

**HB**

**257**

# 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						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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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# FINANCE COMMITTEE REPORT

(7)  
 Date Referred: March 15, 1995 FURTHER REFERRALS: Finance

Date of Committee Action: 3/21/95

The HEALTH, EDUCATION AND SOCIAL SERVICES 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(HES)  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) Education  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Charles Robinson</i>	✓			
<i>Tommy Starnes</i>			✓	
<i>William Kelley</i>				✓
<i>Car Beards</i>	✓			
<i>[Signature]</i>	✓			

CHAIR'S SIGNATURE *Car Beards*

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:  
Referred:

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) \$3,000 to a full-time student or \$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 be 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.

# **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 FY96 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>
<b>Operating Budget</b>		
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
<b>Total General Fund</b>	<b>\$2,150,700</b>	<b>\$2,150,700</b>
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	--
<b>Total Corporate Receipts</b>	<b>\$6,326,100</b>	<b>\$7,169,400</b>
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
<b>Total Federal Receipts</b>	<b>\$651,000</b>	<b>\$571,700</b>
<b>Total Operating</b>	<b>\$9,127,800</b>	<b>\$9,891,800</b>
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
<b>Total Capitol Projects</b>	<b>\$815,500</b>	<b>\$1,400,000</b>
<b>TOTAL</b>	<b>\$9,943,300</b>	<b>\$11,291,800</b>

# ACPE OPERATIONAL BUDGET COMPONENTS

## GENERAL FUND PROGRAMS

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

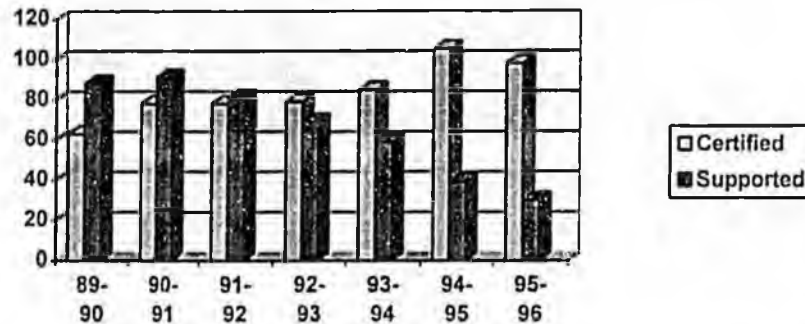
The goal of this component is to provide professional education opportunities to Alaskan students in fields for which there are no programs operating in Alaska and to encourage them, through State labor data, to return and practice in Alaska. The Commission participates in three student exchange programs: 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.

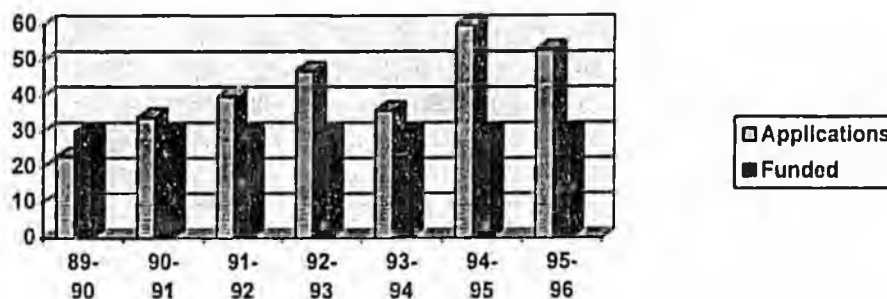
### WAMI (Washington, Alaska, Montana and Idaho) Medical Education

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.

