ALL ITEMS
28	TO	TESTIFY	TSFY. ALL ITEMS

PARTICIPANTS IN: MAISU

NAT

1 MR	ERNEST	LINE	TSFY. HB 356
	2654 WHISPERING WOODS DR	WASILLA	AK 99645 (907)376-6709

PARTICIPANTS IN: PETERSBURG

PSG

1 MS	SANDY	TACKETT	PSG GEN HOSPITAL	TSFY. HB 356
	P.O. BOX 589		PETERSBURG	AK 99833 (907)772-4291
2 MRS.	FLORENCE	LEROY		OBSV. HB 356
	P.O. BOX 313		PETERSBURG	AK 99833 (907)772-3200

PARTICIPANTS IN: SEWARD

SEW

1 MS.	JULIE	RENWICK	WESLEY REHAB	TSFY. HB 356
	PO BOX 1066		SEWARD	AK 99664 (907)224-5241
2 MS.	BARBARA	BLACKWELL	R.N. WESLEY REHAB	OBSV. HB 356
	PO BOX 1541		SEWARD	AK 99664 (907)224-8613
3 MS.	JOAN	CLEMENS	R.N. WESLEY REHAB	OBSV. HB 356
	PO BOX 1345		SEWARD	AK 99664 (907)224-3674
4	MARJORIE	MCLEODDNEY	R.N. SEWARD HOSPITAL	OBSV. HB 356
	PO BOX 365		SEWARD	AK 99664 (907)224-5205
5	DOREEN	BOOTH	SEWARD HOSPITAL	OBSV. HB 356
	PO BOX 365		SEWARD	AK 99664 (907)224-5205
6	LINDA	SWENSON	RN SEWARD HOSPITAL	TSFY. HB 356
	PO BOX 365		SEWARD	AK 99664 (907)224-5205
7 MS.	ELLEN	O'BRIEN	SEWARD HOSPITAL	OBSV. HB 356
	PO BOX 365		SEWARD	AK 99664 (907)224-5205
8 MS.	DITA	DEBOER	RBHC	OBSV. HB 356
	PO BOX 1526		SEWARD	AK 99664 (907)224-3181
9 MR.	RICHARD	JONES (DIRECTOR)	SGH RBHC WR&CC	TSFY. HB 356
	PO BOX 361		SEWARD	AK 99664 (907)224-5241
10	DOROTHY	LOCKE	SPRING CREEK CC	OBSV. HB 356
	BOX 2109		SEWARD	AK 99664 (907)224-8200
11	ANN	WHITMORE-PAINTER	WRCC	OBSV. HB 356
	PO BOX 516		MOOSE PASS	AK 99631 (907)288-3143

PARTICIPANTS IN: SITKA

SIT

1	NANCY	WALTER	SEARCH	TSFY. HB 356
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LN: 100-001  
03/17/94

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PARTICIPANTS IN: SITKA

111

2	222 TONGASS	SITKA	AK 99835 (907)966-8413
	ANDREA PAIGE ADAMS	UAS/SITKA	TSEY, HB 306
	6-B LIFESAVER DRIVE	SITKA	AK 99835 (907)966-2244

PARTICIPANTS IN: KEN/SOL

SOL

1 MS.	LINDA KRISTENSEN	CPC-FORGETMENT	OROV, HB 356
	905 COOK AVE, STE. 8	KENAI	AK 99611 (907)283-7294

PARTICIPANTS IN: OFFNET 1

111 OF 1

1	CRAIG LEWIS	FAIRBANKS	TSEY, HB 356 AK (907)456-3478
---	-------------	-----------	----------------------------------

February 20, 1994

**University of Alaska**  
**Coalition of Student Leaders**  
**OFFICIAL POSITION**

*Regarding*

**Student Loan Reform**

The Coalition of Student Leaders of the University of Alaska accepts the recommendations of the Alaska Commission on Postsecondary Education as its official position, except for the following modifications:

1. That in the first recommendation, we believe that the interest rates for student loans should never exceed eight percent; and
2. That in recommendations four and five, provisions should be included so that debtors in default can make appeals for exceptions to these proposed measures.

**For further information, contact:**

**Scott Otterbacher, Student Regent & Coalition Spokesperson, 373-4628, Fax 373-7363;**  
**Brian Brubaker, Coordinator, 474-5214;**  
**or Pat Ivey, System Governance, 474-7323, Fax 474-5131**

# HB 506 - Amendment # 4

## Section 4 (b): proposed language change

(b) Notwithstanding AS14.43.120(f), if loans are consolidated under (a) of this section, the consolidated loan shall bear annual interest equal to the weighted average of the interest on the loans being consolidated, rounded to the nearest tenth of a percent.

