

SB

140

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 3/9/09

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/18/09

Education Committee considered SENATE BILL NO. 140

SB 140 STATE INVESTMENT IN EDUCATION FUND

"An Act relating to an investment in the education loan fund; relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation; and providing for an effective date."

and recommends:

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

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

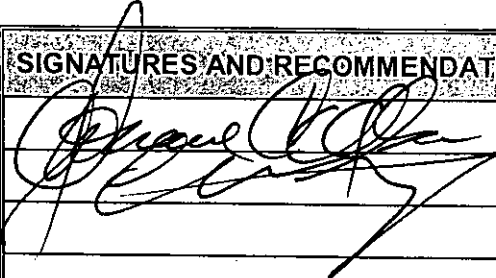
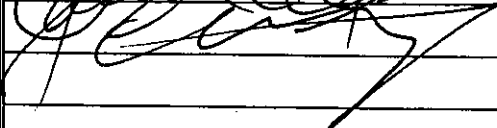
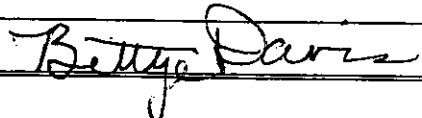
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
EED	3/16	✓			3

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	2/3			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Olson			✓	
	Huggins			✓	
CHAIR: 	DAVIS				

ALASKA STUDENT LOAN CORPORATION

SARAH PALIN, GOVERNOR

P. O. Box 110505
Juneau, Alaska 99811-0505
PHONE (907) 465-6740
465-3293

March 16, 2009

Sponsor Statement

SB140 - An Act relating to an investment in the education loan fund; relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation; and providing for an effective date.

This legislation is necessary to avert a disruption in new education loan origination by the Alaska Student Loan Corporation (ASLC, or the Corporation) beginning in July 2009. The Corporation, since its establishment by the Legislature in 1987, has financed its education loan programs by issuing tax-exempt revenue bonds in the capital market. After 20 years of successful operation in this environment, catastrophic disruptions to the capital market resulted in ASLC being unable to issue bonds in 2008. Education loans continued to be available to Alaska students for the 2008-2009 academic year due to capacity within the Corporation to meet loan demand with available cash. However, after lending a projected \$95 million in new loans through June 2009, that capacity will be substantially exhausted. Until such time as sufficient funding is secured, loan application processing for the 2009-2010 academic year will remain suspended.

The modification of Alaska statutes set out in this legislation enables ASLC, in partnership with the Commissioner of Revenue, to meet the immediate need to accept and process loan applications for the upcoming school year, and, additionally, to create a bonding structure to re-access the capital markets in 2009.

The Corporation's largest education loan programs are AlaskAdvantage Stafford Loans (which carry a federal guarantee), and the AlaskAdvantage Supplemental Loans (state loans which carry no guarantee). This year, more than 8,100 Alaska students relied on one or both of these low-cost education loan programs to aid in financing their postsecondary education and training program. More than 60% of those students were attending schools in Alaska.

This bill enables the Commissioner of Revenue to: 1) provide a bridge loan and directly invest in the Corporation's education loans; and, 2) create a credit enhancement facility to assist ASLC in the issuance of bonds during the current economic crisis when, without this facility, it would be uneconomical to issue bonds.

The combination of these two authorities are projected to assist in meeting loan demand through 2010 without the need for a State appropriation, by which time ASLC expects capital markets will have normalized to the extent these State support mechanisms will no longer be required.

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March 16, 2009

Sectional Analysis

SB140 – An Act relating to an investment in the education loan fund: relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation: and providing for an effective date.

Section 1 Provides authority to the state to loan funds and provide a letter of credit to the Alaska Student Loan Corporation under certain conditions for certain purposes.

Section 2 Authorizes the Commissioner of Revenue to enter into an agreement, not to exceed a five-year term, to provide a secured investment in the Alaska Student Loan Corporation's education loan fund, not to exceed \$100 million, to finance certain education loans when the Corporation is unable to finance loan demand due to market conditions that would result in uneconomical issuance of tax-exempt bonds. Interest paid to the state on the investment may not exceed the five-year average return on the state's general fund. The Commissioner is also authorized to enter into an agreement, not to exceed a five-year term, to provide credit enhancement to the Corporation, not to exceed \$106 million, when it would otherwise be uneconomical for the Corporation to issue bonds, absent such an agreement, due to market conditions. The Corporation is responsible for associated costs and an annual fee, not to exceed 15 basis points. In the event of a draw on the credit facility, the state may be paid interest by the Corporation not to exceed 3%. The Commissioner is authorized to adopt regulations to implement the bill.

Section 3 provides the Act takes place the day after the Governor's signature or the day after permitted to become law without her signature.

