

**SB**

**143**

# FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

BILL NO. SB 143

Revision Date: \_\_\_\_\_ Dept. Affected: Alaska Commission on Postsecondary Education  
 Title: An Act reducing the rate of interest on certain student loans BRU: Student Loan Corporation  
 Sponsor: Kerttula Component: Student Loan Program  
 Requestor: Senate HESS COMPONENT SERIAL NO. 218

Expenditures/Revenues: (Thousands of Dollars)

	FY94	FY95	FY96	FY97	FY98	FY99
OPERATING						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>						

CAPITAL						
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REVENUE FUND SOURCE: 1022	-0-	-0-	-0-	(1,874.8)	(5,305.2)	(6,182.4)
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$ none

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Doug Hanon, Finance Officer Phone: 465-6757  
 Division: Alaska Commission on Postsecondary Education Date: 4/15/93  
 Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

FISCAL NOTE (CONTINUED)

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STATE OF ALASKA  
1993 LEGISLATIVE SESSION

BILL NO: SB143

Fund Source: 1022

FY2000	FY01	FY02	FY03	FY04	FY05	FY06	FY07
(7,076.2)	(7,992.1)	(8,937.2)	(9,906.0)	(9,211.8)	(13,355.4)	(16,790.4)	(12,863.5)

Fiscal impact is determined by comparing estimated gross receipts from loan repayment under two scenarios: the current 8% interest rate and the proposed 6% interest rate. Effects of the lower interest rate are not felt for the first two to three years, as most loans coming into repayment will be 8% loans. As loans made in 1994 under the proposed 6% come into repayment around FY97, loan fund earnings begin to show a decline from estimates under the 8% interest rate. Fund earnings projections were developed by Evensen Dodge, Inc., financial consultants to the Alaska Student Loan Corporation, as an update to the *Alaska Student Loan Corporation Millennium Plan* (March 1992).

FUNDING  
207 F-

UN:

red by



# Alaska State Legislature

SENATE

*Committee on Finance*

Official Business

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

## MEMORANDUM

To: Senator Steve Rieger

From: Senator Jay Kerttula *Jay*

Re: SB 143 Student Loan Interest Rate Reduction

I request that the above bill be scheduled for hearing in your committee. I believe that the students of the state of Alaska should be able to take advantage of the reduction in interest rates that the nation is presently experiencing.

I believe that it is good public policy to provide access to higher education for all of our students at a reasonable price.

This bill would reduce the interest rate on loans prospectively to 6% from 8%. The rate of interest on a loan in default would be reduced from 10% to 8%.

Thank you for your consideration of this request.

## SPONSOR STATEMENT

SB 143

### REDUCING THE RATE OF INTEREST ON CERTAIN STUDENT LOANS

This bill will reduce from 8% to 6% the interest rate charged by the Student Loan Corporation to students applying for loans after the effective date of this legislation.

For the past several years interest rates have steadily declined. With other interest rates, such as the prime rate and the rates on home mortgages and automobile loans, going down, it is only proper to reduce the rates for college students.

Presently, the Student Loan Corporation pays about 6% interest for a bond issue while the pay-back interest rate for students is 8%. This two point spread allows the Corporation to add to net income each year this occurs.

Finally, I ask the committee to consider the policy of the state that higher education should be accessible to anyone regardless of financial status. This change would lessen the burden on students when they are first starting a career. It is also fair to give students the benefit of lower interest rates that other segments of our population are enjoying. Enclosed in your packet is a list of the current interest rates. Please consider these as you review this bill.





STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
BILL ANALYSIS

DEPARTMENT Education	DIVISION Alaska Commission on Postsecondary Education	BILL NUMBER SB 143	SPONSOR Senator Kerttula
SHORT TITLE OF BILL An Act reducing the rate of interest on certain student loans			
DEPARTMENT POSITION Neutral			
PREPARED BY Mary Lou Madden, Assistant Director	DATE 4/15/93	COMMISSIONER'S SIGNATURE <i>[Signature]</i>	DATE 4/15/93

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL Alaska Student Loan Borrowers
ORGANIZATIONAL SUPPORT FOR BILL Not aware of organized support, however, it is reasonable to assume that student government associations would be in support.	ORGANIZATIONAL OPPOSITION TO BILL None known

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

Alaskans borrowing loans from the 1993-94 loan year and subsequent years would benefit by virtue of a lower rate of interest on their debt and resulting lower payments over the life of their loans.

ANALYSIS OF BILL/PROGRAM EFFECTS

Two significant impacts would be seen: 1) projected reductions in future repayment income and 2) as a result of those reductions the Alaska Student Loan Corporation bond offerings would be less attractive to potential bond holders. More specifically, while the face interest on a student loan would be reduced to 6%, the effective rate applied to a loan would only be 4.57%. Similarly a loan made at the current rate of 8% interest pays an effective rate of approximately 5.75%. This is due to the average number of interest-free years that the borrower benefits from the loan, i.e. during the entire period of student status/deferments.

The impact of this change would be that the agency would be lending money out at a rate lower than it would be borrowing on the bond market. The anticipated result is that bond debt service coverage would fall below an acceptable level by FY2000. That event would require one or more of the following responses: 1) Supplement bond funds and repayment income with General Funds to fully meet student demand; 2) Limit the amount or number of loans made by restricting them to a needs based or other criteria; or 3) Try to secure subordinate funding at a higher interest rate and/or over a longer bond term.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.