**Rationale:** Currently, the bill reads "rounded to the nearest whole percent." Rounding up could mean the student pays a higher interest rate on the consolidated loan than he/she would on the loans separately; while rounding down would mean that the state loses interest due. By allowing interest rates on consolidated loans to be set in tenths of a percent, the losses to either the state or the student are minimized.

For example, if a student wishes to consolidate loans amounting to \$10,000, \$7,500 of which are at 8% and \$2,500 of which are at 5%, the weighted interest rate is 7.25%.

Under the existing language, the state would have to consolidate the loans at 7%, thereby losing .25% interest. Under the proposed language, the rate would be rounded to 7.3%.

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 506

Page 6, line 30, after "if":

Insert "the disbursement is due under terms of a written contract with that person and"

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

BOX 110505  
JUNEAU, ALASKA 99811-0505  
PHONE (907) 465-2962  
FAX (907) 586-4002

SUBJECT: AN ACT RELATING TO TERMS AND CONDITIONS OF THE ALASKA STUDENT  
LOAN PROGRAM

The following is a synopsis of the legislative recommendations of the Alaska Commission on Postsecondary Education as included in House Bill 506:

1) Variable Interest Rate. Recommend that AS 14.43.120 (f) be amended so that the annual rate of interest on Alaska Student Loans will be set each year by adding to the true interest rate for that year's tax exempt bonds an additional percentage designed to cover the administrative costs of the program. Included in the amendment should be language mandating that the Commission insure that the effective borrower interest rate be as low as possible without threatening their ability to properly service loans.

2) Restricted Loan Eligibility After a Write-off. Recommend that AS 14.43 be amended so that a loan applicant would be considered ineligible to receive a new Alaska Student Loan for no less than five (5) years subsequent to having any portion of a prior Alaska Student Loan discharged or written-off for any reason.

3) Wage Garnishment. Recommend that AS 14.43 be amended to include a section authorizing income withholding for borrowers in default on their Alaska Student Loan. The effect of this amendment would be that any judgment or court order regarding a defaulted borrower must contain an income withholding order.

4) Denial of State License Renewals. Recommend that AS 14.43 and AS 08.01 be amended so that borrowers in default on their Alaska Student Loans would be ineligible to renew an existing license to do business or practice an occupation in Alaska until the Department of Commerce is notified by the Commission that the applicant's loan account has been brought current.

5) Denial of State Warrants. Recommend that no State warrant shall be issued to a borrower who is in default on an Alaska Student Loan. Any and all warrants resulting from business done with the State would be withheld until the affected department is notified by the Commission that the applicant's loan account has been brought current.

6) Refinancing Alaska Student Loans. Recommend that AS 14.43 be amended so that the Commission could offer borrowers the option to collapse variable term loans into a single loan. The interest rate on the refinanced loan would be the weighted average of all loans included. A married couple may consolidate their individual loans if they agree to be held jointly and separately liable for repayment of the refinanced loan regardless of the amount of their previously individual debts, and in spite of any future change in their marital status. The loan is not dischargeable in the event that one spouse dies.

7) Expand Family Education Loan Eligibility. Recommend that AS 14.43.750 and AS 14.43.740 be amended to remove the dependency requirement which would allow one family member to borrow on behalf of another member of their immediate family, and to clarify that it is the borrower only who must meet the Alaska residency requirement.

## POSITION PAPER ON HOUSE BILL 506

Alaska Commission on Postsecondary Education  
March 3, 1994

House Bill 506--an act relating to student loans and to sanctions for defaulting on a student loan--has been introduced by the House Committee on Health, Education and Social Services at the request of the Alaska Commission on Postsecondary Education (ACPE). The legislation has been crafted to address several significant problems encountered in the administration of the Alaska Student Loan program: specifically, the need to protect an eroding capital base by increasing loan repayment and by lending at rates which reflect costs of capital.

This paper provides the context within which the bill should be considered as well as the rationale for each of the sections.

### BACKGROUND

The Alaska Student Loan Program (ASL) began in 1971 as a student assistance program supported by the state General Fund. The program grew out of a widely-expressed desire that the state's new oil wealth be used, in part, to increase educational opportunities for Alaska students. For the first decade and a half, the program was generously supported by general fund appropriations. However, as oil prices and state oil revenues declined, full state funding could no longer be assured and a separate state entity--the Alaska Student Loan Corporation--was established by the legislature to raise alternative financing in the form of tax-exempt bonding. Since the first bond sale in spring of 1988, the Corporation has raised more than \$250 million in private capital markets to support student loans.

