

SB

189

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 4/25/97

FURTHER: Finance

Date of 5-Day Notice: 4/25/97
 (in accordance with Uniform Rule 23)
 24 hr^{rule} in effect

DATE TURNED
 IN TO OFFICE: 4/30/97

Health, Education and Social Services Committee considered

SENATE BILL NO. 189

"An Act relating to eligibility for and default, collection, and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING/DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Don A. Luman</i>	✓				
<i>John Evers</i>	✓				
<i>Lydia Green</i>	✓				
CHAIR: <i>Carroll R. Wells</i>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

DOE	4/29/97		* 9.5
Occupational C+ED - Licensing	4/29/97	✓	
ACPE	4/24/97		15.1
Admin	4/28/97	✓	
Worker's Labor - Comp	4/30/97		28.9
Employment Labor - Security	4/30/97	✓	

Labor - Labor Standards 4/30/97 * 15.2

APPROPRIATION -- no fiscal note

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____	Dept. Affected: <u>EDUCATION</u>
Title: <u>Education Loan Repayment/Eligibility:</u>	BRU: <u>Teaching and Learning Support</u>
<u>Occupational Licensing</u>	Component: <u>Teacher Certification</u>
Sponsor: <u>Senate Health, Education & Social Services</u>	
Requester: <u>Senate Health, Education & Social Services</u>	COMPONENT SERIAL NO. <u>1240</u>

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	6.5	5.0	5.0	5.0	5.0	5.0
SUPPLIES	3.0	2.0	2.0	2.0	2.0	2.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	9.5	7.0	7.0	7.0	7.0	7.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGES IN REVENUES						
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1007 Interagency Receipts	9.5	7.0	7.0	7.0	7.0	7.0
TOTAL	9.5	7.0	7.0	7.0	7.0	7.0

Estimate of current year (FY97) cost: \$

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The legislation would require that teacher certification be withheld if a licensee is in default on a loan issued by the Alaska Commission on Postsecondary Education. The Teacher Certification Unit would be required to match up borrowers in default on a student loan with teaching certificates issued to determine if a license should be withheld. It also requires written notification of denial of renewal and issuance of a 150 day temporary license if the denial is appealed. The requested funding would come through the ACPE to DOE for costs associated with comparing borrower default information with licensees, issuing the written notice and temporary license. Contractual costs include revisions to regulations and procedures, computer programming time, additional phone and copy charges. Supplies costs include purchase of certification forms and office materials

Prepared by: Nancy Buell
Division: Teaching and Learning Support

Phone: 465-8689
Date: 4/29/97

Approved by Commissioner: Shirley J. Holloway, Ph.D.
Agency: Department of Education

Date: 4/29/97

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FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: An Act relating to eligibility for and default, collection,
and repayment of student loans;....
 Sponsor: Senate HESS
 Requestor: Senate HESS

Department: Commerce and Economic Development
 BRU: Occupational Licensing
 Component: Operations
 COMPONENT SERIAL NO. 1844

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other 1091 Designated PR						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

SB 189 repeals AS 08.02.025 and reenacts new requirements under AS 14.43.148 concerning nonrenewal of a license for an individual in default with the student loan program. The renewal requirements are similar to those currently in place under AS 08.02.025 with the exception of adding a new provision for a 150 day temporary license. New funds are not required to implement the license renewal requirements in this bill.

Prepared by: Jennifer Strickler, Administrative Manager
 Division: Occupational Licensing
 Approved by Commissioner: William L. Hensley
 Agency: Commerce and Economic Development

Phone: 465-2144
 Date: 4/28/97
 Date: 4-27-97

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FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Workers' Compensation
 Component: Workers' Compensation

COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	18.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	10.5	0.9	0.9	0.9	0.9	0.9
SUPPLIES	0.4	0.2	0.2	0.2	0.2	0.2
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	28.9	10.1	10.1	10.1	10.1	10.1

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Interagency Receipt	28.9	10.1	10.1	10.1	10.1	10.1
TOTAL	28.9	10.1	10.1	10.1	10.1	10.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

This legislation gives the Commission on Postsecondary Education (Commission) authority to collect certain workers' compensation benefits due an injured worker who has defaulted on an education loan. Section AS 14.43.147 appears to apply to workers' compensation payments and grant authority to the commission to obtain those payments. This legislation will require additional clerical time for the Workers' Compensation Division as attached:

Prepared by: Paul Grossi, Director *Paul Grossi* Phone: 465-2790
 Division: Workers' Compensation Date: 4/30/97

Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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Analysis:

The Post Secondary Education Commission estimates approximately 17,000 student loans are currently in default. This legislation will require additional clerical time and costs for the Workers' Compensation Division as follows:

Each request for workers' compensation benefits payable would need to be researched and verified. It is anticipated based on the number of existing student loans currently in default the first year would require 6 months of an Administrative Clerk III time. Response letters to requests to claimant will need to be prepared advising insurers and employees of the potential impact to compensation benefits. Programming and procedures would need to be developed to respond to match up request with workers' compensation claim files. Additional mailings and reports may be required.

One month programming time will be required to meet bill requirements.

