

HB

257

HFIN

FILE

Amended
Pg 2

CS FOR HOUSE BILL NO. 257(HES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Offered: 3/22/95

Referred: Finance

Sponsor(s): HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to student loan programs, interstate compacts for postsecondary
2 education, and fees for review of postsecondary education institutions; and
3 providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. AS 14.43.110 is repealed and reenacted to read:

6 Sec. 14.43.110. STUDENT LOANS. (a) In a school year, the commission
7 may make a loan not to exceed

8 (1) \$8,500 to a full-time undergraduate student or \$5,000 to a half-time
9 undergraduate student attending a college or university if the full- or half-time student
10 is otherwise eligible under AS 14.43.125;

11 (2) \$9,500 to a full-time graduate student or \$4,500 to a half-time
12 graduate student attending a college or university if the full- or half-time graduate
13 student is otherwise eligible under AS 14.43.125;

14 (3) \$5,500 to a full-time student or \$2,000 to a half-time student if the

1 full- or half-time student is attending a career education program that is nine or more
2 months in length and is otherwise eligible under AS 14.43.125;

3 (4) ^{4,0}~~\$3,000~~ to a full-time student or ^{1,5}~~\$1,000~~ to a half-time student if the
4 full- or half-time student is attending a career education program that is less than nine
5 months in length and is otherwise eligible under AS 14.43.125.

6 (b) The commission may make a loan for a summer term, even if the total
7 loan for the school year exceeds the limit imposed under (a) of this section if the loan
8 for the summer term is counted against the limit imposed under (a) of this section for
9 the following school year.

10 (c) The commission shall adopt regulations establishing a minimum amount
11 for which a loan may be made.

12 * Sec. 2. AS 14.43.120(a) is amended to read:

13 (a) Proceeds from a scholarship loan to a full-time student may only be used
14 for books, tuition and required fees, loan origination [GUARANTEE] fees, and room
15 and board. Proceeds from a scholarship loan to a half-time student may only be used
16 for books, tuition and required fees, and loan origination [GUARANTEE] fees.

17 * Sec. 3. AS 14.43.120(b) is amended to read:

18 (b) Scholarship loans may only be used to attend a

19 (1) career education program operating on a sound fiscal basis that
20 has [BEEN]

21 (A) operated [APPROVED BY THE COMMISSION BEFORE
22 JULY 1, 1986;

23 (B) OPERATING] for two years before the borrower attends;

24 and

25 (B) submitted an executed program participation agreement
26 as required by the commission; [OR

27 (C) OPERATING FOR ONE YEAR BEFORE THE
28 BORROWER ATTENDS AND THE COMMISSION DETERMINES THE
29 PROGRAM IS OPERATING ON A FISCALLY SOUND BASIS;] or

30 (2) a college or university that

31 (A) has operated [BEEN APPROVED BY THE

1 COMMISSION BEFORE JULY 1, 1986, OR HAS BEEN OPERATING] for
2 at least two years before the borrower attends;

3 (B) is accredited by a national or regional accreditation
4 association recognized by the Council on Postsecondary Accreditation or is
5 approved by the commission; [AND]

6 (C) if the loans are federally insured, is approved by the United
7 States Secretary of Education;

8 (D) is a degree granting institution; and

9 (E) has submitted an executed program participation
10 agreement as required by the commission.

11 * Sec. 4. AS 14.43.120(d) is amended to read:

12 (d) Scholarship loans may not be made to a student

13 (1) for more than a total of \$42,500 for [FIVE YEARS OF]
14 undergraduate study;

15 (2) for more than a total of \$47,500 for [FIVE YEARS OF] graduate
16 study;

17 (3) for more than a combined total of \$79,000 for [EIGHT YEARS
18 OF] undergraduate and graduate study;

19 (4) to attend an institution, other than a nonprofit institution, if the total
20 amount of scholarship loans made to students to attend that institution exceeds
21 \$100,000 and the default rate on those loans exceeds the program default rate by more
22 than 150 percent as defined by regulation.

23 * Sec. 5. AS 14.43.120(e) is repealed and reenacted to read:

24 (e) Interest on a scholarship loan accrues from the time the loan is disbursed;
25 however, the state shall pay the interest while the borrower continues to be enrolled
26 under (c) of this section.

27 * Sec. 6. AS 14.43.120(g) is amended to read:

28 (g) A borrower's obligation to commence repayment [REPAYMENT] of
29 the principal and interest on the loan begins six months [NOT LATER THAN ONE
30 YEAR] after the borrower is no longer enrolled under (c) of this section. The
31 borrower shall repay [BORROWER'S STUDIES ARE TERMINATED. THE LOAN

1 SHALL PROVIDE FOR REPAYMENT OF] the total amount owed in periodic
2 installments of at least \$50 a month over a period of [IN] not more than 15 [10]
3 years from the commencement of the repayment obligation [IF THE LOAN IS TO
4 A FULL-TIME STUDENT, OR IN NOT MORE THAN FIVE YEARS FROM THE
5 COMMENCEMENT OF REPAYMENT IF THE LOAN IS TO A HALF-TIME
6 STUDENT, EXCEPT AS PROVIDED IN (k) AND (m) OF THIS SECTION]. If the
7 commission and the borrower agree to a different repayment schedule, the borrower
8 shall repay the loan in accordance with the agreement. A borrower may make
9 payments earlier than required by this subsection or the agreement.

10 * Sec. 7. AS 14.43.120(h) is amended to read:

11 (h) Security may not required for a loan; however, a loan origination
12 [GUARANTEE] fee, as specified in (u) of this section, shall be deducted
13 [CHARGED] at the time that the loan is disbursed [AWARDED]. Additionally, the
14 borrower shall pay [PROVISION SHALL BE MADE FOR PAYMENT OF] all fees
15 and costs incurred in collection [OF THE AMOUNT OWED] on the loan if it becomes
16 delinquent or in default.

17 * Sec. 8. AS 14.43.120(i) is amended to read:

18 (i) If a loan is in default, the commission

19 (1) shall notify the borrower that, if the borrower has an occupational
20 license issued under AS 08, the license may not be renewed under AS 08.02.025 and
21 that repayment of the remaining balance is accelerated and due by mailing
22 [SENDING] the borrower a notice at the most recent address provided to the
23 commission by the borrower [BY REGISTERED OR CERTIFIED MAIL];

24 (2) may take the borrower's permanent fund dividend under
25 AS 43.23.065(b)(3) to satisfy the balance due on a [THE] defaulted loan; and

26 (3) shall provide notice of the default to the Department of Commerce
27 and Economic Development, if the loan recipient is licensed under AS 08.

28 * Sec. 9. AS 14.43.120(k) is amended to read:

29 (k) A borrower's obligation to make periodic payments [PERIODIC
30 INSTALLMENTS] of principal shall be deferred, but the borrower's obligation to
31 pay interest shall continue unless the state pays the interest by appropriation

(

1 under (t) [ACCRUE AND BE PAID UNLESS THE BORROWER IS ELIGIBLE FOR
2 INTEREST PAYMENT BENEFITS UNDER (l)] of this section, during any of the
3 following periods:

4 (1) [IF THE BORROWER RECEIVED A LOAN TO ATTEND AS A
5 FULL-TIME STUDENT,] return to full-time student status in good standing in a career
6 education program, college, or university that meets the requirements under (b) of this
7 section;

8 (2) if the borrower received a loan to attend as a half-time student,
9 return to at least half-time student status in good standing in

10 (A) a career education program, college, or university in the
11 state that meets the requirements under (b) of this section, or

12 (B) a career education program, college, or university that meets
13 the requirements under (b) of this section, and the borrower is physically
14 present in the state while attending the career education program, college, or
15 university; a borrower is not eligible for deferral under this paragraph for a
16 period longer than eight years;

17 (3) serving an initial period of up to three [SIX] years on active duty
18 as a member of the armed forces of the United States;

19 (4) serving, for up to three years, as a full-time volunteer under the
20 Peace Corps Act;

21 (5) serving, for up to three years, as a full-time volunteer under the
22 Domestic Volunteer Service Act of 1973;

23 (6) for a one-time period up to 12 months in which the borrower is
24 seeking and unable to find employment in the United States; or

25 (7) during the period of disability if, after the loan is disbursed, the
26 borrower becomes totally [50 PERCENT OR MORE] disabled as certified by
27 competent medical authority.

28 * Sec. 10. AS 14.43.120(l) is amended to read:

29 (l) The state shall pay the interest on that portion of a loan that is not federally
30 insured during

31 (1) the period while [IN WHICH] the borrower continues to be

1 enrolled under (c) of this section [IS A FULL-TIME OR HALF-TIME STUDENT];
2 and

3 (2) deferments under (k) of this section.

4 * Sec. 11. AS 14.43.120(m) is amended to read:

5 (m) In case of hardship, the commission may extend repayment of a loan for
6 an additional period of up to five years [IN INCREMENTS NO LONGER THAN 12
7 MONTHS EACH].

8 * Sec. 12. AS 14.43.120(q) is amended to read:

9 (q) For the purposes of this section, a loan is in default if a loan payment is
10 180 [120] or more days past due.

11 * Sec. 13. AS 14.43.120(t) is amended to read:

12 (t) Payment of interest under (l) of this section and forgiveness
13 [FORGIVENESS] under (s) of this section are [IS] subject to appropriation by the
14 legislature. Money obtained from the sale of bonds by the Student Loan Corporation
15 under AS 14.42.220 may not be appropriated for the payment of interest or the
16 forgiveness of loans.

17 * Sec. 14. AS 14.43.120(u) is amended to read:

18 (u) The commission by regulation shall set a [A] loan origination
19 [GUARANTEE] fee, not to exceed five [OF ONE] percent of the total scholarship
20 loan amount, to [SHALL] be assessed upon a scholarship loan that is funded from the
21 student loan fund of the Alaska Student Loan Corporation. The loan origination
22 [GUARANTEE] fee shall be deducted at the time [ADDED AS A FINANCE
23 CHARGE TO] the [TOTAL] loan is disbursed [AMOUNT AWARDED,
24 NOTWITHSTANDING THE LOAN LIMITS SET OUT AT AS 14.43.110 AND
25 14.43.115]. Subject to appropriation, the loan origination [GUARANTEE] fees shall
26 be deposited into an origination [A GUARANTEE] fee account within the student
27 loan fund of the Alaska Student Loan Corporation, and subsequently used
28 [TRANSFERRED] by the corporation [COMMISSION TO LOAN ACCOUNTS
29 WITHIN THE STUDENT LOAN FUND] to offset losses incurred [DUE TO
30 STUDENT LOAN DEBT CANCELLATION] as a result of death, disability, default,
31 or bankruptcy of the borrower [STUDENT].

1 * Sec. 15. AS 14.43.125(a) is amended to read:

2 (a) A person may apply for and obtain a scholarship loan if the person

3 (1) is

4 (A) enrolled as a full-time student in a career education,
5 associate, baccalaureate, or graduate degree program;

6 (B) enrolled as a half-time student in a career education,
7 associate, baccalaureate, or graduate degree program [IN]

8 (i) in the state; or

9 (ii) out of the state [A CAREER EDUCATION,
10 ASSOCIATE, BACCALAUREATE, OR GRADUATE DEGREE
11 PROGRAM] and is physically present in this [THE] state while
12 attending that [THE CAREER EDUCATION, ASSOCIATE,
13 BACCALAUREATE, OR GRADUATE DEGREE] program; or

14 (C) a graduate of a high school or the equivalent, or scheduled
15 for graduation from a high school within six months, with sufficient credits to
16 be admitted to a career education program or to an accredited college or
17 university;

18 (2) is not delinquent or in default on a previously awarded scholarship
19 loan; and

20 (3) is a resident of the state at the time of application for the loan; for
21 purposes of this section, a person qualifies as a resident of the state if at the time of
22 application for the loan the person

23 (A) has been physically present in the state for at least one year
24 [TWO YEARS] immediately before the time of application for the loan;

25 (B) is dependent on a parent or guardian for care, the parent or
26 guardian has been present in the state for at least one year [TWO YEARS]
27 immediately before the time of application for the loan, and the person has
28 been present in the state for at least one year of the immediately preceding five
29 years except that the commission may by a two-thirds vote, acting upon a
30 written appeal by the person, grant an exemption to the requirement that the
31 person has been present in the state for one year of the immediately preceding

1 five years;

2 (C) has been physically present in the state [, OR IS A
3 DEPENDENT OF A PARENT OR GUARDIAN WHO HAS BEEN
4 PHYSICALLY PRESENT IN THE STATE,] for at least one year [TWO
5 YEARS] immediately before the applicant was absent from the state and the
6 absence is due solely to

7 (i) serving an initial period of up to three [SIX] years
8 on active duty as a member of the armed forces of the United States;

9 (ii) serving for up to three years as a full-time volunteer
10 under the Peace Corps Act;

11 (iii) serving for up to three years as a full-time volunteer
12 under the Domestic Volunteer Service Act of 1973;

13 (iv) required medical care for the applicant or the
14 applicant's immediate family;

15 (v) being a person who otherwise qualifies as a resident
16 and is accompanying a spouse who qualifies as a resident under (i) -
17 (iv) of this paragraph; [OR]

18 (vi) an absence allowed under (D)(i) - (iv) of this
19 paragraph; or

20 (D) [HAS BEEN PHYSICALLY PRESENT IN THE STATE,
21 OR] is a dependent of a parent or guardian who has been physically present in
22 the state [,] for at least one year [TWO YEARS] immediately before [THE
23 APPLICANT OR] the parent or guardian was absent from the state and the
24 absence is due solely to

25 (i) participating in a foreign exchange student program
26 recognized by the commission;

27 (ii) attending a school as a full-time student;

28 (iii) full-time employment by the state;

29 (iv) being a member of or employed full-time by the
30 state's congressional delegation;

31 (v) being a person who otherwise qualifies as a resident

1 and is accompanying a spouse who qualifies as a resident under (i) -
2 (iv) of this paragraph;

3 (4) does not have a past due child support obligation established by
4 court order or by the child support enforcement division under AS 25.27.160 -
5 25.27.220 at the time of application; and

6 (5) has not, within the previous five years, had a scholarship loan
7 discharged or written off by the commission for any reason.

8 * Sec. 16. AS 14.43.125(c) is amended to read:

9 (c) A person may not be awarded a scholarship loan under AS 14.43.090 -
10 14.43.160 [IF A FAMILY EDUCATION LOAN IS MADE ON BEHALF OF THAT
11 PERSON UNDER AS 14.43.710 - 14.43.790 OR] if that person receives a teacher
12 scholarship loan under AS 14.43.600 - 14.43.700 for the same period of attendance
13 [SCHOOL YEAR].

14 * Sec. 17. AS 14.43.125 is amended by adding a new subsection to read:

15 (d) A person incarcerated full-time in a correctional facility may not be
16 awarded a scholarship loan under AS 14.43.090 - 14.43.160 if the person's scheduled
17 release date is more than two months after the scheduled completion date of the career
18 education or degree program for which the loan is requested. In this subsection,
19 "correctional facility" has the meaning given in AS 33.30.901.

20 * Sec. 18. AS 14.43.150 is amended by adding a new subsection to read:

21 (d) An assignment of wages authorized under this section that is made under
22 court order has priority as against an attachment, execution, or other assignment,
23 except for an assignment for payment of child support under AS 25.27.070 or as
24 otherwise ordered by the court.

25 * Sec. 19. AS 14.43.300(g) is amended to read:

26 (g) The commission by regulation shall set a [A] loan origination
27 [GUARANTEE] fee, not to exceed five [OF ONE] percent of the total memorial
28 scholarship loan amount, to [SHALL] be assessed upon a memorial scholarship loan.
29 The loan origination [GUARANTEE] fee shall be deducted at the time [ADDED
30 AS A FINANCE CHARGE TO] the [TOTAL] loan is disbursed [AMOUNT
31 AWARDED]. Subject to appropriation, the loan origination [GUARANTEE] fee shall

1 be deposited into an origination [A GUARANTEE] fee account within the memorial
2 scholarship revolving loan fund, and subsequently transferred by the commission to the
3 appropriate memorial scholarship accounts within the memorial scholarship revolving
4 loan fund to offset losses incurred due to loan debt cancellation as a result of death,
5 disability, or bankruptcy of the student.

6 * Sec. 20. AS 14.43.640 is amended by adding a new subsection to read:

7 (e) Teacher scholarship loans made to a student may not exceed a total of
8 \$37,500.

9 * Sec. 21. AS 14.43.650(c) is amended to read:

10 (c) A student may not be awarded a teacher scholarship loan under
11 AS 14.43.600 - 14.43.700 [IF A FAMILY EDUCATION LOAN IS MADE ON
12 BEHALF OF THE STUDENT UNDER AS 14.43.710 - 14.43.790 OR] if the student
13 receives a scholarship loan under AS 14.43.090 - 14.43.160 for the same period of
14 attendance [SCHOOL YEAR].

15 * Sec. 22. AS 14.43.740(a) is amended to read:

16 (a) The provisions of AS 14.43.100, 14.43.110, [14.43.115,] 14.43.120(a) - (d),
17 (i), (m), and (r) - (u), and 14.43.135 apply to a loan made under AS 14.43.710 -
18 14.43.790.

19 * Sec. 23. AS 14.43.790(a)(1) is amended to read:

20 (1) "default" means a loan that is 180 [120] days or more past due in
21 repayment;

22 * Sec. 24. AS 14.43 is amended by adding a new section to read:

23 Sec. 14.43.920. UNAUTHORIZED SCHOLARSHIPS, LOANS, AND
24 GRANTS. If a person receives a scholarship, loan, or grant under this title for which
25 the person is not eligible under the provisions of this title, the scholarship, loan, or
26 grant is void and the entire balance of money paid is immediately due to the
27 scholarship, loan, or grant fund. This section is in addition to any penalty that may
28 be imposed according to another provision of law.

29 * Sec. 25. AS 14.44.025 is amended to read:

30 Sec. 14.44.025. PROVISIONS OF SERVICES. State participation under
31 Articles VIII and XIII of the Western Regional Higher Education Compact shall be

1 limited to the provision of adequate services and facilities in the professional fields
2 of study available through the Professional Student Exchange Program
3 administered by the Western Interstate Commission on Higher Education. The
4 Alaska Commission on Postsecondary Education shall establish funding priorities
5 under AS 14.44.035 for the available fields of study by analyzing student access
6 and state labor needs [FIELDS OF LAW, DENTISTRY, MEDICINE,
7 OSTEOPATHY, PUBLIC HEALTH, VETERINARY MEDICINE, PHARMACY,
8 PHYSICAL THERAPY, OCCUPATIONAL THERAPY, OPTOMETRY, PODIATRY,
9 FORESTRY, ARCHITECTURE, GRADUATE NURSING, PETROLEUM
10 ENGINEERING, MARITIME TECHNOLOGY, AND GRADUATE LIBRARY
11 STUDIES].

12 * Sec. 26. AS 14.48.050 is amended by adding a new paragraph to read:

13 (10) establish fees for the review of institutions requesting approval for
14 participation in the scholarship loan program under AS 14.43.120(b)(2)(B).

15 * Sec. 27. AS 14.42.032; AS 14.43.115, and 14.43.750(b) are repealed.

16 * Sec. 28. TRANSITION. The Alaska Commission on Postsecondary Education may
17 proceed to adopt regulations necessary to implement this Act. The regulations take effect
18 under AS 44.62 (Administrative Procedure Act), but not before July 1, 1995.

19 * Sec. 29. APPLICABILITY. A borrower's obligation to pay interest on a student loan,
20 as required by AS 14.43.120(k), amended in sec. 9 of this Act, applies to a scholarship loan
21 disbursed after June 30, 1995.

22 * Sec. 30. Section 28 of this Act takes effect immediately under AS 01.10.070(c).

23 * Sec. 31. Except as provided in sec. 30 of this Act, this Act takes effect July 1, 1995.

COMPARISON OF FEDERAL LOAN LIMITS FOR SHORT COURSES

The Federal Student Loan program adjusts loan limits to accommodate for the lesser costs of the programs and the course length. This helps to minimize the debt load of students opting for career based training.

<u>Program Length/ Year in School</u>	<u>Federal Student Loan Limits</u>	<u>Current ASLP Loan Limits</u>	<u>Proposed ASLP New Limits</u>
<i>First Year:</i>			
<i>College or University</i>			
9-12 months	\$6,500	\$5,500	\$8,500
<i>Career Education Programs</i>			
9-12 months		\$5,500	\$5,500
<i>Vocational Programs</i>			
9 < 6 months*	\$4,250	\$5,500	\$3,000
-6 months*	\$2,375	\$5,500	\$3,000
<i>Second Year:</i>			
9-12 months	\$7,500	\$5,500	\$8,500
<i>Third & Fourth Year:</i>			
9-12 months	\$11,500	\$5,500	\$8,500
<i>Graduate:</i>			
9-12 months	\$13,500	\$6,500	\$9,500

* Same ASLP Loan Limits for each year in school

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 22, 1995

FURTHER REFERRALS:

Date of Committee Action: 4/24/95

The FINANCE Committee considered:

HB 257

HOUSE BILL NO. 257

POSTSECONDARY EDUCATION PROGRAMS/LOANS

"An Act relating to student loan programs, interstate compacts for postsecondary education, and fees for review of postsecondary education institutions; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 257 (Fin) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) DOE zero fiscal note(s) DOE 3/22/95

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Edson Mulder</u> Mulder	✓			
<u>Terrey Martin</u> Martin	✓			
<u>Ben Grussendorf</u> Grussendorf	X			
<u>Die Kohring</u> Kohring	X			
<u>Cene Theriault</u> Theriault	X			
<u>Sam Brown</u> Brown	✓			
<u>Mike Navarre</u> Navarre	✓			
<u>Mark Hanley</u> Hanley			X	

20
 CHAIR'S SIGNATURE Mark Hanley
 Hanley

FISCAL NOTE

(2. 1)
 Bill Version: CSHB 257 (HES)
 (H) Publish Date: 3/22/95

STATE OF ALASKA
 1995 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Education
 Title: An Act relating to student loan programs . . . BRU: ACPE
 Component: Student Loan Operations
 Sponsor: (H)HES
 Requester: Rep. Bunde COMPONENT SERIAL NO. 213

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Gillian R. Hays, Legislative Liaison Phone: 465-6718
 Division: Alaska Commission on Postsecondary Education Date: 3/16/95
 Approved by Executive Director: Joe L. McCormick Date: 3/16/95
 Agency: Alaska Commission on Postsecondary Education

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. HB 257

Revision Date: _____ Dept. Affected: Education
 Title: An Act relating to student loan programs BRU: ACPE
 Component: Program Administration
 Sponsor: (H)HESS
 Requester: Rep. Bunde COMPONENT SERIAL NO. 212

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Gillian R. Hays, Legislative Liaison Phone: 465-6718
 Division: Alaska Commission on Postsecondary Education Date: 3/16/95
 Approved by Executive Director: Joe L. McCormick Date: 3/16/95
 Agency: Alaska Commission on Postsecondary Education

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STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

3030 VINTAGE BLVD.
JUNEAU, ALASKA 99801-7109
PHONE (907) 465-2962
FAX (907) 465-5316

April 4, 1995

The Honorable Mark Hanley, Co-Chair
House Finance Committee
Alaska State Senate
Juneau, Alaska 99801

Dear Chairman Hanley:

The Alaska Commission on Postsecondary Education is requesting the authority to use \$1.4 million in corporate receipts to develop a new loan servicing system for the Alaska Student Loan Program. We are requesting this authority in the Governor's FY 96 Capital Budget. This capital budget request is in response to the 1994 Alaska Legislature's mandate to ACPE to identify a solution to the long-standing loan servicing problems and bring forth a recommended solution.

Our current loan servicing system is outdated, inefficient, and inadequate for the size of the ASLP loan portfolio. Due to the rapid growth of the ASLP in the mid-1980s, a loan servicing system capable of servicing 22,000 loans is now forced to service 95,000 accounts. This puts great strain on the system and threatens the quality of service to Alaska borrowers. Further, maintenance of the current system is highly labor-intensive impaired by little or no system documentation. Attempting to fix the current system is simply not a viable option.

The Alaska Legislature appropriated \$100,000 for research into options for improving loan servicing. KPMG Peat Marwick, a nationally known expert in student loan servicing systems, was hired to conduct an intensive evaluation of the ASLP loan servicing system. They were to assist ACPE staff in developing a recommendation for a long-term solution to our loan servicing needs. In December 1994, ACPE presented a recommendation to the Legislative Budget and Audit Committee for the development of a new loan servicing system that would totally automate, update, and streamline the servicing of ASLP loans.

