

**S B**

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## SB 123 - SECTIONAL BILL ANALYSIS

Revised 3/16/95

**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 State of Alaska would pay the interest subject to appropriations.

**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 to 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 ineligible for ASL funds because of the person's inability to repay the loan.

**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.

CONFERENCE COMMITTEE  
ON SB 123 (Student Loans)

The conference committee worked from the CS SB 123 (Fin) version and made the following changes.

House amendment #1 was adopted.

House amendment #4 was adopted.

> attached

Page 2, line 7

Delete "3000"  
Insert "3500"

Delete "\$1000"  
Insert "\$1500"

Also on page 2, add a new subsection:

"(6) \$1000 to a full-time student if the student is attending a career education program that is at least six weeks but not more than 10 weeks and is otherwise eligible under AS 14.43.125.

js

AMENDMENT #1

✓  
33-4

OFFERED IN THE HOUSE

BY REP. ELTON

TO: CSSB 123 (FIN)

Page 5, line 27, insert a new subsection to read:

"(6) serving, for up to two years, as a full-time volunteer under the National and Community Service Trust Act of 1993 (AmeriCorps);"

Renumber the following sections accordingly.

24-11 js

9-LS0856G.2  
Ford  
5/5/95

✓

AMENDMENT #4

OFFERED IN THE HOUSE

By Rep. Robinson

TO: CSSB 123(FIN)

- 1 Page 9, line 25, after "AS 25.27.070":
- 2 Insert ", restitution to a crime victim authorized under AS 12.55.045,"

## LETTER OF INTENT

OFFERED IN THE HOUSE

TO: SB 123

It is the intent of the Legislature that the Commission on Postsecondary Education enforce AS 14.43.120(d)(4) to reduce delinquency rates on state scholarship loans.



AS 14.43.120(d). Scholarship loans may not be made to a student...  
(4) to attend an institution, other than a nonprofit institution, if the total amount of scholarship loans made to students to attend that institution exceeds \$100,000 and the default rate on those loans exceeds the program default rate by more than 150 percent as defined by regulation.

Office of Senate Secretary

Received:

**CONFERENCE COMMITTEE REPORT**

Date: May 11, 1995

Madam President:  
Madam Speaker:

The Conference Committee, with limited powers of free conference, considered

CS FOR SENATE BILL NO. 123(FIN)

"An Act relating to student loan programs and fees for review of postsecondary education institutions; relating to a postsecondary student exchange program administered by the Western Interstate Commission on Higher Education; and providing for an effective date."

and

CS FOR SENATE BILL NO. 123(FIN) am H

"An Act relating to student loan programs and fees for review of postsecondary education institutions; relating to a postsecondary student exchange program administered by the Western Interstate Commission on Higher Education; and providing for an effective date."

recommends that:

be adopted.

Letter of Intent:       Senate     House     Conference Committee

Fiscal note(s):       Senate     House    ZEROS

New zero fiscal note(s) attached from: \_\_\_\_\_

New fiscal note(s) attached from: \_\_\_\_\_

Linda Green  
\_\_\_\_\_  
Senator Green, Chair

Con Bunde  
\_\_\_\_\_  
Representative Bunde, Chair

Robert E. Phillips  
\_\_\_\_\_  
Senator Phillips

Al Vezev  
\_\_\_\_\_  
Representative Vezev

John Ellis  
\_\_\_\_\_  
Senator Ellis

Jay Brown  
\_\_\_\_\_  
Representative Brown

Return original to Senate Secretary's Office with Conference Bill.

Think before you sign  
with ink ...

Vote Yes on  
Amended SB123

The future of Alaskan  
employment and welfare  
depends on people being  
able to attend vocational  
schools.