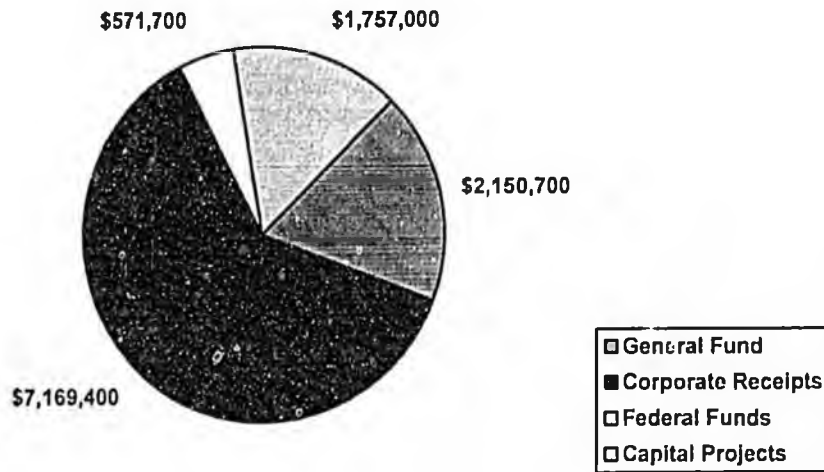
Finally, the Commission acts as an administrator of the federal funds allocated to the Governor's Council on Vocational Education. FY96 funding request is \$160,100. The goal of the governor's council on Career and Vocational Education is to expand and improve the delivery of vocational educational opportunities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

*Federal Student Aid Changes from FY95 authorized budget:*

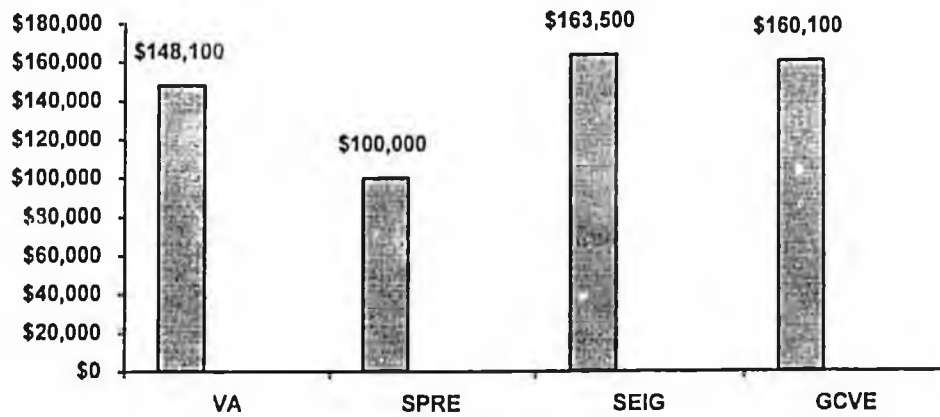
- \$39,600 Transfer from the WICHE SEP to fund additional need-based awards
- (\$600) Decrement in federal authorization to more closely reflect actual grant receipts