The LB&A Committee approved use of \$250,000 in corporate receipts for the first phase of this project to identify the software and prepare for data conversion. The Committee directed ACPE to submit a capital budget request to the 1995 Legislature for the remaining funds needed to complete the project (purchasing and implementing the new system). The cost savings in terms of staff reductions and operational efficiency are illustrated in the appendix.

The repercussions of not funding this project are real. Our bond insurer, AMBAC, has indicated that without serious modification to our loan servicing system the insurance on future bonds will be threatened. In 1993, as a direct result of a compliance audit of the current loan servicing system, AMBAC refused to insure the 1993 ASLC student loan bonds. Problems with the current loan servicing system were also documented in the Division of Legislative Budget and Audit report of October 1993 and again in the KPMG Peat Marwick Feasibility Study of September 1994.


This new loan servicing software will allow the Commission to meet three of its immediate objectives:

- Maintain a high level of customer satisfaction and service in the programs administered by the Commission.
- Improve the Commission's ability to service loans in a timely manner to reduce defaults and increase loan collections.
- Strengthen the financial stability of the ASL program.

Our goal is to make the Alaska Student Loan Program financially viable and actuarially sound for future generations of Alaskan borrowers. To accomplish this, we must replace a faulty, inefficient system with one that is efficient, reliable, and cost-effective.

Thank you for your consideration of this request. If you have further questions, please do not hesitate to contact me at 465-6740.

Sincerely,



Dr. Joe L. McCormick

Executive Director

Enclosures

**ALASKA COMMISSION ON POSTSECONDARY EDUCATION
FY 96 CAPITAL BUDGET REQUEST FOR LOAN SERVICING SYSTEM**

NATURE OF REQUEST

The Alaska Commission on Postsecondary Education (ACPE) requests the approval in the FY 96 Capital Budget to spend \$1,400,000 in corporate receipts to acquire and implement a new loan servicing system. This amount represents the completion of a project partially funded by the Legislative Budget and Audit Committee in December 1994.

FUNDING SOURCE

The funding source is Alaska Student Loan Corporation receipts. There is *no funding from the general fund*. The LB&A Committee approved expending \$250,000 of corporate receipts for this loan servicing project to identify the software and prepare for data conversion. The Committee directed ACPE to submit a capital budget request to the 1995 Legislature for the balance needed to complete the project (purchasing and implementing the new system).

COST SAVINGS

With the implementation of a replacement system we should see a reduction in staff level of up to nine support staff over a five year period. The staffing reduction savings are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
# staff	6	6	7	8	9
Est. \$ savings	\$278,051	\$278,051	\$324,393	\$370,735	\$417,077
CUMULATIVE SAVINGS	\$278,051	\$556,102	\$880,495	\$1,251,230	\$1,668,307

NOTE: The above amounts only represent savings directly associated with the staff positions to be eliminated. There will be additional savings due to reduced operational costs (office equipment, telephones, supplies, etc.) associated with these positions.

BREAKDOWN OF EXPENSES

- ◆ A software system capable of being run on the Division of Information Services' computer in the Department of Administration (\$650,000);
- ◆ Modifications to the software package to accommodate the specific requirements and characteristics of the Alaska Student Loan Program and modifications to ensure compatibility with the state's AMDAHL mainframe (\$277,500);
- ◆ Installation fees and personnel services related to installing the software and making modifications (\$472,500).
- ◆ Contractual services from a nationally known firm in the student loan industry to assist with the selection, modification, installation and full implementation of the new software (\$250,000). This portion of the project was funded in December 1994, by the LB&A Committee.

PROJECT COMPLETION DATE

Should this request be approved, the new ASLP loan servicing system will be fully operational by December 31, 1996.

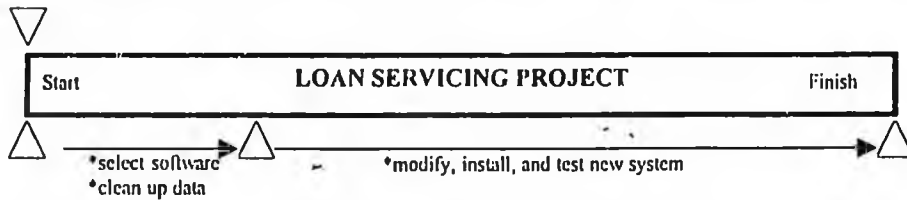
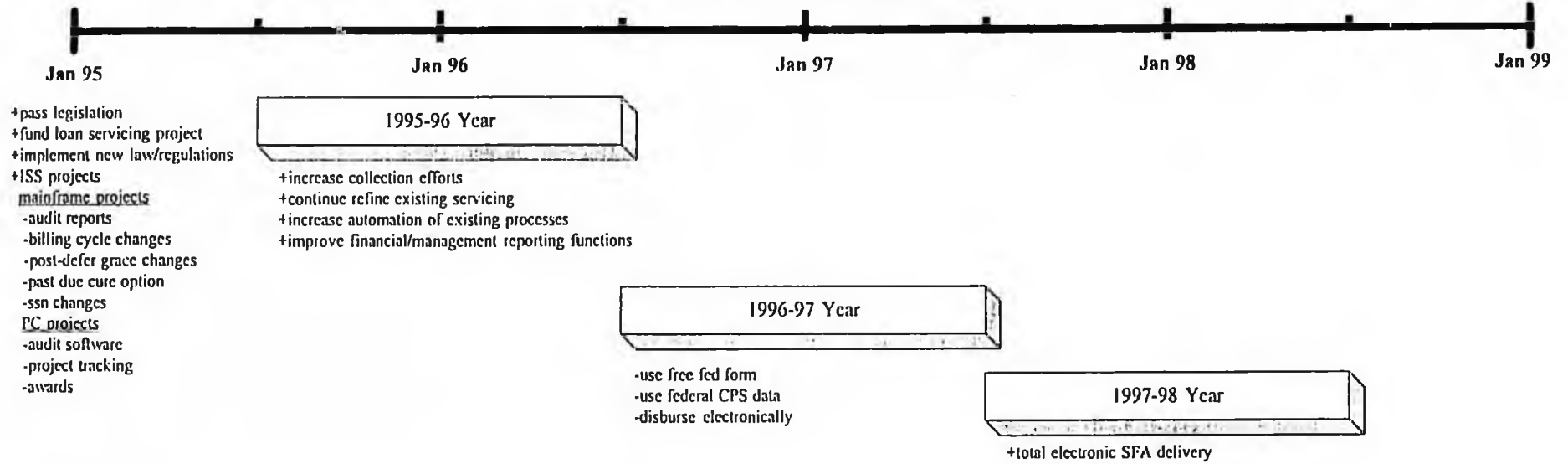
IMPACT OF REJECTING THIS CAPITAL BUDGET REQUEST

This project will achieve operational cost savings and increase productivity in the servicing of Alaska Student Loans. It will also insure the proper servicing of student loans per the requirements of the student loan bond indentures and insurance agreements. The effect of delaying or denying this request would be to compound the problems associated with ACPE's loan servicing system. It will also put the Corporation's bond rating and insurability at risk. Insurance coverage and/or increased ratings on future bond issues is at risk if the Commission cannot improve its servicing of loans pledged to outstanding and future bonds.

**ACPE LOAN SERVICING
CHRONOLOGY OF EVENTS**

1.	March 1993	Deloitte & Touche Loan Servicing Compliance Audit	Identified loan servicing deficiencies and made 53 recommendations for improvements.
2.	May 1993	Alaska Legislature	Directed ACPE to conduct a privatization study and report to the 1994 Legislative Session
3.	June 1993	AMBAC Insurance Denied	AMBAC refuses to insure the 1993 ASL Bonds
4.	Fall 1993	Executive Director Search	ACPE begins national search for new Executive Director with student loan servicing experience
5.	October 1993	Alaska Legislative Budget and Audit Report	LB&A report confirmed serious deficiencies in current ASLP; recommended several changes be made to current ACPE operations
6.	December 1993	New Executive Director hired	The new Executive Director has over 27 years experience in the student loan industry.
7.	March 1994	ACPE filed results of the Privatization Study of ASLP	ACPE recommended a study be conducted by a nationally recognized firm to determine the most cost-effective option available to solve ACPE's loan servicing problems.
8.	May 1994	Alaska Legislative funding of Loan Servicing Evaluation	\$100,000 appropriated to ACPE to conduct study on best solution to its loan servicing problems.
9.	September 1994	KPMG Peat Marwick Loan Servicing Evaluation	Peat Marwick completed its evaluation of ACPE's loan servicing system and recommends a new system be developed.
10.	October 1994	ACPE adopts Peat Marwick Report	ACPE accepted recommendations to pursue funding to develop a new loan servicing system.
11.	November 1994	ACPE Revised Program Request	ACPE requests \$1.65 million to implement loan servicing report recommendations.
12.	December 1994	LB&A Committee funds first phase of Project	The LB&A Committee approved \$250,000 for the first phase of loan software acquisition and installation project.
13.	March 1995	ACPE Requests Approval for remaining funds	ACPE requests approval to complete the loan software project, using \$1.4 million in corporate receipts.

ACPE OPERATIONS CALENDAR (As of January 1995)



POSITION PAPER ON HB 257
Alaska Commission on Postsecondary Education
March 17, 1995

House Bill 257 -- an act relating to student loan programs, interstate compacts for postsecondary education, and fees for review of postsecondary education institutions; and providing for an effective date, was introduced by the Committee on Health, Education and Social Services at the request of the Alaska Commission on Postsecondary Education (ACPE).

The goal of the Alaska Commission on Postsecondary Education is to ensure that student loan funds are available for future generations of Alaskan borrowers. To achieve this, we must move the Alaska Student Loan program toward a completely self-sustaining, financially sound future. We have gone a long way toward achieving this goal. *Our last general fund appropriation was in FY 92.* In addition, the bond debt issued by the Alaska Student Loan Corporation is not pledged to the State of Alaska, but is backed by the assets of the Alaska Student Loan Fund.

Our continued efforts toward financial independence and stability have greatly improved our standing in the bond market. This is reflected in the change in bond rating status from 1993 to 1994. Unlike the uninsured bonds issued in 1993, the \$50 million in bonds issued in 1994 were fully insured and were negotiated at *one of the lowest rates in our history.* Unfortunately, this favorable bond rating is insecure and will remain so until vital changes are made.

Today, ACPE operates solely on corporate receipts from the ASL fund. Loan provisions resulting in losses to the fund due to forgiveness provisions, and interest subsidies during times of deferment cannot continue. In order for the loan fund to maintain a healthy existence, these losses can no longer be 'absorbed.' Statutory changes must be made in order to:

- ◆ Increase the loan limits for graduate and undergraduate students
- ◆ Allow us to increase loan origination fees to cover loan losses due to death, disability, forgiveness, and default
- ◆ Provide for the accrual of interest during periods of deferment
- ◆ Increase the number of months before a loan goes into default
- ◆ Amend the repayment provisions to provide for minimum monthly payments, a six-month grace period, and extend repayment from ten to fifteen years
- ◆ Make various technical amendments

The 1995 proposed legislation seeks to improve customer service, continue to restore the financial soundness of the loan fund, and make various technical amendments to improve overall program administration. The legislation has been developed to move the student loan program toward a completely self-sustaining financially sound future.

SECTIONAL ANALYSIS

All technical amendments have been grouped together and included at the end of this section.

Improve Customer Service

Section 1 -- increases the annual borrowing maximum for college and university undergraduate and graduate students, and limits the amount loaned for career education programs to a level more closely reflect costs relative to the program length.

Rationale: The University of Alaska, which receives 60% of the ASLs, recently increased the tuition rates for all levels of study. Over the past 10 years, the University of Alaska has increased tuition by 140%, and during that same time, there have been no increase in loan limits. The number of financial aid sources available for graduate students has dwindled, while the cost of education has increased at a steady pace. National statistics show that graduate/professional students repay their loans in the greatest numbers.

Section 3 -- clarifies the financial condition of an institution and conforms to regulatory language changed in 1992; formalizes the responsibility of the institution to manage student loan funds appropriately by establishing a participation agreement.

Rationale: The Commission's needs to ensure the financial and administrative capability of an institution participating in the ASL. This section strengthens consumer protection and protects the ASL fund from unnecessary losses due to defaults and school closures.

Section 4 -- replaces the borrowing maximum at a **dollar** amount rather than the **number of loan years** that a borrower is eligible.

Rationale: This is a more flexible and practical means of tracking student eligibility and is easier to administer and explain to applicants.

Section 6 -- amends the terms of repayment of the ASL as follows:

- a) the traditional 12-month grace period prior to the beginning of repayment is reduced to six months.
- b) a minimum monthly payment of \$50 per month is established.
- c) the number of years required to repay the loan is extended to fifteen years.

Section 11 -- omits the length of time a borrower can be in hardship status.

Rationale: This reduces administrative expenses by eliminating the need for staff to continue to renew a hardship deferment.

Section 12 -- extends the due diligence period on a loan from 120 to 180 days.

Rationale: This allows the borrower an additional 60 days to work with Commission staff to recover from temporary financial problems and prevent the loan from being declared in default.

Section 16 -- allows a student to borrow on the student's own behalf in the ASL program at the same time a parent or spouse borrows on the student's behalf in the Family Education Loan program (FEL). The total amount borrowed in both programs cannot exceed the student's cost of attendance.

Rationale: This expands the students' financial aid options and allows a more financially stable family member to contribute to the cost of education for a family member.

Section 25 -- allows the ACPE to target funds administered as part of the Western Interstate Commission on Higher Education's (WICHE) Professional Student Exchange Program, and eliminates the specific categories previously in statute.

Rationale: This change would make possible the allotment of these funds in accordance with over-all needs of Alaskans. The Commission will work with the Department of Labor and allied institutions to determine the availability of jobs in certain fields thus meeting the needs of the Alaska workforce.

Section 27 -- repeals limits on the amount of loans that can be awarded in any one year; repeals separate section for graduate loan limits; and enables a family member to borrow a loan for a student at the same time the student is borrowing an ASL or TSL as referenced in Sections 16 and 21 of this bill.

Rationale: Allows the loan fund to meet customer demand.

Improve Financial Stability

Section 5 -- Under sections 9 and 13, the State of Alaska would pay the interest subject to appropriations.

Rationale: eliminates the drain on the Revolving Loan Fund resulting from interest-free deferment periods.

Section 9 -- alters the following terms and conditions involving student loan deferments:

- a) interest on the loan will continue to accrue during periods of deferment as provided in Section 5;

- b) the six years of military deferment is reduced to three years; and
- c) borrower must be totally disabled to qualify for a medical deferment.

Rationale: In order to move the Alaska Student Loan Program toward a self-sustaining, actuarially sound basis, these changes are essential.

Section 14 -- title of fee more accurately describes the fee being assessed -- to offset for loan losses to the Revolving Loan Fund due to death, permanent and complete disability, bankruptcy, or default of the borrower; and provides consistency with changes made in sections 2, 7 and 19.

Rationale: This allows the ACPE to set the origination fee amount by regulation, but **not to exceed** five percent of the loan amount. Additionally the fee is to be deducted from the disbursement rather than added to the principal and then deducted--a much easier process.

Section 17 -- makes incarcerated persons ineligible for ASL funds because of the person's inability to repay the loan.

Rationale: This is a standard statement in all other student loan programs, and will help bring the Alaska Student Loan program closer to programs familiar to the bond market.

Section 18 -- gives delinquent student loans priority, behind child support enforcement, for garnishment of wages.

Rationale: The Commission needs to make a statement that the Alaska Student Loan must be repaid.

Section 26 -- allows the ACPE to initiate user fees from non-accredited Postsecondary institutions, outside of Alaska, that wish to receive the proceeds of ASL loans.

Rationale: The fees would ensure that the state does not subsidize the review of outside institutions.

Improve Program Administration

Section 8 -- eliminates requirement for certified or registered mail.

Rationale: This eliminates an unnecessary cost of administration. Once a loan is in a default status, the borrower will be notified by mail at the most recent address provided by the borrower.

Section 15 -- contains technical amendments to the eligibility criteria, amends the residence requirement from two years to one year, and reduces the length of an allowable absence for military service from six to three years.

Rationale: The technical amendment and the change to the residency requirement to comply with the Hillgardner case court decision is required by the Department of Law. The Commission reduced the length of an allowable absence for military service to promote repayment to the loan fund at an earlier stage. Military personnel are paid on a regular basis therefore allowing the borrower to maintain a monthly payment cycle.

Section 20 -- caps the level in the Teacher Scholarship Loan (TSL) program to a dollar amount (\$37,500) rather than the number of years of borrowing.

Rationale: This is consistent with changes in the ASL program in Section 4 making it a more practical means of tracking student eligibility.

Section 24 -- clarifies that a loan obtained illegally by a person who does not meet the eligibility criteria must be paid in full upon demand.

Rationale: The Department of Law required this amendment to support current policy to collect those funds.

Section 27 -- repeals limits on the amount of loans that can be awarded in any one year; repeals separate section for graduate loan limits; and enables a family member to borrow a loan for a student at the same time the student is borrowing an ASL or TSL as referenced in Sections 16 and 21 of this bill.

Rationale: Allows a more financially stable family member to borrow on behalf of the student.

Technical Amendments

Section 2 -- technical amendment: changes guarantee fee to origination fee.

Section 7 -- technical amendment: simplifies the procedure for collection of the origination fee.

Section 10 -- clarifies when a borrower's accrued interest will be paid by the State of Alaska.

Section 13 -- conforms with changes made in Section 5 and 9.

Section 19 -- provides consistency with sections 7 and 14.

Section 21 -- consistent with the change in Section 16, allows a TSI recipient to borrow on the student's own behalf while a family member also borrows on the student's behalf.

Section 22 -- technical amendment: repeal of duplicitous language for graduate loan limits that is now covered in Section 1 of this bill.

Section 23 -- consistent with the change in Section 12, extending the diligence period on the Family Education Loan from 120 to 180 days.

Section 28 -- provides the Commission with interim authority to promulgate regulations to implement this bill.

Section 29 -- clarifies that loans disbursed after June 30, 1995 will be obligated to pay interest during deferments as referenced in Section 5.

Section 30 -- provides for an immediate effective date to promulgate regulations referenced in Section 28.

Section 31 -- provides for an effective date of this bill at the beginning of the fiscal year.

CONCLUSION

The Alaska Commission on Postsecondary Education and legislative staff of the office of the Governor supports HB 257 and the direction it provides for fiscally-responsible management of the Alaska Student Loan program and the institutions benefiting from those funds. Without the provisions of this bill, the fund will continue to erode and Alaska's credibility in the bond market will decline.

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**ALASKA COMMISSION
ON
POSTSECONDARY
EDUCATION**

FY 96 Budget Overview

**Dr. Joe L. McCormick
Executive Director**

March 1995
(revised 3-17-95)

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**ACPE 1995 - 1996
OPERATION/SERVICE OBJECTIVES**

The Alaska Student Loan Program (ASLP) is funded solely by corporate receipts. No general fund dollars have been appropriated to the program since FY 1992. As a result the Corporation has had to absorb losses due to the following statutory provisions:

- Interest paid by the State while borrower is in school and authorized deferred periods
- Forgiveness of principal and interest for eligible borrowers
- Payment of third-party collection vendors not recovered from defaulted borrowers
- Write-offs due to death, disability, and uncollectible loans
- Bond issuance costs paid from bond proceeds
- Difference between the yield on bonds outstanding (interest paid by the Corporation) and the yield on loans in the portfolio (interest earned on loans in the portfolio)

Finally, the Alaska Student Loan Program has suffered for a number of years with serious problems related to its loan servicing system software. After serious audit deficiencies were identified and the ASLC lost its insurance on the 1993 student loan bonds, ACPE has taken dramatic steps to resolve its loan servicing system problems. This FY93 budget request, as well as ACPE's 1995 Legislative Proposals, reflects the continuing effort of the commission to finally resolve these problems by meeting three major objectives in the coming year:

- To maintain a high level of customer satisfaction and service in the programs administered by the ACPE
- To enhance the financial stability now and for the long term in the ASLP
- To improve the ASLP loan servicing system to reduce defaults through enhanced repayment activity supported by a new up-to-date, fully automated loan servicing system

ACPE Objective One: Maintenance of high levels of customer satisfaction and service

Over the past two years, ACPE has made major progress toward improving its customer service and overall program administration. Staff has been reorganized on a more horizontal and functional basis; procedures have been revamped to improve efficiency and effectiveness; and changes to law and regulations that would improve program administration have been aggressively pursued. Outlined below are some of the major achievements in 1994 that have greatly contributed to ACPE's improved levels of customer service:

- **A New Executive Director** - Dr. Joe L. McCormick, Executive Officer of the Corporation became Executive Director of the Commission on December 1, 1993. Dr. McCormick comes to the Corporation with more than 25 years of experience in the student loan industry at both the national and state level.
- **Restructuring Commission Staff** - Since December 1, 1993, the Executive Director has taken the following actions:
 - **Hired an internal auditor** to monitor all Commission functions and assess progress toward corrective loan servicing functions on January 18, 1994.
 - **Hired a new finance officer** to oversee the Commission's accounting department in April of 1994.
 - **Reassigned functions of the Commission staff.** Effective April 1, 1994 the commission was restructured and organized to maximize the efficiency and effectiveness of the workforce and to "flatten the organizational structure" of the Commission staff as follows:
 - **Finance division** includes the Finance Officer, accounting staff, administrative support staff, and personnel staff.
 - **Student Financial Aid Program division** directs all financial aid programs including the award function of the ASLP, all institutional authorization and compliance functions, Veterans Affairs, special program, and all policy research functions.

- **Information Support Services**, a new division, directs all functions related to the management of the information of the computer mainframe and network of the entire Corporation. In addition, this division is responsible for resolution of special problems due to the 1991 computer conversion and records management functions.
- **Loan Servicing division** directs the communications between the borrowers, payment and deferment processing, forgiveness provisions, skip tracing, and collections on delinquent loans.
- **Identified a solution to long standing ASLP loan servicing problems** and now actively seeking funds to implement a permanent solution to a fully automated, up-to-date loan servicing system. (Total commission staff is 98 permanent positions and 6 temporary positions).
- **Issued \$50.0 million in student loan bonds fully insured by AMBAC** (the 1993 student loan bonds were uninsured).
- **Initiated a 72-hour turnaround time for processing ASLP applications** (in prior years the commission took up to eight weeks to process loan applications).
- **Backlogs in correspondence, processing deferments, and paid-in-full accounts have all but been eliminated.**
- **Telephone Service at ACPE has greatly improved** to the point the commission now has a 98+% answer rate every month.

The FY96 Budget Request reflects a level of funding to allow the commission to maintain the high standards of customer service that have been implemented these past several months. *Funds are requested to allow ACPE to install a 1/800 telephone number to assist borrowers who must communicate with our office.* In addition, funds are requested to replace some very old modular furniture that now represents a serious work hazard to employees.

ACPE Objective Two: Enhance the financial stability and secure a strong financial future for the program

New statutory authority will allow the Corporation to:

- Tie the interest rate on loans to the interest paid on bonds and the cost of servicing
- Restrict borrower's ability to receive a loan if previous loans were written off
- Restrict renewal of state occupational licenses for defaulted ASLP borrowers
- Receive an assignment of wages from borrowers with defaulted loans by a court of law

Proposed 1995 Legislative Proposals

- Increase loan limits for students
- Begin charging interest on loans during deferment periods
- Change the definition of default from 120 days to 180 days to be consistent with other servicers in the industry and to allow for more time to perform due diligence on the loan
- Reduce the grace period from twelve months to six months
- Implement a required per loan minimum payment of \$50 per month
- Reduce the military deferment period from six years to three years
- Change the language, a "guarantee fee" to a loan origination fee of up to five percent of the loan amount. Fee used to offset losses due to death, disability and loan write-offs
- Alter the terms of repayment to allow for fifteen year repayment and a \$50 minimum payment
- Allow student and family member to have both ASLP and FELP in same year
- Prohibit loans to incarcerated students
- Various technical amendments

ACPE Objective Three: Improve loan servicing to reduce defaults through enhanced repayment activity

The Commission's most significant issue is to provide Alaska student borrowers an up-to-date, fully automated loan servicing system. The FY 96 budget has requested funding for a Capital Budget Request of \$1.4 million to provide ACPE the necessary resources to implement a fully automated student loan servicing system. In December 1994, the Legislative Budget and Audit Committee authorized ACPE \$250,000 to find the loan servicing software required to complete this effort. The capital budget request will provide the resources necessary to modify the software to the ASLP and implement the new system to a fully operational status as follows:

- \$ 250,000 Personnel costs related to the hiring of four temporary programming staff.
- \$ 5,050 Contractual services to assist with modification and conversion issues.
- \$ 1,144,950 Equipment costs to purchase hardware, software and installation services.