Thank you for your support

Barbara Ray  
P.O. Box 870771  
Wasilla, AK 99687

( Dear Senator

I Stacy Tetkau I'm on welfare after hearing  
Bill Clinton saying there cutting welfare  
I came to SST Travel if it wasn't for the loan  
I would of never gotten this education to  
get a good job to raise myself and my 16 month  
old son. My husband left me with this pressure  
to take care of welfare was my only choice  
at the time. But now I'm making a life  
for me and my son, with this bill trying to  
get do away with the student loan. How  
are mother or father like me suppose to  
take care of our children? With welfare going  
out we have to get some kind of schooling  
to make a decent living. You want to take  
away welfare to make us get jobs. Now  
you taking away the student loan. If you  
want people to get off of welfare why are  
you taking away the student loan?  
SST has given me an education to get a  
good paying job. Don't take that away. This  
for others. PLEASE

Thank you

Student at SST Travel

Stacy Tetkau

Stacy Tetkau  
332 S. Denali  
Palmer, AK

99645

# STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

3030 VINTAGE BLVD  
JUNEAU ALASKA 99801-2109  
PHONE (907) 465 2962  
FAX (907) 465 5316

May 1, 1995

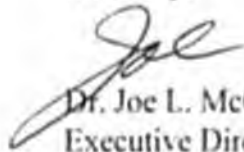
The Honorable Lyda Green  
Alaska State Senate  
Juneau, Alaska 99801

Dear Senator Green:

I would like to take this opportunity to thank you for sponsoring SB 123, "An Act related to student loans". This bill contains provisions that will strengthen the financial viability of the Alaska Student Loan Program and insure that student loans are available to future generations. Considering the rising cost of postsecondary education nationwide, safeguarding access to postsecondary education for Alaskans is more important than ever.

Your efforts on behalf of Alaska's students are appreciated. Best wishes for the remainder of the session.

Sincerely,



Dr. Joe L. McCormick  
Executive Director

*Thanks for your leadership!*

**MEMORANDUM**

TO: Senator Lyda Green  
Alaska State Senate

FROM: Dr. Joe L. McCormick  
Executive Director



DATE: April 25, 1995

RE: CS SB 123 (FIN)am

*"An Act relating to student loan programs, the Professional Student Exchange Program administered by WICHE, and fees for review of postsecondary education institutions; and providing for an effective date."*

Provisions of this bill will achieve three broad objectives:

**IMPROVE FINANCIAL STABILITY**

- increases loan origination fee to cover loan losses due to death, disability and defaults
- provides for accrual of interest during periods of deferment
- reduces grace period to six months
- establishes wage garnishment priority behind the Division of Child Support Enforcement

**IMPROVE PROGRAM ADMINISTRATION**

- sets the loan maximum at a dollar amount rather than the number of years in school
- eliminates unnecessary and costly mailing to borrowers
- removes the arbitrary cap on the loan volume

**CUSTOMER SERVICE**

- raises annual graduate loan limits to \$9500, and undergraduate loan limits to \$8500
- provides graduated loan limits per the length of career education programs
- extends the repayment period from 10 to 15 years; requires \$50 month minimum payment
- increases financial aid options available in the Family Education Loan Program
- extends the period before a loan is considered in default to 180 days

APR 26 1995

## CSSB 123(FIN) am - SECTIONAL BILL ANALYSIS

Revised 4/25/95

**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. Graduated loan limits for career education programs reflects the 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, and caps the total amount borrowed to \$60,000. 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.
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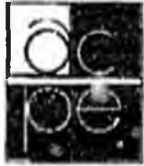
**Section 31** -- provides for an effective date of this bill at the beginning of the fiscal year.