Over its 20 plus years of existence, the ASL program has undergone numerous legislative changes:

- loan maximums have been raised from \$2,500 to \$5,500 for undergraduate study;
- loan interest rates have increased from 5% to 8%;
- the loan repayment period has been extended from 6 to 10 years; and
- forgiveness benefits for those borrowers returning to the state have gone from 40% to 50% and then to zero.

By and large, program changes from 1971 to 1986 were made to benefit students by providing easier access to larger amounts of postsecondary education aid. Although the program was originally created as a revolving loan fund, provisions such as forgiveness and interest subsidies while the student remained in school assured that the fund could not continue without infusions of state support. In 1986, forgiveness benefits were ended and interest subsidies were reduced in an attempt to cut back--but not eliminate--this drain on state resources.

With the advent of private funding through tax-exempt bonds, the ASL began to shift from a student-centered program to one responsible to bondholders. Loan conditions which resulted in losses to fund principle or to earned interest--such as forgiveness provisions and in-school interest subsidies--could be continued only with state general fund appropriations to replace losses. Although such appropriations did continue through FY92, the amount of the appropriation was never related to the losses incurred by mandated loan conditions. Today, the fund receives no state support. Thus, the student loan fund continues to expense forgiveness and interest subsidy benefits with no compensating revenue source.

Bad debts are a further drain on the capital base. The program has succeeded in reducing its default rates from the high levels of the mid-1980's; however, it continues to write off a portion of its portfolio as non-performing. In addition, some loans must be canceled because of death or disability of the borrower. The following table shows the annual and cumulative effect of the forgiveness and write off provisions since the program transitioned to bond funding.

Table 1  
Losses to the Alaska Student Loan Fund

Fiscal Year	Forgiveness	Loan write offs
FY88	\$5,612.5	\$500.0
FY89	\$6,050.6	\$800.0
FY90	\$6,598.2	\$5,001.0
FY91	\$8,801.4	\$6,426.3
FY92	\$7,894.8	\$6,753.0
FY93	\$7,675.9	\$8,454.8
<b>Total</b>	<b>\$42,633.4</b>	<b>\$27,935.1</b>

A further erosion of the fund occurs because the statutorily-set interest rate on loans (8% simple interest since FY87) has, until this current year, resulted in a gap between the effective rate on loans and the true cost of capital. For a typical college student who borrows for four years, the effective rate over all of the loans is 5.8% because interest is deferred while the student is in school. The following table displays the difference between the bond rates and the interest received on a four-year collegiate loan.

Table 2  
Difference Between Cost of Capital  
to Program and to Borrower

School Year	True Interest Rate on Bonds	Effective Interest Rate on 4-year Loan	Difference (Subsidy)
1988/89	8.4%	5.8%	-2.6%
1989/90	8.1%	5.8%	-2.3%
1990/91	7.3%	5.8%	-1.5%
1991/92	6.7%	5.8%	-0.9%
1992/93	6.0%	5.8%	-0.2%
1993/94	5.5%	5.8%	0.3%

At the present borrowing rate, effective interest just covers the cost of capital for the most recent bond sale; however, it does not allow the fund to recover any loan awarding and servicing costs. In earlier days, administrative costs were supported by general fund appropriations. Since FY88, however, these program costs have been taken from program receipts--that is, from repayments on prior loans.

A recent legislative audit of the Alaska Student Loan Program<sup>1</sup> recognizes the changed fiscal situation of the program and the strains that earlier legislation and state policy have placed on maintaining fund viability. The report recommends that the loan fund be secured. The proposed legislation seeks to follow that recommendation by recognizing the true cost of capital, accounting for reasonable administrative expenses and increasing penalties for non-repayment of loans.

<sup>1</sup> Division of Legislative Audit, *Alaska Student Loan Corporation Organizational and Operational Efficiency and Alternatives*, October 28, 1993 (Audit Control No. 05-4466-94). The findings were echoed by the Legislative Research Agency in *Privatizing the Alaska Student Loan Program*, a January 4, 1994 research report prepared at the request of Rep. Mark Hanley (Research Request 94.068)

## SECTIONAL ANALYSIS

**Section 1** prohibits the Department of Commerce and Economic Development from renewing an occupational or professional license if the licensee is in default on an Alaska student loan. ACPE must notify the Department of defaulting borrowers.