This project is vital to the Commission as the current software does not have the capacity to meet the needs of the Commission in properly servicing loans and will not meet future needs of the Alaska Student Loan Program. Current system deficiencies include:

- Inadequate audit trails
- Labor intensive procedures requiring multiple screens to perform basic tasks
- Poor support of interest accrual and billing cycles
- A collection module which cannot handle a large volume of accounts
- Highly labor intensive, manual tasks required to service loans properly
- Inability to reconcile system transactions and verify accuracy of data
- Maintenance of the current system is an unacceptable, high risk to the ASLC

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
FY96 BUDGET SUMMARY AND COMPARISON
(Narrative Explanation of Budget Components to follow)

	<u>FY95 Budget</u>	<u>FY96 Request</u>
Operating Budget:		
General Fund:		
WICHE Administration	\$79,000	\$ --
WICHE Student Exchange	579,800	474,600
WAMI Medical Program	1,162,400	1,307,000
Federal Student Aid (State Match)	329,500	369,100
Total General Fund	\$2,150,700	\$2,150,700
Corporate Receipts:		
Postsecondary Commission:		
Program Administration	\$635,100	\$717,900
Loan Operations	4,465,100	6,451,500
Data and Word Processing	843,700	--
Student Loan Corporation	382,200	--
Total Corporate Receipts	\$6,326,100	\$7,169,400
Federal Funds:		
Program Administration:		
Veterans Administration	\$176,800	\$148,100
State Postsecondary Review Entity (SPRE) Program	150,000	100,000
Federal Student Aid (SEIG)	163,500	163,500
Governors Council on Vocational Ed.	160,700	160,100
Total Federal Receipts	\$651,000	\$571,700
Total Operating	\$9,127,800	\$9,891,800
Capital Projects (All Corporate Receipts):		
Intelligent Dialing System	\$185,500	\$ --
Expanded System Network and DP Enhancement	400,000	--
Microfiche Replacement Equipment	130,000	--
Feasibility Study	100,000	--
Office Furniture	--	0
New Loan Servicing Software	--	1,400,000
Total Capitol Projects	\$815,500	\$1,400,000
TOTAL	\$9,943,300	\$11,291,800

ACPE OPERATIONAL BUDGET COMPONENTS

GENERAL FUND PROGRAMS

WICHE (Western Interstate Commission on Higher Education) Student Exchange Program

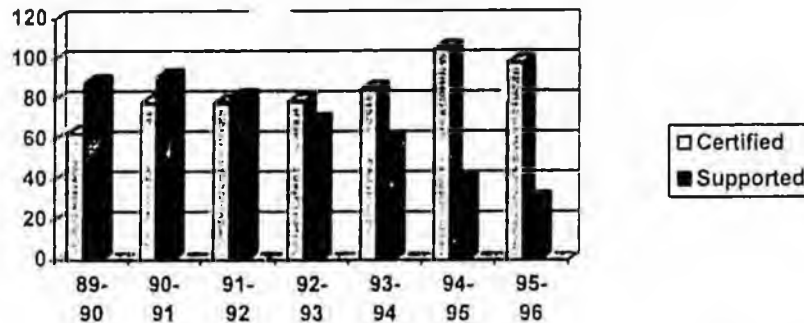
The goal of this component is to provide professional education opportunities to Alaskan students in fields for which there are no programs operating in Alaska and to encourage them, through State labor data, to return and practice in Alaska. The Commission participates in three student exchange programs: Western Undergraduate (WUE), Professional Student (PSEP) and Western Regional Graduate (WRGP).

The Commission anticipates funding 15 continuing students and 15 new students in nine separate fields from an applicant field of approximately 98 students in the PSEP WICHE program. Total WICHE funds requested for FY96 is \$474,600. The Commission anticipates passage of related legislation modifying the program to include physician assistant as a new field.

WICHE Changes from FY95 authorized budget requested in the FY96 Budget:

- \$ 79,000 Transfer the WICHE Administration component into this component
- \$ 0 Line item transfer from grants to fund travel and supply expenditures
- (\$ 144,600) Transfer to the WAMI Medical Education component to cover the increase in the commission's contractual obligation
- (\$ 39,600) Transfer of Federal Student Aid component to fund additional need-based awards

WICHE PSEP STUDENTS



* Due to budget cuts, no new participants are supported in the current year 1994-1995.

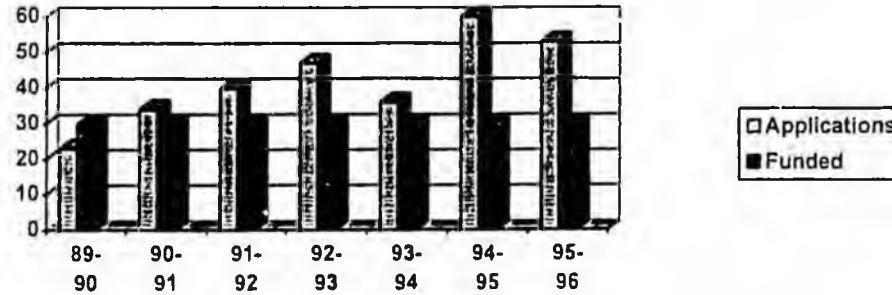
WAMI (Washington, Alaska, Montana and Idaho) Medical Education

This program provides guaranteed access to a medical school for ten (new) Alaskan residents per year. The University of Washington School of Medicine (UWSM) acts as the regional medical school for Washington, Alaska, Montana and Idaho by reserving a predetermined number of class places each year. Alaska currently contracts and pays for thirty places, ten in each year of study. Students attend the first year of training at the University of Alaska, Anchorage campus before transferring to the University of Washington campus. Funding request for WAMI in FY96 is \$1,307,000.

WAMI Changes from FY 95 authorized budget:

\$144,600 Transfer from the WICHE Student Exchange component to cover the cost of living increase in the Commission's contractual obligation.

WAMI STUDENTS



CORPORATE RECEIPTS

Program Administration (FY96 funding request \$717,900)

This component has two goals: to provide overall administration and policy direction to the Commission programs and staff and to exercise review and oversight of postsecondary programs and institutions operating in the state, with the exception of the University of Alaska system. This component administers the Veterans Administration and SPRE program. In addition, the component contains funding for the Commission to set policy, the Office of the Executive Director to implement policy and the Institutional Authorization staff, which enforces the Commission's regulations and policy directives. Sources of funding include corporate and federal receipts.

Changes from FY95 authorized budget:

- \$ 0 Combination of two part-time positions into one full-time position.
- \$ 0 Line item transfers to align federal authorization with expenditures.
- \$82,800 Increase in Corporate receipts to fully fund anticipated expenditures based on actual expenditures incurred in past years and anticipated activity for the coming year.
- (\$78,700) Decrement in federal authorization to more closely reflect actual grant receipts.

Alaska Student Loan Operations (FY96 funding request \$6,451,500)

The goals of this component are to provide low cost financing to the Alaska Student Loan Program (ASLP), disburse low-cost loans to eligible Alaskans enabling them to pursue postsecondary education and training and to service the outstanding loan portfolio in a manner which maximizes repayment to the Student Loan fund and protects the financial integrity of the Alaska Student Loan Program. This component is funded solely from corporate receipts.

In FY96 the following FY95 components were combined with this component in an effort to eliminate unnecessary components and to combine all related activity into one component:

- Data and Word Processing
- Alaska Student Loan Corporation

Other changes from the FY95 authorized budget:

- \$843,700 Transfer of Data and Word Processing component into this component.
- \$374,200 Transfer of Alaska Student Loan Corporation appropriation to this component.
- \$250,000 Addition of four CIP funded positions for implementation of the new loan servicing system requested through a capital project budget.
- \$292,000 Funding for a 1-800 number for borrower use.
- \$ 8,000 Increase in the cost of services to be provided by the Department of Commerce and Economic Development to implement new legislation passed in HB506.
- \$218,500 Increase in other line item expenditures based on actual expenditures in past years and anticipated activity for the coming year.

Federal Funds

The Veteran Affairs program and the State Postsecondary Review Entity (SPRE) are federal funds located in the Program Administration component of the ACPE budget. Under the VA program, ACPE certifies schools eligibility for VA benefits; in the SPRE program, ACPE acts as an oversight agency for the U.S. Department of Education for all Alaska Schools that participate in federal student aid programs.

The Federal Student Aid component includes the State Student Educational Incentive Grant program and the Paul Douglas Teacher Scholarship program. The State Student Educational Incentive Grant program utilizes federal and state funding to provide \$1,500 need-based grants to eligible low-income students enrolled in full-time undergraduate programs. Each year approximately 1,400 students apply for this grant as it is the only need-based student aid program offered by the State of Alaska. The Commission funded 319 grants in FY94 and anticipates funding 296 and 325 in FY95 and FY96 respectively. The state matching fund request for FY96 is \$369,100.

The Commission acts as Alaska's administrative and fiscal agent for the federal Paul Douglas teacher scholarship loan program. This program is funded exclusively by the federal government. The Commission provided seven loans in FY 94 and anticipates providing ten and eight loans in FY95 and FY96 respectively.

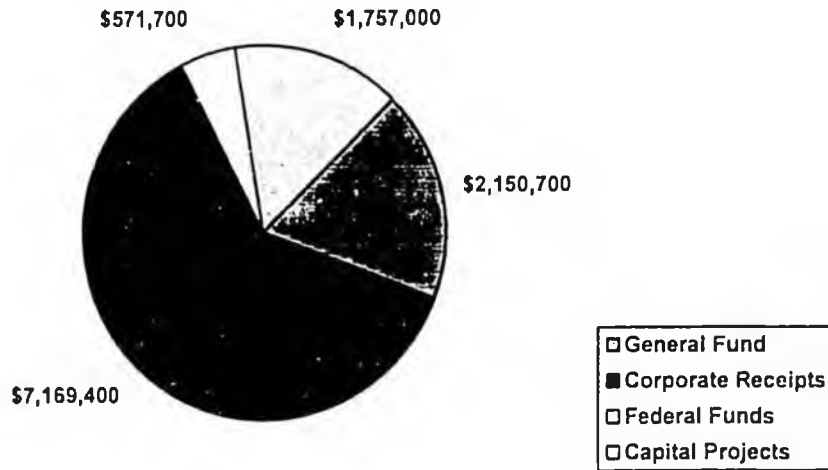
Finally, the Commission acts as an administrator of the federal funds allocated to the Governor's Council on Vocational Education. FY96 funding request is \$160,100. The goal of the governor's council on Career and Vocational Education is to expand and improve the delivery of vocational educational opportunities to Alaskan citizens.

Federal Student Aid Changes from FY95 authorized budget:

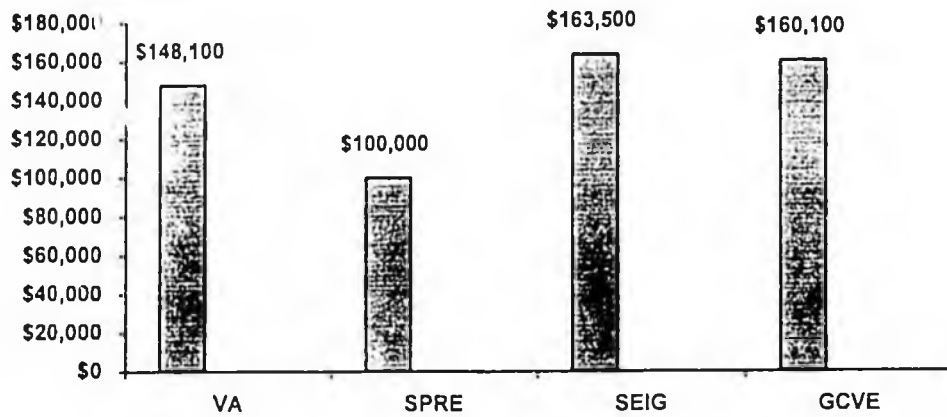
- \$39,600 Transfer from the WICHE SEP to fund additional need-based awards
- (\$600) Decrement in federal authorization to more closely reflect actual grant receipts

ACPE FUNDING SOURCES ILLUSTRATED

FY96 BUDGET



FEDERAL FUNDS



APPENDIX

- 1. Alaska Commission on Postsecondary Education Members**
- 2. Alaska Student Loan Corporation Members**
- 3. Alaska Student Loan Portfolio Analysis**
- 4. History of Changes to the Alaska Student Loan Program**

Alaska Commission on Postsecondary Education

Members

Tom Wagoner, Chair	General Public
Stuart Bowdoin	General Public
Bobette Bush	General Public
Debbie Fullenwider	General Public
Vacant	General Public
Senator Johnny Ellis	Alaska State Senate
Rep. Con Bunde	Alaska House of Representatives
Roger Jarvis	Board of Education
Eric Forrer	Board of Regents
Mary Jane Fate	Board of Regents
Marie Becker	Governor's Council
Helen Finney	Private Higher Education
Milton Byrd	Proprietary Education
Patricia MacPike	Student

Alaska Student Loan Corporation

Members

Tom Wagoner	Postsecondary Commission
Vacant	Postsecondary Commission
Will Condon	Commissioner of Revenue
Mark Boyer	Commissioner of Administration
Willie Hensley	Commissioner of Commerce and Economic Development

GENERAL DUTIES AND RESPONSIBILITIES

Alaska Commission on Postsecondary Education (ACPE)

- Consumer Protection
 - Monitor school advertising and contracts with students.
 - Handle customer complaints.
 - Help to assure loan/tuition refunds and student teach-outs when schools close.
- Institutional Authorization
 - Provide biennial review and re-authorization for approximately 100 postsecondary institutions.
 - Regulate program and degree offerings.
 - Approve institutions for Alaska and Veterans student loans.
- Student Financial Aid
 - Full-time, half-time, teacher scholarship, and family education loans.
 - Special state and federal scholarship loans.
 - State and federal grants for low income students.
 - Tuition subsidy for professional programs not available in Alaska: WICHE Professional Exchange and WAMI Medical Programs.
 - Tuition breaks for Alaskans enrolled in certain regional undergraduate and graduate programs.
- State Postsecondary Review Entity (SPRE) Program to insure continuing availability of Federal Title IV eligible Alaska institutions
- Administrative support provided to the Governor's Council on Vocational Education.

Alaska Student Loan Corporation (ASLC)(AS 14.42.200)

- Collect from a borrower amounts owed with respect to a student loan the corporation has purchased or originated.
- Service student loans held by the Corporation.
- Enter into agreements with the federal government, including guaranty agreements and supplemental guaranty agreements as described in the United States Higher Education Act of 1965.
- Administer federal dollars allotted to the state involving insured student loans and related administrative costs and other matters.
- Borrow money to carry out the purpose of the corporation and issue obligations as evidence of the borrowing.
- Invest or reinvest money held by the Corporation.
- Gather information on student loans available to residents of Alaska and disseminate the information to reasonably assure that qualified residents are aware of financial resources available to those attending or desiring to attend institutions for which the corporation can make loans.
- Enter into agreements with the Alaska Commission on Postsecondary Education relating to student loans, the administration of the student loan fund, and the payment of and security for bonds of the corporation.

ALASKA STUDENT LOAN PROGRAM

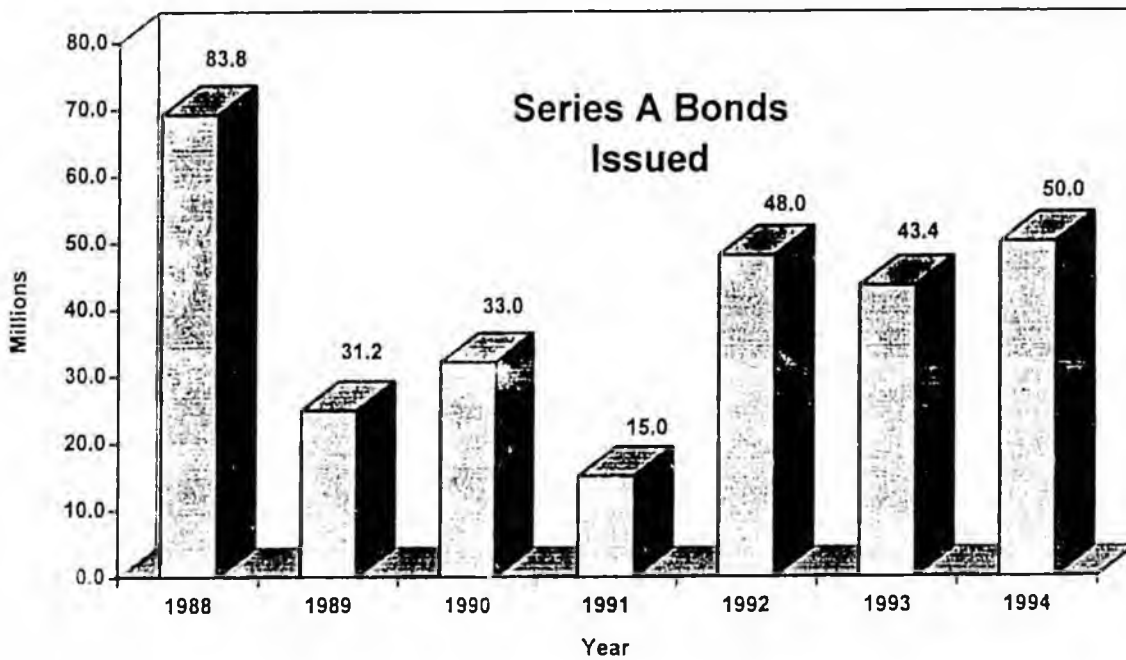
PORTFOLIO CHARACTERISTICS

March 1995
(revised 3-17-95)

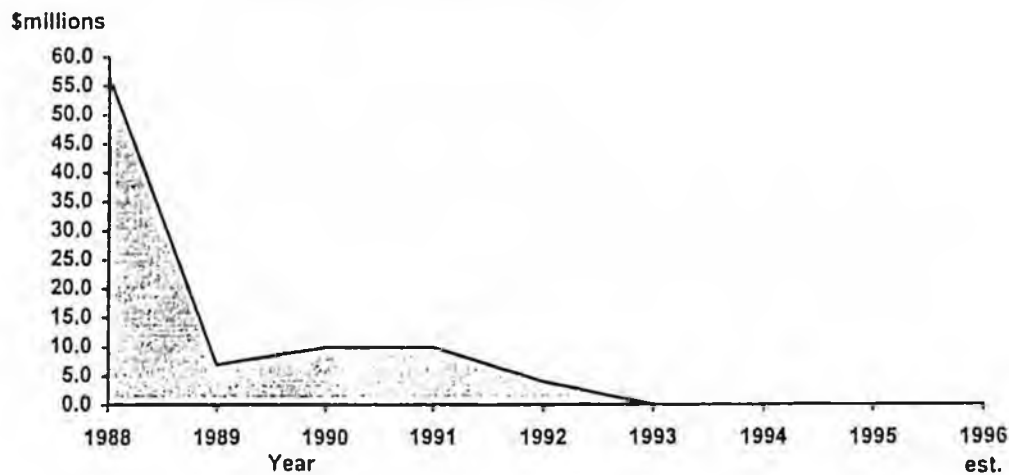
Fund History

The Alaska Student Loan Corporation (Corporation) was created in 1987 through an act of the Legislature. A public corporation and a governmental instrumentality, the corporation was specifically established for the purpose of financing student loans through the issuance of bonds, notes, or other debt instruments.

The corporation must determine the funding for Alaska student loans on an annual basis. The Alaska Student Loan Fund consists of a blend of funds from tax-exempt bonds, loan repayments and prior years State of Alaska general fund support. Repayments are used to make new loans, to pay debt service on the outstanding bonds, and to pay operating expenses of the Corporation. The chart below illustrates the amount of previous bond issuance by the Corporation.



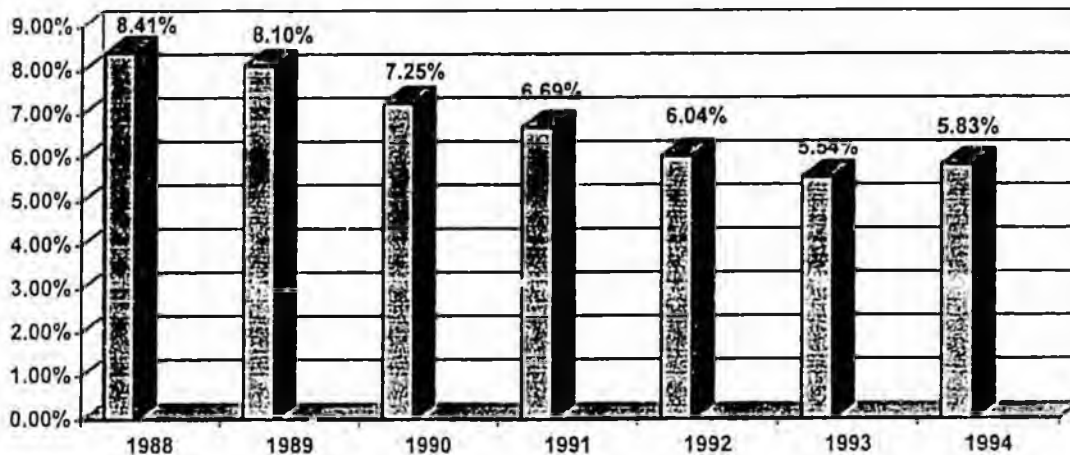
State Appropriations to ASLP



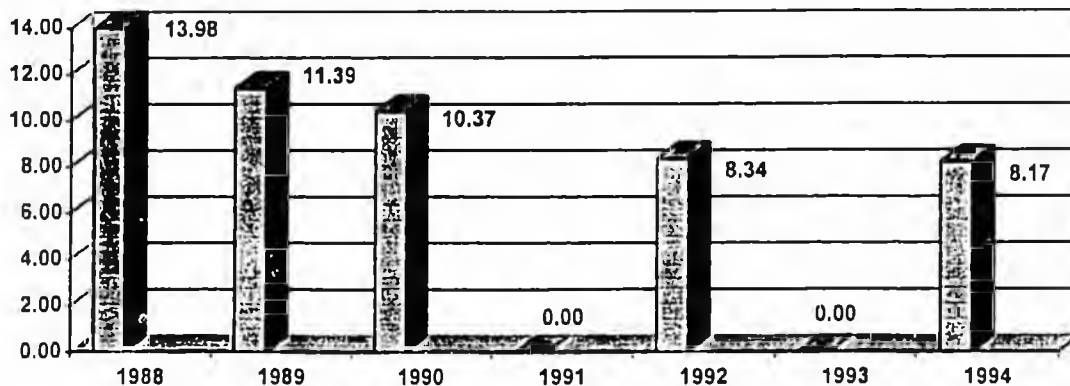
The 1994 Bond Issue:

The 1994 offering was viewed by all parties as successful with ASLC incurring favorably low debt service costs. In comparing the Series 1994 bonds with the 1993 issue, it should be noted that AMBAC agreed to insure the 1994 issue after refusing to insure the 1993 bonds. AMBAC's participation in the 1994 issue was primarily due to their confidence in the new senior management's ability to rectify the servicing difficulties which have persisted over the years. Even though the 1994 issue was offered during weak market conditions, the true interest costs (TIC) of the transaction was among the lowest ever achieved. See Chart A below. In addition, the 1994 underwriter's discount compared favorably to discounts previously paid by the corporation (competitive or negotiated) and resulted in an aggregate discount of \$449,500 versus the budgeted discount of \$750,000 producing a savings of \$300,500. See Chart B for a summary of the corporation's historical bond insurance costs.