Analysis.doc

*Frontiers*  
ACPE FY94 Annual Report

TABLE 9  
DISTRIBUTION OF 1993-94 ALASKA STATE LOANS  
FOR STUDENTS ATTENDING IN ALASKA  
(June 30, 1994)

Institution	No.	Amount	Institution	No.	Amount
University of Alaska Anchorage	2,846	\$9,864,422	University of Alaska Southeast - Ketchikan	17	\$51,100
University of Alaska Fairbanks	1,792	6,650,759	Kuskokwim College	17	49,342
Matanuska-Susitna College	292	1,030,202	Older Persons Action Group	17	22,050
Alaska Pacific University	279	1,002,990	New Frontier Vocational-Technical Center	16	79,450
University of Alaska Southeast	277	866,621	A Head of Time Design School	16	74,750
Alaska Computer Institute of Technology	266	1,369,768	New Concepts Beauty School	15	74,600
The Travel Academy	254	942,597	Anchorage Alaska Barber College	15	66,579
Charter College	247	1,189,296	Kodiak College	14	36,850
Alaska Junior College	202	606,589	Alaska Institute of Business & Technology	12	50,900
Kenai Peninsula College	174	631,354	SERCC-Alaska Vocational Institute	12	46,850
SST Travel Schools of Alaska	117	472,415	St. Herman's Theological Seminary	12	41,233
Alaska Vocational-Technical Center	110	387,402	Northern Lights Academy of Hair	12	40,450
Sheldon Jackson College	93	421,717	Beau Mondes DBA Fairbanks Beauty School	10	52,100
Alaska Technical Training School	74	350,674	Aero Tech Flight School	10	23,728
Computer Skills Training	73	367,425	Aviation North	9	19,362
Elite Hospitality	64	288,775	Valley Academy of Hair	7	38,200
Trend Setters School of Beauty	52	241,965	Chapman College	7	15,030
Wayland Baptist University	47	113,063	Gatekey School of Mind-Body Integration	6	32,200
University of Alaska Southeast - Sitka	44	141,138	Alaska Flying Network	6	21,974
People Count, Inc.	42	202,350	Elmendorf Aero Club	6	3,649
Testing Institute of Alaska	33	161,026	Embry-Riddle Aeronautical University	5	14,300
University of LaVerne	29	91,819	Alaska Bible College	5	11,100
Prince William Sound Community College	29	73,750	The Aviation Company	4	3,366
Cumarron Tech	28	104,150	Felson Aero Club	3	6,858
Alaska Professional Bartending School	27	130,100	Alaska Technical Center	2	5,750
Flight Safety Alaska	24	71,594	Northwest College	1	1,500
Jon Anthony's Academy of Hairstyling	22	105,750	Central Texas College	1	650



**Alaska Commission on Postsecondary Education**

**3030 Vintage Blvd.  
Juneau, AK 99801-7109  
(907) 465-6740  
FAX: (907) 465-3293**

**TELECOPIER COVER SHEET**

**Date:** May 11, 1995

**Send To:** Conference Committee Members

**FAX #:** \_\_\_\_\_

**Number of pages:** 2  
**(Including Cover Page)**

**FROM:** Dr. Joe L. McCormick  
Fax: (907) 465-3293

**Message:** Please note the small number of loans sent to  
proprietary schools each year.

**PERSONAL USE ONLY**

**Document Sent By:** JLM/

**Date/Time Completed:** \_\_\_\_\_

# ALASKA STATE LEGISLATURE

Interim  
165 East Parks Highway, Suite 106  
Wasilla, Alaska 99654-7035  
(907) 376-3370



Session  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
Fax 465-3805

SENATOR LYDA GREEN  
SENATE DISTRICT N

## MEMORANDUM

TO: All Senators  
FROM: Senator Green  
RE: CSSB 123 (FIN) am H  
DATE: May 7, 1995

-----  
The House recently passed CSSB 123, "An Act relating to student loans". **Changes made to the bill, increasing loan limits to short-term vocational programs, will be devastating to the Alaska Student Loan Program.**

Currently, **default rates for short term programs (less than 30 weeks) are between 30 and 54 percent.** (This is compared to the average default rate for University of Alaska students which is 12 percent.) **Fact: Twenty percent of all Alaska Student Loans go to for-profit proprietary schools but these programs represent over 40 percent of all currently defaulted student loans.** The Division of Legislative Audit reported in February that "At the end of 1994, \$342 million of the loan portfolio should have been paying on their loans, however, almost a third, or over \$107 million, were in default... The default rate must be decreased significantly to move toward financial self-sufficiency."