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB140
 () Publish Date: _____

Identifier (file name): SB140-EED-ACPE-03-16-09 Dept. Affected: Education
 Title An Act relating to an investment in the education loan fund, RDU ACPE
relating to authority for the commissioner of revenue to... Component Program Administration and
 Sponsor (S)Rules Committee Operations
 Requester Governor Palin Component Number 2738

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual		20.0	20.0	20.0	20.0	20.0	20.0	0.0
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	20.0	20.0	20.0	20.0	20.0	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()								

FUND SOURCE (Thousands of Dollars)

	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
1106 P-Sec Receipts		20.0	20.0	20.0	20.0	20.0	0.0
Other Interagency Receipts							
TOTAL	0.0	20.0	20.0	20.0	20.0	20.0	0.0

Estimate of any current year (FY2009) cost: 130.0

POSITIONS

	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)
 This legislative proposal, which authorizes the Commissioner of Revenue to: 1) invest in Alaska education loans; and, 2) provide credit enhancement for the Alaska Student Loan Corporation (ASLC), is designed to be cost-neutral to the state. The appropriation above is ASLC receipts needed to cover costs incurred by the Department of Revenue for legal, rating agency, and consulting services necessary to implement the provisions of the bill. Authorization for this support through the Department of Revenue will result in a cost avoidance to the state General Fund because if ASLC, without the state assistance provided in the bill, is unable to issue bonds, state appropriations to fund the education loan programs could be required. Current year (2008-2009) loans were funded through internal liquidity. However, those funds will have substantially been exhausted with Spring 2009 disburse-

Prepared by: Diane Barrans, Executive Director Phone 907-465-6740
 Division Alaska Commission on Postsecondary Education Date/Time 3/16/09 4:00 PM
 Approved by: Diane Barrans, Executive Director Date 3/16/2009
Alaska Commission on Postsecondary Education

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

BILL NO. SB140

ANALYSIS CONTINUATION

ments. At this time, there is a need to postpone processing 2009-2010 loan applications until such time as funding has been secured. Currently, market-based issuance costs have reached prohibitive levels relative to the economics of ASLC programs. ASLC has been attempting to structure a deal to issue Variable Rate Demand Bonds (VRDB), for which a market still exists. Structurally, VRDBs are attractive to investors because they are credit enhanced through some form of external liquidity provider, thereby eliminating investor liquidity risk. VRDBs can be held in money market accounts due to the liquidity facility expanding the investor base for ASLC bonds. However, over the course of 2008 the cost of liquidity/credit enhancement increased dramatically as demand grew exponentially and supply declined at an alarming rate due to financial institution consolidations, ratings downgrades, and a general reluctance of the usual players to put further strain on their balance sheets. Liquidity costs have more than quadrupled and there is nothing currently occurring in the financial services arena to indicate this problem will improve any time soon to once again enable ASLC to finance its programs as it has successfully done over the preceding twenty years of operation.

The FY09 cost will require a supplemental amendment of \$60,000 to ACPE's Program Administration and Operations component (2738) using postsecondary receipts as the funding source (1106). The remaining FY09 cost of \$70,000 will be absorbed by the Department of Revenue's current appropriation of Alaska Postsecondary Education Commission Receipts (1106) which are projected to be available for that purpose.

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 140
(S) Publish Date: 3/9/09

Identifier (file name): 0211-DOR-TRE-2-03-09
Title: Alaska Student Loan Corporation Investments
Sponsor: Governor
Requester: Governor
Dept. Affected: Revenue
RDU: Tax and Treasury
Component: Treasury
Component Number: 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES								
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	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()								

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2009) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

This legislation allows, but does not require, the Commissioner of Revenue to invest state funds in the education loan fund, if the Commissioner determines that the Alaska Student Loan Corp cannot practically or economically borrow money through issuing private activity revenue bonds. This investment must be made consistent with the duties of a fiduciary and will earn a return to the state. The bill also allows, but does not require, the Commissioner to provide a bond repurchase agreement or letter of credit to the Alaska Student Loan Corp, and to require the ASLC to pay the costs associated with the repurchase agreement or letter of credit. The Department of Revenue does not expect to incur any non-reimbursed costs as a result of the passage of this bill.

Prepared by: Jerry Burnett
Division: Treasury
Approved by: Ginger Blaisdell
Department of Revenue

Phone 465-3669
Date/Time 2/3/09 12:00 AM
Date 2/3/2009

STATE OF ALASKA

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March 16, 2009

SB140 – An Act relating to an investment in the education loan fund; relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation; and providing for an effective date.

Background on ASLC Liquidity Issues and Proposed Plan of Action

Precipitating Events/Conditions

In 2007, the market for Auction Rate Securities (ARS), which ASLC has successfully used to finance its variable rate education loans since 2002, collapsed in the wake of the subprime mortgage loan debacle. As a result, ARS are no longer a viable bond mode to finance new loan originations. As an alternative, ASLC intends to issue Variable Rate Demand Bonds (VRDB) or Obligations, for which there is still a market. Structurally, VRDBs attract investors because they are credit enhanced through an external liquidity provider, thereby eliminating investor liquidity risk. Due to the liquidity facility, VRDBs can be held by money market funds as investments.