# 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**

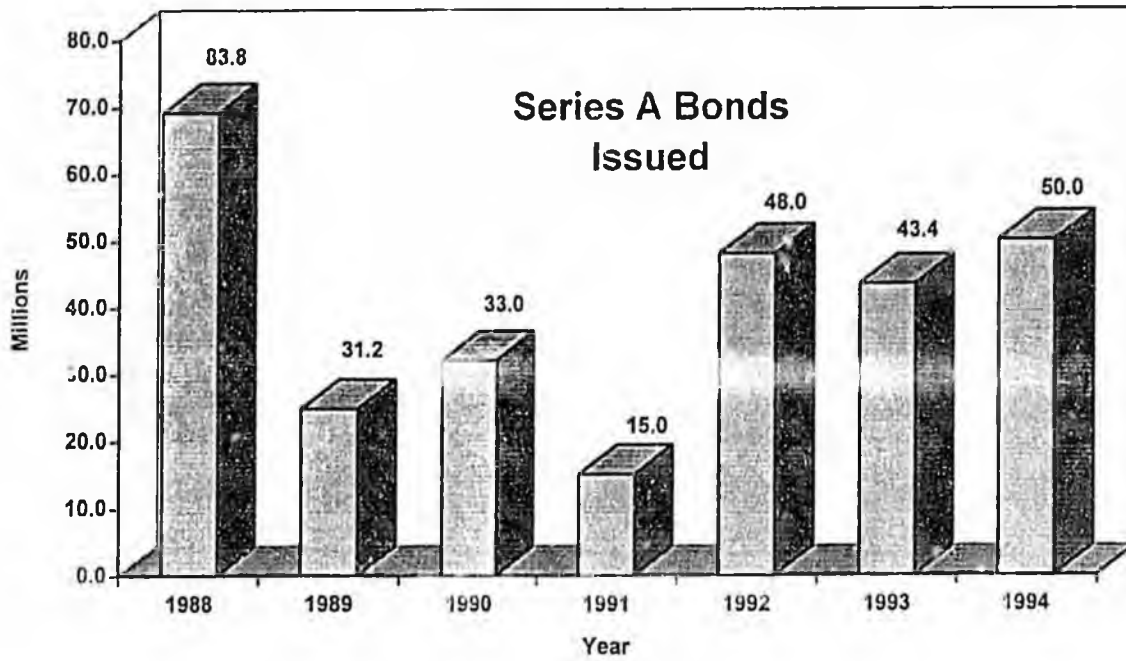
**PORTFOLIO  
CHARACTERISTICS**

March 1995  
(revised 3-17-95)

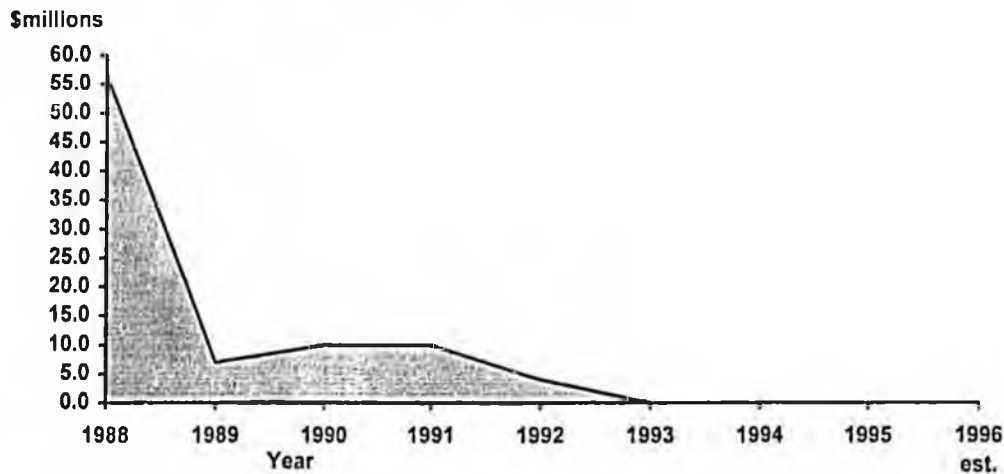
**Fund History**

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.