The argument that SB 123, in its unamended form, would eliminate the majority of vocational school operations due to the "drastically reduced maximum loan levels for programs less than 30 weeks" is simply false. SB 123, in its unamended form, gives students attending programs more than 30 weeks in length access to \$6,500. This is a \$1,000 increase from current loan limits. Programs between 20 and 30 weeks in length will be eligible for \$4,500 and programs between 10 and 20 weeks will be eligible for \$3,000 in ASL funds. If students can attend an entire year of school with \$5,500, they can certainly complete a 20 week program on \$4,500 or a 10 week program with \$3,000.

The argument that SB 123 would drastically reduce the available trained labor pool for the travel/tourism/hospitality industry is also unfounded. These loan limits will not prevent anyone from attending vocational training programs but *will* prevent students from getting saddled with excessive debt, ruining their credit rating, having their Permanent Fund Dividend checks seized and having their wages garnished.

**Fact: Bond holders and bond insurers will not continue to buy or insure Alaska Student Loans if default rates are not drastically reduced.** Financial self-sufficiency is the goal of SB 123. Since the Alaska Student Loan Program is not insured against losses to the loan fund and receives no General Fund support, it is vital that we reduce default rates. We can do this most expeditiously by not raising loan limits to high-risk students. To expand loan limits to programs with the highest default rates is bad fiscal and public policy that could ultimately result in the destruction of the Alaska Student Loan Program. **Therefore, I urge my fellow Senators to reject the House changes to SB 123.**

**SHORT COURSE PROGRAMS - (less than 9 months, or approximately 1000 hours in length)**

<u>Course Type</u>	<u>Length</u>	<u>Cost</u>	<u>Annual Openings</u>	<u>Wage</u>	<u>Average Default Rate</u>
<i>Technical Training</i>					30.66%
Automotive	21 weeks	\$4,174	54	varies	
Outboard Motor Repair	8 weeks	\$3,400-4,800	15	\$19,200	
Heat/Refrig/Sheet Metal	31 weeks	\$6,390	6	\$32,864	
Master Welding	25 weeks	\$6,990	28	\$27,600	
<i>Office/Computer Skills Training</i>					36.6%
General Clerical Skills	22 weeks	\$7,756	180	\$16,200	
Word Processing	16 weeks	\$5,643	37	\$18,000	
Clerk Typist	18 weeks	\$3,000	37	\$18,000	
Office Management	16 weeks	\$5,638	109	\$27,000	
Accounting Clerk	18 weeks	\$3,000	127	\$19,800	
Travel Specialist	10 weeks	\$1,795	36	\$15,360	29.49%
Bartending/Management	7 1/2 weeks	\$3,400	61	\$14,400	53.91%
Cosmetology & Hairdressing	12 weeks 22 weeks	\$750-2,250 \$4,500	29	\$12,000	34.48%

The occupation and wage data is provided by the Alaska Department of Labor. That information is derived from employer surveys which also stress that, in many occupations, applicants must be certified as having skill mastery with prior experience. This scenario often results in a higher than average default rate for vocational programs. Students completing the short courses do not find jobs with wages to support student loan payments.

**EVENSEN DODGE INC**

May 9, 1995

Dr. Joe L. McCormick  
Executive Officer  
Alaska Student Loan Corporation  
3030 Vintage Blvd.  
Juneau, Alaska 99801

Dear Dr. McCormick:

You have asked us to comment on a legislative proposal to increase loans to students attending proprietary schools. Our comments are made as the Corporation's financial advisor.