The ARS market collapse impacted issuers nationwide. Over the course of 2008 the cost of liquidity and/or credit enhancement increased dramatically as demand grew exponentially, and supply declined at an alarming rate due to financial institution consolidations, ratings downgrades, and a general reluctance of the usual players to put further strain on their balance sheets. Liquidity costs, prior to the ARS market meltdown, ranged between 15 and 40 basis points per annum. Currently, those costs start at over 100 bases point, and rise from there. There is nothing occurring in the financial services arena to indicate this problem will improve any time soon. None of the recent federal initiatives to address the nation's economic ailments include a mechanism by which ASLC could acquire the needed liquidity support to issue VRDBs.

ASLC Capacity to Meet New Loan Demand—ASLC was last able to bond in June 2007. 2008-2009 academic year loans were funded through internal liquidity. Annual loan volume is projected to be approximately \$95 million. Although confident about its ability to fully fund loans for the year ending June 2009, Corporation projections verify the need to delay processing 2009-2010 loan applications until such time as sufficient external funding is secured. As described above, market-based issuance costs have reached prohibitive levels relative to the economics of the ASLC programs.

ASLC Proposal for Alternative Financing Strategies—A two-pronged approach is recommended:

1—authorize the Department of Revenue to meet the Corporation's immediate need for funding for its Alternative and Federal loan programs using a loan structure. No appropriation of state general funds is required because use of the funds constitutes an investment, not an expenditure. ASLC will cover all related costs, and provide a return on the investment similar to the return the funds would have derived if left in the general fund (with a stipulated not to exceed rate). The loan is governed by a trust agreement between ASLC and Revenue that sets out all related terms. The loan period may not exceed five years.

2—authorize the Department of Revenue to provide ASLC with the liquidity and/or credit support necessary to issue VRDBs. The credit enhancement program would allow ASLC to access the capital markets by attracting institutional purchasers (primarily money market funds), while also keeping bond issue costs low enough that ASLC can continue to offer low-cost education loans to Alaska students. As with the bridge loan, the facility fee will provide revenue to the State. The term length of the facility may not exceed five years and the amount issued with support from the facility may not exceed \$106 million.

In combination, these strategies are expected to cover loan demand through 2010, by which time market conditions should have normalized sufficient to dispense with this state support.

Provided on the following page are descriptions of efforts made in support of other state agency or nonprofit education lenders similarly impacted by the credit market collapse.

Other States' Initiatives to Assist State Agency of Nonprofit Education Loan Lenders

Several states have made liquidity and/or credit enhancement available to issuers.

California's approach has been very commercial in that the state's SBPA/LOC facility is available to any issuer inside or outside the state, and the primary goal has been to generate fee income for the funding source (CALPERS).

The State of Arkansas, acting through the State Board of Finance, entered into an \$80 million loan agreement with the Arkansas Student Loan Authority (ASLA). The interest rate is a variable rate reset semiannually by the State Bank Commissioner and approved by the State Board of Finance. The loan has a term of 18 months but can be extended. ASLA paid the State's out-of-pocket expenses and legal fees related to the issuance of the Note. A trust was developed to hold education loans made with loan proceeds and payments made on those education loans until the loan to the State is paid in full. The trust also holds state loan proceeds until the education loan is disbursed in the form of qualifying investment vehicles.

The New Mexico State Treasurer's Office purchased a \$50 million private placement bond from New Mexico Student Loans (NMSL). The bond is a short-term investment for the State of New Mexico at a competitive rate. A second deal was struck by which their State Treasurer's Office will purchase a bond from NMSL totaling \$95.1 million.

The State of Kentucky bought a \$50 million bond from the Kentucky Higher Education Student Loan Corp. The bond has a term of 445 days and carries a variable interest rate (originally set at 3.2%).

The South Carolina Student Loan Corporation issued \$600 million in student loan backed notes. The notes are variable rate notes rated AAA. A significant portion of the notes have been purchased by the State of South Carolina.

In Colorado, CollegenInvest, a division of the Colorado Department of Higher Education, originates loans to college and graduate students. The State loaned CollegenInvest \$30 million to prevent a Spring 2009 interruption in their lending program.



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Memorandum

Lee Donner
Managing Director

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Date: March 10, 2009
To: Diane Barrans, Executive Officer, Alaska Student Loan Corporation
Cc: Charlene Morrison, CFO, Alaska Student Loan Corporation
Subject: Ensuring Access to Student Loans in Alaska

At your request, following is First Southwest Company's summary of events and circumstances which have culminated in the Alaska Student Loan Corporation's (ASLC) need for mid-term financing support from the State of Alaska.

Across the approximately thirteen months since the downgrade of the mono-line bond insurers and the collapse of the Auction Rate Securities (ARS) market, a number of additional developments have contributed to the emergence of serious ongoing challenges to the ability of entities like ASLC to fulfill their mission to ensure the uninterrupted availability of low cost loans (including both the Federal Family Education Loan Program (FFELP) and non-guaranteed alternative loans) for students who depend upon such loan products to finance the cost of their post-secondary educational goals.