**CHART A
TRUE INTEREST COST on ASLC BONDS**



**CHART B
ASLC BOND INSURANCE COSTS
(per \$1,000 in bonds)**



Overcollateralization of the Alaska Student Loan Fund - One of the questions most frequently asked about the Alaska Student Loan Program has to do with its financial solvency and ability to retire the bond debt that now exists in the loan fund. The following summary clearly indicates that the total assets of the ASLP Loan Fund remain at over twice the amount of student loan bond debt to be retired. The tremendous support of the Alaska Legislature in the early years of the loan program created this highly overcollateralized fund. However,

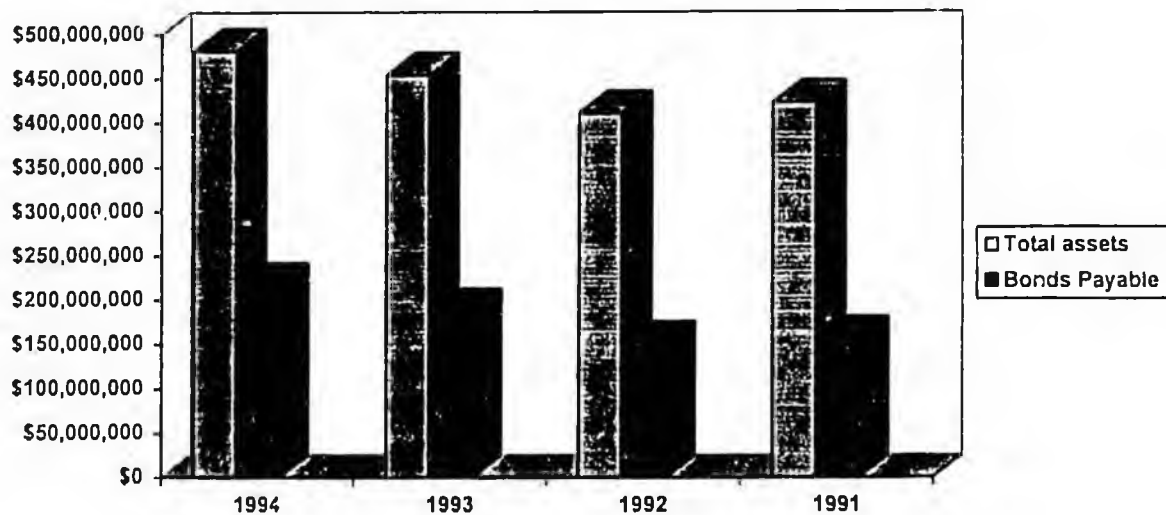
since 1992 no General Fund Revenue has been appropriated to the ASLP. In order to remain financially solvent, the ASLP will have to continue to eliminate certain losses to the loan fund due to lost interest, defaults, and forgiveness benefits. The ACPE 1995 Legislative Proposals and the FY96 budget plan are designed to secure the future financial solvency of the ASLP.

Summary of Overcollateralization of the Alaska Student Loan Fund

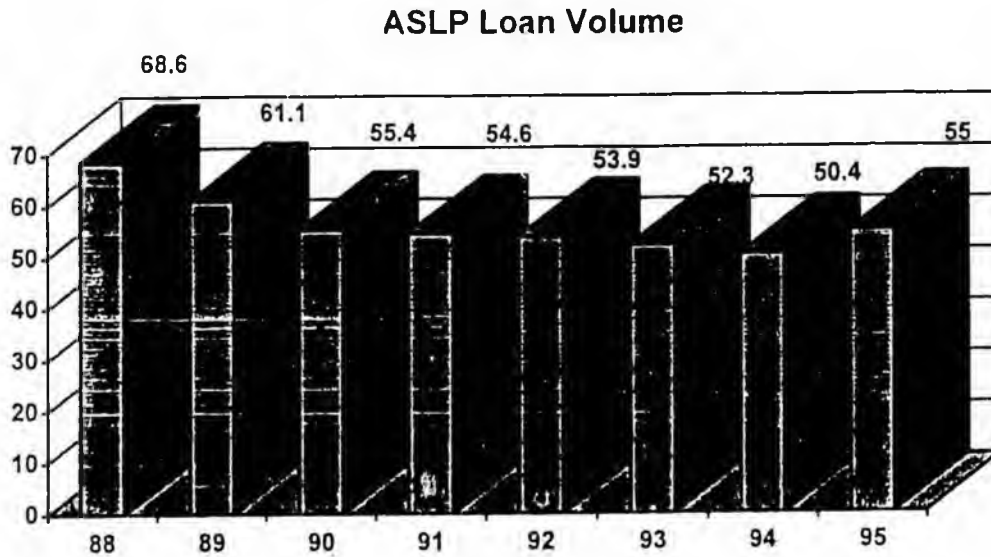
	1994	1993	1992	1991
Loans receivable	490,615,743	486,836,311	483,959,466	479,681,427
Less allowances for:				
Doubtful Loans:	96,503,198	93,158,000	100,534,190	102,144,000
Forgiveness	<u>12,880,026</u>	<u>18,709,788</u>	<u>26,385,723</u>	<u>29,588,948</u>
Net Loans receivable	<u>381,232,519</u>	<u>374,986,523</u>	<u>357,039,553</u>	<u>347,948,479</u>
Cash and equivalents	13,185,091	8,146,615	11,083,015	5,584,929
Investments held by trustee	<u>87,239,970</u>	<u>70,951,944</u>	<u>42,701,143</u>	<u>69,222,894</u>
	<u>100,425,061</u>	<u>79,098,559</u>	<u>53,784,158</u>	<u>74,807,823</u>
Total assets	<u>481,657,580</u>	<u>454,067,082</u>	<u>410,823,711</u>	<u>422,756,302</u>
Bonds payable, net of bond discounts	216,889,540	188,407,638	150,988,410	156,032,505
Total Assets Net of Loan Allowance/Bond payable	<u>2.22%</u>	<u>2.41%</u>	<u>2.72%</u>	<u>2.71%</u>

(ratio is showing that our assets by far exceed bonds payable)

Total Assets to Total Bonds Payable Compared



Alaska Student Loan Volume - the level of lending in the ASLP for the past several years has remained stable in the \$50.0 million range. All demand for ASLP loans has been met each year. The chart below illustrates the loan activity since FY88.



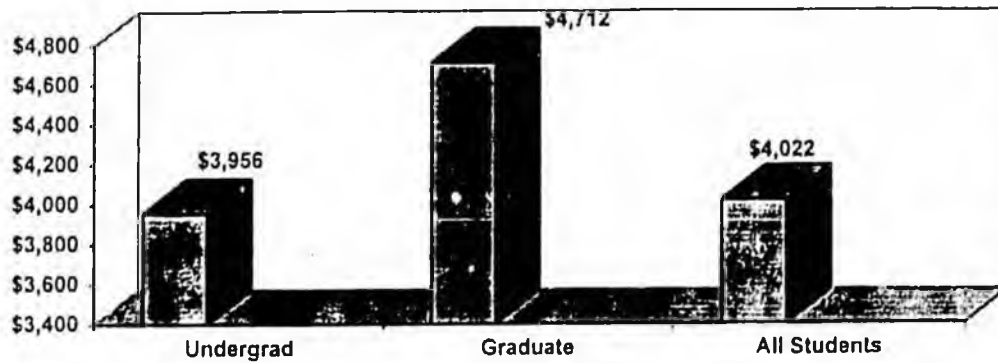
Profile of the 1994 Alaska Student Loan Portfolio

<u>Type of Students</u>	<u>Number of Students</u>	<u>Total \$ Loans 1994</u>	<u>Average Loan per Borrower</u>
Undergraduates	11,418	\$45,181,000	\$3,956
Graduate	1,075	\$5,065,000	\$4,712
Total	12,535	\$50,246,000	\$4,022

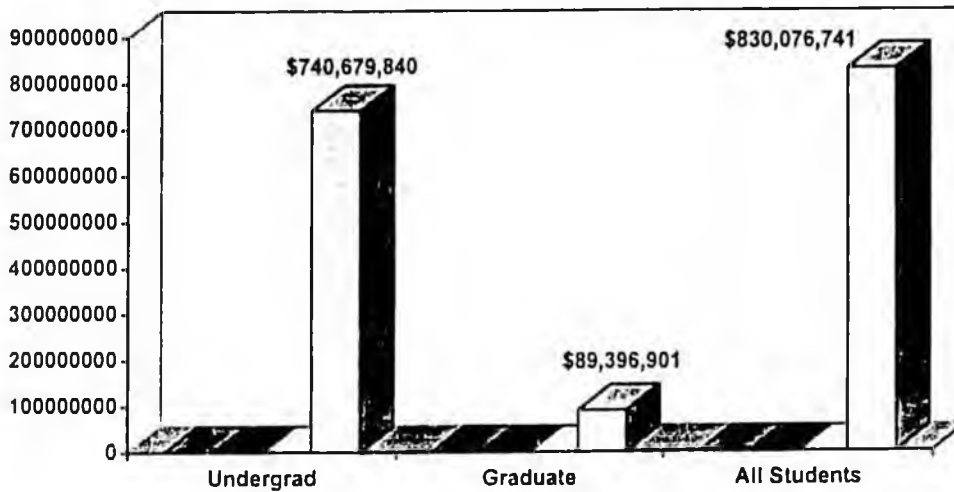
<u>Residency</u>	<u>Total Portfolio</u>	<u>Undergraduates</u>	<u>Graduate</u>
In-state	62.6%	65.5%	32.3%
Out-of-state	37.4%	34.5%	67.7%

<u>Type of Students</u>	<u>Total Cumulative #Students</u>	<u>Total Cumulative \$Dollars</u>	<u>Alaska Students Percentage</u>	<u>Out-of-State Students Percentage</u>
Total	208,772	\$830,076,741	52.2%	47.8%
Undergrad	190,285	\$740,679,840	55.4%	44.6%
Graduate	18,487	\$89,396,901	23.5%	76.5%

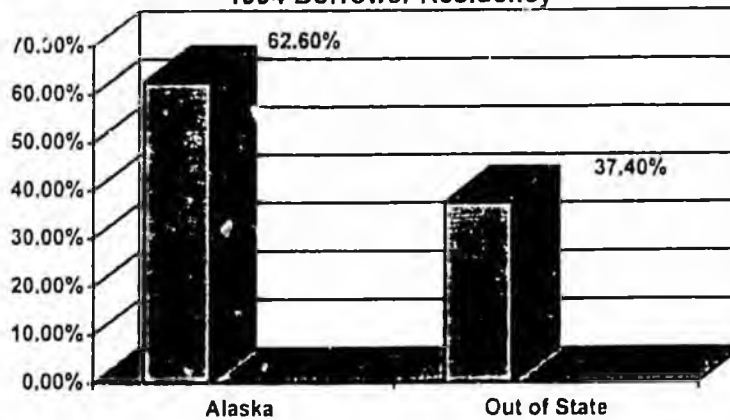
Average ASLP Loan



Cumulative ASLP Loan Volume

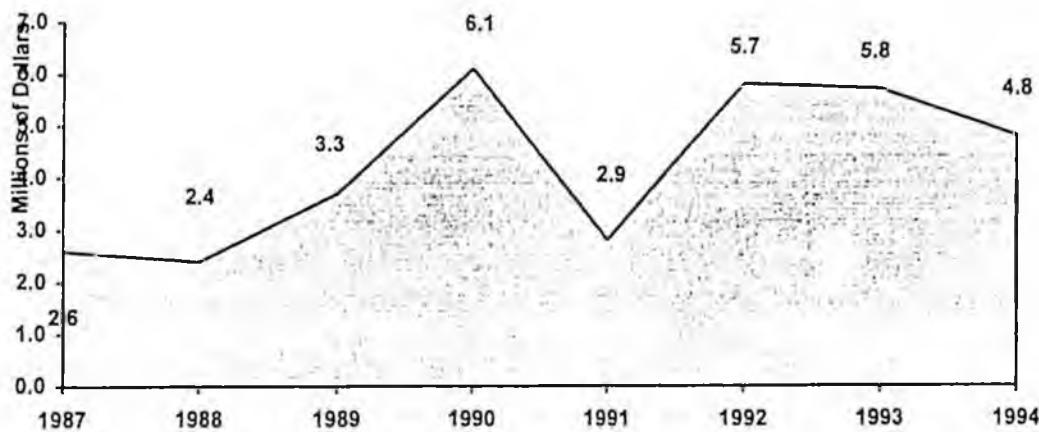


1994 Borrower Residency

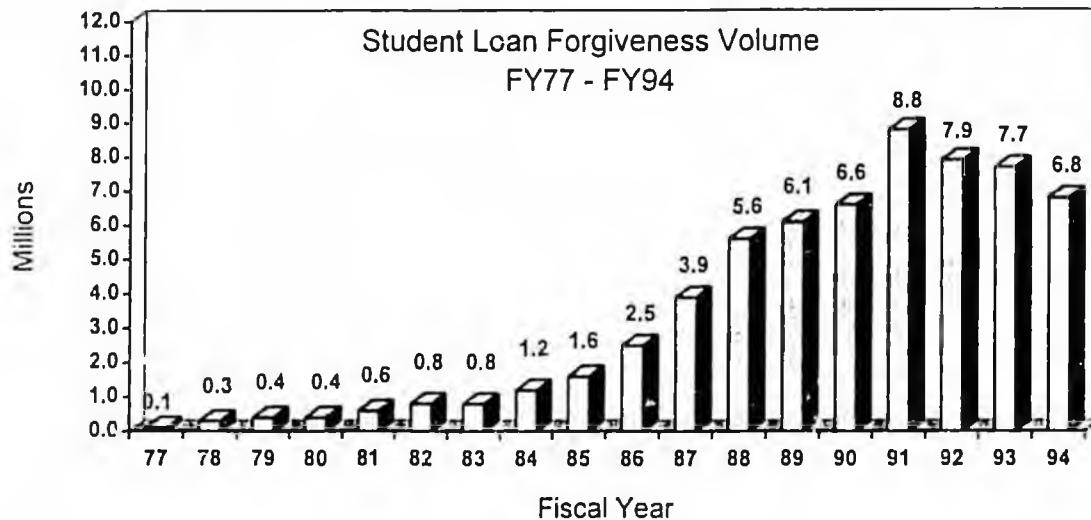


The Permanent Fund Dividend - According to AS 43.23.065 (b)(3) to satisfy the balance of a defaulted loan, the Commission can garnish an Alaskans Permanent Fund Dividend. The Alaska Permanent Fund is a fund held and managed by the state which was established by an amendment to the constitution of the State in 1976. The Alaskan Permanent Fund may be taken to satisfy the balance of a defaulted loan. Through this garnishment process, approximately 33.5 million dollars have been garnished since 1987, from defaulted borrowers. During dividend year 1994, to date, 4.83 million has been collected.

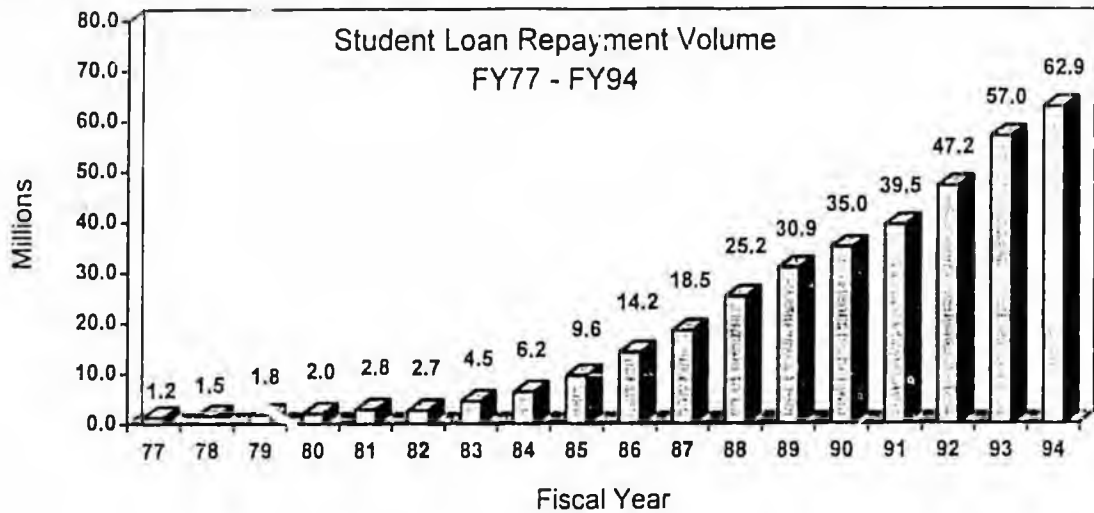
Permanent Fund Dividend Garnishments



Loan Forgiveness Provisions - A rather unique feature of the Alaska Student Loan Program is that loans made prior to July 1, 1987 are eligible for forgiveness benefits. If a borrower completes the program of study for which a loan is made and then lives in Alaska after completion of study, the borrower may be eligible to have up to 50% of the loan forgiven (canceled). Forgiveness benefits are earned in 10% increments for each year of residency after the second year following completion of study.

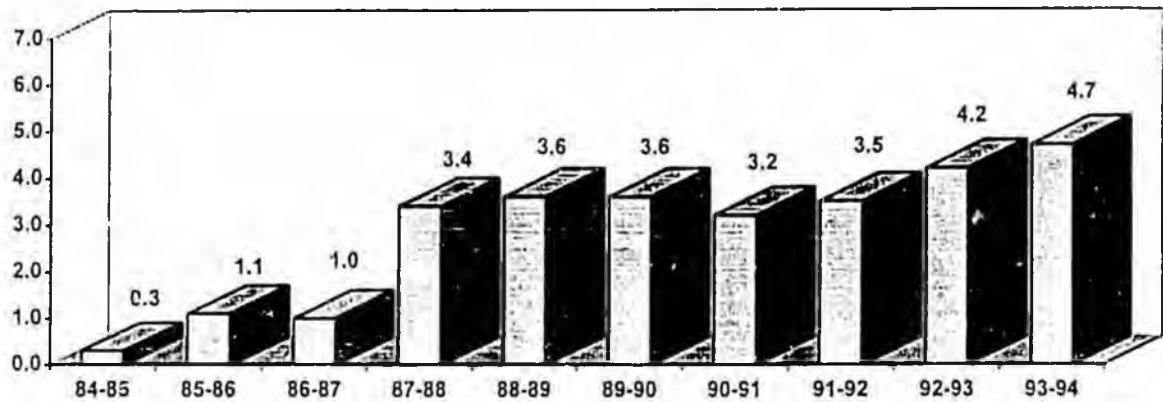


Loan Repayments and Recoveries - Since its inception, the Alaska Student Loan Program has been based upon a revolving fund with loan repayments and proceeds being used for loans in subsequent years. Since 1976-77, student loan borrowers have repaid over 362 million. The annual and dramatic growth in repayment is presented graphically below.



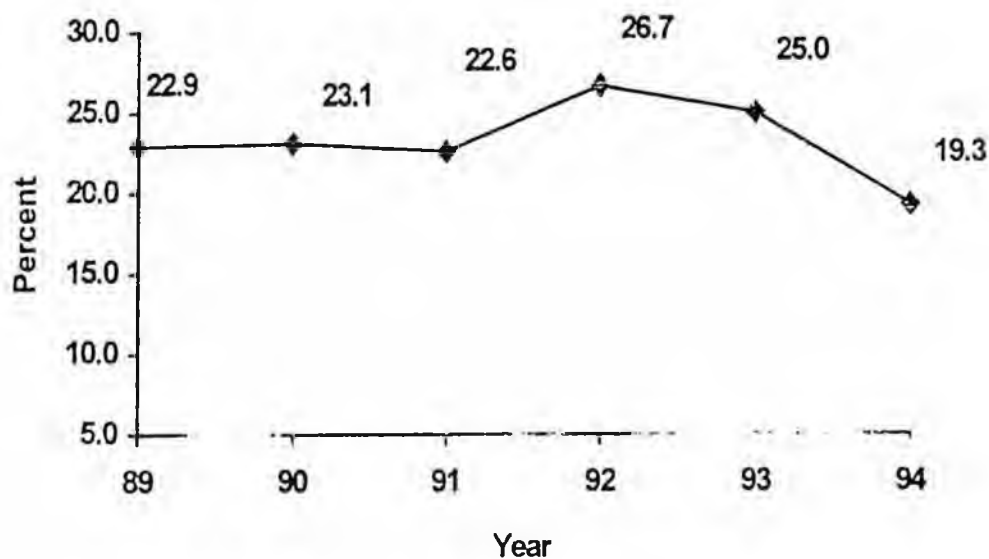
Student Loan Collection Agency Recoveries - Collection contractors have been utilized since September 1984 to provide debt collection services to the Commission on accounts which have reached at least 120 days past due. The contracts are contingency fee based, covering the cost of pursuing collection of defaulted loans, including skiptracing, legal fees, and judgment enforcement. Four collection contracts between the Commission and private contractors are currently in effect. The Commission recently solicited bids for additional contractors, with additional emphasis on skiptracing. Three new nationally known collection agencies will be added tentatively set by March 1, 1995. A table summarizing the recovery on accounts by private vendors since 1984-85 follows:

Student Defaulted Loan Recoveries from Collection Agencies



ASLP Default Experience - The ASLP's default rate has been unusually high during the past five years with default rates ranging from 22 to 26%. During this past year the default rate dropped below 20% and was 19.3% as of June 30, 1994. This decline is due in part to our increased collection efforts and in part to the steady increase in the number of borrowers entering repayment. The default rates illustrated below are cumulative rates calculated on the total dollars that have defaulted since inception of the ASLP as a numerator and the total outstanding principle balance of loans in the portfolio minus loans "in-school" or "in-grace" status as a denominator.

Alaska Student Loan Program Default Rates



HISTORY OF CHANGES TO THE ALASKA STUDENT LOAN PROGRAM

1968

- ◆ Administered by the Department of Education
- ◆ Maximum loan amount \$500 per year up to four years
- ◆ Non-interest bearing
- ◆ Forgiven at the rate of \$500 for each six months student lives in Alaska after completing studies

1970

- ◆ Maximum loan amount increased to \$750
- ◆ Forgiven at a rate of \$750 for each full year student lives in Alaska after completing studies

1971

- ◆ Framework for current student loan program established
- ◆ Created the Scholarship Revolving Loan Fund
- ◆ Maximum loan amount of \$2,500 for undergraduates, \$5,000 for graduates
- ◆ Interest rate of 5%
- ◆ Forgiveness of up to 40% at the rate of 10% for each year student remains in Alaska after completing studies

1974

- ◆ Alaska Commission on Postsecondary Education created and charged with administering the program
- ◆ Scholarship Revolving Loan Fund established as self-supporting unless funds needed from general fund
- ◆ Memorial Scholarship Loan Fund created

1978

- ◆ Maximum undergraduate loan amount increased to \$3,000

1981

- ◆ Maximum loan amount increased to \$6,000 for undergraduates, \$7,000 for graduates
- ◆ Forgiveness amount raised to 50%

HISTORY OF CHANGES CONTINUED...

1984

- ◆ Allowed Scholarship Revolving Loan Fund to be used to pay costs of collecting defaulted student loans if costs not recovered from student
- ◆ Interest rate for defaulted loans increased to 10%
- ◆ Teacher Scholarship Loan Program established

1986

- ◆ Maximum loan amounts decreased to \$5,500 for undergraduates, \$6,500 for graduates
- ◆ Interest rate increased to 8%

1987

- ◆ Alaska Student Loan Corporation created to allow the sale of tax-exempt revenue bonds to finance the program
- ◆ Commission to continue administering the program
- ◆ Forgiveness provision repealed
- ◆ One-year grace period on interest accrual eliminated
- ◆ Allowance given for payment of administrative costs from Scholarship Revolving Loan Fund
- ◆ Alaska Family Education Loan established

1991

- ◆ Alaska Half-Time Loan Program established

1993

- ◆ Guarantee fee of 1% established

1994

- ◆ Variable interest rate established
- ◆ Non-renewal of occupational licenses to defaulted borrowers until default resolved.
- ◆ Borrowers have the option of consolidating multiple loans into a single loan or to consolidate loans made to married borrowers. The new interest rate is the weighted average of the respective loans.
- ◆ Family Education Loans made more accessible to Alaskans wishing to borrow on behalf of a child or spouse.

Defaulted borrowers subject to wage garnishment as a part of any judgment issued Loan by the courts.



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Alaska Commission on Postsecondary Education

FEASIBILITY STUDY

Final Report
September 1994

**FEASIBILITY STUDY
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
FINAL REPORT**

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- 1** Executive Summary
- 2** Systems Analysis
- 3** Organizational Analysis
- 4** Key Operating Indicators
- 5** Alternative System Solutions
- 6** Appendix 1 - Functional Specifications

EXECUTIVE SUMMARY

The Alaska Commission on Postsecondary Education (ACPE or the Commission) has been providing educational loan assistance to Alaska residents since 1974. During the 1993 - 1994 academic year, ACPE originated 13,289 loans. ACPE's operating center is located at 3030 Vintage Blvd., Juneau, with a small origination staff in Anchorage. The commission currently services an active portfolio totaling approximately \$500 million for 95,000 borrowers with a servicing staff of 90.