In Alaska, as well as nationally, proprietary school students' loans have default rates substantially higher than for other post-secondary school students' loans. An increase in loans to students attending proprietary schools can be expected to increase the Corporation's default rate and any increase in the default rate will have an adverse impact on the Corporation's cost of borrowed funds, the availability of credit enhancement, financing capacity of the Corporation, and possibly access to the tax exempt bond market.

The Corporation has made great strides in the past 2 years to reduce its default rate and improve the servicing of student loans. These actions have been welcomed by investors and credit analysts. For the Legislature to now take an action which will be expected to increase the default rate will increase the Corporation's cost of funds and reduce the Corporation's financing capacity.

We urge the Corporation and the Legislature to take actions which reduce student loan defaults. The current proposal will be viewed as increasing the overall default rate and will have adverse financial consequences for the Alaska Student Loan Program.

Sincerely yours,

**EVENSEN DODGE, INC.**

Patrick P. Born  
Senior Vice President  
and Principal

AMENDMENT #1



OFFERED IN THE HOUSE

BY REP. ELTON

TO: CSSB 123 (FIN)

Page 5, line 27, insert a new subsection to read:

"(6) serving, for up to two years, as a full-time volunteer under the National and Community Service Trust Act of 1993 (Americorps);"

Renumber the following sections accordingly.

Revised:



AMENDMENT #2

OFFERED IN THE HOUSE  
TO: CSSB 123(FIN)

BY REPRESENTATIVE KOTT/SANDERS/  
IVAN

James  
Sunde

For  
Garnes  
Cott  
Mackie  
Sanders  
Lecriss  
Finckelstein  
Cyan  
Sternman

- \* 1 Page 2, line 2:
- 2 Delete "30"
- 3 Insert "20"

---

- \* 4 Page 2, line 4:
- 5 Delete "\$4,500"
- 6 Insert "\$5,000"

---

- \* 7 Page 2, lines 5 - 6:
- 8 Delete "30, but at least 20"
- 9 Insert "20, but at least 6"

---

- \* 10 Page 2, line 6:
- 11 Delete ";
- 12 Insert ".

---

- \* 13 Page 2, lines 7 - 9:
- 14 Delete all material.

---

- \*

AMENDMENT #3

OFFERED IN THE HOUSE  
TO: CSSB 123(FIN)

Brown +  
Madden

- 1 Page 9, line 20, after "14.43.160":
- 2       Insert "if the person's scheduled release date is more than two months after the
- 3 scheduled completion date of the career education or degree program for which the loan is
- 4 requested"



AMENDMENT

#4

OFFERED IN THE HOUSE  
TO: CSSB 123(FIN)

By Rep. Robinson

- 1 Page 9, line 25, after "AS 25.27.070":
- 2 Insert ". restitution to a crime victim authorized under AS 12.55.045,"

# STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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

March 15, 1995

The Honorable Lyda Green  
Alaska State Senate  
Juneau, Alaska 99801

Dear Senator Green:

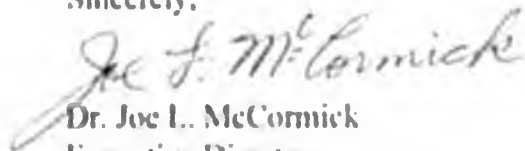
On behalf of the Alaska Commission on Postsecondary Education I would like to thank you and the members of your committee for introducing legislation which will ensure the long-term stability and financial independence of the Alaska Student Loan Program. As you know, our ultimate goal is to ensure that student loan funds are available for future generations of Alaskan borrowers. The provisions of SB 123 are intended to accomplish these goals. They include:

- ◆ Providing flexibility to the Commission to set loan origination fees based on loan fund losses due to death, disability, default, prior forgiveness benefit obligations and forgone interest during statutory interest free periods.
- ◆ Providing for the first increase in loan limits in fourteen years to assist undergraduate and graduate students in meeting rising tuition costs.
- ◆ Extending the due diligence period to give borrowers addition time to sort out financial difficulties and extend the repayment period to fifteen years to increase a borrower's ability to manage the debt.