One of those developments has been the large scale departure of investors from the entire asset-backed finance arena in what is often described as a "flight to quality." Another negative development has been the top to bottom re-examination of cash flow modeling and other credit rating analysis criteria by all three of the nationally recognized securities rating organizations, which development has only served to reinforce the perception on the part of reluctant investors that asset-backed securities are fraught with a higher level of risk than they had been previously led to believe. These two phenomena have reinforced each other to produce an escalating demand for higher interest rates and declining investor base for asset-backed securities in virtually every asset class.

Issuers like ASLC have responded to these negative developments by seeking liquidity and/or credit support from highly rated financial institutions in the form of a Standby Bond Purchase Agreements (SBPA) or Letters of Credit (LOC). At the same time that demand for SBPA or LOC support from national and international financial institutions has exploded in response to the conditions described above, most, if not all, of those financial institutions have been hit with threatened or actual downgrades of both their long term and short term credit ratings. All of this has combined to create a situation where the demand and cost for bank credit/liquidity support is increasing at the very same time that the availability of and investor confidence in the

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reliability of such bank credit/liquidity support has sharply declined. Directly related to all of this is the dramatically increased demand, from investors in the tax-exempt arena, for debt securities issued by, or credit/liquidity supported by, highly rated state and local governmental issuers.

The combination of conditions described above has resulted in a number of state governments looking for ways to assist the state agency or not-for-profit student loan providers (both FFELP and alternative) in their state to continue to be able to fulfill their mission of ensuring educational access through low cost college loans. In Arkansas, this cooperation between the State and the student loan agency they created many years ago resulted in a low cost variable rate bridge loan from the State to the loan agency. In South Carolina, the State purchased a significant portion of the state created student loan agency's last bond issue. Both of these cooperative efforts represent viable short-term solutions to a problem that is showing signs of becoming protracted. In other states, similar initiatives are being analyzed or are in various stages of actual development or implementation. The sole example from 2008 where the student loan provider had no market access problems is the Texas Higher Education Coordinating Board, where the State's support for THECB's student loan program includes a State of Texas General Obligation pledge for THECB's debt obligations.

Against the background of the liquidity, credit and market conditions discussed herein, it is becoming quickly apparent that the major Federal initiatives such as TARP and TALF are of very limited, if any, utility to state agency and not-for-profit loan providers in continuing to finance their low cost loan programs without disruption and resultant serious consequences for the students and parents who depend on them.

First Southwest Company serves as financial advisor to a number of such student loan providers in various parts of the country. Based on our knowledge of what is happening in the student loan finance arena on a national basis and our experience with those limited number of student loan providers who have been able to successfully access the capital markets over the past year, it is our very firm belief that the best hope for entities like ASLC to continue their mission without interruption will be a cooperative effort between such entities and their sponsoring state governments to create temporary financing vehicles, and more importantly, credit and/or liquidity facilities that meet investors' demand for the elimination of credit/liquidity risk, but at a level of cost that is sustainable within the economic limitations of the loan programs being offered to students and their parents.

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Advertisement



Sept. 5

State Agencies Get Creative on Student Loans

As various lenders and some of its peers in other states announced in recent months that they would stop making federal or private loans because of disruptions in the capital markets, the Illinois Student Assistance Commission steadfastly held firm. "We saw it as a must do, and had said we'd be there no matter what," said Andrew Davis, the commission's executive director.

The only problem, Davis acknowledges, is that officials at the agency — which guarantees student loans and oversees most student aid programs in Illinois — "weren't quite sure how we would fund" the operations behind that promise. Like many nonprofit lenders, particularly, Illinois had seen its primary source of financial backing for its loans dry up, because of the collapse of the auction-rate securities market.

Fortunately for the agency and the 20,000-plus students whose federal loans it will finance this academic year, the Illinois commission became one of several state loan providers that have found alternative ways of funding their loans in the current economic climate. Last month, days after the Massachusetts loan agency announced that it would not make federal loans this academic year, the state of Kentucky said that it was issuing a \$50 million bond to ensure that the Kentucky Higher Education Student Loan Corp. could continue to issue federal student loans. (Massachusetts officials had considered but then backed away from a similar plan.)

The Illinois agency contemplated several options for finding the money to finance its 2008-9 loans, including bank financing and the federal government's newly designed process for bolstering lenders to ensure that students continue to have access to federal loans. Davis was most intrigued, though, by an idea he liberally borrowed from North Carolina.

There, last spring, officials at the State Employees' Credit Union had approached Steve Brooks, executive director of the North Carolina State Education Assistance Authority, after learning about the turmoil shaking the student loan industry. "It's a very civic-minded group, and they wanted to make sure North Carolina students were protected," said Brooks. The credit union agreed to back a \$1.1 billion student loan bond to refinance some of the authority's auction-rate securities (for private and federal loans) and to finance some new loans in the new academic year.

While the credit union's investment will not finance all of the state agency's loans for the year or refinance all of its outstanding debt, the vote of confidence should make it easier, Brooks said, for the

state loan authority to refinance another \$1.3 billion through variable rate bonds in the coming months.

