

HB

506

SFIN

FILE

DATE TURNED INTO OFFICE: 5-4-94

The Finance Committee considered CS FOR HOUSE BILL NO. 506(FIN) am

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

and recommends:

replace with _____ CS _____ (FINANCE) same title
 or adopt previous _____ CS _____ new title
 attaches amendment(s) technical
 title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
DOE-ACPE	5/2/94		99.7 opt. 1,408.3 rev.

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DOA	4/15/94	0	

Appropriation No Fiscal Note

DO PASS: Twin Kelly
Bob Morgan

OTHER RECOMMENDATIONS:
Steve King Do Not Pass

1. [Signature]
 Co-Chair: Signature/Recommendation

2. [Signature]
 Co-Chair: Signature/Recommendation

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CS HB 506 (FIN) am

Revision Date: 05 -02- 94
 Title: An Act relating to student loans;to sanctions
for defaulting on a student loan, including denial of a state . . .
 Sponsor: House HESS by Request
 Requestor: Senate FIN Committee

Dept Affected: Alaska Commission on Postsecondary Education
 BRU: Alaska Student Loan Corporation.
 Component: Student Loan Program

COMPONENT SERIAL NO. 218

Expenditures/Revenues (thousands)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	99.7	91.7	91.7	91.7	91.7	91.7
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	99.7	91.7	91.7	91.7	91.7	91.7

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGES IN REVENUES (1022)	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6
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FUND SOURCE

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	99.7	91.7	91.7	91.7	91.7	91.7
TOTAL	99.7	91.7	91.7	91.7	91.7	91.7

0.0

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

POSITIONS

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

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: Diane M. Barrans
 Division: Alaska Commission on Postsecondary Education

Phone Number: (907) 465-6743
 Date: 5/2/94

Approved by Commissioner: Joe L. McCormick, Executive Director
 Agency: Alaska Commission on Postsecondary Education

5/2/94

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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.

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 5 percent per year as a result of the assignment of wages and Commerce's withholding on 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	208.3	215.9	235.7	257.3	281.0	306.8
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	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6

Costs based on interagency RSA with Department of Commerce and Economic Development.

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

5
BI Bill Version: CSHB 506 (FIN) am
(S) Publish Date: 5-2-94

Revision Date: _____ Dept. Affected: Administration
 Title: "An Act relating to student loans" BRU: Finance
 Component: Finance
 Sponsor: (H) Hes
 Requestor: _____ COMPONENT SERIAL NO. 59

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY94) cost: none

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Don Wanie, Director Phone: 465-2240
 Division: Finance Date: _____
 Approved by Commissioner: Nancy Bear Usura Date: 4/15/94
 Agency: Administration

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(Rev. 10/93) PL 4/15/94

SENATE FINANCE COMMITTEE REPORT

DATE: 5/2/94

FURTHER:

DATE TURNED INTO OFFICE: 5-4-94

The Finance Committee considered CS FOR HOUSE BILL NO. 506(FIN) am

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

and recommends:

- replace with _____ CS _____ (FINANCE) same title
- or adopt previous _____ CS _____ new title
- attaches amendment(s) technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
DOE-ACPE	5/2/94		99.7 opt. 1,408.3 rev.

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DNA	4/15/94	0	

Appropriation No Fiscal Note

DO PASS:

Twin Kelly
[Signature]

OTHER RECOMMENDATIONS:

None This Do Not Pass

1. *[Signature]*
 Co-Chair: Signature/Recommendation

2. *[Signature]*
 Co-Chair: Signature/Recommendation

FISCAL NOTE

No. 6

Bill Version: CSHB 506 (FIA) 2m

(S) Publish Date: 5-2-94

**STATE OF ALASKA
1994 LEGISLATIVE SESSION**

Revision Date: <u>04-18-94</u>	Dept Affected: <u>Alaska Commission on Postsecondary Education</u>
Title: <u>An Act relating to student loans; to sanctions for defaulting on a student loan, including denial of a state . . .</u>	BRU: <u>Alaska Student Loan Corporation.</u>
Sponsor: <u>House HESS by Request</u>	Component: <u>Student Loan Program</u>
Requestor: <u>Senate HES Committee</u>	COMPONENT SERIAL NO. <u>218</u>

Expenditures/Revenues	(thousands)					
OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	99.7	91.7	91.7	91.7	91.7	91.7
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	99.7	91.7	91.7	91.7	91.7	91.7
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGES IN REVENUES (1022)	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6

FUND SOURCE						
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	99.7	91.7	91.7	91.7	91.7	91.7
TOTAL	99.7	91.7	91.7	91.7	91.7	91.7

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

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

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: <u>Diane M. Barrans</u>	Phone Number: <u>(907) 465-6743</u>
Division: <u>Alaska Commission on Postsecondary Education</u>	Date: <u>4/18/94</u>
Approved by Commissioner: <u>Joe L. McCormick, Executive Director</u>	Date: <u>4/18/94</u>
Agency: <u>Alaska Commission on Postsecondary Education</u>	

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FISCAL NOTE

No. 4

Bill Version: CSHB 506(FIN)

(H) Publish Date: 4/11/94

STATE OF ALASKA
1994 LEGISLATIVE SESSION

Revision Date: 04 - 04 - 94
 Title: An Act relating to student loans; to sanctions
for defaulting on a student loan, including denial of a state . . .
 Sponsor: _____
 Requestor: _____

Dept Affected: Alaska Commission on Postsecondary Education
 BRU: Alaska Student Loan Corporation.
 Component: Student Loan Program
 COMPONENT SERIAL NO. 218

Expenditures/Revenues

(thousands)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	157.2	111.4	111.4	111.4	111.4	111.4
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	157.2	111.4	111.4	111.4	111.4	111.4
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGES IN REVENUES (1022)	1,450.0	1,495.1	1,581.3	1,673.0	1,770.5	1,873.9

FUND SOURCE

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	157.2	111.4	111.4	111.4	111.4	111.4
TOTAL	157.2	111.4	111.4	111.4	111.4	111.4

Estimate of any current year (FY94) costs (\$): 15.1

POSITIONS

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

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)

COMMITTEE COPY

Prepared by: Douglas S. Hanon
 Division: Alaska Commission on Postsecondary Education
 Approved by Commissioner: Joe L. McCormick, Executive Director
 Agency: Alaska Commission on Postsecondary Education