These modifications are designed to increase the financial soundness of the program while, at the same time, respond to requests from the students to increase the options available to them as they seek to finance their educational goals.

Once again, I thank you for your assistance in ensuring the continuance of the Alaska Student Loan Program, now in its 21st year of service to Alaskans. If you would like additional information or have any concerns, please do not hesitate to contact me at 465-6740.

Sincerely,



Dr. Joe L. McCormick  
Executive Director

**POSITION PAPER ON SB 123**  
Alaska Commission on Postsecondary Education  
March 17, 1995

Senate Bill 123 -- 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 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 SB 123 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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\* 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.

... ..

A: "H" brand fax transmittal memo 7671		# of pages > 1
* Joe McLaughlin		From: J. N. S. Williams
Co.	Co.	
Dept.	Phone #	
Fax #	Fax #	

*Bill Analysis for SB 123, "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 Senate HESS Committee  
March 15, 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 SB 123 must occur.

**ANALYSIS OF BILL/PROGRAM EFFECTS:**

Provisions of SB 123 (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 term of student deferments
- ◆ extends the period before a loan goes into default
- ◆ expands students' financial aid options
- ◆ denies loans to incarcerated individuals
- ◆ 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 )



**UNIVERSITY OF ALASKA FAIRBANKS**

**Associated Students University of Alaska Fairbanks**  
Fairbanks, Alaska 99775-0220 • (907) 474-7355

**Heath E. Hilyard**  
Legislative Affairs Director

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**Senate Resolution 95-06**

**Title: Support for House Bill 123**

**Sponsors: Senators Lee and Diekman**

**Date: 22 March 1995**

**Whereas:** Currently in the legislature of the State of Alaska, the Senate Health, Education, and Social Services Committee has proposed Senate Bill No. 123; and

**Whereas:** This bill will allow students who receive the Alaska Student Loan to receive more money to defer the cost of higher education in Alaska and around the world; and

**Whereas:** This legislation is important to the Students of Alaska and because of the ever rising cost of higher education; and

**Whereas:** It is the job of the ASUAF Senate and President to lobby for legislation that will assist the student body of the University of Alaska Fairbanks in continuing their education here; then

**Therefore Be It Resolved:** That the ASUAF Senate supports House Bill 123 currently being discussed in the State Legislature fully; and

**Further Be It Resolved:** That ASUAF present this to the Coalition of Student Leaders at their next meeting to gather support for House Bill 123 from all of the Student Governments; and

APR 07 1995



UNIVERSITY OF ALASKA FAIRBANKS

Associated Students University of Alaska Fairbanks  
Fairbanks, Alaska 99775-0220 • (907) 474-7355

**Further be it Resolved:** That this resolution be sent to the Senate Health, Education,  
and Social Services Committee, the Senate President, the House Health, Education,  
and Social Services Committee, the Speaker of the House, and the Governor of the  
State of Alaska.

ASUAF President

Date 03-29-95

[Signature]

ASUAF Senate President

Date 29 MARCH 95

[Signature]

ASUAF Senate Clerk

Motion 15/112

[Signature]