"This represented a great breakthrough for us," he said.

North Carolina's arrangement inspired Davis in Illinois. He approached the Illinois Credit Union League to see if its member credit unions might be interested in backing the student loan agency, given the organizations' tradition of making "mission-based loans," Davis said.

The result: a pending agreement for eight credit unions to provide about \$100 million, in three tranches timed to the annual financial aid cycle, through the course of the 2008-9 academic year.

"This will more than meet our anticipated need, but if we find there is more need" — more students than usual have been applying for loans through the agency's Web site, Davis said — "we may be able to go back for more." The agency provides loans to most students at about a half dozen colleges in the state, including Western Illinois University, Southern Illinois University at Edwardsville, and the University of Illinois at Springfield, Davis said; many colleges in Illinois participate in the federal government's competing direct loan program.

— Doug Lederman

*The original story and user comments can be viewed online at
<http://insidehighered.com/news/2008/09/05/loans>.*

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Paying for college

State stepping in as banks bail out of student loans

As the number of private lenders shrinks, Utah agency expects to help thousands of borrowers

By Brian Maffly
The Salt Lake Tribune
Salt Lake Tribune

Article Last Updated: 08/15/2008 03:35:18 AM MDT

For the first time, the state of Utah has begun originating student loans, a shift that will ensure that any Utah college student who needs financial assistance can get it, although it will cost more.

The Utah Higher Education Assistance Authority (UHEAA), the agency that oversees financial aid to Utah students, is bracing for loan applications worth \$100 million this academic year after big banks all but abandoned the federally guaranteed loan program.

Last fall, Congress cut what participating lenders could make on student loans at the same time money became more scarce. That created a double disincentive for financial institutions to lend to college students. With fewer lenders available, Utah students are expected to flock to UHEAA, agency director David Feitz told his board Thursday.

"We would rather have a full cadre of lenders, but that is unlikely to happen in the near future until Congress raises the yields," he said.

Adding to the pressure was a recent move by Congress to raise the maximum students can borrow by \$2,000 (to \$5,500 for freshman, \$6,500 for sophomores and \$7,500 for upperclassmen). Feitz estimated UHEAA will see applications worth one-fourth of the state's total student loan volume this coming year, but he won't know how much until students begin applying as they return to school.

"It could be \$60 million, it could be \$200 million," Feitz said of a development that represents a profound change in the way UHEAA conducts business.

UHEAA has access to \$121 million to lend over the coming academic year.

The U.S. Department of Education promises to buy participating states' loans issued this year under the Federal Family and Education Loan program (FFELP). This would enable states to "recycle" the money back to students in the form of new loans. The UHEAA board voted unanimously Thursday to approve Utah's participation in the complex arrangement.

Feitz cautioned that the program, which runs only for one year, isn't a permanent solution to the liquidity mess that has caused "tremendous chaos" in the \$50 billion system that subsidizes the popular Stafford and PLUS loan programs.

"Now we're calling on Congress and the departments of Treasury and Education to take additional action to further stabilize the student loan program for years to come," he said.

In recent months four banks - Wells Fargo, Zions, J.P. Morgan Chase and Key - pulled out of Utah's program, leaving only U.S. Bank. Fifteen credit unions, led by America First, still lend to students, but the banks' departure left a vacuum. Wells Fargo and Zions were the top lenders last year, accounting for more than half of the state's student loan volume.

Lenders also have become picky about which institutions they work with. One Utah school, Snow College, found itself with no lenders, so UHEAA last month began lending directly to students at the Ephraim school.

"Were in a pretty good place, a much better place than our sister agencies across the country," board chairman David Jordan said. "From the students' perspective, this will work. We will be able to help them without depleting our resources."

bmaffly@strib.com

Utah students can expect to pay more for college loans under steps taken by the Utah Higher Education Assistance Authority to preserve universal access to federally guaranteed loans. But the news isn't all bad.

"I'm not aware of lenders offering better terms than what UHEAA is offering," said John Curl, the University of Utah's financial aid director. "We encourage students to research who they're going to get loans from and find the best terms they can get. They are going to have to pay more interest; that's unfortunate."

Congress last year cut the rate on some student loans from 6.8 to 6 percent. But in order to participate in an emergency federal bail-out measure, Utah slashed two rate reductions. Until now, students who had payments automatically drawn from their accounts received a 1.25-point reduction and another 2-point reduction after four years of timely payments. Losing these benefits adds \$1,763 to the cost of servicing a \$15,000 loan.

On Thursday, the UHEAA board suspended issuing consolidation loans to avoid tying up scarce capital needed to serve current students. Former students looking to simplify repayment plans have other options for consolidating their loans in the federal program.

But Utah students still get breaks on up-front costs of the most common loans, Stafford and PLUS. UHEAA continues to cover the 1 percent origination fee and 1 percent default fee, translating into a \$100 subsidy on a \$5,000 loan.