Line 100 Personal Services

50% of 1 Administrative Clerk III
(1st year, 25% subsequent years)

Salary	12.2
Benefits	<u>5.8</u>
	18.0

Line 300 Contractual Services

DP Programming (FY98 one time)	5.0
Postage	3.2
DP Operations one time overhead	0.4
Printing form letters	0.5
Indirect @ 8% salary	<u>1.4</u>
	10.5

Line 400 Commodities

Office Supplies	0.4
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Total	<u>28.9</u>
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FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Labor Standards & Safety
 Component: Mechanical Inspection

COMPONENT SERIAL NO. 346

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	9.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	5.8	2.5	2.5	2.5	2.5	2.5
SUPPLIES	0.4	0.4	0.4	0.4	0.4	0.4
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.2	11.9	11.9	11.9	11.9	11.9

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Inter-Agency Receipt	15.2	11.9	11.9	11.9	11.9	11.9
TOTAL	15.2	11.9	11.9	11.9	11.9	11.9

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Interagency Receipts: RSA with Department of Education, Postsecondary Education Commission

Prepared by: Alan W. Dwyer, Director *Al Dwyer* Phone: 465-4855
 Division: Labor Standards & Safety Date: 4/30/97

Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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ANALYSIS:

This legislation will require additional administrative and clerical time and costs for the Mechanical Inspection component as follows:

- 1) When individuals apply in person for new or renewal certificates of fitness at any of five offices (Anchorage, Juneau, Fairbanks, Sitka, and Kenai), the estimated increase in processing time will be 30 minutes per individual who is in non-compliance with an Alaska student loan. This does not include testing, proctoring, scoring or discussion of tests.
- 2) Renewal letters are mailed out monthly. New programming, different procedures, forms, and additional mailing and reporting costs will be incurred to provide the "temporary" renewal letters and to answer phone calls regarding the change.
- 3) Additional time will be required to process the releases and the permanent certificates, as individuals submit those to our office.
- 4) Two weeks programming time will be needed to respond to the bill's requirements.

Line 100 - Personal Services

25% of 1 PFT Admin Clerk II (PCN 07-4543)

Salary	6.1
Benefits	2.9
Subtotal	9.0

Line 300 - Contractual Services

Professional Services - DP Programming (FY98 one-time)	3.1
Postage @ \$2.52 x 2 x 5,650 x 5%	1.4
Printing - forms, notices, letterhead	0.1
DP Operations Overhead (FY98 one-time)	0.2
Phone Base & Long Distance	0.3
Indirect @ 8% of salaries	0.7
Subtotal	5.8

Line 400 - Commodities

Office Supplies	0.4
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TOTAL **15.2**

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Employment Security
 Component: Employment/Unemployment Services
 COMPONENT SERIAL NO. 1807

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Prepared by: Rebecca Nance, Director *R. Nance* Phone: 465-2711
 Division: Employment Security Division Date: 4/30/97
 Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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**ATTACHMENT
FISCAL NOTE**

Page 2 of 2

This bill would give the Alaska Commission on Postsecondary Education additional tools to collect delinquent student loans. It has three main components: a grant of authority to attach wages and benefits by notice served on employers, political subdivisions, and state departments; a provision for denying state licenses to defaulting debtors; and a set of special provisions for permanent fund dividend attachment.

Attachment of wages and benefits. This provision will not significantly impact the Employment Security Division, because unemployment insurance benefits are exempt from attachment under AS 23.20.405 and AS 09.38.015. The bill would exempt any income which is exempted under AS 09.38.

Denial of State licenses. This provision will not directly affect ESD programs.

Permanent fund dividend attachment. No ESD impact.

Fiscal impact. No ESD fiscal impact.

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: An Act relating to eligibility for and default, collection, and repayment of student loans.
 Sponsor: (S) HES
 Requestor: (S) HES

Department Affected: Administration
 BRU: Centralized Administrative Services
 Component: Finance
 COMPONENT SERIAL NO. 59

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.) This bill would require the Department of Administration, upon notification by the Alaska Commission on Post-secondary Education, to withhold money from a person to whom the State legally owes money. We understand similar legislation has been passed in other states and at the federal level to address the issue of collecting defaulted student loans. This document is intended to respond only to those provisions of the bill relating to the Department of Administration.

From a Division of Finance perspective, this means withholding of employee pay or vendor payments to satisfy the requirements of a withholding order, and turning the withholdings over to the Commission.

Prepared by Don Wanie
 Division Finance

Phone: 465-3435
 Date: _____

Approved by Commissioner: Mark Bover
 Agency: Department of Administration

Mark Bover
 Date: 4/18/97

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Revision Date: _____
Title: An Act relating to eligibility for and default, collection, and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date.

Department Affected: _____
BRU: _____

Education
Alaska Commission on Postsecondary Education

Sponsor: Senate HESS
Requester: Senate HESS

Component: Student Loan Operations

COMPONENT SERIAL NO. 213

EXPENDITURES/REVENUES:

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	15.1	32.8	15.0	15.0	15.0	15.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.1	32.8	15.0	15.0	15.0	15.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUE ()						
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(Thousands of Dollars)

FUND SOURCE:

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER Corp. Receipts 1022	15.1	32.8	15.0	15.0	15.0	15.0
TOTAL	15.1	32.8	15.0	15.0	15.0	15.0

Estimate of any current year (FY 97) cost: \$

POSITION:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

The student loan fund continues to experience an erosion of fund equity each year, primarily due to the drain of uncollectable debt and losses due to interest-free periods on loans. This legislation will establish a front-end credit assessment of loan applicants as another step towards preservation of the fund for future generations. The only assessment of an applicant's credit-worthiness currently available is a check to ensure that the applicant is not delinquent on a previously awarded State of Alaska student loan.

Please see attached page.

Prepared by: Mike Maher, Director Phone: 465-6743
Division: Student Loan Operations Date: April 26, 1997

Approved by Executive Director: Diane Barrans
Agency: Alaska Commission on Postsecondary Education Date: April 26, 1997

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ANALYSIS: (continued)

The Commission proposes that credit assessments only be done on applicants 21 years of age and older. In the event that an applicant is denied due to "chronic" bad debt, the option of obtaining a co-signer who has good credit may be available. Credit reporting agencies generally have a model which analyzes credit histories based on a number of variables. Through the use of such models, the level of credit-worthiness can be assessed on a point basis, and a tolerance level for "chronic" debt can be established

In addition, this legislation provides for administrative wage garnishment authority of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. It also expands the licensing intervention process, which assures that defaulted borrowers seeking to renew specific licenses would be unable to do so until they have negotiated a payment arrangement with ACPE.