ACPE administers several student loan programs. The largest program is the Alaska Student Loan Program (ASLP). ASLP differs from the Federal Family Education Loan Program (FFELP) in that the federal government is not reinsuring these loans. Therefore, ACPE is not subject to the same due diligence requirements as the participants in the FFELP. The Alaska loan programs are currently funded through tax exempt revenue bond issues. The loans are granted to Alaska residents attending post secondary education facilities based upon the students' financial need.

As part of the requirements to obtain funding through bond issues, ACPE contracted to have a compliance and operational review performed on the loan servicing. This compliance and operational review was conducted in March 1993. This review found the loan portfolio was subjected to significant risk due to the following operational deficiencies:

- Erroneous record keeping
- Insufficient audit trail
- Business interruption potential
- Inadequate support for management decisions
- Errors of omission or commission
- Excessive costs or deficient revenues
- Loss or destruction of assets
- Unachievable program objectives

As a result of this review, a total of 53 findings and recommendations were made to ACPE. Additionally, the Commission's bond insurer withheld insurance coverage on all bonds issued for funding the 1993/94 academic year.

A follow-up review was performed in June 1994 to evaluate the progress that ACPE has made towards improving operations and implementing the recommendations. The results of the review were as follows:

- The Commission has made significant progress implementing recommendations and improving the quality of the operations
- The Commission has implemented 29 of the 53 recommendations

As a result of the improvements made, the bond insurer is providing insurance coverage of bonds issued for funding the 1994/95 academic year.

Current Operations and Software Environment

ACPE's operating staff have made significant progress in resolving problems associated with the conversion. Under the leadership of the new Executive Director, KPMG believes ACPE is well on the way toward achieving its goals and objectives. However, the lack of functionality in the current servicing system is an obstacle preventing the Commission from fully realizing its program objectives and meeting borrower needs. The key issues include:

- The current software system does not meet the functional needs of the staff
- Performing routine tasks is labor intensive, requiring too many staff who could be utilized in other areas
- Borrower status management, skip tracing, and collections do not have adequate system support to be effective
- Internal control and accounting weaknesses of the system are a major risk to the Commission's assets

The loan servicing software is the primary cause of the problems stated above for three reasons:

1. As a result of conversion problems and certain modifications to the Information Associates (IA) system, the software contains numerous errors which prevent proper processing. These errors have forced the Commission to bypass certain features of the system, such as delinquency notice generation, to avoid adversely affecting borrowers.
2. From a functional standpoint, the software has major shortcomings including:
 - Inadequate audit trails
 - Labor intensive procedures requiring multiple screens to perform basic tasks
 - Poor support of grace/post deferment grace period interest accrual and billing
 - A collection module which cannot handle a large volume of accounts
3. From a technology standpoint, maintaining the system over the long term is problematical.

The scope of KPMG's feasibility study included a review of the current systems and operating environments, needed modifications to improve ACPE's performance, and alternative systems solutions.

KPMG was first requested to review the current system and operating environment. In this section of our review we conducted on site research consisting of reading prior reviews and evaluations performed at ACPE to determine known weaknesses in the systems environment and met with systems and functional experts within ACPE to evaluate specific areas of the systems environment. The specific areas included:

- Loan origination
- Disbursement
- Scheduling
- Tracking payment arrangements
- Billing
- Payment processing
- Due diligence
- Collections
- Forgiveness
- Borrower tracking
- Student status tracking
- Deferment processing
- Reporting
- Funds reconciliation
- Electronic funds transfer
- Loan consolidation

Secondly, KPMG was requested to review the needed modifications (and their associated costs) to the ACPE's systems and operating environment to improve the services it delivers. For the functional areas defined above which have some or major systems or operating deficiencies, we performed an analysis of the needed modifications to cure these deficiencies. We met with designated specialists from ACPE to determine the additional hardware and/or software requirements to support the function as well as an estimated cost for purchasing such support, the estimated number of man hours for development, programming, testing and implementation as well as an estimated cost per man hour, and the estimated time frame for implementation.

Thirdly, KPMG was requested to review other systems solutions to find out which could be more cost effective and could provide the needed improvements. We looked at the following alternatives as possible solutions: fixing the current in-house system, contracting with facilities management group, remote servicing of the portfolio, and outsourcing all servicing of the portfolio.

Lastly, KPMG was requested to review the adequacy of the ACPE's operations environment to determine: if the interrelationships of each functional group within ACPE

provides an efficient and logical flow for performing their set of functions; if the tasks perform by each functional group are logically related and appropriate to the function of each group; and if each functional group has the necessary structure, controls and performance standards to achieve their goals and objectives.

Recommendation

ACPE does not have the resources with the right skill sets to timely implement the necessary changes to the current servicing system. Outsourcing the servicing to an existing student loan servicer is the most attractive alternative solution from an economic viewpoint. The Alaska Student Loan Program (ASLP) differs from the FFELP in the requirements for loan origination, collections, and claims processing. These differences would cause confusion to the loan servicing staff accustomed to only dealing with FFELP loans. We believe the Commission may experience start up problems and borrower complaints by selecting outsourcing as an alternative solution. Timesharing is not considered to be a viable alternative due to the increased operating costs and time requirements to implement customized programming requirements.

We believe ACPE should consider purchasing a loan servicing system capable of being run on the Division of Information Services computers. ACPE should use the functional specifications, provided in the appendix of this report, as a base to determine which software package fits their needs. It is unrealistic to assume that a generic loan servicing software package will fit all of the processing needs. Therefore, information technology companies which purchase software packages have adopted the 80%/20% concept. If the package will fill 80% of the critical processing needs, the company will purchase the package and program the remaining 20%

**FEASIBILITY STUDY
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
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SYSTEM BACKGROUND

The current loan servicing system was purchased from IA in 1990. During the same time frame, Alaska was consolidating much of the state's data processing on Amdahl equipment. ACPE's old loan servicing system operated in a Digital Equipment Corporation operating environment. ACPE contracted with COMRIM Systems, Inc. to customize the IA loan servicing system to fit their new operating environment. COMRIM declared bankruptcy prior to the completion the contracted work with ACPE. The Commission decided to convert the loans to the new system without running parallel with the old system. The following are major issues that developed from the conversion:

- ACPE originally thought 7% of all loans were converted in error; however, the extent of the errors were under estimated. 33 separate conversion issues have been identified and to date approximately 7 man years have gone into fixing these conversion issues
- The conversion has never been reconciled to general ledger records
- Numerous accounts were converted with incomplete data. ACPE had to devise methods of identifying these accounts to prevent normal processing. In doing so, the intended use of some data elements have been changed
- System problems related to deferred accounts affected the accuracy of balances for approximately 17,000 accounts
- The conversion clean-up process hindered normal operations. Severe delays and backlogs developed in answering calls/correspondence and basic processing of forms, payments, etc.

Major System Issues

There were a number of borrower accounts converted with errors or missing data. Additional processing errors occurred immediately after conversion due to the lack of knowledge on how the servicing system operated. This further degraded the integrity of the borrower information on the servicing system. These two factors caused the operations staff to lose confidence in the servicing system and the integrity of the loan data. The staff began to develop manual procedures to circumvent the system as opposed to learning what the system could do. The combination of conversion issues and manual processing has caused billing and other account errors to come to the borrower's attention. This has created a ripple effect of borrower complaints and additional stress on the servicing staff. Special project resources have been devoted to cleaning up the conversion errors.

The system documentation is the original narratives purchased from Information Associates. Many modifications to the original systems have been implemented; however, the system documentation has not been maintained to reflect these changes. The ACPE staff does not know which source programs are necessary to maintain the servicing system and, in some cases, which source programs are necessary to reconstruct an on-line program.

The system functions as a repository for loan data with very little automated functionality. *The majority of the loan servicing tasks are performed manually.* Loan balances after a misapplied payment, NSF check, interest rate increase, retroactive deferment or forbearance are manually calculated by customer service representatives and entered into the system. Almost any change in the borrower's status also requires manual intervention. In some cases these calculations are performed with the aid of a calculator or spreadsheet; however, the accuracy of these calculations are not verified. This manual processing circumvents the internal controls inherent in most automated systems.

The IA system was designed to service campus based loan programs for twenty to twenty-five thousand borrowers. The system was not meant to service a portfolio as large as ACPE's. One school using the IA system is servicing thirty-five thousand borrowers and they have experienced slow system response times and degraded system performance. The system's performance is customized to take advantage of the DEC operating environment and operates in a degraded mode on the Amdahl equipment. A degraded response time will not support ACPE expected service levels. The response time for collection information is so slow that the collections department relies on batch reports to schedule work rather than the on-line system.

The origination system and the loan servicing system are only loosely interfaced. When new awards, cancellations, or refunds occur, the ACPE staff must make sure that this activity is reflected by the borrowers' status in the servicing system. Additionally, the system is not interfaced to the general ledger system.

The ACPE staff is required to access multiple screens to complete normal processing tasks. This negatively impacts the efficiency and effectiveness of the staff and borrower services levels.

Necessary System Improvements

The following is a list of system changes that needs to be implemented if ACPE plans to continue servicing borrower accounts on the current version of the IA system:

- Update the existing system documentation to reflect which source programs are currently used. Additionally, document how the modules are linked to form executable programs production. This will help increase the system knowledge base and shorten the time to implement needed system changes.
- Expand the Institution Budget segment of the FAM-AID data base to accommodate multiple school budgets per loan program for undergraduate and post graduate work. Additionally, the attendance dates should be used to edit the disbursement dates for reasonableness. These changes will improve the origination process by eliminating the staff's reliance and maintenance of this information on rolodex cards. Additionally,

these modifications will help to ensure the proper timing and amounts of disbursements.

- Provide forward and backward scrolling of the school segment of the SYSTEM-CNT-FILE and program edits of the school file to meet eligibility requirements. This modification will improve the maintenance of the school information file and ensure loans are granted to students attending eligible schools.
- Establish edits to the LMS system to determine the number of loan years prior to awarding a new loan. This modification will provide an automated control to comply with the established limit of granted loans.
- Establish edits of the LMS system to determine that a borrower is not delinquent in loan payments prior to awarding a new loan. This modification improves the efficiency by providing automated compliance with the program requirement.
- Establish edits of the bad address indicator prior to awarding a new loan. This automated control will improve collection activities through ensuring the quality of the borrower's demographic data.
- Currently the system will allow access to only 15 screens of anecdotal notes. Provide forward and backward scrolling of the entire anecdotal file. This modification will improve the process of making decisions on collections and status changes.
- Provide the capability to capture application information from the Federal Form - Multiple Data Entry process. This modification will improve the quality of the borrower data, reduce the data entry effort, and improve the Commission's ability to reach needy borrowers.
- Provide the capability to refinance loans and maintain an audit trail of this activity. This modification will provide the Commission with a tool to combine loans and ease a borrower's payment obligations.
- Develop automated procedures to handle various loan types with differing repayment terms. The system should automatically set up the repayment terms, first payment due date, and provide a proper truth in lending disclosure.
- Provide the capability to produce disclosure statements on demand without affecting the terms of the loan. Additionally, the disclosure statements should properly disclose the interest begin date and the amount of interest accrued during the period of post deferment grace.
- Provide an automated interface to the general ledger system, AKSAS. This will facilitate the balancing and reconciliation of accounting activity.

- Provide Electronic Funds Transfer support as an alternative to cutting disbursement checks to borrowers attending volume schools. This will reduce the cost of disbursement activity.
- Use a combination of anticipated graduation date and student status verification with the school to automatically convert borrowers into repayment. This eliminates the need to manually change the borrower's status each academic year and will improve collection through timely conversion to repayment.
- Provide the capability to accelerate payment of the borrower's debt at default and change the interest rate on defaulted loans. This will properly record the total borrower's indebtedness.
- Provide a means to back out misapplied or NSF payments and to automatically reapply payments calculating the correct interest and principal balances. This will improve the timeliness of correcting the borrower balances by reducing the manual process of reapplying payments.
- The payment application algorithm should be changed to handle payments less than and greater than the normal monthly payment amount. Payments should be first applied to bring the borrower current. Multiple partial payments should be combined to form a full payment and reduce the delinquency by the number of full payments received. Payments greater than the normal monthly payment amount should be applied to the outstanding principal balance. The system should also have the flexibility to pay the borrower's account into the future when the borrower has indicated that is the intent of the overpayment.
- Re-activate the automated sixty day and ninety day delinquency letters. This will ensure timely collection activities and improve collections on delinquent accounts.
- Provide a check digit routine for the borrower's social security number to reduce the number of payment posting errors.
- The system does not maintain audit trails of changes to critical monetary and non-monetary fields. Due amounts, interest rates, graduation dates, monthly payment amounts, and borrower demographic information are specific areas of concern. When critical monetary and non-monetary data elements are changed, provide an audit trail including the information that was changed.
- Additional payment transaction codes are needed to identify payments from garnishments and bankruptcy trustees. By identifying these payments separately, ACPE can avoid an erroneous status change to the borrower's account.
- The data and processing needs of each operational area should be reviewed and screens designed to optimize inquiry and maintenance of the borrower's account.

- The word processing function should be modified to either allow form paragraphs or to customize the text portion of the letter, allowing more than two lines of text. Additionally, the system should calculate borrower level financial information and insert this information into the letters.
- The system does not provide management information on departmental backlogs, employee performance, or allow one to anticipate staffing levels. Additionally, ad hoc reporting requires assistance for already strained data processing resources. Additional management reporting should be developed or software implemented to support ad hoc reporting by the operating staff.

System Support Matrix

The following pages contain a summary and detail matrix which defines the level of sufficiency of the system support. For each function, the matrix is divided into liability potential, systems, manual, and internal control.

Liability Potential

Liability potential is defined as the potential financial exposure if major errors go undetected. This perspective is drawn from the possible liability, volume, and relative complexity of the task. The possible ratings include:

- 1 High Liability
- 2 Medium Liability
- 3 Low Liability

Systems

The effectiveness and the functionality of the current system(s) supporting the activity in question. The possible ratings include:

- 1 Major System Deficiencies
- 2 Some System Deficiencies
- 3 Few or No System Deficiencies

Manual

The effectiveness of the current manual procedures supporting the activity in question. The possible ratings include:

- 1 Difficult tasks with no documented procedures
- 2 Medium difficulty tasks with little or no documented procedures
- 3 Limited tasks and/or well documented procedures

Controls

The degree to which adequate controls are in place to monitor the effectiveness of the current system and manual procedures. The possible ratings include:

- 1 Little or no controls in place
- 2 Controls in place to identify only major problems
- 3 Effective combination of Detective and preventive controls are in place

The total scores for each area is used to determine the priority that should be given to enhancing the processing or improving the existing controls. The priority levels are assigned as follows:

Priority	Total Score
High Priority	4 - 7
Medium Priority	8 - 9
Low Priority	10 - 12

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DETAILED FUNCTIONS

AREA OR PROCESS	LLA. POT.	SYS.	MAN.	INT. CON.	TOT SCORE	GENERAL COMMENTS
Hardware	2.00	3.00	3.00	2.00	10.00	ACPE Relies on Division of Information Services
Systems Controls	2.00	3.00	3.00	2.00	10.00	ACPE Relies on Division of Information Services
Job Production	2.00	3.00	3.00	2.00	10.00	ACPE Relies on Division of Information Services
Disaster Recovery	1.00	1.00	1.00	1.00	4.00	Non existent: ACPE relies upon the State Division of Information Services
Interfaces	1.00	1.00	2.00	1.00	5.00	None to GL or even between some system functions
Phone Systems	3.00	3.00	3.00	3.00	12.00	Switch and ACD in use
Auto Dialers	3.00	3.00	3.00	3.00	12.00	Not in place - volume of outgoing calls low
Voice Response Tech.	3.00	3.00	3.00	3.00	12.00	Not in place - volume of calls low
Microfilming	2.00	1.80	2.00	2.00	7.80	Microfiche used
Document Control	2.00	1.00	2.00	1.00	6.00	No backup of master; No system updates which note document location or filming
System Tracer #'s	2.00	1.00	1.00	1.00	5.00	No tracer number used; documents stored by borrower name reverse SSN
Turnaround Time	2.00	3.00	3.00	3.00	11.00	Outside processor
Retrieval	2.00	1.00	3.00	3.00	9.00	Manual - Microfiche
Quality Control	2.00	3.00	1.00	2.00	8.00	Fiche is spot checked for quality
Mail Sorting & Distribution	2.67	1.67	1.67	2.33	8.33	
Date & Time Stamp	3.00	1.00	1.00	2.00	7.00	Date Stamp Only
Batch & Distribution	2.00	1.00	1.00	2.00	6.00	No Batch Control in the Mail Room Operations
Turnaround	3.00	3.00	3.00	3.00	12.00	Same day to awards for processing.
Loan Origination	2.17	2.06	2.17	2.17	8.56	
Batching	2.00	2.00	2.00	2.00	8.00	Applications are batched but no batch balancing
Electronic Processing	2.00	0.00	0.00	0.00	2.00	Applications are received and processed manually
Cosigner & References	3.00	2.00	1.00	1.00	7.00	Maintained in the Demo record of LMS files - Not entered at origination
Student Processing	3.00	2.00	2.00	2.00	9.00	
System Edits of Application	2.00	1.00	2.00	2.00	7.00	Limited edits for eligibility (child support & loan delinquency, number of yrs. funded)
Data Entry	2.00	3.00	2.00	2.00	9.00	On-line entry using multiple CICS screens for entry.
Awards notification	3.00	3.00	3.00	3.00	12.00	
Appeal Processing	2.00	3.00	2.00	2.00	9.00	
Setting of Disburse Date	1.00	2.00	2.00	2.00	7.00	Manual adjustments necessary on all except annual awards
Truth in Lending	1.00	3.00	3.00	3.00	10.00	
Denied & Reject Processing	2.00	3.00	3.00	3.00	11.00	Canceled after 60 days
Application Tracking	2.00	1.00	3.00	3.00	9.00	Small Volume - done manually
Transaction History	2.00	3.00	3.00	2.00	10.00	Hard code and standard abbreviations need to be developed. Limited to 15 screens.
Audit Trail	3.00	2.00	2.00	2.00	9.00	Anecdotal - Limited; no trail on original entry
Award Reductions	2.00	3.00	3.00	3.00	11.00	
Refinancing of Loans	2.00	1.00	2.00	2.00	7.00	Not automated
Annual Application Renewal	3.00	2.00	1.00	2.00	8.00	Not automated

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AREA OR PROCESS	LIA. POT.	SYS.	MAN.	INT. CON.	TOT SCORE	GENERAL COMMENTS
Quality Control	2.00	1.00	3.00	3.00	9.00	Manual selection & review
Disbursement	1.29	1.71	1.76	1.72	6.47	
Scheduling	2.00	2.00	3.00	1.00	8.00	Programmer maintains table
School Eligibility	1.00	1.00	2.00	3.00	7.00	No scrolling capability and table not maintained.
Bonds Funds Availability	2.00	1.00	2.00	3.00	8.00	Awards checks with accounting to determine.
School Budget Funds	2.00	1.00	2.00	3.00	8.00	One budget for undergraduate & post work, Award's maintains a rolodex for multi plans.
Check Production	1.00	3.00	2.00	1.00	7.00	Processed in batch mode and controlled by the state.
Electronic Fund Transfer	1.00	0.00	0.00	0.00	1.00	Not available
Fee Deduction	2.00	3.00	3.00	3.00	11.00	First year in use.
Reconciliation	1.00	3.00	3.00	3.00	10.00	
Monitoring	3.00	1.00	2.00	3.00	9.00	
Scheduling	1.75	1.00	1.00	1.75	5.50	
Student Status Monitoring	2.00	1.00	1.00	1.00	5.00	No formal methods - relies on new applications to update grad date
Repayment Terms	2.00	1.00	1.00	2.00	6.00	100 % QC required -can't handle 5 year loans-man. calc. for extended terms
Truth In Lending	1.00	1.00	1.00	2.00	5.00	100 % QC required -can't handle 5 year loans-man. calc. for extended terms
1st Payment Due Date	2.00	1.00	1.00	2.00	6.00	Retroactive processing requires manual calculation of 1st due date
Tracking Payment Arrangements	1.00	1.71	1.71	1.71	6.14	Needs include back to back schedules - manual calcs. and follow-up
Payment Amounts	1.00	1.00	1.00	1.00	4.00	All manually calculated - must have tickler to make mandatory changes
Disclosures	1.00	1.00	1.00	1.00	4.00	Must be requested, amounts calc. entered on system, disclosed multiple times.
Inquiry Capability	1.00	2.00	2.00	2.00	7.00	Reports used for tracking, must refer to tickler file for follow-up.
Billing	1.00	2.00	2.00	2.00	7.00	System produces bills, info. accurate, no manual intervention.
Missed Payments	1.00	2.00	2.00	2.00	7.00	System reports missed pays., auto expires after 3. Lists must be reviewed.
Transaction History	1.00	2.00	2.00	2.00	7.00	System has DD, must refer to multiple screens to get complete picture
Borrower Contacts	1.00	2.00	2.00	2.00	7.00	All automated notices, no phone call due diligence
Billing	1.00	1.20	1.80	1.40	5.40	
Data Elements	1.00	1.00	3.00	2.00	7.00	Grace accrued interest is not captured
Accuracy of Data	1.00	2.00	3.00	2.00	8.00	Conversion and defer grace problems affecting accuracy of bills - prepay issue
Production	1.00	1.00	1.00	1.00	4.00	Tape sent to Utah, delays in printing, no capability for QC
Turnaround	1.00	1.00	1.00	1.00	4.00	Tape sent to Utah, delays in printing, no capability for QC
Quality Control	1.00	1.00	1.00	1.00	4.00	No QC - System bugs prevent accurate billing
Payment Processing	1.12	1.94	1.76	1.53	6.35	
Lock Box	1.00	3.00	3.00	1.00	8.00	May be problems with payment posting at lock box in Anchorage
Coupons/Bills	1.00	1.00	1.00	1.00	4.00	Overpayments does not meet ACPE's policy needs - requires extensive adj.
Payment Application	1.00	3.00	3.00	3.00	10.00	Seems to work as far as payment hierarchy
Interest Only	1.00	1.00	1.00	1.00	4.00	Done by technicians- no system calcs - very labor intensive
Backdating Transactions	1.00	1.00	1.00	1.00	4.00	Done by technicians - no system calcs - very labor intensive

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AREA OR PROCESS	LJA. POT.	SYS.	MAN.	INT. CON.	TOT SCORE	GENERAL COMMENTS
Back out & Reapplying	1.00	3.00	3.00	3.00	10.00	Applies per specifications.
Pay Exact	1.00	3.00	3.00	3.00	10.00	Applies per specifications
Underpays	1.00	1.00	1.00	1.00	4.00	Applies per specifications - does not meet ACPE's needs partial pays. does not clear delinquency
Overpays	1.00	1.00	1.00	1.00	4.00	Applies per specifications - does not meet ACPE's needs
Prepays	1.00	2.00	1.00	1.00	5.00	Applies per specifications - does not meet ACPE's needs
No Coupons/Bills	1.00	3.00	2.00	2.00	8.00	Bank Deposits and send to ACPE to clear
Non-OCR	1.00	3.00	2.00	2.00	8.00	Bank Deposits and send to ACPE to clear
Rejects	1.00	1.00	1.00	1.00	4.00	Done by technicians - no system calcs -very labor intensive
NSF	1.00	1.00	1.00	1.00	4.00	Done by technicians - no system calcs -very labor intensive
Paid-in-Full Notices	3.00	0.00	0.00	0.00	3.00	Not Used
Deposits	1.00	3.00	3.00	1.00	8.00	Manual Process
Reconciliation	1.00	3.00	3.00	3.00	10.00	Checks and RSR's
Cancellation	2.00	3.00	2.00	2.00	9.00	Requires manual adjustments.
Refunds	2.00	3.00	2.00	2.00	9.00	Requires manual adjustments.
GL Interface	1.00	0.00	0.00	0.00	1.00	No interface to states AKSAS system.
Due Diligence	1.36	1.45	1.91	1.91	6.64	
Tracking Reports	1.00	2.00	1.00	1.00	5.00	Systems errors and conversion. makes tracking inefficient
Notice Generation	1.00	1.00	1.00	1.00	4.00	60 and 90 day notices done manually and at irregular intervals
Data Elements	1.00	1.00	1.00	1.00	4.00	System errors and conversion. makes data inaccurate - requires manual audit
Accuracy of Data	1.00	1.00	1.00	1.00	4.00	System errors and conversion. makes data inaccurate - requires manual audit
Production	1.00	3.00	1.00	1.00	6.00	Few controls in place to insure production is properly running
Turnaround	1.00	3.00	3.00	3.00	10.00	Seems timely
Quality Control	1.00	1.00	1.00	1.00	4.00	Too manually driven, high number of errors requires constant audits
Phone Calls	2.00	1.00	3.00	3.00	9.00	Requires only 2 per 120 day delinquency
Frequency of Calls	2.00	1.00	3.00	3.00	9.00	
Scheduling of Calls	2.00	1.00	3.00	3.00	9.00	Manual
Quality Control of Calls	2.00	1.00	3.00	3.00	9.00	
Collections	2.20	1.40	1.80	1.80	7.20	
Notice Scheduling	2.00	3.00	3.00	3.00	11.00	
Tickler Files	3.00	0.00	0.00	0.00	3.00	Not Used
Quality Control	2.00	1.00	3.00	3.00	9.00	
Collection Agency	2.00	2.00	2.00	2.00	8.00	Collection fees not captured
Perform. Monitor	2.00	1.00	1.00	1.00	5.00	
Skip Tracing	2.00	1.00	2.00	2.00	7.00	
Identification	2.00	1.00	2.00	2.00	7.00	Manual Process and Tracking
Distribution	2.00	1.00	2.00	2.00	7.00	Manual Process and Tracking