*Rationale:* Borrowers who have received state support for education or training leading to a occupational/professional license must honor their loan repayment obligations. The legislation allows the original license to be issued in order that the borrower may earn the income necessary to repay the loan. If repayment is not made in a consistent and timely manner, however, the borrower should not continue to benefit from the state's investment.

**Section 2** ties the interest rate on a student loan to 1) the cost of the private capital backing that loan and 2) a portion of the administrative expense of disbursing and servicing the loan. Under the legislation, the interest rate would be set annually by the Commission, by a method that "ensures that the rate of interest is as low as possible without precluding the ability of the commission to administer loans."

*Rationale:* The present interest rate of 8% bears no relationship to either the interest paid on bonds or the cost of running the loan program. Today's capital market provides a very advantageous rate to tax-exempt bond issuers. Savings from low rates should benefit students. By the same token, in times of higher rates, the costs must be passed on to the borrowers if the fund is to remain sound. And, in all cases, loan interest rates must include reasonable overhead costs. The legislation explicitly charges the commission to keep these overhead costs to minimum.

**Section 3** directs the Commission to notify the Departments of Administration and of Commerce and Economic Development when a borrower is in default.

*Rationale:* Since these two departments are charged with withholding benefits from defaulted borrowers, it is incumbent upon the Commission to provide timely notification of default status.

**Section 4** allows the Commission to consolidate a borrower's or a married couple's loans. Married borrowers must agree to be jointly and severally liable for repayment and the loan is not forgiven on the death of one of the borrowers.

*Rationale:* The existing loan portfolio is composed of loans of varying conditions and interest rates, as shown in the following table.

Table 3  
Loan Portfolio by Loan Conditions

Type of Loan	Percent of Portfolio
5% interest	27%
8% with no grace year interest	13%
8% with grace year interest	60%

Each loan is accounted for separately. Borrowers are often confused by the billing statement and by the apportionment of the monthly payment across the various loans. In some cases, a borrower may choose to pay off a higher interest loan more rapidly than a lower interest one. In order to split payment in such cases, staff must enter the payment manually. Approximately one and three-quarters FTE staff time is directed to manual posting of these payments each month. Because the loan consolidation provided in this bill is optional on the part of the borrower, not all of these arrangements will be eliminated. However, borrowers will be encouraged to take the option and a significant decrease in special payments is anticipated.

**Section 5** excludes from eligibility any borrower who has had a previous loan written off by the Commission within the previous five years.

*Rationale:* Currently, a borrower can have a student loan written off if the borrower is certified as 50% or more disabled by two doctors or if a loan has been discharged by a bankruptcy proceeding. Nothing in present statute prohibits a borrower from applying for and obtaining a new loan immediately. The proposed language would close this loop hole.

**Section 6** allows the courts to assign to the Commission a portion of a defaulter's wages.

*Rationale:* Wage assignment is a powerful tool for enforcing loan repayment. In many cases, the threat of withholding wages is sufficient to encourage repayment. Where an assignment has been made, the loan fund benefits from at least partial payments.

**Section 7** applies the one-year residency requirement for Family Education (FEL) to the borrower rather than the student. Current statutes require both the borrower and the student to meet the requirements.

*Rationale:* The Commission frequently encounters situations where a separated or divorced Alaskan resident parent wishes to borrow on behalf of a child for whom he/she does not have physical custody. In these cases, the parent with custody is often not a resident. The intent of the FEL program was to encourage parents to assist in funding a child's postsecondary education. FEL borrowers are generally very credit worthy and the default rate on these loans approaches zero. Therefore, it is in the best interests of the loan program to expand participation in this program to eligible Alaskans.

**Section 8** deletes the requirement that an FEL loan can be made only on the behalf of a child who has been claimed as a dependent for federal tax purposes.

*Rationale:* Many potential FEL participants wish to borrow for children who are no longer claimed as dependents but who still need assistance in pursuing postsecondary education goals. Additionally, some parents object to sharing federal tax information with the loan program. The proposed changes would further encourage family responsibility and would provide relatively secure assets for the loan program without violating the financial privacy of the borrower.

**Sections 9 and 10** prohibit the Department of Administration from disbursing state funds to persons who are in default on a student loan.

*Rationale:* Persons under contract to provide goods and services or who receive other remuneration from the state should be current on their obligations to the state. Together with wage assignment and the denial of license renewal, the threat of withholding payment puts borrowers on notice that the state takes repayment of student loans very seriously.