Phone Number: (907) 465-6757
 Date: 4/04/94
 Date: 4/04/94

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FISCAL NOTE

No. 6

**STATE OF ALASKA
1994 LEGISLATIVE SESSION**

Bill Version: CSHB 506(FIN) 2m

(S) Publish Date: 5-2-94

Revision Date: <u>04-18-94</u>	Dept Aff'cted: <u>Alaska Commission on Postsecondary Education</u>
Title: <u>An Act relating to student loans; to sanctions for defaulting on a student loan, including denial of a state</u>	BRU: <u>Alaska Student Loan Corporation.</u>
Sponsor: <u>House HESS by Request</u>	Component: <u>Student Loan Program</u>
Requestor: <u>Senate HES Committee</u>	COMPONENT SERIAL NO. <u>218</u>

Expenditures/Revenues	(thousands)					
OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	99.7	91.7	91.7	91.7	91.7	91.7
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	99.7	91.7	91.7	91.7	91.7	91.7

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGES IN REVENUES (1022)	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6
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FUND SOURCE						
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	99.7	91.7	91.7	91.7	91.7	91.7
TOTAL	99.7	91.7	91.7	91.7	91.7	91.7

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

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

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: <u>Diane M. Barrans</u>	Phone Number: <u>(907) 465-6743</u>
Division: <u>Alaska Commission on Postsecondary Education</u>	Date: <u>4/18/94</u>
Approved by Commissioner: <u>Joe L. McCormick, Executive Director</u>	Date: <u>4/18/94</u>
Agency: <u>Alaska Commission on Postsecondary Education</u>	

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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.

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 5 percent per year as a result of the assignment of wages and Commerce's withholding on 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	208.3	215.9	235.7	257.3	281.0	306.8
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	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6

Costs based on interagency RSA with Department of Commerce and Economic Development.

FISCAL NOTE

No. 4

Bill Version: CSHB 506(FIN)

(H) Publish Date: 4/11/94

STATE OF ALASKA
1994 LEGISLATIVE SESSION

Revision Date: 04 - 04 - 94
 Title: An Act relating to student loans; to sanctions for defaulting on a student loan, including denial of a state . . .
 Sponsor: _____
 Requestor: _____

Dept Affected: Alaska Commission on Postsecondary Education
 BRU: Alaska Student Loan Corporation.
 Component: Student Loan Program
 COMPONENT SERIAL NO. 218

Expenditures/Revenues (thousands)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	157.2	111.4	111.4	111.4	111.4	111.4
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	157.2	111.4	111.4	111.4	111.4	111.4

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGES IN REVENUES (1022)	1,450.0	1,495.1	1,581.3	1,673.0	1,770.5	1,873.9
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FUND SOURCE

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	157.2	111.4	111.4	111.4	111.4	111.4
TOTAL	157.2	111.4	111.4	111.4	111.4	111.4

Estimate of any current year (FY94) costs (\$): 15.1

POSITIONS

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

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)

COMMITTEE COPY

Prepared by: Douglas S. Hanon
 Division: Alaska Commission on Postsecondary Education
 Approved by Commissioner: Joe L. McCormick, Executive Director
 Agency: Alaska Commission on Postsecondary Education

Phone Number: (907) 465-6737
 Date: 4/04/94
 Date: 4/04/94

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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

Costs based on interagency RSAs with Department of Administration and Department of Commerce and Economic Development.

House of Representatives

HB 506

MEMORANDUM

DATE: April 18, 1994

TO: Senator Drue Pearce
Senator Steve Frank
Chairman, Senate Finance Committee

FROM: Representative Con Bunde
Co-Chair House Health Education & Social Services Committee

RE: CSHB506 (FIN) "An Act relating to student loans; to sanctions for defaulting on a student loan, including denial of a state occupational license; and providing for an effective date."

This memo is a request for a Senate Finance Committee hearing for CSHB 506 (FIN).

HB 506 authorizes variable interest rates on student loans. The annual 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 (not to exceed 2.5%) designed to cover the administrative costs of the program.

Included in this proposed legislation is a section that would make Alaska Student Loan applicants ineligible to receive a new student loan for five years if any portion of a previous Alaska Student Loan has been discharged or written-off for any reason.

HB 506 authorizes income withholding for borrowers in default on their Alaska Student Loans. Any judgements or court order regarding a defaulted borrower must contain an income withholding order.

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. "Current" means the person in default has made arrangements in good faith to pay the amount owed.

This legislation will give borrowers the option to collapse variable term loans into a single loan. The interest rate on the loan would be the weighted average of all loans included in the consolidation. 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.

Finally, this bill expands the Family Education Loan Eligibility by removing the dependency requirement. This would allow one family member to borrow on behalf of another member of their immediate family. The removal of the dependency requirement will make it clear that it is the borrower "only" who must meet the Alaska residency requirement.

This legislation is necessary to protect the future of our Alaska State Student Loan program. I urge favorable consideration by the committee members.



House of Representatives

**SPONSOR STATEMENT
CSHB506 (FIN)**

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

HB 506 authorizes variable interest rates on student loans. The annual 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 (not to exceed 2.5%) designed to cover the administrative costs of the program.

Included in this proposed legislation is a section that would make Alaska Student Loan applicants ineligible to receive a new student loan for five years if any portion of a previous Alaska Student Loan has been discharged or written-off for any reason.

HB 506 authorizes income withholding for borrowers in default on their Alaska Student Loans. Any judgements or court orders regarding a defaulted borrower must contain an income withholding order.

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. "Current" means the person in default has made arrangements in good faith to pay the amount owed.

This legislation will give borrowers the option to consolidate variable term loans into a single loan. The interest rate on the loan would be the weighted average of all loans included in the consolidation. 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 previous 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.

Finally, this bill expands the Family Education Loan Eligibility by removing the dependency requirement. This would allow one family member to borrow on behalf of another member of their immediate family. The removal of the dependency requirement will make it clear that it is the borrower "only" who must meet the Alaska residency requirement.

This legislation is necessary to protect the future of our Alaska State Student Loan program. I urge favorable consideration by the committee members.

(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 amendments(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>		✓	

CHAIRMAN'S SIGNATURE

[Signature]

CS FOR HOUSE BILL NO. 506(FIN)

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

HB 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."