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DETAILED FUNCTIONS

AREA OR PROCESS	LIA. POT.	SYS.	MAN.	INT. CON.	TOT SCORE	GENERAL COMMENTS
Phone Skip Method	2.00	1.00	2.00	2.00	7.00	Manual Process and Tracking
Mail Skip Method	2.00	1.00	2.00	2.00	7.00	Manual Process and Tracking
Follow-up	2.00	1.00	2.00	2.00	7.00	Manual Process and Tracking
Forgiveness	1.00	1.80	1.60	2.40	6.80	Manual Process and Tracking
Identifying Eligible Borrowers	1.00	2.00	1.00	3.00	7.00	Borrower has responsibility for initial request - review of forms totally manual
Notifying Eligible Borrowers	1.00	3.00	3.00	3.00	10.00	System generated at time of approval - no problems
Death	1.00	2.00	2.00	3.00	8.00	Some automated support - procedure well within industry standards
Disability	1.00	2.00	2.00	3.00	8.00	Some automated support - procedure well within industry standards
Bankruptcy	1.00	2.00	2.00	3.00	8.00	Some automated support - procedure well within industry standards
Forms Processing	1.00	2.00	2.00	3.00	8.00	Some automated support - procedure well within industry standards
Accuracy of Calculations	1.00	2.00	1.00	2.00	6.00	IA provides worksheet, requires manual calcs, accounting does final process.
Reconciliation	1.00	1.00	1.00	1.00	4.00	Not done regularly - problem with refunds control
Fund Reimbursement	1.00	1.00	1.00	1.00	4.00	May be overpaying interest - policy problem
Quality Control	1.00	1.00	1.00	2.00	5.00	Some controls - labor intensive
Borrower Tracking	2.33	2.00	2.67	1.00	8.00	
Reporting	3.00	2.00	3.00	1.00	9.00	Weak audit trail for recording changes
Status Changes	2.00	2.00	2.00	1.00	7.00	No calculations occur, everything must be manually calc. and updated
Demographic Changes	2.00	2.00	3.00	1.00	8.00	Weak records, updates from a single screen
Student Status Tracking	3.00	1.25	1.25	1.25	6.75	
Schools Contact	3.00	1.00	1.00	1.00	6.00	Minimal contact with schools to verify status
Borrower Contact	3.00	2.00	2.00	2.00	9.00	Limited contact for other reasons, i.e. new application requests
Follow-ups	3.00	1.00	1.00	1.00	6.00	Non existent
Updates	3.00	1.00	1.00	1.00	6.00	No calculations occur, manual, done on all in-school accounts annually
Entitlement Processing	1.00	1.82	1.18	1.36	5.36	
Forms Receipt	1.00	3.00	1.00	2.00	7.00	Manual process - just implementing distribution controls
Batching	1.00	3.00	1.00	2.00	7.00	Manual process - just implementing distribution controls
Review	1.00	3.00	1.00	1.00	6.00	Manual process - Little QC to verify accuracy
Data Entry	1.00	1.00	1.00	1.00	4.00	Very Cumbersome - requires multiple screens and procedures
System Calculations	1.00	1.00	1.00	1.00	4.00	System calcs are non existent - system just stores information
Interest Accrual	1.00	1.00	1.00	1.00	4.00	Major system error re: post defer grace interest accrual
Next Due Date	1.00	1.00	1.00	1.00	4.00	Must be manually calc. and entered
Expiration Notices	1.00	3.00	3.00	3.00	10.00	Entirely automated - seems to work well
Disclosure	1.00	1.00	1.00	1.00	4.00	Totally manual - done constantly
Cancellations	1.00	1.00	1.00	1.00	4.00	Very manual - must calculate all retroactive accruals
Systems Edits	1.00	2.00	1.00	1.00	5.00	Some edits regarding limits
Customer Service	3.00	2.50	1.75	3.00	10.25	

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DETAILED FUNCTIONS

AREA OR PROCESS	IJA. POT.	SYS.	MAN.	INT. CON.	TOT SCORE	GENERAL COMMENTS
Correspondence	3.00	2.00	1.00	3.00	9.00	
Inquiry	3.00	2.00	2.00	3.00	10.00	
Data Elements	3.00	3.00	2.00	3.00	11.00	
Phone Calls	3.00	3.00	2.00	3.00	11.00	
Reporting	2.32	2.05	2.47	2.63	9.47	
Electronic App. Report	0.00	0.00	0.00	0.00	0.00	Electronic Application Not Used
Paper App. Report	3.00	3.00	3.00	3.00	12.00	Awards Listing
Weekly Production	3.00	1.00	3.00	3.00	10.00	Small Volume - Not Necessary
New Loan Activity	3.00	3.00	3.00	3.00	12.00	Class Information
Check Register	2.00	3.00	3.00	3.00	11.00	Warrants
Refund Report	2.00	3.00	2.00	1.00	8.00	Included on PIF report, potential problem with defaulted loans - int. escalation
Roster Transmittal	2.00	1.00	3.00	3.00	9.00	Not available
Cash Report	2.00	3.00	3.00	3.00	11.00	Lock box, Payroll Deduction, Collection Agency & On-line Batch entry
Deleted Loans	2.00	3.00	3.00	3.00	11.00	Cancellations
Portfolio/Bond Reporting	2.00	3.00	2.00	2.00	9.00	Not a separate report
Skip Tracing	2.00	1.00	3.00	3.00	9.00	No
Transaction Detail	2.00	3.00	3.00	3.00	11.00	Transaction Journal
Loan Journal	3.00	1.00	3.00	3.00	10.00	No
Due Diligence	2.00	0.00	0.00	0.00	2.00	No
Suspense Reports	2.00	3.00	3.00	3.00	11.00	Handled in AKSAS
Past Due	2.00	1.00	2.00	2.00	7.00	Collector Aging
Paid in Full	2.00	3.00	2.00	3.00	10.00	Yes
Collection Agency	2.00	2.00	2.00	3.00	9.00	Placement and Aging reports
Ad Hoc Reporting	3.00	1.00	3.00	3.00	10.00	System has capability - not user friendly - not really used (Also Easytrieve)
Performance Statistics	3.00	1.00	1.00	3.00	8.00	
Electronic Funds Transfer					0.00	Not Used
Loan Consolidation	3.00	2.00	1.00	2.00	8.00	Just being introduced - fully manual
Other Requirements	3.00	2.00	2.00	2.00	9.00	
Imaging System	3.00	3.00	3.00	3.00	12.00	Volume does not justify
Cash Module					0.00	Not A Requirement
Performance Standards	3.00	1.00	1.00	1.00	6.00	Just developing - little support from system

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PRIORITY MATRIX

SUMMARY FUNCTIONS

FUNCTION	LIABILITY POTENTIAL	SYSTEMS	MANUAL	INTERNAL CONTROLS	TOTAL SCORE
Disaster Recovery	1.00	1.00	1.00	1.00	4.00
Electronic Funds Tran	2.00	0.00	0.00	2.00	4.00
Interfaces	1.00	1.00	2.00	1.00	5.00
Entitlement Processing	1.00	1.82	1.18	1.36	5.36
Billing	1.00	1.20	1.80	1.40	5.40
Scheduling	1.75	1.00	1.00	1.75	5.50
Tracking Payment Arr	1.00	1.71	1.71	1.71	6.14
Payment Processing	1.12	1.84	1.76	1.53	6.35
Disbursement	1.29	1.71	1.76	1.72	6.47
Due Diligence	1.36	1.45	1.91	1.91	6.64
Student Status Tracing	3.00	1.25	1.25	1.25	6.75
Forgiveness	1.00	1.80	1.60	2.40	6.80
Skip Tracing	2.00	1.00	2.00	2.00	7.00
Collections	2.20	1.40	1.80	1.80	7.20
Microfilming	2.00	1.80	2.00	2.00	7.80
Borrower Tracking	2.33	2.00	2.67	1.00	8.00
Loan Consolidation	3.00	2.00	1.00	2.00	8.00
Mail Sorting & Distrib	2.67	1.67	1.67	2.33	8.33
Loan Origination	2.17	2.06	2.17	2.17	8.56
Reporting	2.32	2.05	2.47	2.63	9.47
Hardware	2.00	3.00	3.00	2.00	10.00

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PRIORITY MATRIX

SUMMARY FUNCTIONS

FUNCTION	LIABILITY POTENTIAL	SYSTEMS	MANUAL	INTERNAL CONTROLS	TOTAL SCORE
Systems Controls	2.00	3.00	3.00	2.00	10.00
Job Production	2.00	3.00	3.00	2.00	10.00
Customer Service	3.00	2.50	1.75	3.00	10.25
Phone Systems	3.00	3.00	3.00	3.00	12.00
Auto Dialers	3.00	3.00	3.00	3.00	12.00
Voice Response Tech	3.00	3.00	3.00	3.00	12.00
Other	3.00	3.00	3.00	3.00	12.00

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ORGANIZATIONAL ANALYSIS

This section contains our overall analysis of areas within the ACPE's organizational structure, policies, and procedures which we believe the Commission should consider changing as part of any solution for improved servicing and data management.

Our information gathering consisted of:

- Reviewing the Commission's organizational structure and functions with the Executive Director and department directors to gain an understanding of the work flow within the organization and its departments
- Obtaining each director's assessment of how their departments interrelate with each other and are affected by other departments
- Meeting with department directors and supervisors to review how each area functions and each area is supported by the current system

Our objectives in this analysis were to identify areas or functions within the Commission where re-engineering of work flows and procedures and implementation of specific management directives would result in improvements in problem areas and enhance the impact of any recommended systems solution. We evaluated each area to determine:

- Are the functions performed appropriate to the department or would they be more efficiently handled by another area?
- Are procedures performed too manually driven where automated solutions are available?
- Is the department performing on a timely and accurate basis?
- Is the department's staffing adequate to handle the tasks and volumes?
- Does management provide adequate training and quality control oversight?
- Is the flow of critical information and documents under adequate controls to ensure proper and timely processing?
- Is documentation and training adequate to ensure accurate processing?
- Are the resources available to provide quality customer service?

The recommendations we have developed stem from our understanding of how the student loan servicing industry manages portfolios through the most productive and effective use of their resources. We are also recommending changes to policies and procedures in certain operational areas which are not serviceable by any systems solution

without extensive and costly customization. By implementing these changes, the Commission will bring them in line with industry norms and make feasible the use of the servicing options that are available.

Overall Organizational Findings and Recommendations

The Information Technology Group does not have the depth and technical skill sets necessary to effectively maintain the application.

ACPE's Information Technology group consists of three programmers reporting to an individual who does not have an information technology background. Only one of the programmers has experience with the application and the application's language, COBOL. The application system has been modified, but the documentation has not been maintained to reflect these modifications. ACPE is relying on the knowledge of the programmers to maintain this application.

Most of the programming resources have been utilized to correct problems from the original conversion and to make changes necessary to support technology changes implemented by the Division of Information Services. Therefore, little progress has been made toward implementing traditional information technology policies and procedures related to:

- Audit trails for program changes
- Testing procedures
- Disaster Contingency Planning
- Necessary skill set training
- Project Management

The Commission should consider hiring an individual with information technology and lending experience to direct the group.

The Compliance Officer is not reporting to a level within the organization to provide complete coverage.

The Compliance Officer currently reports to the Director of SFA Programs. The Compliance Officer should deal with issues broader than SFA programs. This staff function should report to a high enough level to promote lateral coverage throughout the organization.

ACPE should consider having the Compliance Officer report to the Internal Auditor and expanding the compliance coverage throughout the organization.

Operations

ACPE does not have a business resumption plan.

The Division of Information Services (DIS) which provides data processing services to ACPE has a disaster contingency plan and hot site in Anchorage. If the computer operations has to be moved to the Anchorage site, ACPE could resume processing provided that the Governor specified ACPE as a priority.

ACPE may not be able to continue to provide services if ACPE personnel could not get into their building or a large number of key employees were unavailable for an extended period. Business continuation or business resumption planning is not part of the services provided by DIS. ACPE does not have a plan to deal with these types of interruptions.

ACPE should develop a business resumption plan. At a minimum this plan should include a list of employees and their home phone number, a skill set/experience inventory, operational policies and procedures, and a list of vendors.

Origination and Disbursements

Borrower reference information is not added to the loan servicing system at the time the loan is established. When skip tracing is required, the reference information is not readily available; therefore, skip tracing is not initiated timely.

In a recent operational review performed by another consulting firm, a recommendation was made to the Commission that turn-around time on origination could be improved by not immediately entering the borrower's reference information. However, interviews with Collections has indicated this new procedure is causing delays in the initiation of skip tracing procedures. Since the reference information is not being maintained on the system, collectors must request microfiche copies of the borrower's loan application to obtain reference information and data enter that information onto the system. This negatively impacts the collectors' ability to contact references timely and increases the time between contacts with the debtor.

Most well run collection areas initiate skip tracing within three days after notification of either a telephone skip or bad address. We believe that it is critical for effective collections that collectors have ready access to all of the tools they need to perform their activity. Therefore, the Commission should consider reinstating their procedures for including reference information in a borrower's record at the time a loan is set up on the loan servicing system.

Segregation of duties over disbursement checks has not been established.

The Division of Finance, which is not a part of ACPE, maintains the check stock, signature plates or stamps, and controls the computer jobs that create the checks. Under this situation, the Division of Finance has complete control of the disbursement check

process. This does not provide for sound internal control through a proper separation of duties and responsibilities. Also, when disbursement checks are delayed or incorrectly processed, this can be a major source of borrower complaints and cause strain on ACPE's customer service staff. The Commission should work with the Division of Finance to set up proper segregation of duties over the disbursement check procedures. One method would be to let ACPE control the check printing process and the Department of Finance control the check stock and the signature plate or stamp.

In-School and Grace Servicing

Borrowers may be classified in the wrong status due to timing and the amount of manual processing involved.

ACPE assumes that a borrower will enter repayment at the end of the academic term for which a loan is awarded. This assumption is changed only if the borrower applies for another loan in the subsequent year or if the borrower notifies the Commission of their continuing in school status. In either case, the Commission must manually update the borrower's account with the new information to retain the borrower's correct status. With this approach, ACPE must manually update the status of the majority of in-school borrowers yearly. This process is inefficient and frequently subjects the borrower's account to being reported in the wrong status. This can result in complaint calls from the borrowers that unnecessarily consumes customer service time.

A second concern is the Commission only "verifies" a student's status once a year. They have no systematic approach for identifying students who withdraw during the academic year and should be placed in a repayment status. The Commission must rely on the student contacting them in order to establish their repayment schedule. This is a major control weakness as failure to receive timely notification of early withdrawal risks losing contact with the borrower, thus negatively affecting the collectability of the account.

The student loan servicing industry and the federal loan programs have established a far more efficient method to monitor borrowers who are in-school. This method requires regular communications between schools and the servicing agency. Usually twice a year the servicing system will produce a file of in-school borrowers recorded as currently attending a given institution. The servicing agency submits that file, either in the form of a report or a file transmission, to the school. The school compares the servicing agency's records with their own and updates the agency with their current information. The agency will then only update accounts which have a change in information. These updates are performed manually if transmitted via reports or can be done automatically when the information is electronically transmitted to them.

Any Alaskan school which participates in the federal student loan programs must perform this student status verification. As a result, they already have in place the procedures and mechanisms for providing the Commission with timely and accurate student status information. We recommend that the Commission develop the procedures for obtaining this information from schools. It will not only reduce the labor involved in monitoring in-

school accounts, but also ensure that the Commission obtains timely information on early withdrawals.

To implement this procedure, the Commission will need to do the following:

- When processing an application, the Commission should begin using the anticipated graduation date which the borrower completes as the scheduled date for the loan to enter repayment.
- With each subsequent application, continue to update the repayment begin date with the new anticipated graduation date from the application.
- Contact schools and develop the procedures for exchanging student status information. We recommend starting with the State University System since they account for the majority of new loans.
- Develop programming specifications to create a file of in-school accounts according to school of attendance which can either be printed on a report or transmitted electronically.
- Establish a regular schedule for performing the student status verification procedures. This should be done a minimum of twice a year such as late Fall/early Winter (December or January) and Spring (April or May).

Borrower accounts are not converted from in-school to grace on a timely basis.

The system schedules accounts to convert from in-school to grace period status five months after the grace begin date. This routine prevents the borrowers from receiving pre-grace and early grace period notices and, for certain loan programs, requires the system to retroactively accrue interest.

Early and timely contact with borrowers at the time they enter repayment is an important control for ensuring that the borrower will begin payments as scheduled. It is also an important means for knowing the borrower's location during this critical time when they are leaving school and moving elsewhere.

The Commission should implement procedures to timely convert accounts from in-school to grace and to send status change notification to the borrower within 90 days prior to a borrower's scheduled grace begin date. This will:

- Enable the system to produce notices and disclosures on a significantly more timely basis
- Give the borrower ample time to contact the Commission with questions or changes to their status

- Begin to establish a more solid relationship between the Commission and the borrower thus reducing the risk of the borrower defaulting on loans during the first critical year of repayment

Customer Service

The Customer Service Representatives are processing financial transactions that are normally handled by the accounting area thus circumventing proper separation of duties.

The Customer Service area has fourteen Customer Service Representatives, three Technicians, and one Receptionist. Customer Service is responsible for handling all incoming correspondence with the borrowers. The Technicians research the more complicated requests from borrowers such as repayment histories. They also perform manual adjustments to accounts resulting from such processing as NSF checks and misapplied payments.

To ensure consistent accounting controls are established, the responsibility for processing monetary transactions should be transferred to the Accounting Department.

Customer Service Representative are operating below the industry standards for handing incoming telephone calls.

The Customer Service area handles between three and four hundred calls a day and seven hundred during peak periods. This averages between twenty and thirty calls a day per person for the fourteen representatives. During peak periods, representatives may handle up to fifty calls per day per person. The industry standard states that a customer service phone representative should handle between seventy and one hundred calls per day in addition to performing correspondence processing functions. These standards have been achieved through such methods as:

- Automatic call distribution systems
- Systems that display the borrower's account at the same time a call is routed to a representative
- Well designed borrower inquiry screens
- Telephone training techniques designed to keep the length of calls to a minimum
- Supervisory monitoring of phone calls
- Ready access to complete and accurate account information

The Commission should evaluate its Customer Service area and develop new methods and procedures to increase the area's productivity standards. By doing so they can reduce the number of required CSRs and redirect the remaining manpower resources to other areas of the organization or implement new services which are part of the Commission's long term objectives.

Repayment Servicing

Customer billings can be delayed by inclement weather.

The Commission currently uses a third party, located in Utah, to produce and mail billing statements. A file tape is created each billing cycle and shipped to the facility for processing. Given the variable weather in Juneau, outbound flights can be delayed for several days at a time.

We recommend that the Commission investigate the feasibility of printing the billing statements locally or transmitting the data files electronically to the vendor.

Deferment and Forbearance Processing

Interest is not accruing properly on accounts during post deferment grace periods.

Since conversion, a systems deficiency has affected interest accruals on certain loan programs for which the borrower is responsible for interest during any post deferment grace period. The system accrues interest during the grace period but automatically adjusts the interest to \$0.00 when the account moves from grace to repayment. ACPE estimates that approximately 17,000 borrowers required review and possible adjustment of the interest field.

To avoid borrower complaints, the operation staff decided to discontinue generating delinquency notices and credit reporting until the problem and accounts were fixed. In addition, the turnaround time for staff in processing forms and answering questions has been hampered by the need to reconstruct accounts to determine the accrued interest.

The Commission should consider forgiving this accrued interest and subsidizing it until the system problems have been fixed. Prior to establishing this policy, the Commission should discuss the impact of this decision with its external auditors.

Rescheduling loans for a fifteen year repayment, under forbearance, is a highly manual process and subjects the borrower account to errors in processing.

The Commission offers borrowers relief from monthly payments by one of the following forbearance options:

- Rescheduling the loan to a 15 year repayment term,
- Temporary reduction in payments followed by a reschedule to a 15 year repayment period, or
- Temporary deferment of principal payments followed by a reschedule to a 15 year repayment period.

Anytime a loan has been scheduled for a 15 year repayment term, the borrower's account must be reviewed annually to determine if the borrower's financial condition justifies continuing the repayment terms. While similar options are available in the federal programs, they are seldom used by lenders and servicing agencies. There are several reasons for this:

- For the vast majority of borrowers, the inability to make payments is a temporary condition and can be resolved through a short term change in the payment arrangements
- Extending repayment terms is not in the best interest of borrowers as it extends their debt obligation and ends up costing them more money in terms of interest payments
- The use of extended repayment terms is primarily intended for borrowers with large debt balances (in excess of \$50,000 for example) where, long term, the student loan repayment will represent a significant percentage of income.

Various standards for forbearance processing have been established by both the federal government and the servicing industry. These standards have been translated into significant systems support making the process easy to perform and administer. The following represents typical techniques employed:

Interest Only Payments

For a temporary period, defer the scheduled principal installments on a loan and accrue interest. At the end of the period:

- Either bill or capitalize the accrued interest, or
- Either permanently change the payment amount of the loan to pay it off within the normal schedule or balloon the final payment to reflect the deferred principal installments, and
- Generate a new disclosure statement for the borrower.

Temporary Reduction in Payments

Provide the borrower with a temporary reduction in payments. At the end of the time period, the borrower will owe a lump sum amount equal to the difference between the regular payment amount and the reduced amount. The borrower can be given the option of:

- Repaying the difference,
- Having the payment permanently increased to pay the loan within the standard repayment terms, or

- Having the final scheduled payment ballooned to reflect the difference.

Generally, under such an arrangement, the system monitors repayment, generates reminder notices if payments are missed and will cancel the arrangement if three payments are missed.

Temporary Increases in Payments

Provide a delinquent borrower with a temporary increase in payments for a specific length of time to gradually bring the borrower current. This requires no rescheduling of the loan or permanent changes in the regular payment amount. Again, the system monitors repayment, generates reminder notices if payments are missed, and will cancel the arrangement if three payments are missed.

Permanent Reschedule of Payment Amount

In exchange for a good faith effort to make payments, the borrower's past due payments are forgiven. The payment amount is permanently increased to retire the loan within the standard repayment terms or the final scheduled payment is ballooned to account for the forgiven installments.

The Commission should take the following actions for forbearance processing:

- Immediately discontinue the policy of automatically utilizing a 15 year rescheduling of borrowers who are granted forbearance. Only offer this option to borrowers in cases of extreme and documented hardship.
- Utilize the current system functions for forbearance processing that will require minimal manual updates and follow-up.
- Incorporate in the Commission's system solution requirements a broad range of support for forbearance processing. Again, the industry has developed a set of standards and methodologies which have the automated support to perform efficiently and effectively.

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KEY OPERATING INDICATORS

On several occasions we were asked to compare ACPE servicing to other student loan servicing agencies. The following is a table that indicates how ACPE compares to industry norms in servicing statistics.