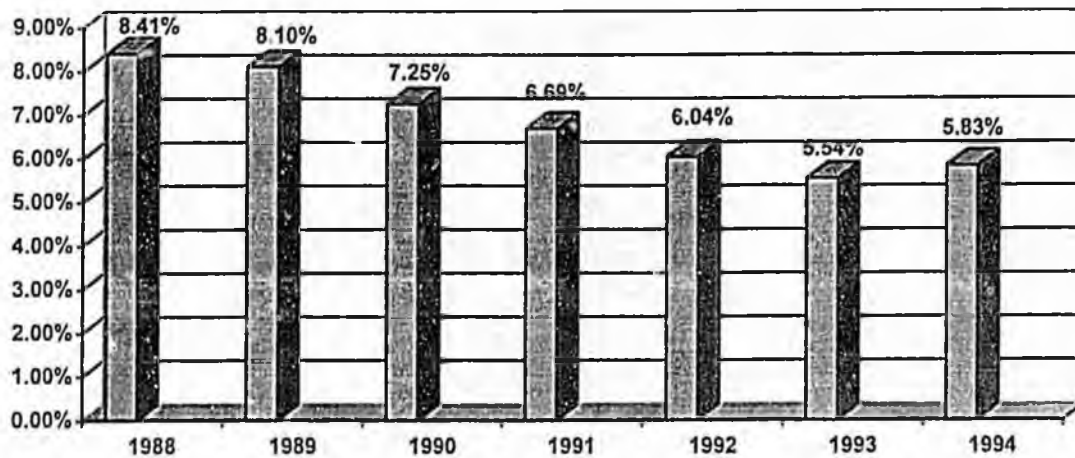
**State Appropriations to ASLP**



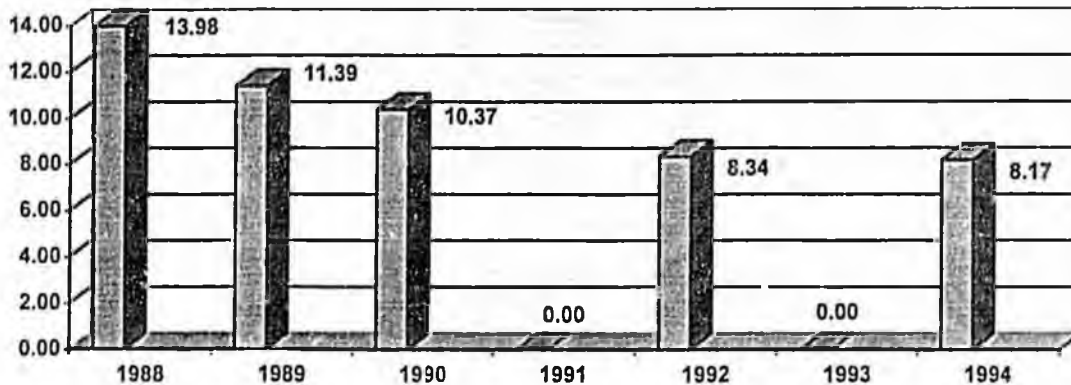
**The 1994 Bond Issue:**

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,

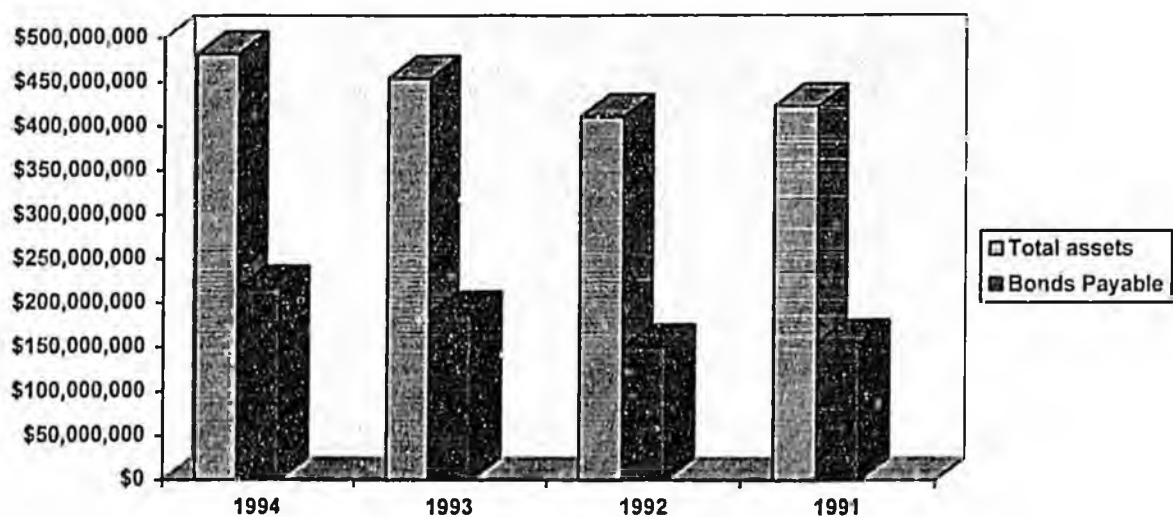
since 1992 no General Fund Revenue has been appropriated to the ASLP. In order to remain financially solvent, the ASLP will have to continue to eliminate certain losses to the loan fund due to lost interest, defaults, and forgiveness benefits. The ACPE 1995 Legislative Proposals and the FY96 budget plan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