SPONSOR(S): HEALTH, EDUCATION AND SOCIAL SERVICES BY REQUEST

HB 506 Bill History

Jrn-Date	Page	Action
02/16/94	2416	(H) READ THE FIRST TIME - REFERRAL(S)
02/16/94	2416	(H) HES, L&C, FINANCE
03/11/94	2720	(H) HES RPT CS(HES) 3DP 4NR 2AM
03/11/94	2721	(H) DP: G.DAVIS, BUNDE, TOOHEY
03/11/94	2721	(H) NR: VEZEY, OLBERG, NICHOLIA, KOTT
03/11/94	2721	(H) AM: B.DAVIS, BRICE
03/11/94	2721	(H) -FISCAL NOTE (DCED) 3/11/94
03/11/94	2721	(H) -ZERO FISCAL NOTE (DOE) 3/11/94
03/28/94	2996	(H) L&C RPT CS(L&C) 5DP
03/28/94	2996	(H) DP: PORTER, SITTON, MULDER, GREEN, HUDSON
03/28/94	2996	(H) -FISCAL NOTE (ADM) 3/28/94
03/28/94	2996	(H) -PREVIOUS FISCAL NOTE (DCED) 3/11/94
03/28/94	2996	(H) -PREVIOUS ZERO FISCAL NOTE (DOE) 3/11/94
04/11/94	0000	(H) FIN RPT CS(FIN) NEW TITLE 3DP 5NR 1AM
04/11/94	0000	(H) DP: MACLEAN, LARSON, PARNELL
04/11/94	0000	(H) NR: HANLEY, GRUSSENDORF, HOFFMAN, BROWN
04/11/94	0000	(H) NR: THERRIAULT
04/11/94	0000	(H) AM: MARTIN
04/11/94	0000	(H) -FISCAL NOTE (DOE) 4/11/94
04/11/94	0000	(H) REFERRED TO RULES

HB 506 - HOUSE HES Committee Minutes
March 3, 1994

HB 506 - STUDENT LOAN PROGRAM

CHAIR BUNDE then brought HB 506 to the table and turned the gavel over to Rep. Toohey to preside over the remainder of the meeting.

CHAIR TOOHEY took a brief at-ease from 4:08 p.m. to 4:20 p.m.

Number 795

REP. BUNDE addressed HB 506. He stated that Joe McCormick would further address the bill.

REP. BRICE stated for the record that he presently has an active student loan, and indicated that there might be a conflict of

MR. MCCORMICK replied that it is based on the cost of money when bonds are issued to replace the capital of the loan fund. He said the interest rate from loans disbursed from the bond proceeds would be tied to the cost of the bond proceeds.

REP. OLBERG asked if the rate could be annually adjusted.

MR. MCCORMICK said it could be a possibility. He said the problem would be that a greater administrative burden would be put upon the entity that would administer the loan fund, because the interest rate would change from year to year.

REP. OLBERG said he felt that the software required for that process would not be a difficult transition. He then asked if teaching certificates would be included under denial of licensure.

MR. MCCORMICK answered that he had a friendly amendment to restrict the impact of Section 1 to only persons licensed for professional or occupational licenses only. He then stated that he was unsure if teaching certificates would fall under the provision.

REP. BUNDE stated that he currently sits on a committee that is rewriting the provisions for granting a teacher's license. He felt that a teaching certificate would fall under that section and he would encourage the amendment.

Number 121

REP. OLBERG agreed with the amendment.

REP. BUNDE maintained that there are many other student loan programs that offer a lower interest rate and that students should be encouraged to shop around.

REP. VEZEY asked what the average maturity date of a student loan is.

MR. MCCORMICK responded by saying the average student is in school 2-1/2 years with one year grace and a standard ten year repayment. He said that many students qualify for extended repayment plans of 15 years. He stated that the average is 12 to 13 years.

REP. VEZEY said, "paying on the loan or have the loan out."

MR. MCCORMICK said, "paying on the loan."

REP. VEZEY clarified that the average loan has a 15 year life.

MR. MCCORMICK added that there is no stated forgiveness on the loan, so it could be an outstanding balance for an indefinite amount of time.

Number 188

REP. OLBERG suggested that the term of the loan be tied to the source of the funds, and explained that if there are ten year bonds, there should be ten year term loans.

MR. MCCORMICK stated that the term of the loan is dealt with in the section pertaining to refinancing. He also said that in current statute there is a provision that allows up to 15 years if the student has an extremely high debt. He felt the terms of the loan will be much more flexible when there is a consolidation provision that would allow students to collapse various loans into one new promissory note at a new interest rate which would be tied to the bond issue.

REP. BUNDE stated that the current interest rate is 8%, but if all the interest free time that a student has is considered, it is actually closer to 5%. The loan was bonded at 6%, indicating a loss.

CHAIR TOOHEY said that forgiveness loans are dying out as the practice stopped in 1987.

REP. VEZEY suggested that the student loan program showed a positive cash flow.

MR. MCCORMICK agreed, but he indicated that when he used the term "actuarially sound," he was talking in terms of the total life of the loans and total life of the bonds, not just what the balance sheet reflects for one particular year.

REP. VEZEY asked if, at the current fixed rate of 8% with forgiveness periods and the cost of funds, is the program operating in the black?

MR. MCCORMICK said yes.

REP. BRICE asked Mr. McCormick what constitutes a defaulted loan. He also asked if he knew of the University of Alaska Coalition of Student Leaders (UACSL) and of their position on the bill.

CHAIR TOOHEY asked if Rep. Brice would hold his questions to allow for teleconference testimony.

Number 500

BRIAN BRUBAKER, Coordinator, University of Alaska Coalition of Student Leaders, testified via teleconference on HB 506. He stated that the coalition favors a cap to be put on the variable rate, as well as provisions for exceptions on a case by case basis. He also said that the withholding of licensure should also be dealt with on a case by case basis. He stated that the coalition has become involved as a result of past problems with the time frame that loans were being delivered in. He also said that the student loan program does need to move ahead to a more business like approach, citing that as being one reason they support the variable rate with

interest rate, said that they can't take advantage of low interest rates when they are available and not pay their fair share when they are higher. He further stated that Alaskan students are paying only 23% of the actual cost of their education.

Number 816 REP. BRICE asserted that the government's role is to help students along. He felt there should be a cap, especially if the prime rate does go up to 21% again. He felt the cap should be at 15% and explained that the state must make the loans attractive to students. He suggested an amendment to Section 2 that would establish a ceiling at 15%.

REP. BUNDE said that he sympathized with the student's plight, but indicated that there is a provision within the bill for refinancing.

Number 885

REP. BRICE asked if the provisions for refinancing were only for certain circumstances.