Section 4 amends the rate of interest charged for administrative costs of the student loan program from two and one-half percent to three percent. This change will provide for an increased rate of return on funds loaned, to offset current interest losses to the fund. This change will also have a positive impact to the loan fund of approximately \$350,000 per year, beginning at repayment (3 to 5 years out), for each loan year.

Credit assessments. The following analysis represents the loss-avoidance to the loan fund as well as the cost to ACPE of doing credit assessments.

Award year	Applications (11/1/97-7/31/98)	21 & Older	Sub-total	Cost	Total Cost
1997-98 (FY98)	6,000 A	63% B	3,780	\$4 C (per assessment)	\$15,120
Estimated Award (11/1/97-7/31/98)	\$24,000,000 D	Chronic Debtors 13% E	Loss Avoidance \$3,120,000 F		
Award year	Applications	21 & Older	Sub-total	Cost	Total Cost
1998-99 (FY99)	13,010 A.1	63% B	8,196	\$4 C (per assessment)	\$32,785
Estimated Annual Award	\$70,000,000 D.1	Chronic Debtors 13% E	Loss Avoidance \$9,100,000 F		

- A** The estimated number of initial loan applications ACPE expects to receive between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers.
- A.1** About 66.5% of the total number of applications received will be from borrowers with a prior loan. The estimated number of 1998-99 loan applications (17,000) less 66.5% of the number received between November 1, 1997 and July 31, 1998 (6,000) equals 13,010.
- B** Borrowers under the age of 21 do not generally have an established credit history. This population represents 37% of ASL borrowers. ACPE does not propose to assess the credit worthiness of applicants under 21 years of age.
- C** Credit report and risk score (credit worthiness) \$3.30 + \$0.55 = \$3.85 / assessment.
- D** The estimated net amount of dollars ACPE expects to award to borrowers between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers.
- D.1** The estimated net amount of dollars ACPE expects to award to borrowers during the 1997-98 award year.
- E** Approximately 25% of applications received will be from borrowers ACPE could classify as having questionable credit worthiness. About half of this population, or 13% could be classified as having a history of "chronic" bad credit.
- F** The estimated principal amount of dollars ACPE would not award to borrowers demonstrating a high risk of default to the ASL fund.

ANALYSIS (continued)

Administrative wage garnishment authority allows for garnishment of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. Historical information is the basis for the following:

ASSUMPTIONS

- A. Approximately 18% (17,000-) of borrowers default on the student loans.
- B. Approximately 9% (1,500-1,600) of defaulters are employed in the public sector in Alaska.
- C. Approximately 16% (2,700-2,800) of defaulters are employed in the private sector (non-federal and non-self-employed).
- D. Based upon current loan balances in default, these 4,200-4,400 defaulters owe between \$27.6 and \$28.9 million dollars to the Loan Fund.

Administrative wage garnishment will provide for efficient collection of defaulted loans to borrowers employed in the public and private sectors in Alaska.

License Renewal Intervention authority in this bill will expand the Commission's existing ability to use the State's licensing activity as an incentive for improved repayment behavior on the part of licensees who have defaulted on their Alaska Student Loans and who continue to ignore this financial obligation to the State. While administrative wage garnishment can be used to improve collection of defaulted loans for borrowers who are employed by public and private sector employers, license renewal intervention provides a tool to compel repayment from those borrowers more likely to be self-employed as a licensee in one of the identified fields or professions.

ASSUMPTIONS

- A. Approximately 61% of borrowers live in Alaska while in repayment. Approximately 10,000 defaulters reside in Alaska.
- B. Given the numbers of defaulters known to be employed by state/local government or by private sector employers, as many as 5,600 defaulters may be self-employed and holding employment related licenses. This sector currently represents approximately \$36 million in defaulted loans.

Alaska State Legislature



Senator Gary Wilken, Chairman
Senator Loren Leman, Vice Chairman
Senator Lyda Green
Senator Jerry Ward
Senator Johnny Ellis

State Capitol
Room 510
Juneau, Alaska 99801
(907) 465-3762

Senate Committee on Health, Education and Social Services

SPONSOR STATEMENT

SB 189 – Repayment of Student Loans

Currently the default rate of the student loans issued by the Alaska Commission of Postsecondary Education is unacceptable. Senate Bill 189 provides the Commission with the necessary financial tools to effectively and efficiently reduce the number of loans which are in default.

The ultimate goal of this legislation is to create a financially solvent Alaska student loan program that will be available to the next generation of Alaskan postsecondary students. SB 189 will (1) improve the credit rating of the Alaska Student Loan Program, (2) lower the loan program default rate, (3) improve the return rate on funds loaned to borrowers, and (4) increase the recovery rate on defaulted loans.

With the huge jump in loan demand that this program is now experiencing (20% – 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Passage of Senate Bill 189 will be a step in the right direction.

SB 189
SECTIONAL ANALYSIS

An act relating to eligibility for and default, collection, and repayment of student loans.

Sections 1- 3: Technical conforming amendments to reflect the appropriate citation referencing the Family Education Loan Program (FELP).

Section 4: Increases by one-half of one percent the interest rate allowance to be used to offset costs of administering corporation and commission.

Section 5: Borrower eligibility section is amended to clarify that the borrower must be eligible not only at the time of application but also at the time the funds are received (may be several intervening months). Places the residency criteria in the appropriate section of statute (currently set out in AS 14.43.120(p)) and clarifies language relating to residency eligibility.

- **Substantive change is addition of (a)(6-8), page 4, beginning on line 23. Allows for assessment of applicants' credit history to identify chronic bad debt. Will allow program administrators to determine potential inability to repay.**

Section 6: Provides for loan eligibility if applicant obtains a credit-worthy cosigner.

Section 7: Expands tools for collecting on defaulted loans (Six months or more in arrears).