Key Operating Indicators	Norms	ACPE's Performance as of 6/30/94
Loans Serviced Per Employee	1,300 - 2,500*	1,340
Customer Service Abandonment Rate	< 5 %	6 %
Customer Service Hold Time	< 60 seconds	avg. 45 seconds
Calls Answered Per Employee	75 calls per day	20 calls per day
Deferment/ Forbearance Processing	< 10 days	< 6 days
Legal Correspondence	< 2 days	not available
Customer Service Backlog	< 10 days	< 6 days
Skip Tracing Initiated - Telephone	Within 1 day of notice	Within 1 day of notice
Skip Tracing Initiated - Address	Within 1 day of notice	Within 2 days of notice
Origination to Award	Within 3 days	Notices mailed weekly
Microfiche	Within 3 days	Outside processing
Compliant Log	24 hr. turnaround	not available
Status Changes	< 10 days	See Def. & Forb.
Payment Processing - Manual	Within 3 days	Within 5 days
Misapplied Payments		15 days backlog
PIF Processing	Within 60 days	127 days backlog
NSF Processing	Within 3 days	Within 3 days

* - The range varies based upon the services provided and the inclusion of staff support functions such as accounting.

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ALTERNATIVE SYSTEM SOLUTIONS

To assist ACPE in developing a plan to address the system and operating deficiencies, KPMG investigated alternative approaches. These alternatives included:

- Fix the Current System
- Purchase or Lease New Servicing Software
- Purchase Turn-key Hardware and Software
- Remote Timeshare Servicing
- Out-source Servicing

Fix the Current System

In the section titled "System Background" we identified a number of system weaknesses that need to be addressed. Our major concern is focused on the maintenance of the current system. ACPE is relying on the knowledge of one programmer to maintain the system. The documentation does not reflect the way the system operates. Additionally, the lack of automation negatively impacts the performance of the servicing staff and the amount of manual processing unnecessarily subjects the loan portfolio to errors.

Addressing these system deficiencies will require resources with skill sets that ACPE does not currently have and that are not readily available. Additionally, the architecture of the system precludes adequate servicing of a program as large as the ASLP. Therefore, fixing the current system is not a viable alternative.

Purchase or Lease New Servicing Software

There are a number of loan servicing software packages produced that are available. While we did not review all software products available, we did find four vendors with software that could fit ACPE's needs. The following is a list of vendors, operating platforms, and programming languages used:

Vendor Name	Operating Platform	Programming Language
ECSI	Personal Computer LANS	Microfocus COBOL
UNIPAC	IBM Mainframe	COBOL II
Charter Account Systems	IBM Mainframe	COBOL II
Systematics	IBM Mainframe	COBOL II

The prices for these software packages ranges from \$150,000 to \$1 million. Documentation and training is included. Each company provides programming support, additional training, and conversion assistance based upon standard fee structure for time and material

Purchase Turn-key Hardware and Software

Our search did not reveal any alternatives in this category.

Remote Timeshare Servicing

Timeshare servicing is provided by a number of FFELP servicing companies. The major obstacles to this alternative are availability of data communication channels, time zone differences affecting the batch processing windows, and the availability of programming resources and cost to customize processing to fit ACPE's needs. The price of servicing ranges from 64 cents per month per note to 86 cents per borrower per month. Programming resources will cost between \$45 to \$75 per hour. The following is a list of vendors contacted concerning timeshare services:

BTI Services, Inc.
UNIPAC
COSTEP
EDUSERV

Outsource Servicing

Outsource servicing like timeshare is provided by a number of FFELP servicing companies. The major obstacles are that time zone differences may affect servicing activities, the availability of programming resources and the cost to customize the processing to fit ACPE's needs, and conversions cost. The estimated servicing fees would be between \$1.50 and \$3.00 per month per account depending upon the status of the borrower.

ACPE does not have the resources with the right skill sets to timely implement the necessary changes to the current servicing system. Outsourcing the servicing to an existing student loan servicer is the most attractive alternative solution from an economic viewpoint. However, the existing student loan servicers do not have the experience in dealing with the unique requirements of an alternative loan program such as the Alaska program. Additionally, outsourcing the servicing would eliminate the need for most of the current employees at ACPE. This would have a negative impact on the Juneau economy. We also believe the Commission may experience start up problems and borrower complaints by selecting outsourcing as an alternative solution.

In the following chart we identified the major task to be considered in selecting an alternative. The "x" in the matrix indicates the task applies to the alternative.

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MAJOR TASK TO BE CONSIDERED

Issues	Keep Current System	Purchase Replacement Package	Turn-Key Software Hardware	Timeshare	Out-Source	Comments
Fix Current Data Problems	x	x	x	x	x	24 - 36 man months
Re-engineering processes	x					Resources not available
Add necessary automation	x					120 - 144 man months - Resources not available
Documentation up to standard	x					6 - 12 man months - Resources not available
Request for proposal		x	x	x	x	2 - 3 months
Analyze responses		x	x	x	x	2 - 3 months
Award contract		x	x	x	x	1 month
Train Users		x	x	x	x	3 - 6 months
Install package		x	x	x	x	6 - 9 months
Develop test plan		x	x	x	x	6 - 9 months
Test system		x	x	x	x	6 - 12 months parallel test
Conversion		x	x	x	x	3 months
Site preparation			x			6 - 9 months
Wiring			x			1 month
Data communications			x			3 - 6 months
Staffing			x			
Maintenance	x	x				
Support Software		x	x			The purchase of additional software maybe required
Equipment			x	x	x	
Business Resumption Plan	x	x	x	x		
IT contingency plan			x	Vendor	Vendor	
Insurance			x	Vendor	Vendor	

Note: All comments related to resources required to take corrective action on the issues are based upon interviews with ACPE staff and our estimates of the effort required to complete the task.

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COST ANALYSIS (in thousands)

FIRST YEAR COSTS

Cost	Keep Current System	Purchase Replacement Package	Timeshare	Out-Source	Comments
Current Operating Budget	6,200	6,200	6,200	6,200	
Programming and Testing	630 - 806				Assumes \$ 4,200 per month programmer cost
Hardware			50	25	Assumes lease of networking equipment
Software License		150 - 650*			Prices vary. Assumes will meet 80% of requirements
Network			36		Assumes \$3,000 per month
Servicing			900 - 1,032	2,500 - 4,000	Assumes .75 - .86 per borrower on time sharing and 2.00 - 3.00 on full service.
Training					
Conversion		100	100	100	Assumes ACPE will provide resources.
Software Customization			200	200	Assumes 2666 hrs. at \$75 per hr.
Reduction in Operating Cost			(200)	(4,700 - 4200)	
Total First Year Cost	6,830 - 7,006	6,450 - 6,950	7,286 - 7,418	4,325 - 6,325	

* - One vendor priced his software at \$1 million. This vendor was removed from the list reducing the range to between \$150 - \$650 thousand.

Five-Year Cost Analysis

The following is five-year cost analysis using each of the suggested alternative solutions. This analysis includes a detailed breakdown of the conversion costs prorated over two years. The costs for each alternative are then summarized using actual and present value dollars. Note: for components which have a range of value, we generally used a median amount in our assumptions.

Five-Year Cost Comparisons of Servicing Alternatives (in thousands)

Baseline Assumptions

Inflation Rate 5.0%
 Investment Rate 7.5%
 Average Employee Salary + Benefits \$
 \$4,200 per month programmer cost
 \$0.75 to \$0.86 per borrower on time sharing and \$2.00 to \$3.00 on full service
 \$75 per hour for 1333 hours

Keep Current System

Positions Eliminated From Servicing: 0

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Budget	\$6,200	\$6,510	\$6,836	\$7,177	\$7,536
Data Clean-up	200				
Programming & Testing	718	200	200	200	200
Reductions in Cost*	0	0	0	0	0
Total	\$7,118	\$6,710	\$7,036	\$7,377	\$7,736

* Reductions in costs are based upon eliminating staff from servicing.

Purchase Replacement Package

Positions Eliminated From Servicing: 9

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Budget	\$6,200	\$6,510	\$6,836	\$7,177	\$7,536
Software License	650				
Data Clean-up	200				
Project Management	200	100			
Software Customization	150	50			
Parallel Test	250	78			
Conversion	75	25			
Maintenance	25	25	25	25	25
Reduction in Costs*	450	473	496	521	547
Total	\$7,300	\$6,316	\$6,364	\$6,681	\$7,014

* Reductions in costs are based upon eliminating staff from servicing.

Timeshare

Positions Eliminated From Servicing: 9

Positions Eliminated From MIS: 3

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Budget	\$6,200	\$6,510	\$6,836	\$7,177	\$7,536
Hardware	50				
Network	36	38	40	42	44
Servicing	975	1,024	1,075	1,129	1,185
Data Clean-up	200				
Project Management	200	100			
Software Customization	150	50			
Parallel Test	250	78			
Conversion	75	25			
Reduction in Costs*	600	630	662	695	729
Total	\$7,356	\$7,195	\$7,289	\$7,653	\$8,036

* Reductions in costs are based upon eliminating staff from servicing.

Out-source

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Budget	\$6,200	\$6,510	\$6,836	\$7,177	\$7,536
Hardware	25				
Servicing	3,300	3,465	3,638	3,820	4,011
Data Clean-up	200				
Project Management	200	100			
Software Customization	150	50			
Parallel Test	250	78			
Conversion	75	25			
Reduction in Costs*	4,500	4,725	4,961	5,209	5,470
Total	\$5,900	\$5,503	\$5,513	\$5,788	\$6,078

* Reductions in costs are based upon eliminating staff from servicing.

Summary

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Keep Current System	\$7,118	6,710	7,036	7,377	7,736	\$35,977
Purchase Replacement	\$7,300	6,316	6,364	6,681	7,014	\$33,675
Timeshare	\$7,536	7,195	7,289	7,653	8,036	\$37,708
Out-source	\$5,900	5,503	5,513	5,788	6,078	\$28,781

Present Value

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Keep Current System	\$6,621	5,806	5,663	5,524	5,389	\$29,004
Purchase Replacement	\$6,791	5,465	5,123	5,003	4,886	\$27,268
Timeshare	\$7,010	6,226	5,867	5,731	5,597	\$30,431
Out-source	\$5,488	4,762	4,437	4,334	4,233	\$23,255

Workplan for the ACPE's Conversion to a New Servicing Environment

The following is our initial work and budgetary estimates for ACPE's conversion to a new servicing environment. The accompanying Gantt Chart summarizes the key tasks to perform. Based on our analysis, we believe that with proper management, planning, and testing, the conversion to a new servicing system can be achieved by December month-end, 1995. The following is a brief description of the key tasks.

Project Management

The project management for the conversion will be an ongoing function which will last the full duration of the conversion project. It will require the full-time dedication of resources from both the ACPE and the selected vendor. The staff assigned to this task will have involvement in managing all tasks in this project. They will be the decision makers in defining requirements, determining when they are met, and when to move forward.

Data Clean-up

The data clean-up will be a critical task which should begin when ACPE decides to convert to a new servicing system. The initial phase for clean-up should involve correcting known system deficiencies and errors. The second phase will depend on the servicing system selected and involve correcting known inconsistencies between the current system and the new system. The goal will be to correct those incompatibilities prior to conversion in order to minimize the disruption to processing once conversion has been completed.

Request for Proposal

With the functional requirements definition developed by KPMG, ACPE should be readily able to issue an RFP within one month of deciding to change servicing systems.

Analyze Responses

This task will involve analyzing the responses to ACPE's RFP. Based on experience, ACPE should anticipate extensive responses to the requirements definition. They should plan the full-time use of two staff members for at least six weeks to evaluate the responses.

Award Contract

The awarding of the contract could reasonably take place within three months after the decision is made to change systems. On average, we are assuming the awarded contract to be budgeted at \$650,000.

Package Customization

Under our assumption that any of the servicing alternatives will meet 80% of ACPE's needs, we anticipate that it will take at least five months for the design, programming, and testing of the new software components. Our estimated cost relates to the programming charges assessed by the vendor.

Develop Conversion Plan

The conversion plan must be as detailed and comprehensive as possible. Its key components will be:

- Data mapping specifications for the conversion
- Implementation schedule
- Staff training schedule
- Training documentation
- Post-conversion plan

As a result, at least four months will be required to complete this task.

Develop Conversion Programs

This task will consist of the actual development and coding of the conversion programs and is contingent upon the specifications developed in the conversion plan.

Develop Test Plan

This task can be performed at the same time as the conversion plan development. The test plan focuses on defining the extent and scope of the parallel test runs that will be performed prior to the live conversion.

Train Users

The training program should be developed with the selected vendor and included in their overall servicing fee contract. Therefore, there should be minimal associated costs with this task.

Install System

This task involves the basic installation of the software, hardware, and networking equipment needed for operating the new servicing system.

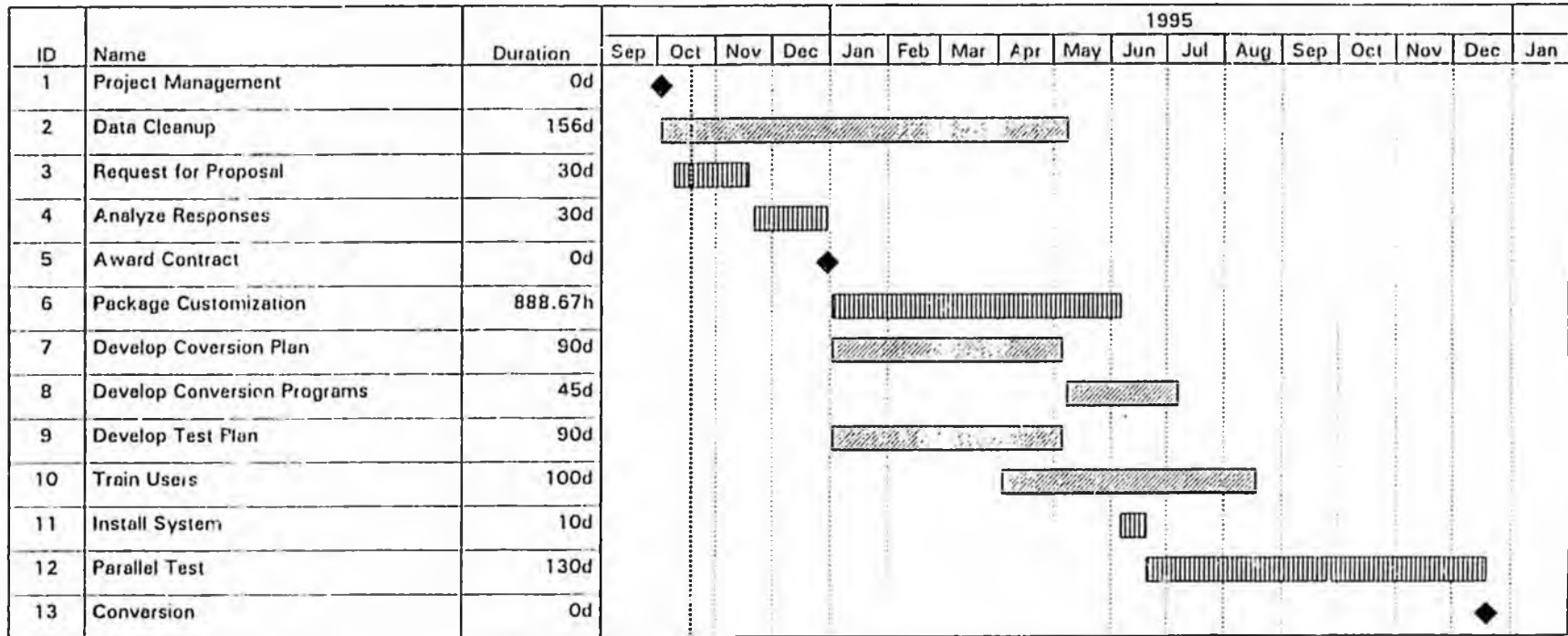
Parallel Test

Due the sensitive and critical nature of this conversion, we are allowing six months for a completed parallel test phase. This will require extensive use of the DIS computer, however, it is critical that all systems and conversion bugs be identified and minimized prior to the live conversion. The goal is to eliminate any post conversion clean-up requirements as much as possible to avoid disruption to ACPE's services, the borrowers, and ACPE's employees.

Conversion

Based on this workplan, the conversion to the new servicing system could take place by December month-end, 1995.

The Alaska Commission on Postsecondary Education



Project: Loan Servicing
 Date: 10/18/94 8:00am

Critical [Vertical lines] Progress [Solid bar] Summary [Solid bar with arrow]
 Noncritical [Hatched bar] Milestone ◆

FEASIBILITY STUDY
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
FINAL REPORT

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FUNCTIONAL SPECIFICATIONS

Loan Origination

Application Entry

The system must be capable of receiving differing application data from a variety of sources:

- On-line entry of application forms mailed or otherwise delivered
- Electronic application data transmitted via telephone lines (including PC (Personal Computer) to PC or PC to mainframe)
- Magnetic Tape
- Diskettes
- Receiving application information electronically from the Federal Multiple Data Entry Form

Batch Processing

The system must provide batch processing control to ensure that applications received are processed. The batch processing technique should include date, batch number, and the number of applications in the batch

Cosigners and References

The system must have the capability to capture a combination of at least four references and cosigners. This information must be readily available to collections staff.

Editing of Application Data

The system must include a comprehensive set of edits to determine a loan application's completeness and eligibility consistent with the ACPE requirements. These edits should include:

- Aggregate of no more than eight years of loans
- Dollar level limits
- Default on previous loan
- Default of child support payments
- Residency Requirements
- Type of Loan
- Borrower Name
- Social Security Number
- Borrower Permanent Address
- Borrower Mailing Address
- Borrower Permanent Telephone Number
- Borrower Daytime Telephone Number
- Borrower Date of Birth

Borrower Gender
Borrower Marital Status
Major Course Code
Major Course Title
Enrollment Level
School Eligibility
Tuition Type
Type of Housing
References
Duplicate Application

The system should place the applications that do not pass the initial edits in a hold status for corrections. The system should then prepare written or electronic notice to accompany each hold status application, giving the reason it was placed on hold. To provide application tracking, the system must indicate the date the application was put on hold status, the individual that initially enter the application, and when the hold item was cleared. Applications not returned within a specified time should automatically be canceled

Appeal Processing

The system must identify applications that are incomplete or incorrect during the edit process. The system then must produce a Rejection Notice. This Notice must list the reason(s) for the rejection. When the application is rejected the system must place the application in a hold status for an appeal process. To provide application tracking, the system must indicate the date the application was put on hold status, the individual that initially entered the application, and when the hold item was cleared. The system should have the capability to automatically cancel loan applications when appeals have not been made within a specified time.

Setting Disbursement Dates

The system must edit for valid dates and for dates that are consistent with the academic term. The system must have the capability to cancel or change the disbursement dates.

Disclosure Statements

The system must produce plain English disclosure statements for all approved loans. In the case that the disclosure is lost or destroyed, the system must have the capability to produce a duplicate disclosure on request. The system must also produce disclosure statements if there is a change in the award.

Application Tracking

The system must allow on-line inquiry capability to view any application or pending award. It also must indicate the status of the application plus a history of the application process to date.

Annual Application Renewal

The system must be able to identify borrowers that have a need for serialized loans and will generate a partially completed application. This partially completed application will allow the borrower to fill in the missing date and sign the application.

Award Notification

The system must have the capability to produce a flexible award notice that will be sent to the borrower. At a minimum, this notice should include the award amount, the date of the award, the school, and the term.

Disbursement

School Eligibility

The system must contain a file of eligible schools. This file should be used to determine disbursement dates and the amount of awards for various schools and majors.

Bond Funds

The system must have the capability to determine the availability of funds prior to scheduling a disbursement.

Warrant Production

The system must be capable of producing checks or electronic funds transfers to the schools for borrower awards. The system must have the ability to track outstanding checks and produce reports to support the reconciliation process.

Fee Deduction

The system must provide the means for automatically deducting and accounting for application fees. The fee percentage should be table driven for easy maintenance.

Reconciliation

The system should provide a method of determining which check or EFT funds are outstanding. If the funds are outstanding after a specified time, the checks or funds should be marked as stale and a stop payment order issued.

Cancellation

The system must provide a means to cancel and/or reschedule a disbursement. If the first disbursement is canceled the loan should be canceled.

Refunds

School refunds should be applied to the disbursement.

Borrower Level Records

The system must maintain certain borrower level records including:

- Scheduled payment amount
- Total amount due
- The first payment due date
- The next payment due date
- Original loan balance
- Current principal balance
- Current Payoff Amount
- Principal and interest past due
- Late and other fees due
- Last payment amount and date received
- Excess principal paid

In-School Status Functions

Enrollment Verification

The system must store the following account level records for in-school borrowers:

- In-School Status
- Enrollment Status (i.e., full-time, half-time, less than half-time)
- Anticipated Graduation Date

The system must provide a means to verify a borrower's student status. This means should include:

- The capability to produce a file of in-school borrowers to interface with a school's database confirming the borrower is enrolled and the level of enrollment, i.e. full time, half time or less than half time.
- The capability to receive file transmissions from a school containing the results of the student status confirmation. The file should be formatted to post the results directly to the borrower's account records and update the graduation date, student status, and enrollment status.
- A Student Status Confirmation report which can be mailed to schools for verifying the enrolled status of borrowers.

- Optional: A report of in-school borrowers who have not received disbursements during the current fiscal year. This list would be used to identify borrowers who have possibly left school.

Separation Notification

Sixty to one hundred and twenty days prior to a borrower's graduation date, the system must be capable of generating a notification to borrowers informing them that they are scheduled to enter into repayment of their loans.

Truth-in-Lending Disclosure Statements

- The system must be able to calculate and produce truth-in-lending disclosure statements either for individual borrowers or for a population of borrowers based on graduation date.
- The truth-in-lending schedules must have the following features:
 - Designated on a per loan/account basis. In addition, the system must be able to produce combined repayment schedules for multiple loan types within a loan fund.
 - For certain loan funds, disclose for interest accruals during the initial grace period and inform the borrower that initial payments will be applied to this interest accrual.
 - The system must allow for various lengths of repayment including 5, 10, and 15 years.
 - The system must allow for minimum payment amounts.
 - Estimate the final payment amount.

Late Separation Processing

If a borrower's graduation date is set into the past, the system must:

- Generate a disclosure statement
- Convert the account into the appropriate status
- Calculate and update the next due date
- Accrue and bill for any installments which have come due as of the date of the late separation transaction

Grace Status Functions

Grace Notices

The system must produce a series of grace notices. The frequency, timing, and message of the notices shall be determined by the loan fund.

Grace Period Interest Accrual

The system must have the capability of accruing interest during the grace period based upon the type of loan. The system must also have the following options of treating the accrued interest:

- Bill the borrower for accrued interest only during the grace period
- Accrue the interest during the grace period and bill the interest when the borrower enters repayment in installments equal to the borrower's scheduled payment amount or provide the ability to lump sum bill the borrower for the accrued interest at the end of the grace period
- Capitalize the interest when the borrower enters repayment and reschedule the loan and adjust the payment amount accordingly.

Repayment Scheduling

Standard Repayment Scheduling

The system must handle repayment scheduling as follows:

- Varying lengths of repayment terms based upon the loan type
- Allow for graduated repayment installments
- Allow for minimum repayment terms based upon the loan type. If a borrower has multiple loans of the same type, the system must prorate that minimum amount among the loans.
- Allow the user to extend the length of repayment beyond the normal terms. The system should calculate the new payment amount based on the new length of the term.
- Lump sum billing of final scheduled payment to include the remainder of the principal balance and unpaid interest

Interest Calculations

The system must provide a flexible means of change interest rates. One option could be a table driven interest rate that would provide automatic escalation of the interest rate upon default. The system should also have the ability to accrue interest at differing start dates and during periods of post deferment grace based upon the loan date and loan type.

Grace Period Interest

For loans that accrue interest during the grace period, the system must be capable of calculating a repayment amount to retire the loan within the length of the repayment period.

For loan funds which accrue interest during the post deferment grace period, the system must be capable of recalculating and updating the repayment amount to retire the loan within the remaining length of the loan repayment period.

Hardship/Forbearance Interest

At the end of a hardship/forbearance period, the system must be capable of monthly billing, lump sum billing, or capitalizing the accrued interest. For either option, the system must recalculate and update the repayment amount to retire the loan within the remaining length of the repayment period.

Extended Repayment Terms

The system must provide the capability to extend the repayment terms of the loan beyond the normal repayment terms. The system should calculate and update the payment amount based on parameters entered by the user.

Payout Calculations

The system must be able to calculate a payout amount upon request for a specified date. The user must be able to enter in a future date and the system must calculate interest as of that date and display the total payoff amount. The user must also be able to generate a letter to the borrower which quotes that payoff amount.