REP. BUNDE observed that if the cost of money went over 15%, money to operate the program would come out of general funds. He then reminded the committee that the "sympathy for running this program in the legislature under general funds is waning." He indicated that there are legislators that would like to eliminate or privatize the program.

MR. MCCORMICK asserted that there has been no general fund expenditures for the loan program since 1993.

Number 908

REP. BRICE asked under what circumstances can a person refinance, and what is the limit to the amount of times a person can refinance?

MR. MCCORMICK replied that there would be no limitations specified in the language of the bill. He said that typically when a student wants to refinance, there is a cash flow problem. The student would then collapse the loans into one, and the individual payment would be less than the total amount of payments of the individual loans. He further stated that the refinancing terms should not be dictated by the bill itself. He felt that the language was flexible enough as to have a viable refinancing structure. He asserted that there are appeal mechanisms in place that would be implemented when a student challenges the denial of a license.

MR. MCCORMICK made reference to a friendly amendment that would be submitted to Rep. Bunde at a later time. He suggested that the Department of Commerce would need the authority to require applicants for professional licenses to disclose their social security numbers so computer matches could be done between the two departments.

hearing of HB 506.

Seeing no further business before the committee, CHAIR TOOHEY ADJOURNED the meeting at 5:02 p.m.

HB 506 - HOUSE HES Committee Minutes
March 7, 1994

HB 506 - STUDENT LOAN PROGRAM

Number 348

JOE MCCORMICK, Executive Director, Alaska Commission on Postsecondary Education (ACPE), introduced himself and began his testimony on HB 506.

CHAIR TOOHEY indicated that she was turning the gavel over to Rep. Bunde. Rep. Bunde presided over the remainder of the meeting.

CHAIR BUNDE explained that there were two proposed amendments and indicated that amendment A.2 (8-LS1752/A.2), submitted by Rep. Brice, would be referred to as Amendment 1. He then asked Mr. McCormick how the amendment related to his suggested amendments.

Number 400

MR. MCCORMICK stated that the amendment would pertain to the variable interest rate that the ACPE has recommended. He said, in good conscience, he could not support the amendment with a 15% cap. He maintained that to put a cap on the variable rate would defeat the purpose of having a variable rate.

REP. BRICE made a motion to move Amendment 1.

REP. TOOHEY objected.

CHAIR BUNDE maintained that if a student wants to take advantage of low rates they "have to gamble on the high rates." He said he did not support the amendment.

REP. BRICE agreed with Chair Bunde and indicated that was the reason he suggested a cap at such a high rate. He felt a cap at 15% would reach a certain level of compromise. He said his concern was if rates go above 20% that students would not be able to afford to go to school.

Number 470

REP. VEZEY stated that the interest rate on a loan is not variable over the life of that loan, and the person knows that rate to be set for the life of the loan. He said if the cap is at 15% and the prime rate is 20%, the funds for the student loan program will be depleted quite rapidly.

friendly amendment to the bill as to allow for the kind of leverage needed prior to the disbursements of warrants. He said, "If I read this right, that says... the disbursement is due under terms of a written contract with that person... which would mean I would have to print in my promissory note that I had the authority to do this. I just don't feel that's necessary." He further stated that it is the psychology of the provision that is the focus. He said students will stop and think about putting a higher priority on their student loan payment. He stated that he is opposed to the amendment.

CHAIR BUNDE asked if there was anyone present to speak in favor of the amendment. He then indicated that the amendment came from the ACPE.

MR. MCCORMICK said he offered a friendly amendment to amend Section 9, which would authorize the Department of Administration to withhold warrants from contractors. He was unsure if the amendment would accomplish that. He indicated that page 6, line 30, was under Section 10.

Number 716

CHAIR BUNDE asked Lynne Smith where the amendment originated from. LYNNE SMITH, Committee Aid, House HESS Committee, explained that the amendment came from Dianne Behrends from the ACPE.

CHAIR BUNDE stated that he withdrew his motion to adopt the amendment. He said if the amendment is needed, it could be addressed in a future committee. He then asked for further questions or testimony.

Number 741

PAIGE ADAMS, Vice-President, University of Alaska Southeast Student Council, Sitka, testified in Juneau in support of HB 506. She stated that she did not think the role of the ACPE to be one of a financial advisor to students. She felt that students are old enough to figure that out for themselves. She asserted that if the interest rate was to remain at 8%, the availability of loans would decrease for future students. She said, personally, she did not want to pay higher interest rates, but she felt that any loan is better than no loan.

Number 780

REP. BRICE, as the only legislator on the committee with an outstanding loan, related how the interest rates just continue to stack up. He said he hoped Ms. Adams will have a job a year after she graduates to make loan payments.

MS. ADAMS said that her permanent fund dividend is paying for her schooling. She said after four hours of debate, the council decided that going with a variable rate would ensure the program's

whereby if the DOA receives a court order that requests payments be held from a particular employee or vendor the payments are, indeed, withheld. He suggested that the language in Section 10 be placed in Title 14 and that the ACPE do the necessary researching and documentation before the DOA processes them through their existing mechanism.

MR. WANIE stated that under language already in Title 9, the ACPE can get a court order to direct withholding of payments from a vendor. He reiterated that there is already a mechanism in place that would allow the ACPE to obtain a court order.

Number 190

REP. OLBERG asked Mr. Wanie to define the term vendor.

MR. WANIE referred to the list from the Suggested Amendments to HB 506 that was handed out at the previous meeting. He said the ACPE suggested amending Section 9 so that only disbursement of payments for goods and services provided by an individual contractor would be withheld. He said the DOA would not want to withhold welfare payments, longevity bonus payments, and other payments that are generated by the state system. He felt that the ACPE was focusing on payments for goods and services provided to the state.

Number 233

REP. OLBERG asked if a person could be found under an assumed name.

MR. WANIE responded no. He said the DOA can identify those people who provide goods and services to the state if they use a social security number (SSN) rather than an employer identification number. If they use an employer identification number as a sole proprietor, or if they are incorporated and use an identification number, the DOA cannot find them. He said the only matches that can be made are with SSNs.

Number 278

CHAIR BUNDE referred to Mr. Wanie's suggestions regarding Sections 9 and 10 and asked Mr. McCormick if he felt Item 2, as indicated in Comments on HB 506, would be a feasible option for the ACPE.

MR. MCCORMICK said it would be doable without considerable additional expense. He said a computer tape match system could be developed to match SSNs. He further explained that the previously withdrawn amendment that related to page 6, line 30, would reference the contractor not the borrower. He indicated that he was mistaken in his earlier opposition to that amendment and clarified that he now supported it.