- **Page 5, lines 9 – 30, (AS 14.43.145) describes the sanctions that will be imposed when a borrower defaults.**
- **Page 5, line 31 – Page 7, line 29, (AS 14.43.147) authorizes administrative wage garnishment and describes the legal process. (Modeled after Child Support Enforcement's garnishment in AS 25.27.070.)**
- **Page 7, line 30 – Page 11, line 6, (AS 14.43.148) expands existing authority to intervene in the renewal of professional or occupational licenses and provides for issuance of a temporary license during a period when the licensee may dispute that agency's action. Excludes those licenses which may be jointly owned or which are not centrally controlled. Exclusion will eliminate potential damage to non-borrowers and avoids targeting licenses that would require intensive manual intervention to administer.**

Sections 8-14: Technical changes amending citation of FELP and making eligibility criteria consistent among Alaska Student Loans, Teacher Scholarship Loans and Family Education Loans.

Section 15: Clarifies that certain temporary licenses issued during a loan default appeal process are not eligible for transfer to a spouse of a deceased licensee.

Section 16: Re-states an existing Revenue statute to conform to this legislation (re: PFD garnishment).

Section 17: Technical conforming repealers. Specifically, AS 08.02.025 is replaced by new AS 14.43.148; AS 14.43.120(i) and (q) are replaced by new AS 14.43.145; 14.43.740(b) is replaced by amended AS 14.43.720(a); and, AS 14.43.790 is replaced by amended AS 14.43.740(a).

Section 18: Authority to promulgate regulations prior to effective date of this act.

Section 19: Providing for an immediate effective date for Section 18.

Section 20: Providing for an effective date of July 1, 1997 for the act.

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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SB 189-- "An act relating to eligibility for and default, collection and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date."

- Allows the Alaska Student Loan Programs (ASLP) administrators to assess applicants' credit history to identify chronic bad debt. This provides an indicator of a borrower's potential ability to repay their debts;
- Provides applicants, found to have chronic bad debt, with an opportunity to obtain a credit worthy co-signer;
- Provides cost-effective, relevant sanctions that will be imposed when borrowers default and which will motivate borrowers to repay to avoid sanctions;
- Provides an increased rate of return on funds loaned to offset current interest losses to the fund;
- Provides for issuance of a temporary occupational/professional license during a borrower appeal of the nonrenewal of a license.

The ultimate goal of this legislation is to create a financially solvent Alaska student financial aid resource that will, without further assistance from the State coffers, still be available to the next generation of Alaskan postsecondary students. This bill contains a number of tools which are necessary to achieve specific objectives: improving the credit rating of the Alaska Student Loan Program; lowering the loan program default rate; improving the return rate on funds loaned to borrowers; and, increasing the recovery rate on defaulted loans.

These objectives are measurable and should be measured. If this bill is enacted, it would be with the intent that the Commission, in its annual report to the Governor and the Legislature, include these statistics as a report card on the effectiveness of these tools and to insure accountability on the part of program administrators. This bill supports this legislature's and the administration's goals for self-sustaining government operations.

Are These Legislative Changes Really Necessary?

The Alaska Student Loan Corporation is in critical need of assistance through legislative changes to the programs it funds. These are changes that would have been prudent to make at the point in time when the General Fund subsidy was eliminated, thereby funding the programs solely with private capital. The following are fund loss statistics.

- The total amount of forgiveness granted from 1972 to June 30, 1996 was approximately \$70 million. Of that amount, over \$57.3 million has been granted since the Corporation was created in 1987. Staff estimate that the Corporation will have to pay another \$8.7 million as these older loans are retired. Had the Corporation

continued to receive General Funds to offset these losses, it would have had a retained earnings balance of \$19.1 million at the end of the FY96 instead of the current deficit balance of \$47.3.

- Losses due to loans written-off (death, disability, bankruptcy and lack of payment activity) since the Corporation's creation total approximately \$47.8 million at 6/30/96. Staff estimate that another \$97.1 million, of the current loan portfolio, will be written-off in the future.
- Another 'public policy' loan issue is interest accrual. The September 30, 1996, unaudited financial statements indicated that loans totaling \$122,662,495, or 23% of the portfolio at September 30, 1996, were not accruing interest because they were in an interest-free period. Of these loans, approximately 60% were financed with bond proceeds. From a purely business perspective, any interest-free period on these student loans results in a loss to the Corporation as it pays interest on outstanding bonds from issuance until retirement of the bond debt and forgoes interest income on funds used to originate the loans.

At the time the Corporation was created, the ASLP was overcapitalized to a significant extent. Additionally, the Corporation adopted, and the legislature initially funded, the "Millennium Plan", a capitalization plan that assumed yearly influxes of General Funds leaving little concern that the Corporation would not be able to easily meet the debt service coverage ratio of 150% stipulated in its master bond indenture. The unanticipated elimination of General Fund support caused the abrupt curtailment of that plan in 1991, leading to several years of large bond issues to keep up with student borrowing needs. As a result, the Corporation is now very close to the minimal level of debt service coverage required by the master bond indenture.

With the huge jump in loan demand that the program is now experiencing (20% - 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Alaska can no longer afford to characterize and consider this student aid source as simply a social service.

What Methods Will be Used to Measure the Success of these Changes, if Enacted?

The Commission/Corporation provides a variety of indicators that will reflect the effectiveness of program changes. They include: program default rate, annual audited financial statements, default recovery statistics, etc.

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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EXCERPTS OF APPROVED MINUTES OF THE COMMISSION MEETING OF THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION DECEMBER 13, 1996 RE: PROPOSED LEGISLATION

Commission members present for all or portions of the meeting were: Mark Begich, Chairman; Bobette Bush, Vice Chair; Dr. Milton Byrd; Senator Johnny Ellis; Rosa Foster; Dr. Roger Jarvis; Charles H. Parr; Scott Sterling; Dr. Alice Galvin and Dr. Lydia Hays.