#### Summary of Overcollateralization of the Alaska Student Loan Fund

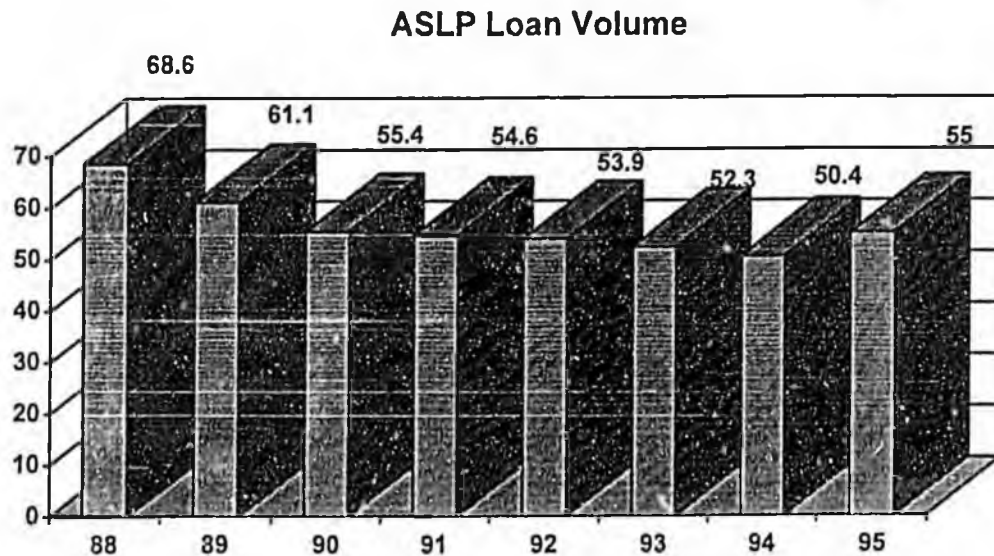
	1994	1993	1992	1991
Loans receivable	490,615,743	486,836,311	483,959,466	479,681,427
Less allowances for:				
Doubtful Loans:	96,503,198	93,158,000	100,534,190	102,144,000
Forgiveness	<u>12,880,026</u>	<u>18,709,788</u>	<u>26,385,723</u>	<u>29,588,948</u>
Net Loans receivable	<u>381,232,519</u>	<u>374,986,523</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.



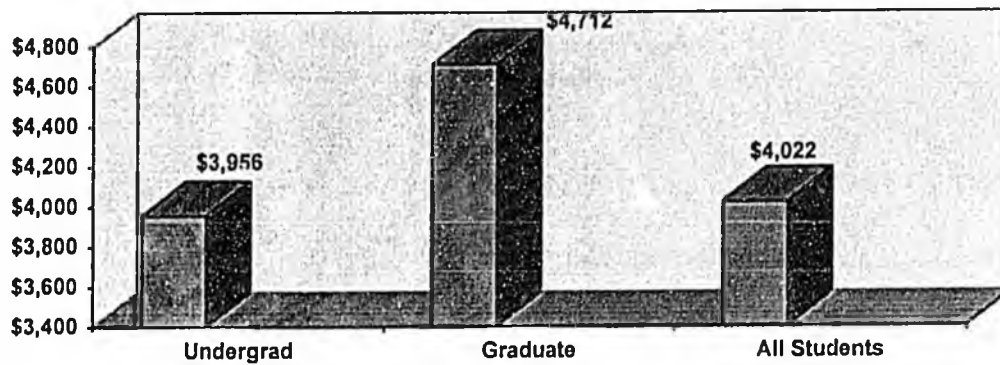
#### Profile of the 1994 Alaska Student Loan Portfolio

<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

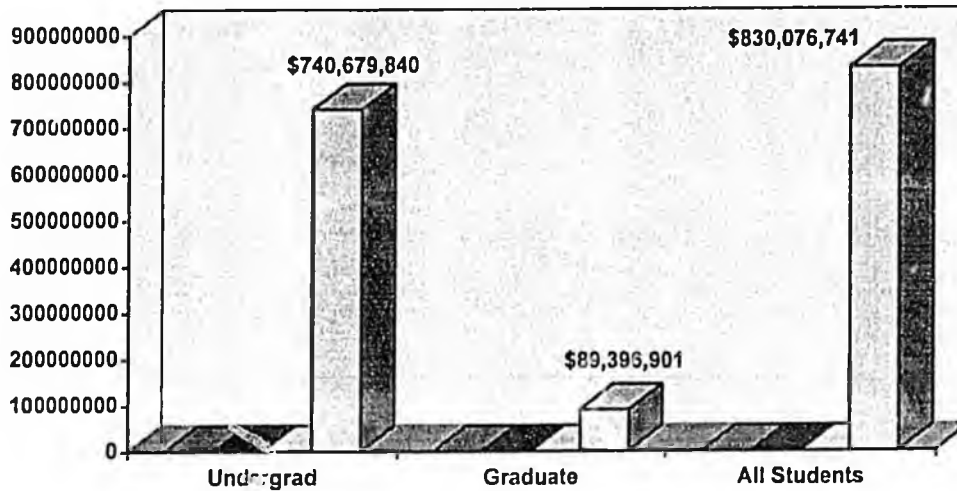
<u>Residency</u>	<u>Total Portfolio</u>	<u>Undergraduates</u>	<u>Graduate</u>
In-state	62.6%	65.5%	32.3%
Out-of-state	37.4%	34.5%	67.7%