Number 360

REP. VEZEY interjected that conflict arises when the employee goes back to work for the employer after five years and the court order is still in effect. He stated that state agencies have "gone after" employers and have made them liable, after the rehire, for all pay periods that they did not garnish wages.

REP. BRICE said, "whether or not he's working or not."

REP. VEZEY said no, and further stated that the employer has to honor that court order no matter how old it is. They have to keep all their personnel records active to avoid possible penalties.

CHAIR BUNDE reiterated the same scenario and further added that the employer is expected to remember that the employee had his wages garnished five years previously. He indicated that Rep. Vezey's amendment would require the ACPE to notify the employer.

Number 544

REP. BRICE asked if Mr. McCormick would have access to the Department of Labor.

CHAIR BUNDE indicated that Mr. McCormick has access to skip tracers that would track the student for those five years.

MR. MCCORMICK said the amendment would shift the responsibility of tracking to the ACPE. He said he did not object to the amendment.

CHAIR BUNDE asked if there were any objections to the amendment. Hearing none, Chair Bunde stated that Amendment 3 was adopted. He then indicated that several committee members had another meeting to attend and asked that all interested parties attend the meeting the next day to finish discussing HB 506.

Seeing no further business before the committee, CHAIR BUNDE ADJOURNED the meeting at 4:25 p.m.

HB 506 - HOUSE HES Committee Minutes
March 8, 1994

TAPE 94-40, SIDE A Number 000

CHAIR BUNDE called the meeting to order at 3:08 p.m., noted members present and announced the calendar. He then read portions of an article from the Anchorage Daily News regarding students and student loans. He indicated that collectively students in the United States owe \$41.9 billion on student loans. He said in many schools 70% of the student body choose to borrow, and the average debt per student is \$79,000. He further related that in a survey of 551 recent college graduates, four out of ten students said they could handle their payments; however, one out four said their debt affected their decision as to when or if to marry. One-third stated that it also influenced their decision to start a family,

HB 506 - HOUSE HES Committee Minutes
March 8, 1994

REP. VEZEY proposed an amendment that would incorporate the body of a bill he introduced (HB 488) with that of HB 506 as amended. He said it dealt with the same chapters of Alaska statutes.

CHAIR BUNDE interjected and said he assumed Rep. Vezey's amendment would limit student loans to Alaskan schools only.

REP. VEZEY said yes.

CHAIR BUNDE asked if he were interested in pursuing the issue.

REP. VEZEY asked the pleasure of the committee in regards to HB 488.

REP. BRICE said he felt that the amendment might hold merit in certain circumstances, but indicated that he would feel much more comfortable with back-up information and the opportunity to debate that specific bill before the amendment would be made. He said he opposed the amendment.

Number 262

CHAIR BUNDE asserted that he would rather address HB 488 separately to allow opportunity for testimony and discussion.

HB 506 - HOUSE HES Committee Minutes
March 8, 1994

REP. TOOHEY suggested that a roll call vote be taken.

CHAIR BUNDE stated that before the amendment could be addressed it would have to be seen and testified upon. He said the committee would not vote on something that has not been discussed. He reiterated that he wanted to handle it as a separate issue.

REP. VEZEY concurred. CHAIR BUNDE asked for further discussion on HB 506.

REP. BRICE suggested that perhaps some discussion should be made in the Labor and Commerce Committee in regards to capping the interest rate at 15% or 16%. He referred to the article that indicated that employers are looking for highly skilled and technically trained college graduates. He said that a free floating percentage rate could leave students in very difficult situations and that the loan program would not be making any loans.

CHAIR BUNDE asked the pleasure of the committee.

REP. VEZEY made a motion to pass HB 506 as amended out of committee

HB 506 - STUDENT LOAN PROGRAM

REP. CON BUNDE, Co-Chair of the House HESS Committee, presented HB 506. Rep. Bunde stated that HB 506 was requested by the Postsecondary Education Commission to allow the program to run in a more business like fashion.

REP. BUNDE outlined the important changes to the program and asked Mr. McCormick of the Postsecondary Education Commission to elaborate.

Number 080

JOE McCORMICK, Executive Director, Postsecondary Education Commission, Department of Education, testified in support of HB 506. He stated that HB 506 would accomplish the following:

- 1) Enhancement of repayment terms by allowing for a variable interest rate and providing a consolidation program.
- 2) Improved ability to collect loans.
- 3) Would allow for garnishment of wages when loan is in default.
- 4) Simplify the loan process.
- 5) Prevent future delinquencies by disallowing people to reapply for a student loan within five years of bankruptcy or default.

Number 175

NANCY BEAR USERA, Commissioner, Department of Administration, testified in opposition to certain provisions of HB 506. Ms. Usera stated there are three areas of the bill that the department objects to:

- 1) HB 506 gives priority to garnishment of wages for repayment of student loans over and above all other garnishments or attachments with the exception of child support.

MS. USERA stated that better tools need to be given to the commission to make better loans, but to supercede private sector obligations is not the way to handle it.

- 2) The Department of Administration also objects to the provision in HB 506 that would hold up vendor payments to contractors who have otherwise completed the terms of a contract but have a student loan delinquency.

MS. USERA noted that the commission already has the ability to garnish wages; this bill would place the student loan program second behind child support payments.

Number 275

MS. USERA offered an amendment that would in effect remove the priority of the student loans programs for garnishment second to child support obligations. Secondly, it would remove the requirements that the department would withhold vendor payments.

Number 295

REP. MULDER stated that he was opposed to the amendment because it is bad public policy to turn a blind eye to someone who is delinquent on their student loan and then award and pay them through a state contract.

Number 310

REP. PORTER agreed with Rep. Mulder, but stated he does support the provision in the bill that would give the student loan corporation priority over and above all other garnishments except child support.

Number 315

COMMISSIONER USERA noted that there would be a significant fiscal impact on the Department of Administration if HB 506 passes as is.

Number 330

REP. SITTON asked what sort of impact HB 506 would have on the Department of Administration.

Number 335

MR. McCORMICK interjected that the commission has approximately 125,000 loan accounts out, and only a small percentage do contractual work for the state of Alaska. Of those, only a fraction may be in default.

Number 342

COMMISSIONER USERA replied that the department would have to scan 125,000 files prior to making a disbursement to a vendor.

Number 375

REP. SITTON asked what the average number of vendors was in a typical month.

Number 385

COMMISSIONER USERA responded there are 52,000 vendors that the Department of Administration process's checks for.