At page 13:
LEGISLATIVE/REGULATION UPDATE

Endorsement of Legislative Amendment Proposal - Diane Barrans

Ms. Barrans provided a summary of comments received from various identified constituency groups concerning the proposed legislation. Our primary focus group was student representatives, and every effort was made to get a good sense of attitudes towards the different discussion items. Overall responses were positive, with some cautionary words regarding the Commission taking a deliberative approach to making positive reasoning changes. The most common comment was to use these instruments as a leverage and not a hammer...

Dr. Lydia Hays moved to approve the legislative package as identified by Ms. Barrans. The motion was seconded by Ms. Bush.

Mr. Parr asked what the procedures for administrative wage garnishment would entail. Ms. Williams stated that if the Governor's office asks her to draft something to implement this procedure, she would follow the child support enforcement division's administrative wage garnishment process.

Mr. Sterling stated that this type legislation continues to demonstrate to the underwriters of our bonds that we are fiscally serious people and that, within reason, we are going to reform a number of approaches we have taken to be on a business-like basis as possible, while at the same time keeping access to ASL far more open than [private] programs would ever allow. We need as many tools as the law allows. He stated that collections through the courts are difficult because an attorney will not consider a case unless it involves a large sum of money. Ms. Barrans stated that whatever enhancements we make to the program translates into more marketable bonds, at lower rates, which lowers the rate borrowers will pay.

Ms. Bush stated that she is familiar with the child support wage garnishment system from an employer's standpoint and feels it involves little paperwork and provides an efficient program in dealing with the state. It is very effective and if what we do is tailored along those lines, she is highly supportive of the proposal...

Mr. Begich asked for any objections to moving forward with the proposed legislation to be presented to the Governor, excluding the setting of institutional authorization fees. There being no objections, the motion carried.

TO: Diane Barrans
C: Pat Born
Charlene Morrison

FROM: Smith Barney Inc.

RE: Revenue/Expense Enhancements

DATE: April 1, 1997

Alaska Student Loan Corporation ("ALSC") seeks ways to achieve positive future operating results with a goal of not attempting to fully recover prior losses from the pockets of current borrowers. Thus a long term strategy is essential to achieve an equitable turnaround of ASLC's finances. The purpose of this memorandum is to set forth our estimates for the effect several initiatives may have on ASLC earnings and net worth. These initiatives are set forth below:

- A) Pre-screening applicants for credit history/co-signers (we estimate that approximately 13% of applicants would be required to acquire a credit-worthy cosigner or be denied a loan)
- B) Increase array of sanctions/collection tools on defaulted loans to include:
 - i) Administrative wage garnishment (we estimate that 25% of ASL defaulters could be subject to this collection tool)
 - ii) Expanded occupational/professional license renewal intervention
- C) Increase of administrative cost cap in interest rate formula from 2.5% to 3%; ~~or~~
- D) Charge interest during all borrowing periods

Current Financial Situation

Over the last 5 years, ASLC has experienced an average *annual* loss, and thus decrease of Net Worth, of approximately \$3.5 million. This annual loss is the result of several major factors: (1) losses due to defaulting borrowers, (2) losses due to polices where borrowers are not charged interest during certain periods, and (3) expenses of servicing and administering the portfolio. Significant improvement in lowering defaults and charging interest during all periods would reverse the annual loss, and provide ASLC with annual surplus. This is particularly important now that annual origination is higher, and the ability to meet additional bonds test less certain.

- A. Pre Screen Applicants: Clearly, implementing credit underwriting standards would have a positive effect on reducing future default costs. Statistics nationally show that credit underwriting standards slightly less rigorous than home mortgage requirements will produce 2 to 4% default rates, whereas credit blind underwriting standards will produce default rates of 10% to 20% depending on the demographics of the target population. Alaska's experience recently is at the high end of this range with loan loss rates of 11% to 12%. Assuming \$70,000,000 of annual originations and an initiative that reduced that loss rate by 3% (from

SMITH BARNEY

A Member of Travelers Group

say 12% to 9%) ASLC would save \$2.1 million for each annual cohort of loans. Thus, a reduction of 3% would slowly help stem the annual corporate loss, a great result from a financial perspective, but instituting credit standards on 13% of applicants carries significant public policy concerns. The benefits of reduced future defaults will occur in the first three years of repayment, or three to five years after implementation. This lag time makes this alternative the slowest acting change element when compared to either enhanced collection or restructured interest rates.

- B. **Enhanced Collection Tools:** From a financial standpoint, ASLC should utilize all of the collection tools available, including Permanent Fund Dividend garnishment, wage garnishment, license renewal intervention, commercially diligent loan collection, etc. National rules of thumb for recovery rates approach 50% of defaults and anything less than 30% recovery would be sub-standard. ASLC should target obtaining at least 50% recovery due to the availability of the Permanent Fund Dividend.

A program which allow rescheduling the debt or an amnesty with respect to late fees and overdue interest could enhance collections. Given the amount of defaulted loans, any collection improvement will yield large results compared to the size of the recent annual losses.

Any increase in collection of prior default has the additional benefit of results within twelve months. On the negative side, the enhancement to earnings comes from those least able to pay.

- C. **Increase Interest Rates:** Increasing interest rates by ½ of 1% will have an obvious positive impact of \$350,000 per year in repayment for each annual cohort of loans. This increase of revenue will begin at repayment (i.e., 3 to 5 years hence).
- D. **Charge interest during in-school period:** This alternative is very attractive as it will produce significant and immediate results. Currently, students do not pay interest during the in-school period. The proposal is to charge interest during this period. Below is a table which outlines the annual added revenue ASLC will receive, and the added cost to a student, under various scenarios. It is assumed that annual originations are \$70 million, and borrowers are in school an average of two years.

Assumed Interest Rate	First Year Enhanced Revenue to ASLC ¹	Second Year and Succeeding Years Annual Enhanced Revenue to ASLC ¹	Added Cost to Borrower with \$15,000 of Loans ²	Added Cost to Borrower with \$30,000 of Loans ²
3%	\$2.1 million	\$4.2 million	\$1,600	\$3,200
4%	\$2.8 million	\$5.6 million	\$2,140	\$4,280

1 Assumes \$70 million annual originations

2 Assumes 2 year in school period, borrower does not pay interest but it is added to principal of loan at repayment, interest rate on loan is 8.6%.