APR 07 1995

**IN-STATE COSTS FOR FULL-TIME UNDERGRADUATE STUDENTS AT  
ALASKAN INSTITUTIONS**

<b>OFF-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (UAA)</b> T & F \$2,148 R & B 8,550 Books 640 Trans. 1,125 Personal 1,305 <b>Total \$13,768</b>	<b>ON-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (UAA)</b> T & F \$2,148 R & B 6,310 Books 640 Trans. 1,125 Personal 1,305 <b>Total \$11,528</b>
<b>OFF-CAMPUS, SINGLE STUDENT W/DEPENDENT, FT UNDERGRAD (UAA)</b> T & F \$2,148 R & B 11,214 Books 640 Trans. 1,125 Personal 1,305 Dep. Costs 2,142 <b>Total \$18,574</b>	<b>OFF-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (UAF)</b> T & F \$2,490 R & B 7,830 Books 650 Trans. 1,710 Personal 1,980 <b>Total \$14,660</b>
<b>ON-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (UAF)</b> T & F \$2,490 R & B 3,690 Books 650 Trans. 324 Personal 1,980 <b>Total \$9,134</b>	<b>OFF-CAMPUS, SINGLE STUDENT W/DEPENDENT, FT UNDERGRAD (UAF)</b> T & F \$2,490 R & B 10,170 Books 650 Trans. 1,710 Personal 2,700 <b>Total \$17,720</b>
<b>OFF-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (AK PACIFIC U.)</b> T & F \$7,690 R & B 7,500 Books 800 Trans. 1,500 Personal 1,500 <b>Total \$18,990</b>	<b>ON-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (AK PACIFIC U.)</b> T & F \$7,690 R & B 4,150 Books 800 Trans. 250 Personal 1,500 <b>Total \$14,390</b>
<b>OFF-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (SHELDON JACKSON C.)</b> T & F \$9,250 R & B 8,425 Books 500 Trans. 2,000 Personal 1,500 <b>Total \$21,675</b>	<b>ON-CAMPUS, SINGLE STUDENT, FT UNDERGRAD (SHELDON JACKSON C.)</b> T & F \$9,250 R & B 4,800 Books 500 Trans. 2,000 Personal 1,000 <b>Total \$17,550</b>

**OUT OF STATE COSTS FOR FULL-TIME UNDERGRADUATE STUDENTS**

<b>SCHOOL</b>	<b>TUITION &amp; FEES*</b>	<b>ROOM &amp; BOARD**</b>	<b>BOOKS &amp; SUPPLIES***</b>	<b>TRANSPORTATION &amp; OTHER EXPENSES****</b>	<b>ANNUAL TOTAL NON-RESIDENT</b>
OREGON STATE U.	\$9096	\$3990	\$720	\$2332	\$16,128
U. OF WASHINGTON	\$8199	\$4994	\$707	\$2171	\$16,021
IDAHO STATE U.	\$5226	\$3150	\$500	\$2214	\$11,130
LINFIELD COLLEGE (OREGON)	\$13,190	\$4210	\$600	\$1100	\$19,400
MONTANA STATE U.	\$5801	\$3462	\$550	\$2300	\$12,113
ARIZONA STATE U.	\$7350	\$4850	\$700	\$2200	\$15,100
EVERGREEN COLL.	\$6948	\$3600	\$600	\$2112	\$13,260
U. OF PUGET SOUND (TACOMA, WA)	\$15,220	\$4300	\$600	\$1760	\$21,880
WESTERN WA. U.	\$6948	\$4140	\$618	\$2295	\$14,001
STANFORD U.	\$17,775	\$6535	\$815	\$2115	\$27,240
HARVARD	\$18,745	\$6135	\$800	\$3420	\$29,100

\***TUITION & FEES** represents the annual tuition and general fees an institution charges most first-year, full-time students. Colleges reported these costs based on a 9-month academic year of 30 semester hours or 45 quarter hours.

\*\***ROOM & BOARD** costs are for students living on-campus. Costs include the charge for living and eating for 9 months in facilities operated by or for the college. These are average charges based on double room occupancy and 21 meals a week in college facilities.

\*\*\***BOOKS & SUPPLIES** include the average cost of these items for the normal course load for full-time students. Supplies may be more or less depending on area of study.

\*\*\*\***TRANSPORTATION & OTHER EXPENSES** include the typical cost for two round-trips between home and campus during the 9 month academic year. This figure was obtained from colleges in the lower 48 and would inevitably be higher for Alaskan students. Other expenses for campus residents include typical costs for misc. personal expenses such as clothing, laundry, entertainment, snacks, medical insurance, and furnishings.