Number 395

REP. MULDER discussed the ways in which the Department of Administration could meld 150,000 student loan applicants with 52,000 vendors.

Number 406

MR. McCORMICK responded that he didn't believe the issue to be an administrative one, but more of a public policy question of whether or not to pay vendors if they are behind in their student loan payments.

MR. McCORMICK stated he felt it was important to send a message to applicants that the state of Alaska sincerely expects them to repay the loans they have with the state.

Number 435

REP. PORTER stated the technology is such that running the delinquency list against the vendor list once a month wouldn't involve much.

COMMISSIONER USERA stated that there would be a hefty administrative cost to accomplish this function and it is not as simple as it sounds.

REP. WILLIAMS asked how the student loan program is funded.

COMMISSIONER USERA replied that the loans are funded through bonds.

Number 460

CHAIRMAN HUDSON clarified for the committee what he thought the issues were in this debate.

Number 480

COMMISSIONER USERA reiterated that adding the function of scanning the student loan rolls to match delinquent applicants to vendor payments adds a tremendous burden to the Division of Finance. She added that if there was some RSA funds suggested to cover this added burden she would certainly reconsider.

Number 490

MR. McCORMICK responded by saying that he would entertain a reasonable charge back type of arrangement.

Number 510

REP. GREEN asked if there was a higher delinquency rate for those students who attended school outside the state and may have stayed outside. Also, can you garnish outside the state?

Number 525

MR. McCORMICK responded that we can garnish outside the state, but you have to look at the costs involved to see whether or not its worth it.

Number 542

PAIGE ADAMS, Coalition of Student Leaders, testified via teleconference in support of HB 506.

Number 549

TRACI COHEN, Student Network, Kenai Peninsula College, testified via teleconference in support of HB 506. Ms. Cohen felt it was important that the message get out to people that if you do not pay your student loan your wages will be garnished.

Number 573

HELEN PHINNEY testified via offnet in support of HB 506. She stated she could not overstate the importance of the student loan program and the importance of using all the available resources to make sure these loans are paid back.

Number 588

BRIAN BREBAKER, University of Fairbanks, Coalition of Student Leaders, stated his support of HB 506 via offnet. He added that the coalition would like to see a cap on the interest rate for the loans.

TAPE 94-27, SIDE B

Number 001

NICKO BRANCHEK stated he is a recipient of a student loan and supports HB 506. He added that he is supportive of the idea of a cap on the interest rates on student loans.

Number 020

BING SANTAMOUR testified via teleconference in support of HB 506. Ms. Santamour stated she also supports the cap on interest rates.

Number 082

STEVE LEVINSON, Alaska State Chamber and Bethel Chamber of Commerce, testified via teleconference in support of HB 506. Both chambers have adopted resolutions in support of reform of the program. The State Chamber opposes a cap on interest rates because the costs of the bonds could go well beyond the cap and make the program not cost efficient.

Number 115

TRACI COHEN added to her previous testimony by saying that she perceives the permanent fund to be a privilege and the students who are in default on loans don't deserve it.

Number 130

REP. MULDER asked if the interest rate cap was ever considered in the discussions on HB 506.

Number 135

MR. McCORMICK stated that it was considered, but interest rates can skyrocket and if there was a cap the loan program could become unsound if they skyrocket too high.

Number 160

CHAIRMAN HUDSON announced that the committee would hold HB 506 over until the next meeting and asked Commissioner Usera to prepare the amendments she testified to.

Number 398

REP. CON BUNDE, Co-Chair of the House HESS Committee, sponsor of HB 506, explained to the committee that there was a letter in their packet that addresses a loophole in the bill regarding people who are enrolled but not attending classes. The letter suggests an amendment that would change the bill to incorporate this technical amendment.

Number 429

REP. PORTER asked what the difference was between being admitted to school or enrolled in school.

REP. BUNDE responded that you could be admitted to a program but not necessarily be enrolled that semester.

Number 447

MR. JOE McCORMICK, Executive Director, Postsecondary Education Commission, Department of Education, explained that an amendment would address the misinterpretation that some students have that they can't apply for the loan until after they are actually attending classes.

Number 465

The committee discussed the language of the amendment in an effort to clarify the intent of the amendment, which was that an applicant does not have to be enrolled in a program to apply for a loan.

Number 520

REP. BUNDE stated that the program has been working without this amendment and he felt the amendment may cause more problems than it fixes. He withdrew the amendment from consideration.

Number 560

REP. PORTER stated that he would still support the concept of the student loan program comparing its listing of defaultees against the Department of Administration's list of vendors on contract with the state.

Number 570

CHAIRMAN HUDSON explained that he spoke with Commissioner Usera and she had decided to take the amendment referenced above to the Finance Committee for their consideration.

Number 580

REP. GREEN and REP. MULDER told the committee that the commissioner wanted to have the language in statute that would add language to the bid package sent to potential

vendors that they need not apply if they are in default to the state on any loan.

Number 590

CHAIRMAN HUDSON told the committee he would like to send the bill on without the amendment and abide by the wishes of the commissioner, unless someone on the committee had an amendment they wished to present now.

Number 595

REP. PORTER moved an amendment to the bill to delete subsection (c), page 5, lines 22, 23 and 24.

Number 600

REP. BUNDE told the committee that the student loan program would probably not survive if the program had to keep coming back to the legislature for appropriations from the general fund.

Number 607

MR. McCORMICK explained that the reason they put subsection (c) in HB 506 was to assure priority over other loans.

Number 630

REP. SITTON stated that from a practical standpoint this would be impossible to implement.

Number 640

REP. PORTER believed there were other programs that could make a good case for top priority for garnishment. He added that the one program he was thinking of was the victim compensation board.

TAPE 94-29, SIDE A

Number 001

MR. McCORMICK stated he was very willing to compromise on this issue and reiterated how important he felt it was for this legislation to pass this session.

Number 014

CHAIRMAN HUDSON stated that he was sympathetic to the idea of a person losing their permanent fund dividend if they were delinquent in their student loan. He added that he felt that giving priority of the student loan program over some of the other programs was not good public policy. The chair stated he supported the amendment.

CHAIRMAN HUDSON asked if there were any objections to Rep. Porter's previously offered amendment. No objections were heard; it was so ordered.

Number 049

MS. PAIGE ADAMS, Student Representative, University of Alaska, Sitka, testified via teleconference in support of HB 506. She stated she didn't have anything else to add.