If ASLC starts to charge interest during the in-school period, ASLC can give the borrowers the option to pay the interest currently, or have accrued interest added to the balance of the loan. In either scenario, ASLC will record enhanced revenue, which will help produce a small annual surplus, with immediate results beginning in the first year.

- E. Title IV Loans: We continue to urge a careful review of using Title IV Loans to supplement the Alaska Loan. As discussed above, the two major reasons for losses at ASLC are default costs and in-school interest rate subsidies; the federal government covers these two costs in the Title IV program. To the extent a borrower takes out a Title IV Loan instead of an Alaska Loan, there is a significant saving which can be (i) taken by ASLC, (ii) given to the borrower in a significantly lower interest rate, or (iii) a combination of the two.

Borrower Benefit Programs

ASLC should consider incenting borrowers to pay on time. The most significant cost to ASLC of servicing a loan is corresponding with borrowers who are late. Thus, an incentive to cause borrowers to be on time with payments is of interest. The most prevalent borrower benefit program nationally is a program whereby if a borrower is on time (within 10 days of due date) for 48 consecutive payments, then for the balance of the loan term, the interest rate is reduced by 2% per year (i.e., from say 8% to 6% per year). Since most borrowers will not qualify (only 20% of borrowers are expected to pay on time) and since a good portion of the loans will be paid off after 48 months, the annual cost to ASLC is modest. Such a program is likely to reduce the overall yield on the borrower benefit portfolio by approximately 10 basis points per year, or \$70,000 per year for a \$70 million portfolio.



FOR IMMEDIATE RELEASE: January 8, 1997 CONTACT: Corinne Russell 202-667-0901

SCHOOLS, LOAN COMMUNITY AND CONGRESS APPLAUDED FOR CONTINUED DROP IN STUDENT LOAN DEFAULTS

Clinton Administration to Announce New Figures on Thursday

Washington, DC – Cooperation between the education, political and financial communities is being credited with bringing about another dramatic drop in student loan defaults, according to the Coalition for Student Loan Reform (CSLR). New figures for FY 1994 (the latest period for which data is available), to be announced by the Clinton Administration on Thursday, will show that student loan defaults have dropped for the fourth straight year.

This trend of declining defaults can largely be attributed to reforms passed by Congress beginning in the late 1980's and implemented by schools, the guaranteed student loan community and the Department of Education. In particular, changes in institutional eligibility rules resulted in the elimination of hundreds of high default rate schools from the student loan program.

"This continued decline in the default rate is the result of teamwork that continues to benefit students and taxpayers nationwide," said CSLR Executive Director Mark Cannon. Today's students are avoiding default for two major reasons: greater borrower counseling available at the school and improved techniques used by loan guarantors to get delinquent borrowers quickly back on a repayment schedule.

"The underlying number behind the drop in defaults," said Cannon, "is really the sharp increase in the amount of defaults prevented." Based on guarantor data compiled by the National Council of Higher Education Loan Programs (NCHelp), the amount of delinquent loans returned to repayment status prior to default has increased by 68 percent over the last two years. This past year alone, guarantors successfully prevented a record number of more than \$13.3 billion in loan defaults.

"Also, thanks to greater loan counseling at the school, student borrowers better understand their options and obligations before they even borrow a dime," said Cannon.

The impetus for all this activity were several reform measures passed by Congress. As a result:

- The Department of Education bars schools with consistently high default rates from participation in the federal student loan programs

- Colleges and universities provide better counseling to students about their options.

- Student loan guarantors have improved the systems and technology that help track and prevent defaults.

- Private sector lenders and holders are offering more flexible repayment options.

- Guarantors have greater enforcement tools, such as wage garnishment, to collect on bad debts.

Cannon emphasized that the new default figures are comprised of virtually all guaranteed loans and the

continued decline in defaults are thus a reflection of improvements made in the thirty-year old Federal Family Education Loan Program. The new default figures are based on borrowers who began repaying their loans in Fiscal Year 1994. (The first Federal Direct Loan was not issued until nine months into that fiscal year---- on July 1, 1994---- making it a virtual mathematical impossibility that direct loans had any significant presence in these statistics).

The decline in defaults from 1990 through 1994 is especially noteworthy when factoring in that it was achieved while the volume of guaranteed loans climbed 88 percent over the same period (from \$12.3 billion in 1990 to \$23.1 billion in 1994).

Also, not reflected in the reporting of the cohort default rate, is the post-default collections which are up 96 percent from three years ago. Last year, collections resulted in the return of an estimated \$1.6 billion in loan funds that the government previously paid out in default claims.

Amid all this good news, Cannon cautioned against thinking that defaults will decline forever. "A certain amount of default is unavoidable in a federal program that seeks to open the doors of educational access wide and rightfully does not impose credit worthiness as a criterion for borrowing," said Cannon.

Cannon pointed out that the net default rate (after collections) currently hovers around 5 percent, a statistic strikingly similar to basic estimates of 'structural unemployment' in the economy.

"Based on the positive results demonstrated over the past several years, it will be important for Congress to retain the infrastructure and stable financing of nonprofit and state-based guarantors to keep the default rate as low as practical," said Cannon.

###

See Attachment - [Default Prevention Chronology](#)

The Coalition for Student Loan Reform (CSLR) is a nationwide group of nonprofit guarantors and secondary markets who are committed to helping students and families finance a college education by working to improve the Federal Family Education Loan Program (FFELP). CSLR was formed in April 1993 to offer a reform plan to serve as an alternative to direct government lending and explain the merits of current federal guaranteed loan programs.