Converted Loans

The system must be able to properly schedule converted loans from ACPE's prior system. All repayment scheduling functions must apply to converted loans. Assume that the system must utilize the converted original loan amount, current principal balance, interest rate, and payment amount to perform the functions.

Transaction History Audit Trail

The system must provide a detailed historical audit trail of all payment scheduling and rescheduling transaction activity.

Billing

Combined Billing

The system must be able to produce a single billing invoice which combines and itemizes all of a borrower's loans on the statement with a summary total due to be paid.

Frequency

The system must have the ability to generate bills on a monthly, quarterly, or annual basis. The system should also have the ability to produce a bill on demand for an individual borrower.

Bill Format

The billing statement should include the following data elements;

- Borrower Name
- Address
- An Optical Character Recognition line for payment processing
- Basic account information including:
 - Scheduled payment amount
 - The loan fund
 - Total amount
 - Annual interest rate
 - The payment due date
 - Original loan balance
 - Current principal balance
 - Principal and interest now due
 - Principal and interest past due
 - Late and other fees due
 - Last payment amount and date received
 - Excess principal paid
 - A due diligence message text

Interest

At the fund level, the system must have the option of accruing interest during the post deferment grace period and either:

- Billing the borrower for the interest during the grace period,
- Accruing the interest and billing the borrower after the grace period has expired. Billing should be in installments equal to the payment amount, or
- Capitalizing accrued interest after the grace period has expired.

Late Payment Fees

The system must allow, by loan fund type, the specification of whether or not to assess late fees. The formula for assessing late fees must be controllable by loan fund type. For example, late fees can be calculated as a percentage of the last payment due, as a fixed fee, and/or as a percentage of loan amounts other than payment due.

Special Messages

The system must have the ability to include special messages on the bills to all or a select group of borrowers.

If, after a grace or post deferment grace period, the loan fund bills interest which has accrued during the grace or post deferment grace period, the billing statement must include the outstanding accrued interest which must be paid.

Due Diligence Billing Notices

Additional Notices

In addition to past due messages appearing on the combined bill, the system must generate additional past due notices for individual accounts according to the type of loan and due diligence requirements. The text of the notices must be specified by the ACPE and defined for each loan type.

Payment Processing

Payment Application Hierarchy

By loan type, the system must allow for the setting of a priority sequence in applying payments to principal, interest, late fees, and other charges. If the payment is less than the amount due and the borrower has multiple accounts, the system must have a routine for allocating the payment among the accounts based on some proration methodology. The system must allow the prescribed method of payment application to be overridden.

Payment Processing

The system must be able to handle payments in batch (bank lock box, direct deposit, automated clearing house) as well as on-line real time at the borrower and account level.

Overpayments

If the borrower makes more than the scheduled payment, the system must be able to apply the excess to the subsequent accruals until that excess is equal to \$0.00. After retiring outstanding interest and fees, the remaining overpayment should be applied to principal. If the overpayments are equal to whole factors of the payment amount and the borrower has requested, the system must be able to apply each segment to future installments and advance the borrower's due date.

NSF Checks, misapplied payments, etc.

In the case of bad checks, misapplied payments, etc. the system must allow for the reversal of the distribution through a simple transaction (i.e. enter transaction code, payment amount, and

effective date) and reset the account as if the payment had never occurred. An audit trail must be maintained reflecting the payment reversal.

Retroactive Payments

The system must have the capability of applying payments with effective dates in the past and then reapply any subsequent transactions. An audit trail must be maintained reflecting this activity.

Payment Types

The system must have separate transaction codes for the following types of payments:

- Regular Cash payments
- Non-Cash Payments
- Permanent Fund Dividend Payments
- Tax-Offset Payment
- Collection Agency Payments
- Bankruptcy Payments

Historical Audit Trail

The financial history for each payment must show at the account level:

- Payment Posting Date
- Payment Effective Date
- Payment Amount
- Payment Type
- Principal Paid
- Interest Paid
- Late Charges
- Other Charges
- Principal Balance Resulting from Payment
- Who or how the payment was posted

Reconciliation

The system must provide control totals for reconciliation purposes. Daily balancing totals by loan type, bond or portfolio source id, transaction type, and batch must be provided. The system must be able to produce an interface file for posting to the ACPE's accounting system. The file must include the necessary account and object codes for making accounting entries.

Deferment Processing

The system must allow deferment types and limits for each type of loan. This activity would preferably be handled in a table for easy maintenance. The deferment types must include:

- Full time student
- Half-time student
- Active duty as a member of the armed forces of the United States
- Full-time volunteer under the Peace Corps Act
- Full-time volunteer under the Domestic Volunteer Service Act of 1973
- Unemployment
- Disability
- Internship or residency

The system must have the capacity for adding deferment types as needed.

For each deferment type listed, the system must have the option of deferring only principal during the deferment period. The system must also include edits to determine eligibility based upon the number and type of deferments used.

The system must capture the borrower's account number, deferment type, and begin and end date. The processing must:

- Determine the borrower's status and next due date
- Prevent deferments from exceeding the maximum period allowed
- Calculate and update due amounts
- For retroactive deferments, reapply any transactions subsequent to the deferment begin date.

Post Deferment Grace Period

At the fund level, the system must have the option of providing a grace period for a specified length of time following each deferment period.

Borrower Notification

The borrower must be notified of the deferment expiration at least 30 days prior to the grace begin date. The borrower must also be notified of the grace period expiration at least 30 days prior to the next due date.

Rescheduling

For accounts with interest accruals during the post deferment grace period, the system must determine if the payment amount is sufficient to retire the loan within the maximum repayment

period. If it is not, the system must calculate and update the payment amount to conform to the repayment period. At the same time the payment amount is changed, the system must generate a disclosure statement to be sent to the borrower.

Forgiveness (Partial Cancellation) Processing

The system must allow for partial cancellation benefits and limits for each loan fund. The cancellation eligibility, rates, and maximums must be set and edited at the loan fund level.

The system must have the capability for adding additional forgiveness types as needed.

The system must capture the borrower's account number, forgiveness type, and begin and end date. The processing must:

- Determine the borrower's status and next due date
- Prevent the forgiveness from exceeding the maximum period allowed
- Calculate and update amounts due

The forgiveness cancellation amount must be based on the original loan amount and, when appropriate, be allowed to create a credit balance on the loan so that ACPE can process the necessary refund checks.

Death and Total Disability

The system must have the capability to write-off a loan due to either the death or total disability of the borrower. The system must have an identifier on the borrower's account which notes the reason the account was written off. Upon entry of the write-off, the system must:

- Calculate the interest due as of the effective date
- Close the account and stop all further processing activity

Bankruptcy Processing

The system must have the capability to capture a change in the borrower's status when bankruptcy has been declared. The system must be able to indicate whether the filing is chapter 7 or chapter 13.

Upon receipt of bankruptcy notification, the user enters the bankruptcy type and the effective date of the notification. The system must:

- Calculate and display a payout amount effective as of the date of notification
- Stop further billing on the account
- Stop further interest accrual on the account

Upon receipt of notice of discharge, the user records the discharge date. If the loan is dischargeable under bankruptcy proceedings, the system must write-off the principal balance of the loan and the interest accrued as of the date of notification.

If the loan is not dischargeable under bankruptcy proceedings, the system must:

- Calculate and update the due amounts on the account
- Resume regular billing

Default Write-Off

The system must allow for the write-off of defaulted loans when no payment has been received after a specified time. The system must have an identifier on the borrower's account which indicates the reason the loan was written off. Upon entry of the write-off status, the system must:

- Calculate the interest due as of the effective date
- Close the account and stop all further processing activity

The user must have the option to reverse the defaulted write-off. The system must:

- Calculate and update the due amounts on the account
- Resume regular billing

Forbearance/Hardship Processing

The system must allow forbearance/hardship processing for each loan fund. The system must capture the borrower's account number, and forbearance begin and end date. The processing should:

- Determine the borrower's status and next due date
- Calculate and update due amounts
- For retroactive forbearance, reapply any transactions subsequent to the deferment begin date
- Accrue interest for billing during the forbearance period.

Borrower Notification

The borrower must be notified of the forbearance expiration at least 30 days prior to the next due date.

Rescheduling

After the forbearance has expired, the system must determine if the payment amount is sufficient to retire the loan within the maximum repayment period. If it is not, the system must calculate and update the payment amount to conform to the repayment period.

At the same time the payment amount is changed, the system must generate a disclosure statement to be sent to the borrower.

Temporary Repayment Arrangements

The system must support temporary repayment arrangements for borrowers. The types of arrangements include temporary reductions and increases in the payment amount. This process must have the option of being performed at the borrower or the account level.

System functions must:

- Perform edits to prevent processing the arrangement more than a set number of months in the future
- Calculate the amount due at the end of the period and displays that amount
- At user's option, calculate payment amount or end date based on the type of arrangement being made
- Not update records until the user presses enter a second time
- Include updates changing the status of the accounts to reflect the repayment arrangement and updating the next due date, as needed.
- Continue to accrue principal and interest based on the regular payment amount but bills the borrower at the temporary repayment amount.
- Generate a disclosure schedule/temporary repayment agreement to be mailed to the borrower as verification of the arrangement

Billing and Due Diligence

The system must generate monthly billing notices on a combined invoice for all accounts set up on a temporary repayment arrangement.

The system must send reminder notices for missed payments of a set number over a set period of time. Each notice must have a due diligence message reminding the borrower to make payments.

The system must cancel the temporary repayment arrangement a set number of days after the missed payment. When this happens, a final notice must be generated to be sent to the borrower. The system must also:

- Change the status of the account to its correct value
- Resume billing at the regular payment amount

Skip Trace Support

The system should be able to record that a borrower's address and phone number are bad and require skip tracing activity. Separate designators for addresses and phone numbers must be available. Additionally, the system must maintain an audit trail of changes made to the address and phone numbers.

When a user codes an address as bad, the system will stop billing the account until the code is changed to good.

The system must create a report of all accounts with bad addresses and phone numbers.

The system must place accounts with a bad address and phone number into a queue to enable the user to pursue skip tracing efforts.

The system must create a file capable of downloading to an auto dialer system to support phone call skip trace efforts.

The system must support historical comments related to skip trace efforts.

The system must have edit checks in place to identify accounts with invalid zip code or phone numbers.

Permanent Reschedule within the Payout Period or Extended Payout Period

The system must have the capability of rescheduling the payment amount of an account based on either the standard repayment period of the loan fund or on a user defined period which overrides the standard. The system must calculate the payment amount and update the system records and adjust due amounts accordingly.

Credit Bureau Reporting

At the fund level, parameters must be defined for reporting accounts to credit bureaus. Options available must include:

- Report or not report eligible borrowers
- All borrowers
- Delinquent borrowers at a set number of days past due

A report must be generated identifying accounts to be reported to the credit bureau.

A file or tape of accounts to be reported must be created to send to credit bureaus. This tape must be formatted according to the most universally acceptable format.

The credit bureau reporting status and date must be indicated on the borrower's account.

A history must be kept of accounts reported to credit bureau.

The system must allow the user to suppress credit bureau reporting at the borrower and/or account level.

Collection Support

Due Diligence Phone Calls

At prescribed intervals of delinquency, defined by loan fund, the system must select eligible accounts and:

- Generate a list of accounts requiring a phone call
- Place account records into a file queue which can be accessed by the caller
- Produce a file of accounts which can be fed into an auto dialer system

The system must be capable of receiving uploaded data from an auto dialer system which records the results of the phone activity.

The system must continue selecting eligible accounts until the user or auto dialer system indicates on the system that the phone attempt/contact requirement has been fulfilled.

Collector Comments

The system must allow for entry of both pre-defined and free form comments into the system. The comments should be part of an account's overall historical file.

In-house Collection Assignment

The system must identify and assign past due accounts to ACPE's in-house collections department. The system must store a set criteria by which it determines which collectors receive accounts. This criteria will allow the system to determine which accounts meet specific criteria and then assign them to the appropriate collector.

On-line Information

The collector must either have regular access to the on-line system to review borrower records, or the collection module must contain comprehensive and current account information requiring the use of minimal screens to review information.

Collector Activity

The system must store and report records of collector activity such as phone calls attempted, letters sent, and responses received from borrowers. The system must allow the collector to update borrower records based on user defined security access parameters. This capability must be efficient and require minimal screens and key strokes to perform.

Word Processing

The system must have the capability of maintaining pre-formed letters and paragraphs which collectors can use to correspond with borrowers. Records of all letters sent must be included in the borrower historical records.

Tickler File

The system must maintain a tickler file which schedules accounts to be worked by the collectors. Newly selected accounts must be scheduled by the system; the collectors must be able to schedule accounts for follow-up.

Loan Acceleration

The system must have the capability of accelerating the principal balance of a loan upon a user command. Upon accelerating the loan, the system must:

- Flag the account as having been accelerated
- Display the principal balance as due
- Have the ability to display the actual amounts due on the account as if the account had not been accelerated
- Increase the interest rate as specified by the user
- Have the ability to reverse the acceleration upon user command and update all amounts due on the account

Collection Agency Placement

Agency Coding

The system must identify and report accounts assigned to a collection agency. An indicator of this assignment by specific agency must be displayed on the account.

Account Placement

At the option of ACPE, loans can be placed at either the account or borrower level.

Agency Placement

At the option of ACPE, the system must generate a file to interface the placement of accounts with the agency, or a report, by agency, listing the accounts, amounts due, and current demographic information.

Billing Suppression

The system must suppress billing for accounts assigned to collection agencies. The system must have the capability to process borrower payments received from the collection agency without changing the borrower's status.

Reconciliation

The system must provide a method by which ACPE can reconcile collection agency activity to activity on the system.

Collection Costs

The system must have the capability of recording collection costs paid by the borrower to the collection agency.

Name/Address/Phone Number

Changes to name, address, and phone numbers must be performed on-line directly to a borrower's records. The system must be able to maintain historical records of all changes to a borrower's name, address, and phone number.

Other Non-Financial Information

Co-signer/references

The system must be able to store the names, addresses and telephone numbers of borrower references. There must be the capacity to store at least three references per borrower.

Anecdotal Notes

The system must be capable of storing free form notes which the user can enter. These notes must be stored within the historical file of the system. There must be no limits to the number or length of the notes that can be entered.

On-line Screens and Support

The on-line system must be easy to access. Information to perform functions must be readily accessible using a minimal number of screens. Transaction procedures must be simple to perform and require as few screens as possible.

On-line History

The on-line history must be comprehensive and include in a chronological format:

- All financial transactions
- All non-financial transactions

- All rescheduling activity
- All billing and due diligence records
- All anecdotal comments

Paging through the on-line history must enable the user to page forward, backward, and to be able to enter a starting page number.

Optional: The system should allow the user to sort historical information by transaction type, i.e., payment transactions, billing transactions, and deferment transactions.

Word Processing

The word processing functions must include:

- Standard form letters
- Standard form paragraphs which can be assembled into a letter
- Complete access to borrower and loan level records as variables for the letters/paragraphs
- The ability to easily create new form letters/paragraphs

The system must be able to generate letters for individual borrowers or for populations of borrowers based on user defined parameters.

Testing Institute of Alaska, Inc.

2114 Railroad Avenue
Anchorage, Alaska 99501
1907) 276-3440
Fax 1907) 279-7093

Welding : Quality
Inspection : Integrity

April 18, 1995

Representative Mark Hanley
State Capitol, Room 507
Juneau, AK 99801-1182

APR 18 1995

Subject: House Bill 257

The Testing Institute of Alaska, Inc. has conducted a Post Secondary Vocational welder training program in Anchorage for the past 19 years and has made it possible for literally hundreds of Alaskans to be employed as welders.

The new House Bill 257, Section 1 AS 14.43.110, Item (a) 4, reduces the amount of funds a full time vocational student may borrow to \$3,000.00 from the current \$5,500.00. This will eliminate vocational training in Alaska for programs less than nine months such as ours. Students that are prone to vocational training are usually not candidates for higher academic programs of college with degrees, but can be productive citizens through vocational certifications.

I urge you to keep the current vocational amount of \$5,500.00 for the less than nine month programs.

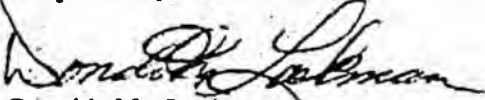
It is difficult, with rising costs, to maintain a quality training program without an increase in funding, but it is impossible to continue a meaningful program with a reduction of 45% in funding. If this revision is passed, I am sure it will be a devastating blow to all vocational programs in Alaska, as many residents rely on this program for their funding.

The residents of Alaska need the option of vocational training if we are to reduce the dependency on our social programs. The Testing Institute of Alaska provides a tremendous wealth of information to students due to the fact we conduct other welding services and testing of welds which relate to the training programs.

If this reduction of loan amount is directed toward eliminating vocational programs in Alaska, then it will surely hit that mark. If it is directed to reduce the default rate, there are better ways to accomplish that goal than to just eliminate the students.

What a message to send to our citizens, If your cut out to be college material, we will loan you even more money, but if your not, we will not consider you worthy of a Alaska student loan, that will be meaningful.

Respectfully Submitted,



Donald M. Lockman
President



***Bill Analysis for HB 257 (HESS), "An Act relating to student loan programs, interstate compacts for Postsecondary education, and fees for review of Postsecondary education institutions; and providing for an effective date." Sponsored by the House HESS Committee
March 30, 1995***

BACKGROUND:

The goal of the Alaska Commission on Postsecondary Education is to improve customer service and ensure that student loan funds are available for future generations of Alaskan borrowers. To achieve this, we must move the Alaska Student Loan Program toward a completely self-sustaining financially sound future. A number of programmatic changes must be made in order to achieve these goals.

The Alaska Student Loan Program is funded solely by corporate receipts. No general fund dollars have been appropriated to the program since FY 92. As a result, the Program has been forced to absorb losses due to death, disability, default, forgiveness on loans prior to 1987 and interest-free deferment periods. The loan fund cannot continue to absorb these losses. In order to ensure that student loan funds are available for Alaskans in the future, the changes made in HB 257 must occur.

ANALYSIS OF BILL/PROGRAM EFFECTS:

Provisions of HB 257 (in the order they appear in the bill):

- ◆ raises graduate and undergraduate loan limits
- ◆ increases loan origination fees to cover loan losses
- ◆ allows ACPE to insure the financial and administrative capability of institutions receiving ASL funds
- ◆ sets the borrowing maximum at a dollar amount rather than the number of loan years
- ◆ provides for the accrual of interest during periods of deferment
- ◆ amends repayment options
- ◆ reduces administrative costs
- ◆ alters the terms of student deferments
- ◆ extends the period before a loan goes into default
- ◆ expands students' financial aid options
- ◆ establishes wage garnishment priority (behind Child Support Enforcement)
- ◆ amends Alaska's participation in the Western Interstate Commission on Higher Education (WICHE) Program to provide for more directed student funding
- ◆ establishes fees for institutional review
- ◆ requires institutions to sign a program participation agreement
- ◆ makes various technical amendments which are intended to improve program administration.

These changes are intended to improve the overall financial stability of the Alaska Student Loan Program as well as elevate levels of customer service.

(Please see attached sectional analysis for more detail.)

CSHB 257(HES) - SECTIONAL BILL ANALYSIS

Revised 3/23/95

Section 1 -- increases the annual borrowing maximum for college and university undergraduate and graduate students. The University of Alaska, which receives 60% of the ASLs, recently increased the tuition rates for all levels of study. Over the past 10 years, the University of Alaska has increased tuition by 140%, and during that same time, there have been no increase in loan limits. Loan limits for career education programs were adjusted to reflect costs relative to program length. The number of financial aid sources available for graduate students has dwindled, while the cost of education has increased at a steady pace. National statistics show that graduate/professional students repay their loans in the greatest numbers.

Section 2 -- changes guarantee fee to origination fee to more accurately describe the fee being assessed -- to offset for loan losses to the Revolving Loan Fund due to death, permanent and complete disability, bankruptcy, or default of the borrower.

Section 3 -- clarifies the Commission's authority to ensure the financial and administrative capability of an institution participating in the ASL. This section strengthens consumer protection and protects the ASL fund from unnecessary losses due to defaults and school closures.

Section 4 -- sets the borrowing maximum at a **dollar** amount rather than the **number of loan years** that a borrower is eligible. This is a more flexible and practical means of tracking student eligibility.

Section 5 -- eliminates the drain on the Revolving Loan Fund resulting from interest-free deferment periods. Under Sections 9 and 13, the borrower will become responsible for the interest if the State does not appropriate the money rather than placing the loss on the Alaska Student Loan program.

Section 6 -- amends the terms of repayment of the ASL as follows:

- a) the traditional 12-month grace period prior to the beginning of repayment is reduced to six months.
- b) a minimum monthly payment of \$50 per month is established.
- c) the number of years required to repay the loan is extended to fifteen years.

Section 7 -- simplifies the procedure for collection of the origination fee.

Section 8 -- eliminates requirement for certified or registered mail thus eliminating an unnecessary cost of administration. Once a loan is in a default status, the borrower will be notified by mail at the most recent address provided by the borrower.

Section 9 -- alters the following terms and conditions involving student loan deferments:

- a) interest on the loan will continue to accrue during periods of deferment as provided in Section 5;
- b) the six years of military deferment is reduced to three years; and
- c) borrower must be totally disabled to qualify for a medical deferment.

In order to move the Alaska Student Loan Program toward a self-sustaining, actuarially sound basis, these changes are essential.

Section 10 -- clarifies when a borrower's accrued interest will be paid by the State of Alaska.

Section 11 -- reduces administrative expenses by eliminating the need for continued renewal of a hardship deferment.

Section 12 -- extends the due diligence period on a loan from 120 to 180 days. This allows the borrower an additional 60 days to recover from temporary financial problems and prevent the loan from being declared in default.

Section 13 -- conforms with changes made in Section 5 and 9.

Section 14 -- provides consistency with changes made in Sections 2, 7 and 19, and allows the ACPE to set the origination fee amount by regulation, but not to exceed five percent of the loan amount. Additionally the fee is to be deducted from the disbursement rather than added to the principal and then deducted.

Section 15 -- contains technical amendments and amends the residence requirement to comply with a court decision reducing the residency requirement from two year to one year. The allowable absence length for military service is reduced from six to three years.

Section 16 -- allows a student to borrow on the student's own behalf in the ASL program at the same time a parent or spouse borrows on the student's behalf in the Family Education Loan program (FEL). **The total amount borrowed in both programs cannot exceed the student's cost of attendance.**

Section 17 -- makes incarcerated persons eligible for ASL funds only if the scheduled graduation date for the program is no more than two months before the incarcerated individual is scheduled for release.

Section 18 -- gives delinquent student loans priority, behind child support enforcement, for garnishment of wages.

Section 19 -- provides consistency with Sections 7 and 14.

Section 20 -- caps the level in the Teacher Scholarship Loan (TSL) program to \$37,500 rather than the number of years of borrowing. This is consistent with changes in the ASL program in Section 4.

Section 21 -- consistent with the change in Section 16, allows a TSL recipient to borrow on the student's own behalf while a family member also borrows on the student's behalf.

Section 22 -- technical amendment: repeal of duplicitous language for graduate loan limits that is now covered in Section 1 of this bill.

Section 23 -- consistent with the change in Section 12, extending the due diligence period on the Family Education Loan from 120 to 180 days.

Section 24 -- clarifies that a loan obtained illegally by a person who does not meet the eligibility criteria must be paid in full upon demand.

Section 25 -- allows the ACPE to target funds administered as part of the Western Interstate Commission on Higher Education's (WICHE) Professional Student Exchange Program, and eliminates the specific categories previously in statute. This change would make possible the allotment of these funds in accordance with over-all needs of Alaskans.

Section 26 -- allows the ACPE to initiate user fees from non-accredited Postsecondary institutions, outside of Alaska, that wish to receive the proceeds of

ASL loans. The fees would ensure that the state does not subsidize the review of outside institutions.

Section 27 -- repeals limits on the amount of loans that can be awarded in any one year; repeals separate section for graduate loan limits; and enables a family member to borrow a loan for a student at the same time the student is borrowing an ASL or TSL as referenced in Sections 16 and 21 of this bill.

Section 28 -- provides the Commission with interim authority to promulgate regulations to implement this bill.

Section 29 -- clarifies that loans disbursed after June 30, 1995 will be obligated to pay interest during deferments as referenced in Section 5.

Section 30 -- provides for an immediate effective date to promulgate regulations referenced in Section 28.

Section 31 -- provides for an effective date of this bill at the beginning of the fiscal year.

HBAnal.doc