Number 070

REP. GREEN moved CSHB 506 with individual recommendations and accompanying fiscal notes. No objections were heard; it was so ordered.

"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."

REPRESENTATIVE CON BUNDE spoke in support of HB 506. He emphasized that the legislation will make the student loan program more viable from a business stand point. He observe that professional and occupational licenses would not be renewed for people that are in default on their student loans. The interest rate would be variable. If an individual's loan has been written off due to medical or other reasons, they would be ineligible for a period of five years. He maintained that Family education loans would be more readily available. He observed that the legislation contains a provision to hold state warrants to individuals in default of their student loan and doing business with the state, until their loan is resolved.

Representative Bunde provided members with a proposed committee substitute, work draft 8-LS1752\D, dated 3/25/94 (copy on file). He explained that the proposed committee substitute addresses the WAMI program medical school arrangement with the state of Washington. He observed that the proposed committee substitute would change the program from a direct grant to a loan with a forgiveness of one fifth of the loan for each year the individual practices medicine in the state of Alaska.

DIANE BARRANS, DIRECTOR, STUDENT FINANCIAL AID PROGRAM, DEPARTMENT OF EDUCATION stressed that the legislation will send a message to borrowers and bondholders that the Commission considers the student loan debt to be a serious obligation. She asserted that the Alaska Student Loan Program should be made as consumer friendly as possible.

Ms. Barrans did not think the Commission would oppose the proposed committee substitute.

ERIC FORRER, MEMBER, POSTSECONDARY EDUCATION COMMISSION spoke in support of the legislation. He noted that the state of Alaska has invested approximately \$500.0 million dollars in the Student Loan Program. He asserted that the Program must be self perpetuating. He spoke in support of rigorous management.

Representative Grussendorf discussed loan repayment. Mr.

Forrer observed that repayments go into the General Fund. The Commission needs legislative authority to spend receipts.

Representative Martin expressed concern that individuals would be deprived of the ability to repay their loan if

their license renewal is denied.

Mr. Forrer noted that individuals in default can negotiate with the Commission to be in good standing. The loan does not have to be repaid in its entirety for the individual to be in good standing. He reiterated that the fund must be managed rigorously to ensure that it continues.

Representative Parnell expressed concern with language specifying default. He asked how the Commission would administer defaults.

Representative Brown asked the long term fiscal soundness of the Fund. She noted that in FY 93, \$7.6 million dollars were forgiven and \$8.4 million dollars were lost through written off loans. She asked if loan repayments are returning to the program.

Ms. Barrans noted that repayments are returned to the Revolving Loan Fund. Legislative authority is needed for expenditure of operational costs. New loans are made from repayments and sales of bond.

Representative Brown expressed concern with section 2 which changes the way interest is calculated.

(Tape Change, HFC 94-113, Side 2)

In response to a questions by Representative Brown, Ms. Barrans stressed that oversight will come from the Board and the Commission and the Legislative Budget and Audit Committee to assure that the administrative cost is efficient. The amount forgiven each year is the amount of statutory obligation on loans made prior to 1987. Write offs are the sum total of death and disability, bankruptcy and major medical. She observed that loan forgiveness has peaked. Write offs will remain constant. She explained that a 1 percent guarantee fee will be added to students' loans to cover write off costs. The fee is a one time fee, added at the time of origination.

Representative Therriault noted that response time from the Commission to student's inquires can be lengthy. A student may be in default before they can resolve disputes with the Commission in regards to payments or other matters.

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Co-Chair MacLean asked if section 10 which allows the state to withhold payments on warrants would withstand litigation.

NANCY BEAR-USERA, COMMISSIONER, DEPARTMENT OF ADMINISTRATION

spoke in support of aggressive management. She noted that repayments on the loan go to pay off the bonds issued for new loans. She expressed concern with the relative autonomy

of the Commission and Corporation Board.

Commissioner Usera noted that the Department is concerned with the provision to withhold payments on warrants. She suggested it would be difficult to administer. She anticipated that the state would be assessed penalties on payments withheld. She noted that the authority to attach payments already exists. She observed that the cost of one lawsuit regarding withheld vendor payments could cancel out receipts from collected payments.

Representative Brown questioned if the Department of Administration would be authorized under federal law to use social security numbers in order to track licensees in default.

In response to a question by Representative Martin, Ms. Barrans stated that the Commission will give borrowers plenty of warning that the provisions to deny renewals may affect them.

In response to a question by Representative Parnell, Ms. Barrans explained that the individual's history with the loan program would determine when their license renewal would be approved.

In response to a question by Representative Martin, Ms. Barrans noted that \$8.0 million dollars were garnished through permanent fund dividend checks. She stressed that there is a approximately \$500.0 million dollars in student debt owed the state of Alaska. She emphasized that the portion written off is a small portion of the debt.

Commissioner Usera noted that the Department of Administration's fiscal note for \$57.0 thousand dollars would be zero if sections requiring the holding of vendor warrants are removed.

Ms. Barrans discussed the revised fiscal note.

Representative Bunde requested that the proposed committee substitute be held. He explained that he would like to have the WAMI program addressed in separate legislation.

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Representative Brown provided members with AMENDMENT 1 (copy on file). She explained that the amendment would delete the floating interest rate. She suggested that the provision would allow an open ended charging of administrative expenses of the Commission.

Representative Hanley echoed Representative Brown's concern. He suggested that a percentage of administrative costs be included to equal the amount paid on bonds issued plus a maximum of 2 percent.

Commissioner Usera noted that financial institutions

commonly charge a 2 percent spread on the cost of money versus the return on money to pay for administrative overhead.

Amendment 1 was held for revision to include suggestions that administrative costs be tied to a percentage of the amount paid on bonds.

Representative Brown provided members with AMENDMENT 2 (copy on file). She explained that the amendment would require that the borrower receive adequate notice that the Commission is proceeding to notify the Department of Commerce and Economic Development that the loan is in default. The borrower would have 60 days to take action to bring the loan current or make other arrangements.

Representative Parnell noted that another term is being added to the contract between the Postsecondary Education Commission and the student. Ms. Barrar stated that the Commission could comply with Amendment 2 through an attachment to the 120 day letter. She stressed that the Commission intends to notify the borrower of the statute changes in multiple ways.

Representative Brown MOVED to ADOPT AMENDMENT 2. There being NO OBJECTION, it was so ordered.