Student Aid News

The Independent Biweekly News Service on Student Financial Assistance Programs

Vol. 24, No. 2
January 17, 1997

* Student Loan Default Rates Drop To Lowest Level Ever

The number of student loans in default dropped to 10.7 percent for fiscal 1994, the lowest rate since the Education Department began recording cohort default rates in 1987.

The fiscal 1994 default rate is nearly half of the 22.4 percent rate for fiscal 1990, the highest level recorded.

Both President Clinton and Education Secretary Richard Riley praised tighter school eligibility requirements since 1992 for leading to the lower default rates in a White House ceremony last week.

"The Congress, by passing better laws, gave us the tools to do the job," Riley said.

DSL Could Drive Rates Lower

Education Department officials say the rate could fall even further once Direct Student Loan (DSL) debts go into repayment.

The new 10.7 percent default rate includes loans made through the Family Education Loan (FEL) program, but doesn't represent loans made through DSL, which started in 1993.

"If you have a school with a low FEL rate, you'll see a correlation with DSL," said Elizabeth Hicks, ED's deputy assistant secretary for student financial aid.

She said it will be easier for students to repay direct loans because a single entity—the federal government—holds the loan, reducing confusion over repayment procedures.

Trade School Danger

But a number of schools participating in the DSL program are proprietary schools, which traditionally have higher default rates. That could threaten the department's prediction

(more on p. 3)

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Tax Code Could Bar Trade Schools From Prepaid Tuition Plans Page 5

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Student Aid Profile Of Fall 1996 College Freshmen Page 8

More Freshmen Fretting Over College Costs

Two-thirds of college freshmen say they're worried about having enough money to finish college, causing many to choose schools with low tuition and available financial aid, a new survey says.

Record numbers of first-year students said financial aid was a "very important" reason for choosing their college, according to the 31st annual survey of freshmen attitudes, conducted by the American Council on Education (ACE) and the University of California-Los Angeles (UCLA).

Thirty-three percent of college freshmen said they selected their college based on aid options, compared to 31.6 percent in 1995. And 31.3 percent of first-year students—another

(more on p. 2)

Loan Default Rates Drop To Lowest Level (Cont. from p. 1)

for continued default rate reduction, a study of institutional default rates shows.

The average default rate for all proprietary schools for fiscal 1994 was 21.1 percent, while the rate for four-year public schools was 6.8 percent (*see chart, right*).

Thirty-one DSL schools—mostly proprietary schools—have been targeted for elimination from the federal loan programs for continually high default rates. And nine schools have exceeded the default-rate threshold for being kicked out of all federal student aid programs.

All schools reaching the threshold for elimination may appeal their default rates with the department.

Schools with high numbers of disadvantaged students or with low loan volumes are exempt from the department's sanctions.

If an institution reaches a 25 percent default rate for three consecutive years, it may become ineligible to participate in either of the loan programs. Schools that hit 40 percent in one year may be excluded from all federal aid programs.

ED last summer eliminated a requirement that schools hitting a 20 percent default rate file a default management plan.

A department spokeswoman said officials determined that the sanctions were sufficiently severe and reports were no longer needed.

"We have done our part by placing tough

Student Loan Default Rates By Institution Type, Fiscal 1994

Type of institution	Number of schools	Borrower default rate
Public		
Four-year	676	6.8%
Two-year	1,362	13.8
Private		
Four-year	1,551	6.3
Two-year	709	13.5
All proprietary	3,236	21.1
Four-year	89	16.7
Two to four years	516	18.9
Less than two years	2,631	23.0
Foreign	377	5.7
Unclassified	24	4.0
Total	7,935	10.7%

Source: Education Department.

standards on schools that haven't played their part," Clinton said (*see story, below*).

David Longanecker, ED's assistant secretary for postsecondary education, said the rules have worked well, but there is still room for improvement. "We've agreed to rethink whether we've achieved our purpose in using default rates," he said. "I think it's worked extremely well." ###

Guarantors' Default Averages Show Impressive Drop

New student loan default rates for guarantee agencies show a dramatic drop over the past several years.

Default rates for fiscal 1994, the most recent available, show 22 of the 42 guarantors had default rates of 10 percent or less. The highest rate, for the Louisiana Office of Student Financial Assistance, was 16.1 percent.

In contrast, the highest default rate in fiscal

1991 was 36.1 percent, also for Louisiana. Only 17 of the 49 guarantors had rates of 10 percent or less that year.

Brett Lief, president of the National Council of Higher Education Loan Programs (NCHELP), said a combination of factors contributed to fewer loan defaults.

He said better cooperation between guarantors
(more)

Guarantors' Default Averages Show Impressive Drop (Cont.)

and ED, amendments to the Higher Education Act (HEA) in 1992 that tightened schools' eligibility for aid programs, and a strong economy all played a role.

"It's showing that everyone's working together," he said.

Loan Volume Still Increasing

And while default rates are dropping, loan volume continues to increase. The explosion in loan volume started after the 1992 HEA amendments, which broadened student loan eligibility, and most of those borrowers aren't in repayment yet.

Since the 1992-93 academic year, student and parent loan volume has increased 63 percent (SAN, Sept. 27, 1996).

Dana Callihan, spokesman for the California Student Aid Commission (CSAC), said the agency is preparing for the repayment of those loans, which are just coming due.

"We're putting together a repayment unit to help borrowers before they default," he said.

The new unit calls students who have delinquent loans and offers repayment options, such as consolidating several loans into one payment, to prevent borrowers from defaulting.

CSAC's default rate for fiscal 1994 dropped to

15.7 percent, down 2.2 percentage points from fiscal 1993.

Callihan attributes the drop to rules that have booted postsecondary institutions with high default rates from the federal loan programs.

He said the more stringent requirements have weeded out the riskiest proprietary schools.

"We have a core of much higher quality vocational institutions that remain," Callihan said.

A spokesman for the country's largest student loan guarantor, USA Group, said there also is a new emphasis on preventing defaults by helping borrowers with delinquent loans.