- Brian Maffly

Financial aid

* **Students who are considering borrowing** for college for the upcoming school year should start researching their options now, said John Curl, financial aid director at the University of Utah.

* **Students should consult the financial aid office** at their school, check Web sites that serve as information clearinghouses, such as finaid.org, or www.uheaa.org, the Web site for the Utah Higher Education Assistance Authority.

The Boston Globe **A late try to salvage student loans**
Patrick calls on pension board, colleges to invest in agency bonds
By Casey Ross, Globe Staff | August 7, 2008

Governor Deval Patrick has asked the state pension fund to invest \$50 million and will ask Harvard University and other local colleges to invest millions more to provide student loans to thousands of families struggling to pay college tuition bills that are due in the coming weeks.

Patrick's 11th hour proposal, floated among key officials yesterday, would prop up the troubled 26-year-old Massachusetts Educational Financing Authority, which announced last week that it would be unable to provide student loans for this school year because of turmoil in the nation's credit markets.

The proposal would entail the investment funds buying portions of a \$425 million bond sale that MEFA is planning this month. The agency would use the proceeds to finance student loans.

"We have 40,000 students and families who need help, and we're right up against it," Patrick said in an interview with the Globe last night. "This is a sound investment for the pension board and the endowments."

The governor and his aides, along with state lawmakers, have been brainstorming ways to restore student loan funds for the past week. MEFA had previously offered low-cost, fixed-rate loans, but now borrowers have to look to other lenders whose loans may carry higher rates and higher costs.

Yesterday, Patrick's top budget aide, Leslie Kirwan, asked the state pension board to consider buying \$50 million of the upcoming MEFA bonds. Administration officials also hope the state investment would be seen as a show of confidence in the bond market and MEFA, spurring purchase by other investors that could finance more loans.

Patrick said he intends to call officials today from Harvard, Boston College, the University of Massachusetts, and the Massachusetts Institute of Technology, among other schools, about making similar investments in MEFA bonds.

The chairman of the state pension board, state Treasurer Timothy Cahill, was noncommittal about Patrick's request, but said the board would consider it.

The pension fund staff "will examine the options legally available to invest in any debt issuance set up by MEFA and report back to the trustees before any action is taken," Cahill said through a spokeswoman.

With \$51.7 billion in assets, the pension fund invests monies for state employees and retirees. And while it is unusual for the fund to use anything other than financial returns as grounds for investment, the board has already committed funds to local projects that are intended to produce economic and social benefits within Massachusetts. The program was a major policy goal of Cahill, who got the pension board to adopt it in 2003.

Even without Cahill's commitment, Patrick has a strong start on getting the board to adopt his measure, as he appoints three of its nine members, one of whom is Kirwan.

Another board member, Robert Brousseau, reacted favorably to Patrick's request and said he did not hear strong objections from fellow board members at yesterday's meeting.

"I can't see anybody opposing it, but we have to see the parameters of the investment and what form it would take," said Brousseau, who represents teachers on the board.

Patrick said he is seeking swift consideration from the pension fund board because MEFA is planning to hold its bond sale within two weeks.

"We need action," he said. "If they need to call a special meeting to approve this, then I hope they will."

Meanwhile, representatives of the local colleges said the institutions will consider the investment.

"We're always more than happy to have discussions with the governor," said John Longbrake, a spokesman for Harvard University, the governor's alma mater. "We welcome the opportunity to learn more about the challenges MEFA is facing and to discuss ways to address them."

Robert Connolly, a spokesman for UMass President Jack Wilson, said: "This is an idea we're definitely willing to explore. We do see it as a potential win-win in terms of providing the university with a sound investment while helping families cope with their financial aid challenges."

Officials at the student lending agency, meanwhile, said Patrick's plan carries minimal risk to the investment funds because MEFA's bonds provide reliable returns. Executive Director Tom Graf said the default rate on the authority's loans is less than 1 percent. "This plan allows" the pension board "to make a stable investment that is especially warranted in this financial climate," he said.

The problems in the bond market, which started with the foreclosure crisis and spread to other credit markets, have imperiled student lenders across the country, prompting more than 50 agencies to stop making federal or private loans.

Graf said the size of the upcoming bond sale may change based on investor interest. If the sale is a success, he hopes the agency will then be able to offer loans with rates below 8.5 percent, which is the current charge for Federal Plus loans. Last year, the authority's private 20-year loan rate was 6.39 percent.

The agency made \$400 million in private loans in the last school year, and another \$110 million in federal student loans.

State Senator Brian A. Joyce, who authored a letter last week signed by other legislators urging Patrick to support MEFA, applauded the governor's actions. "This critically important to an awful lot of Massachusetts families," he said. "The governor can use his bully pulpit to ask for some assistance, and I wholeheartedly support what he's doing."

Casey Ross can be reached at cross@globe.com. ■



UNIVERSITY
of ALASKA

Many Traditions One Alaska

March 05, 2009

Dear Alaskan Legislator:

The educational loans provided by the Alaska Student Loan Corporation are crucial to the success of thousands of University of Alaska students. The funding from loans allows these students to continue and complete their educational goals in Alaska. Only the federal government provides more financial assistance to UA students.