## CONCLUSION

The Commission supports HB 506 because it provides the tools for fiscally-responsible management of the Alaska Student Loan program. Without the provisions of this bill, the fund will continue to erode. With it will erode the higher education opportunities for the coming generations of Alaskan students.

February 20, 1994

**University of Alaska**  
**Coalition of Student Leaders**

**OFFICIAL POSITION**

*Regarding*

**Student Loan Reform**

The Coalition of Student Leaders of the University of Alaska accepts the recommendations of the Alaska Commission on Postsecondary Education as its official position, except for the following modifications:

1. That in the first recommendation, we believe that the interest rates for student loans should never exceed eight percent; and
2. That in recommendations four and five, provisions should be included so that debtors in default can make appeals for exceptions to these proposed measures.

**For further information, contact:**

Scott Otterbacher, Student Regent & Coalition Spokesperson, 373-4628, Fax 373-7363;  
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## STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

## ALASKA COMMISSION ON POSTSECONDARY EDUCATION

BOX 110505  
JUNEAU, ALASKA 99811-0505  
PHONE: (907) 465-2562MEMORANDUM

TO: MEMBERS OF THE COMMISSION

FROM: JOE L. MCCORMICK  
EXECUTIVE DIRECTOR *Joe L. McCormick*

SUBJECT: AN ACT RELATING TO TERMS AND CONDITIONS OF THE ALASKA STUDENT LOAN PROGRAM

DATE: FEBRUARY 8, 1994

The following is a synopsis of the legislative recommendations, resulting from this morning's work session teleconference. These recommendations will be formally forwarded to our legislative members, Senator Phillips and Representative Bunde, effective Thursday, February 10th, for submission to the legislative drafters.

- 1) Variable Interest Rate. Recommend that AS 14.43.120 (?) be amended so that the annual rate of interest on Alaska Student Loans will be set each year by adding to the true interest rate for that year's tax exempt bonds an additional percentage designed to cover the administrative costs of the program. Included in the amendment should be language mandating that the Commission insure that the effective borrower interest rate be as low as possible without threatening their ability to properly service loans.
- 2) Restricted Loan Eligibility After a Write-off. Recommend that AS 14.43 be amended so that a loan applicant would be considered ineligible to receive a new Alaska Student Loan for no less than five (5) years subsequent to having any portion of a prior Alaska Student Loan discharged or written-off for any reason.
- 3) Wage Garnishment. Recommend that AS 14.43 be amended to include a section authorizing income withholding for borrowers in default on their Alaska Student Loan. The effect of this amendment would be that any judgment or court order regarding a defaulted borrower must contain an income withholding order.
- 4) Denial of State License Renewals. Recommend that AS 14.43 and AS 08.01 be amended so that borrowers in default on their Alaska Student Loans would be ineligible to renew an existing license to do business or practice an occupation in Alaska until the Department of Commerce is notified by the Commission that the applicant's loan account has been brought current.
- 5) Denial of State Warrants. Recommend that no State warrant shall be issued to a borrower who is in default on an Alaska Student Loan. Any and all warrants resulting from business done with the State would be withheld until the affected department is notified by the Commission that the applicant's loan account has been brought current.
- 6) Refinancing Alaska Student Loans. Recommend that AS 14.43 be amended so that the Commission could offer borrowers the option to collapse variable term loans into a single loan. The interest rate on the refinanced loan would be the weighted average of all loans included. A married couple may consolidate their individual loans if they agree to be held jointly and separately liable for repayment of

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the refinanced loan regardless of the amount of their previously individual debts, and in spite of any future change in their marital status. The loan is not dischargeable in the event that one spouse dies.

7) Expand Family Education Loan Eligibility. Recommend that AS 14.43.750 and AS 14.43.740 be amended to remove the dependency requirement which would allow one family member to borrow on behalf of another member of their immediate family, and to clarify that it is the borrower only who must meet the Alaska residency requirement.

This will be the Commission's final review of these recommendations prior to transmittal to our legislative members. If you have any comments or concerns that must be dealt with prior to transmittal, contact me before noon tomorrow, Wednesday, February 9th, 1994.

Again, your attention and speedy responses during this process have been truly appreciated and I look forward to a successful legislative session. We should be proud of the steps we're taking to strengthen and secure this valuable state program.

cc: Alaska Student Loan Corporation

**Alaska University and College Student Leaders 1993-1994**

University of Alaska  
System Governance

Updated January 10, 1994

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