"It's a continuing challenge when the loan volume has been growing as it has been," said Robert Murray. "We put a significant emphasis on preventing student loan defaults."

Murray said the company has a system similar to CSAC's, with 200 full-time employees calling borrowers in an effort to prevent defaults.

Callihan added that consolidations of delinquent loans also have contributed to lower default rates. Students at risk of defaulting on a loan can combine that debt with other student loans to make a single payment.

"The consolidation program helps make loan payments more manageable," he said. ###

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Administrative Wage Garnishment Pays Off

Administrative Wage Garnishment (AWG) has proven very successful in LOSFA's collection endeavors. A provision of Federal Regulations 34 CFR 682.410 (b) (10) allows LOSFA to garnish 10% of the disposable pay of a borrower who is not making payments on a defaulted student loan held by the agency.

LOSFA selects accounts as possible candidates for AWG based on the days of delinquency. LOSFA then notifies the borrower of its intent to garnish his wages. This gives the borrower the opportunity to begin making voluntary payments. If the borrower does not begin making regular and consistent voluntary payments within 30 days, LOSFA will notify the employer to begin garnishment of wages.

When LOSFA began AWG in April 1995, the agency was only able to select small batches of borrowers. The first month LOSFA succeeded in generating only \$227.02 from employers. Overtime, LOSFA has dramatically increased its AWG collections. Each month approximately 88 new accounts are selected for AWG. All accounts are reviewed monthly to determine if the borrower has kept the voluntary payment agreement or that the employer is continuing to forward garnishment checks.

One year from the start of the program, LOSFA is receiving an estimated \$36,114 per month of voluntary payments from borrowers selected for AWG and approximately \$32,097 of garnishment payments come from the employer. AWG has made a significant contribution to LOSFA's monthly collections.

There are few reasons which would allow an account to be removed from AWG once the garnishment has begun. The most plausible reasons for cancellation of the AWG order are the account has been transferred to the U.S. Dept. of Education, the borrower is no longer employed, the garnishment amount would not be adequate, the student loan has been discharged by total and permanent disability or through bankruptcy, or the account has been paid in full.

The Administrative Wage Garnishment program has not only given guarantee agencies additional power to collect defaulted student loans but has also made borrowers accountable for their student loan debt.

START Saving Plan *Continued from page 1*

The Minimum Wage Bill, which at press time was awaiting the President's signature, contains a number of changes to the tax code which will prove advantageous to the START Saving Program and to families that participate in the program. U.S. Senator John Breaux, along with other key senators, played a pivotal role in drafting these tax code revisions and having the Senate Finance Committee add them to the bill as the Breaux-Graham Amendment. When the bill is signed by the President, some of the more important provisions affecting the START Saving Program to be enacted are:

- As a qualified state program, the program itself will be exempt from federal income tax, which

assures participants that taxes will not be levied against the program to reduce the return on their investments;

- The tuition assistance grants awarded by the program to the beneficiaries of qualifying accounts may be excluded from the beneficiary's gross income as a scholarship, up to the amount provided by present law;
- Contributions to a program account will be treated as incomplete gifts for Federal gift tax purposes and the tax consequence determined at the time distribution is made;
- Earnings on a program account which are disbursed to pay the qualified education costs of a beneficiary

will be included in the gross income of the beneficiary at the time of disbursement, not reported as income to the contributor;

- Funds in a program account may be "rolled over" to another family member, or a beneficiary changed to another family member, without tax consequences; and
- Earnings on a program account which are not used to pay the beneficiary's education expenses will be subject to a penalty, if refunded. The penalty will not apply if the refund is made because the beneficiary died or was disabled or the refund offsets the amount of a scholarship received by the beneficiary.

State's student loan default rate continues downward trend; decrease attributed to default prevention efforts

The 1994 default rate for student loans guaranteed by the Oklahoma Guaranteed Student Loan Program (OGSLP) is the lowest in four years and has dropped three percentage points since 1993, the Oklahoma State Regents for Higher Education reported.

The 1994 default rate of 12.6 percent for loans guaranteed by the agency is down from 19.8 percent in 1991 — the first year guarantee agency default rates were calculated by the U.S. Department of Education — and from 15.4 percent in 1993.

In Oklahoma, loans for higher education or post-secondary education made to students by private or public lending institutions are guaranteed by the federal government through OGSLP, which is administered by the State Regents.

As a result of default prevention efforts, \$375.3 million in potential defaults were averted in 1996, up \$190.4 million or 103 percent from \$184.9 million in 1994.

If default prevention efforts fail, Oklahoma's guarantee agency continues to seek repayment of student loan obligations after borrowers default on their loans.

Over the past eight years, collections on defaulted student loans have increased from \$2.9 million in 1989 to \$17.6 million in 1996, an increase of \$14.7 million or 507 percent.

OGSLP officials attribute the decreasing default rate to default prevention efforts, such as ensuring students are aware of their responsibilities when they first apply for student loans and just prior to graduation, adding more toll-free borrower hot lines and updating informational video tapes and brochures.

OGSLP has also increased efficiency by expanding its computer capabilities to allow agency personnel to manage loan cases more efficiently and to have more one-on-one contact with student borrowers, schools and lenders.

Default rates for loans guaranteed by the agency continue to drop despite a 30 percent increase in the Oklahoma student loan volume, from \$184.9 million in 1989 to \$238.3 million in 1994.

When default prevention efforts fail, OGSLP collects loans by bringing litigation against defaulted borrowers, withholding federal or state income tax refunds, or withholding a percentage of defaulted borrowers' wages.

The agency is also implementing a legislatively-mandated program that will revoke or suspend professional licenses and commercial drivers' licenses of defaulted borrowers who do not have an approved payment plan.

The 1994 default rates reflect the percent of student borrowers who entered into repayment during the 1994 federal fiscal year and defaulted on their loan payments during either that fiscal year or the next one.

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