Representative Brown provided members with AMENDMENT 3 (copy on file). She noted that the amendment would add to page 2, line 17, "if the borrower has an occupational license issued under AS 08. the license may not be renewed under AS 08.02.025." Representative Brown MOVED to ADOPT AMENDMENT 3. There being NO OBJECTION, it was so ordered.

Representative Brown provided members with AMENDMENT 4 (copy on file). She explained that Amendment 4 would delete sections requiring the Department of Administration to withhold vendor payments (sections 3 (c) and 9 and 10). Representative Brown MOVED to ADOPT AMENDMENT 4. There

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being NO OBJECTION, it was so ordered.

Representative Martin MOVED to delete section 1. He asserted that the provision to deny renewal of licensing discriminates against individuals with state licenses. He pointed out that other individuals could continue to be employed even if they are in default of their student loans.

Representative Hanley emphasized that the Department of Commerce and Economic Development will give individuals in default a grace period to bring their loan into good faith.

A roll call vote was taken on the motion to delete section 1.

IN FAVOR: Martin, Foster

OPPOSED: Brown, Grussendorf, Hoffman, Parnell, Therriault,
Larson, MacLean

Representative Navarre was not present for the vote.

The MOTION FAILED (2-8).

Representative Davidson referred to the Family Education Loan Program. He questioned if borrowers, who are residents of the state, should be able to apply for students, who are not residents of the state.

Ms. Barrans noted that the resident borrower would be allowed to apply for their children residing outside of the state. Representative Davidson clarified his intention as the sponsor of the Family Education Loan Program. He stated that his intention was that a family would co-sign a loan. Co-Chair MacLean noted that "Alaskan resident" could be added to "family member" on line 30, page 5. Co-Chair Larson spoke against the change. He stressed that the resident is obtaining benefits from the loan.

HB 506 was HELD in Committee for further discussion.

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
Total	\$42,633.4	\$27,935.1

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 Program¹ 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.

¹ 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)

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CS HB 506 (FIN) am

Revision Date: 04 -18- 94
 Title: An Act relating to student loans;to sanctions
for defaulting on a student loan, including denial of a state . . .
 Sponsor: House HESS by Request
 Requestor: Senate HES Committee

Dept Affected: Alaska Commission on Postsecondary Education
 BRU: Alaska Student Loan Corporation.
 Component: Student Loan Program

COMPONENT SERIAL NO. 218

Expenditures/Revenues

(thousands)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	99.7	91.7	91.7	91.7	91.7	91.7
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	99.7	91.7	91.7	91.7	91.7	91.7

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGES IN REVENUES (1022)	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6
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FUND SOURCE

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Fund 1022	99.7	91.7	91.7	91.7	91.7	91.7
TOTAL	99.7	91.7	91.7	91.7	91.7	91.7

0.0

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

POSITIONS

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

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: Diane M. Barrans
 Division: Alaska Commission on Postsecondary Education

Phone Number: (907) 465-6743
 Date: 4/18/94

Approved by Commissioner: Joe L. McCornick, Executive Director
 Agency: Alaska Commission on Postsecondary Education

Date: 4/18/94

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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.

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 5 percent per year as a result of the assignment of wages and Commerce's withholding on 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	208.3	215.9	235.7	257.3	281.0	306.8
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	1,408.3	1,451.9	1,534.2	1,621.5	1,714.3	1,812.6

Costs based on interagency RSA with Department of Commerce and Economic Development.

POSITION PAPER ON CSHB506(FIN) am

Alaska Commission on Postsecondary Education

April 15, 1994

House Bill 506--an act relating to student loans and to sanctions for defaulting on a student loan--was 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 administrative problems 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 provided the context within which the bill should be considered as well as the rationale for each of the sections.

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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 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 mandate 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.

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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 waived 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.

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A recent legislative audit of the Alaska Student Loan Program¹ 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.

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. This section also provides for continuation of a license in the event that the borrower has a pending appeal of this action.

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. It should also be noted that there currently are mechanisms in place such as unemployment deferment and hardship payment schedules to accommodate borrowers experiencing financial difficulties. This sanction is targeting those borrowers who fail to respond to any attempt to work with the Commission and must be transferred to collection agencies for more aggressive action on their defaulted account.

Section 2 ties the interest rate on a student loan to 1) the cost of the private capital backing that loan and 2) the administrative expense of disbursing and servicing the loan.

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.

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

Rationale: Since this department is charged with withholding license renewal, it is the Commission's responsibility to provide timely notification of default status.

¹ 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).

Section 4 specifies that the Commission "ensures that the rate of interest is as low as possible without precluding" their ability to properly administer the loans and places a cap of 2.5% on that portion of the interest rate which is charged for administrative costs.

Rationale: This language provides incentive to loan administrators to operate loan servicing as efficiently and economically as possible by statutorily limiting the interest allowance available to cover loan origination and loan servicing expenses. This allowance does not cover losses to ASL funds due to forgiveness benefits and loan loss due to defaults.

Section 5 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 varying conditions and interest rates, as shown in the following table.

TABLE 3
Difference Between Cost of Capital
to Program and to Borrower

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 will be eliminated. However, borrowers will be encouraged to take the option and a significant decrease in special payments is anticipated.

Section 6 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 permanently 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 7 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. While wage garnishment can be done currently, this language would streamline the legal process by having the order included in the initial judgment by a court rather than having to request that by a separate action.

Section 8 applies the one-year residency requirement for Family Education Loans (FEL) to the borrower rather than the student.

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 is only 4%. Therefore, it is in the best interests of the loan program to expand participation in this program to eligible Alaskans.

Section 9 deletes the requirement that an FEL 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.

CONCLUSION

The Commission supports CSHB 506(FIN) am 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. Adoption of this bill will also strengthen our financial standing with New York bond firms such as AMBAC, Standard & Poors, and Moody's.

SENATE COMMITTEE REPORT

John

DATE: 4/15/94

FURTHER: Finance

DATE TURNED INTO OFFICE: 4/30/94

HES Committee considered CS FOR HOUSE BILL NO. 506(FIN) am

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

and recommends:

and report it back as follows

- replace with _____ CS _____
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

- do pass
- do not pass
- no recommendation
- individual recommendations

*Fin's
80 Fin's*

NEW FISCAL NOTES

Department	Date	Zero	Fiscal
AK Com on Postsecondary	4/15/94		99.7
Administration	4/15/94	✓	

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
AK Com on Postsecondary	4/15/94		157.2

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

(3) *Lowell A. ...*
 (3) *...*

(2) *Mike Miller No Rec*
 (2) *J. ... No Rec*

Do Not Pass