The University of Alaska supports efforts that help the Alaska Student Loan Corporation secure the necessary funding to prevent a disruption of lending activities to Alaskan's seeking a post-secondary education in general and students at the University of Alaska in particular.

The Alaska Student Loan Corporation annually helps over 4700 students at the University of Alaska – at both the urban and rural campuses. Loans totaling over \$40 million dollars help students fulfill their educational goals in the state - leading to a more prepared and qualified Alaskan workforce.

Thank you,

A handwritten signature in black ink, appearing to read "Saichi T Oba".

Saichi T Oba
Associate Vice President
Office of Student & Enrollment Services
University of Alaska

*Office of Student and Enrollment Services
910 Yukon Drive - Fairbanks, Alaska 99775-5020*

www.alaska.edu/student-services



To Whom It May Concern:

Please accept this letter of Charter College's full support for legislation and related initiatives to provide interim funding to the Alaska Student Loan Corporation (ASLC), until such time as the markets recover sufficiently for ASLC to complete bonding.

The alternative financing proposed in the Governor's bill and endorsed by the Alaska Student Loan Corporation (ASLC) and the Alaska Department of Revenue is a win/win solution that meets an urgent statewide need to assist our students in financing their education programs with no cost to the state's General Fund.

We understand that unless this alternative is approved quickly, Alaska will not be able to provide low-cost financial aid to our students. Without ASLC's loans, we expect that many of Alaska's college and vocational students may not be able to continue in or start school this year. We also understand that nationwide, education loans are becoming much harder to come by. In fact, 177 lenders to date have suspended their education loan programs. Specific to Alaska, several large banks indicate they will no longer be making loans in Alaska. The same economy that caused the market collapse has also resulted in increases in unemployment, resulting in many students staying in school longer, and many adults returning to school for re-training to get better jobs. The bottom line is that these factors result in fewer options for financial aid at the same time as the demand for financial aid is increasing. While there are increased grant provisions included in the American Recovery and Reinvestment Act, those funds are targeted only to the very neediest students.

Your full and prompt support of legislation to provide interim financing to fund AlaskAdvantage loans is urgently needed, and will result in no cost to the state. Without your support, Alaska's students will suffer. Last year 470 of students enrolled at our institution used ASLC educations to fund, at least in part, their educational programs.

Thank you for your consideration.

Respectfully,

Terrance Harris
Campus President

Anchorage Campus
2221 E. Northern Lights Boulevard
Suite 120
Anchorage, AK 99508
Main 907.277.1000
Fax 907.274.3342

Mat-Su Campus
1451 E. Parks Highway
Suite B
Wasilla, AK 99654
Main 907.352.1000
Fax 907.352.1001

CharterCollege.edu



1415 E. Tudor Road
Anchorage, Alaska 99507-1033
(907) 563-7575 • 1-800-770-7575
Fax (907) 563-8330
careed@careeracademy.edu

March 5, 2009

To Whom It May Concern:

Career Academy is Alaska's largest Alaskan owned accredited private career college serving over 600 students annually. Career Academy fully supports legislation and related initiatives to provide interim funding to the Alaska Student Loan Corporation (ASLC), until such time as the markets recover sufficiently for ASLC to complete bonding.

The alternative financing proposed in the Governor's bill and endorsed by the Alaska Student Loan Corporation (ASLC) and the Alaska Department of Revenue is a win/win solution that meets an urgent statewide need to assist our students in financing their education programs with no cost to the state's General Fund.

We understand that unless this alternative is approved quickly, Alaska will not be able to provide low-cost financial aid to our students. Without ASLC's loans, we expect that many of Alaska's college and vocational students may not be able to continue in or start school this year. We also understand that nationwide, education loans are becoming much harder to come by. In fact, 177 lenders to date have suspended their education loan programs. Specific to Alaska, several large banks indicate they will no longer be making loans in Alaska. The same economy that caused the market collapse has also resulted in increases in unemployment, resulting in many students staying in school longer, and many adults returning to school for re-training to get better jobs. The bottom line is that these factors result in fewer options for financial aid at the same time as the demand for financial aid is increasing. While there are increased grant provisions included in the American Recovery and Reinvestment Act, those funds are targeted only to the very neediest students. In addition many many Alaskan students are not eligible to receive these grants due to the increased wage scale in Alaska. These same grant programs do not take into consideration the increased cost of living in Alaska.

Your full and prompt support of legislation to provide interim financing to fund AlaskAdvantage loans is urgently needed, and will result in no cost to the state. Without your support, Alaska's students will suffer. Last year approximately 125 students enrolled at Career Academy used over \$692,000 in ASLC funds to at least in part fund their educational programs. Without these loan funds being available they would not have been able to attend college, receive their education, and become valuable trained professional in Alaska's workforce

Thank you for your consideration.