<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%

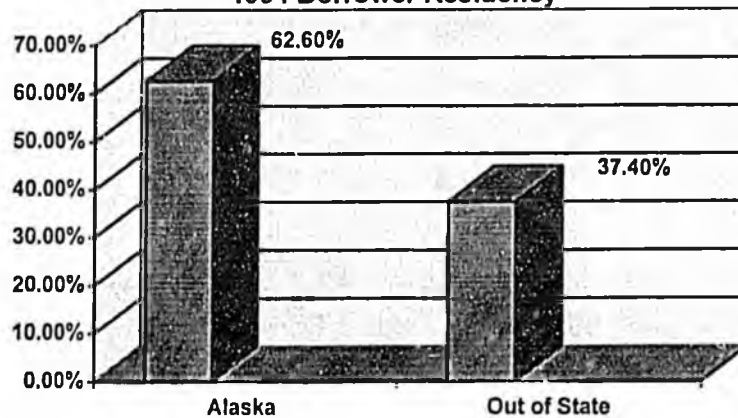
Average ASLP Loan



Cumulative ASLP Loan Volume

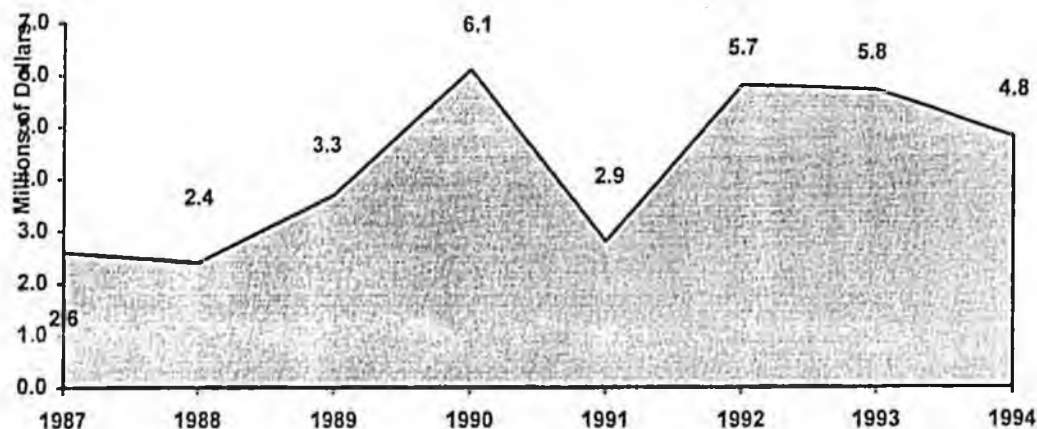


1994 Borrower Residency

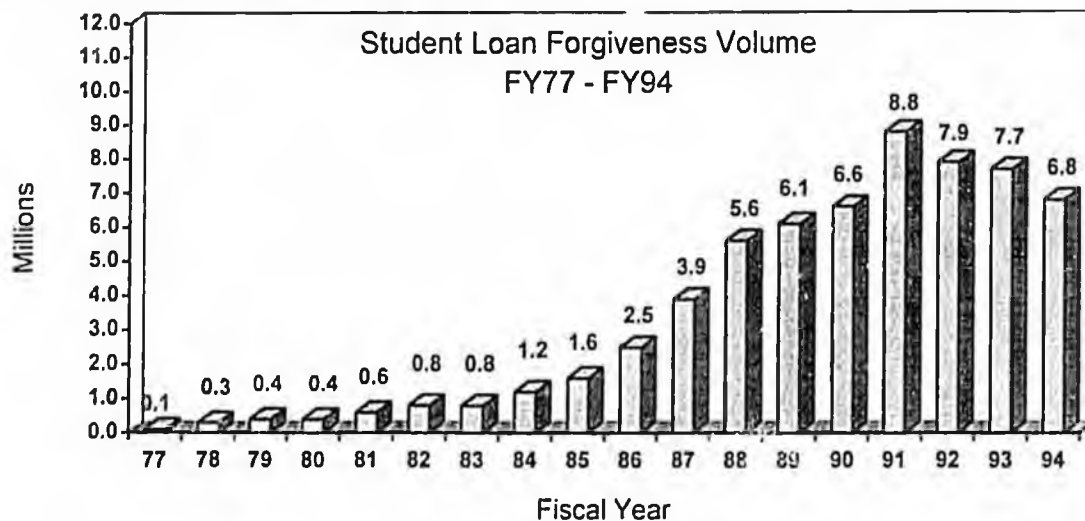


The Permanent Fund Dividend - According to AS 43.23.065 (b)(3) to satisfy the balance of a defaulted loan, the Commission can garnish an Alaskans Permanent Fund Dividend. The Alaska Permanent Fund is a fund held and managed by the state which was established by an amendment to the constitution of the 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.

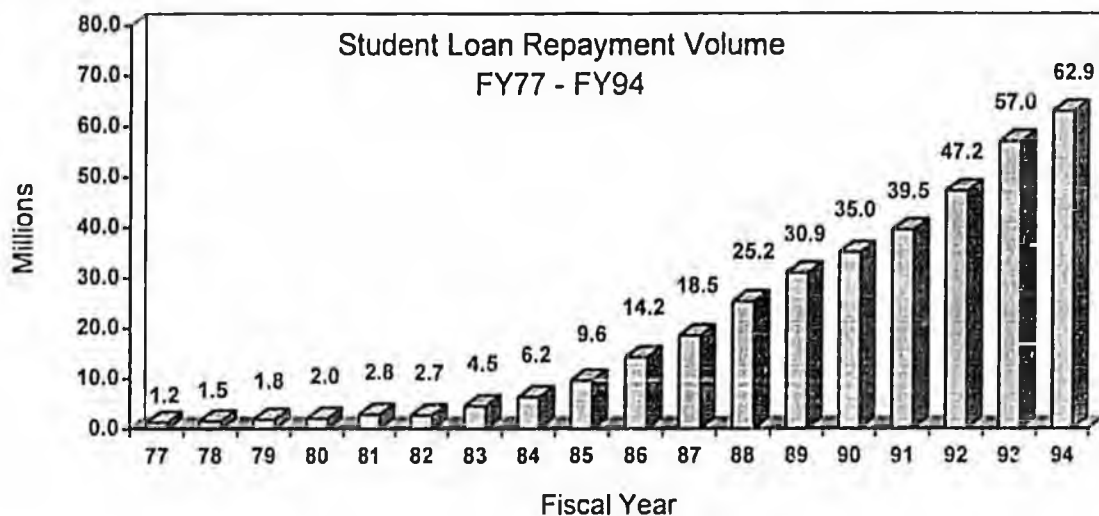
### Permanent Fund Dividend Garnishments



**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.

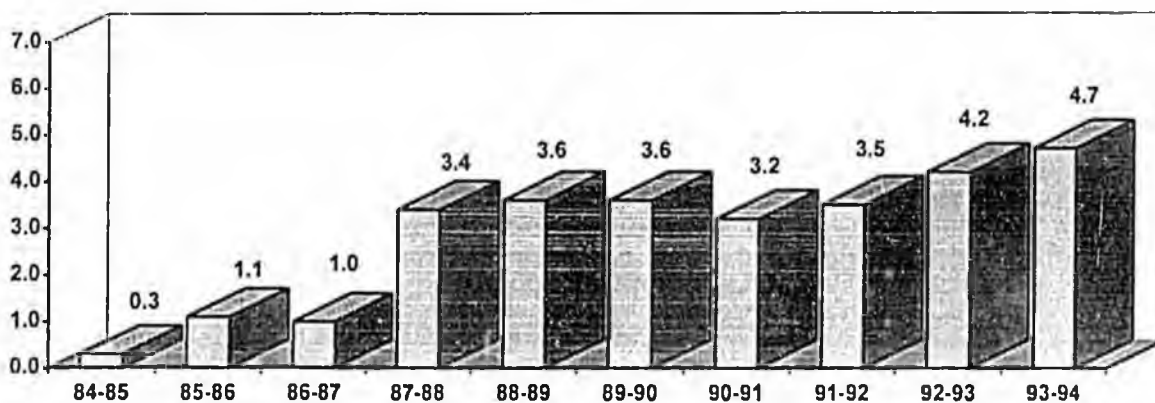


**Loan Repayments and Recoveries** - Since its inception, the Alaska Student Loan Program has been based upon a revolving fund with loan repayments and proceeds being used for loans in subsequent years. Since 1976-77, student loan borrowers have repaid over 362 million. The annual and dramatic growth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