Respectfully,

Jennifer A. Deitz
President & Founder



Great careers for Alaska's future

March 5, 2009

To Whom It May Concern:

Please accept this letter of Alaska Vocational Technical Center's (AVTEC) full support for legislation and related initiatives to provide interim funding to the Alaska Student Loan Corporation (ASLC), until such time as the markets recover sufficiently for ASLC to complete bonding.

The alternative financing proposed in the Governor's bill and endorsed by the Alaska Student Loan Corporation (ASLC) and the Alaska Department of Revenue is a win/win solution that meets an urgent statewide need to assist our students in financing their education programs with no cost to the state's General Fund.

We understand that unless this alternative is approved quickly, Alaska will not be able to provide low-cost financial aid to our students. Without ASLC's loans, we expect that many of Alaska's college and vocational students may not be able to continue in or start school this year. AVTEC provides many training programs and opportunities for Alaskans that are needed for employment in good paying high skilled jobs. These programs are more important now than ever before, as Alaskans face tighter economic conditions.

I urge your full and prompt support of legislation to provide interim financing to fund AlaskAdvantage loans is urgently needed, and will result in no cost to the state. Without your support, Alaska's students will suffer. Last year 79 of the 364 students enrolled at our institution used ASLC educations to fund, at least in part, their educational programs.

Thank you for your consideration.

Respectfully,

Fred W. Esposito
AVTEC Director

Alaska Vocational Technical Center • PO BOX 889 • 2nd Avenue • Seward, Alaska 99664-0889
Admissions Office (907) 224-3322 • 1-800-478-5389 • FAX (907) 224-4400 • www.avtec.edu

Alaska Vocational Technical Center does not discriminate due to race, color,
National origin, age, sex, political affiliation, religious beliefs, or disability.

AVTEC is a component of the Alaska Department of Labor and Workforce Development.



March 3, 2009

To Whom It May Concern:

Please accept this letter of the Alaska Technical Center's full support for legislation and related initiatives to provide interim funding to the Alaska Student Loan Corporation (ASLC), until such time as the markets recover sufficiently for ASLC to complete bonding.


The alternative financing proposed in the Governor's bill and endorsed by the Alaska Student Loan Corporation (ASLC) and the Alaska Department of Revenue is a win/win solution that meets an urgent statewide need to assist our students in financing their education programs with no cost to the state's General Fund.

We understand that unless this alternative is approved quickly, Alaska will not be able to provide low-cost financial aid to our students. Without ASLC's loans, we expect that many of Alaska's college and vocational students may not be able to continue in or start school this year. We also understand that nationwide, education loans are becoming much harder to come by. In fact, 177 lenders to date have suspended their education loan programs. Specific to Alaska, several large banks indicate they will no longer be making loans in Alaska. The same economy that caused the market collapse has also resulted in increases in unemployment, resulting in many students staying in school longer, and many adults returning to school for re-training to get better jobs. The bottom line is that these factors result in fewer options for financial aid at the same time as the demand for financial aid is increasing. While there are increased grant provisions included in the American Recovery and Reinvestment Act, those funds are targeted only to the very neediest students.

Your full and prompt support of legislation to provide interim financing to fund AlaskAdvantage loans is urgently needed, and will result in no cost to the state. Without your support, Alaska's students will suffer. Over the years, we have had many students enrolled at our institution who used ASLC educations to fund, at least in part, their educational programs.

Thank you for your consideration.

Respectfully,


Cheryl Edonstlaw, Director
Alaska Technical Center

Received from the Chair of Student Senate, Associated Students of the University of Alaska Fairbanks, on 3/12/09.

To Whom It May Concern:

Please accept this letter of full support for legislation and related initiatives to provide interim funding to the Alaska Student Loan Corporation (ASLC), until such time as the markets recover sufficiently for ASLC to complete bonding.

The alternative financing proposed in the Governor's bill and endorsed by the Alaska Student Loan Corporation (ASLC) and the Alaska Department of Revenue is a win/win solution that meets an urgent statewide need to assist students in financing their education programs with no cost to the state's General Fund.

We understand that unless this alternative is approved quickly, Alaska will not be able to provide low-cost financial aid to our students. Without ASLC's loans, we expect that many of Alaska's college and vocational students may not be able to continue in or start school this year. We also understand that nationwide, education loans are becoming much harder to come by. In fact, 177 lenders to date have suspended their education loan programs. Specific to Alaska, several large banks indicate they will no longer be making loans in Alaska. The same economy that caused the market collapse has also resulted in increases in unemployment, resulting in many students staying in school longer, and many adults returning to school for re-training to get better jobs. The bottom line is that these factors result in fewer options for financial aid at the same time as the demand for financial aid is increasing. While there are increased grant provisions included in the American Recovery and Reinvestment Act, those funds are targeted only to the very neediest students.

Your full and prompt support of legislation to provide interim financing to fund AlaskAdvantage loans is urgently needed, and will result in no cost to the state. Without your support, Alaska's students will suffer.

Thank you for your consideration.

Respectfully,

Jennifer S Chambers
ASUAF Senate Chair