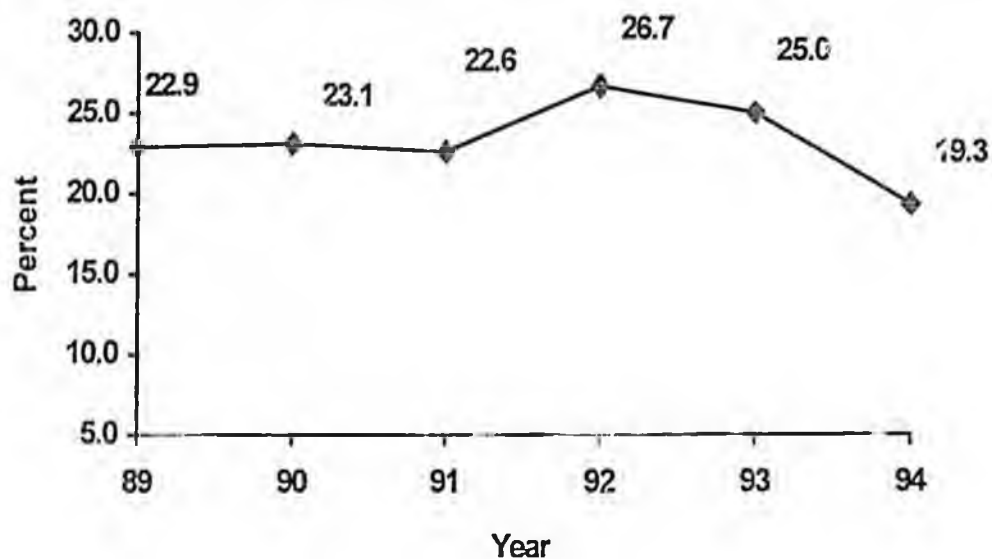
**Student Loan Collection Agency Recoveries** - Collection contractors have been utilized since September 1984 to provide debt collection services to the Commission on accounts which have reached at least 120 days past due. The contracts are contingency fee based, covering the cost of pursuing collection 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.

# STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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

TO: Lynne Smith  
(H)HESS

FROM: Gillian R. Hays *grh*  
Executive Assistant

DATE: March 17, 1995

RE: HB 257 - amendments

The Department of Law is concerned about the section in the bill that denies loans to incarcerated individuals. According to our attorney, this language is in conflict with Clery and could pose problems with the Department of Corrections. Attached is amended language for Section 17 that will make the bill more palatable for all concerned.

There are two other sections I see that need revising. The change for Section 15 just makes it 'read' easier. The change in Section 19 should have been caught during the first draft.

Section 15 on page 7, line 11.

The line should read . . . physically present in [this] [THE] Alaska while . . .

Section 19 on page 9, lines 29 and 30.

The lines should read . . . the loan [GUARANTEE] origination fee shall . . .  
. . . a [GUARANTEE] origination fee account . . .

Please call me if you have questions. Thank you so much for your support.

Attachment

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

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

**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 ASI 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 ASI 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 due 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 State Legislature

## House of Representatives

COMMITTEE ON HEALTH, EDUCATION  
AND SOCIAL SERVICES

DATE: MARCH 21

PLACE: Capitol Room 106

SUBJECT OF MEETING:  
HB 257: POSTSECONDARY  
ED. PROGRAMS/  
LOANS

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Jerry Shrum	DOC	740 Main Ste 700			4640	<input checked="" type="radio"/> Y	<input type="radio"/> N	257
Joe McCormick	ACPE	3030 Vintage Bld			465-6740	<input checked="" type="radio"/> Y	<input type="radio"/> N	257
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