


**HB**

**17**

<TARGET><BILL>HB 17</BILL><SUBJECT>HB  
17</SUBJECT><COMM>HEDC28</COMM></TARGET>

**REPRESENTATIVE LES GARA**(907) 465-2647 | State Capitol Building, Room 400 | <http://www.replesgara.com>**HB17** [Statement PDF](#) | [Sponsor's BILL Listing](#)**Sponsor****Statement****House Bill 17 "Reducing the Principal of Postsecondary Education Loans for Alaska Students Who Remain in or Return to Alaska"**

REPRESENTATIVE LES GARA  
 REPRESENTATIVE HARRIET DRUMMOND  
 REPRESENTATIVE DAVID GUTTENBERG  
 REPRESENTATIVE LINDSEY HOLMES  
 REPRESENTATIVE SCOTT KAWASAKI  
 REPRESENTATIVE BETH KERTTULA  
 REPRESENTATIVE CHRIS TUCK

Currently Alaskans pay interest rates of roughly 7% and 8% for outstanding and new student loans. In contrast, used car loans are currently being issued by some lenders at 3% and less. Many Alaskans are struggling and Alaska has a history of losing those who obtain higher education degrees and job training to jobs outside of Alaska.

This legislation is one way we can lessen the financial burden on Alaskans who receive their job training or higher education in Alaska, or who move back to Alaska after receiving that education. It is aimed at strengthening the Alaskan economy, helping Alaskans prosper, and retaining more Alaskan talent.

This bill restructures Alaska student loans by reducing the principal amount of student loans for residents by 2.5% per year. This is the equivalent of a 3% interest rate reduction. The borrower must establish and maintain residency for one year prior to obtaining the loan, must maintain residency in Alaska while repaying the loan, and cannot be in default. A reduction in principal provided by this bill is in addition to any other available reduction in principal or interest rate. The purpose of this legislation is to help encourage Alaska's youth to remain in or return to Alaska following completion of their postsecondary studies.

The reduction of principal is subject to appropriation by the legislature for the amount necessary to offset the amount of reduced principal. The commission will establish a system for reducing or prorating principal reductions if the amount appropriated is insufficient to offset the full amount of principal reductions.

Please feel free to contact our office if you have any questions.

**REPRESENTATIVE LES GARA**

ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

MEMORANDUM

DATE: January 23, 2013  
TO: Representative Lynn Gattis  
FROM: Representative Les Gara  
RE: Hearing Request for HB17: Reduction in Student Loans

On behalf of the eleven co-sponsors, I respectfully request that House Bill 17, relating to student loan reductions, be scheduled for a hearing in the House Education Committee. Please feel free to contact me, or my aide Toby Smith, with questions or thoughts at 465-2647.

Attached you will find a background packet for HB 17. This includes the current version of the bill, a sponsor statement, a sectional analysis, and supporting documents.

Thank you for your consideration.

  
Representative Les Gara

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA  
REPRESENTATIVE HARRIET DRUMMOND  
REPRESENTATIVE DAVID GUTTENBERG  
REPRESENTATIVE LINDSEY HOLMES  
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REPRESENTATIVE BETH KERTTULA  
REPRESENTATIVE CHRIS TUCK  
REPRESENTATIVE GERAN TARR  
REPRESENTATIVE ANDREW JOSEPHSON  
REPRESENTATIVE JONATHAN KREISS-TOMKINS  
REPRESENTATIVE MAX GRUENBERG

## Sponsor Statement for House Bill 17

Reducing the Principal of Postsecondary Education Loans for Alaska Students Who Remain in or Return to Alaska

Currently Alaskans pay interest rates of roughly 7% and 8% for outstanding and new student loans. In contrast, used car loans are currently being issued by some lenders at 3% and less. Many Alaskans are struggling and Alaska has a history of losing those who obtain higher education degrees and job training to jobs outside of Alaska.

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# LEGAL SERVICES

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STATE OF ALASKA

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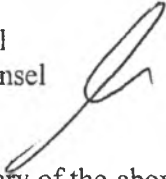
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

January 21, 2013

**SUBJECT:** Sectional summary (HB 17 (Work Order No. 28-LS0117\N))

**TO:** Representative Les Gara  
Attn: Toby Smith

**FROM:** Jean M. Mischel  
Legislative Counsel 

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

**Section 1.** Adds a new section to AS 14.43 that requires the Alaska Commission on Postsecondary Education to provide a person who resides in the state during a loan repayment period a prorated 2-5 percent reduction on interest for loans issued by the commission under the Education Loan Program, the AlaskAdvantage Loan Program, and the Alaska Supplemental Loan Program.

**Section 2.** Amends the Alaska Supplemental Loan Program to cross-reference the 2-5 percent interest reduction provided for in section 1 of the bill.

JMM:lnd  
13-025.lnd



# LEGISLATIVE RESEARCH SERVICES

Alaska State Legislature  
Division of Legal and Research Services  
State Capitol, Juneau, AK 99801

(907) 465-3991 phone  
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## Research Brief

TO: Representative Les Gara  
FROM: Katie Spielberger, Legislative Analyst  
DATE: December 18, 2012  
RE: Alaska Student Loan Interest Rates, 2007-2013  
*LRS Report 13.100*

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***You wished to know what interest rates have been for Alaska student loans over the past five years, including any possible discounts.***

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As you know, the Alaska Commission on Postsecondary Education (the Commission) administers low-cost education loan programs to Alaskan students and their families.<sup>1</sup> For the purpose of this report, we focus on the four primary loan programs promoted by the Commission during recent years—the federally guaranteed AlaskAdvantage Stafford Loan and AlaskAdvantage PLUS Loan, and the state alternative Alaska Supplementary Loan and Family Education Loan—all of which are funded through the Alaska Student Loan Corporation (the Corporation).<sup>2</sup> Due to a change in federal law in 2010, the Commission no longer offers the federally guaranteed loans, so we only present interest rates for these loans through the 2009-2010 school year.

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### Federal Loans

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From 2002 to 2010, the Commission offered Stafford and PLUS loans financed with Corporation funds and carrying federal guarantees. The rates for these loans were set under a federal formula, but the Corporation was authorized to offer “borrower benefit” discounts to offset costs, such as lowered rates for students attending school in Alaska or living in Alaska during the repayment period. Borrower benefits vary from year to year, depending on the Corporation’s ability to absorb projected costs. Students meeting federal requirements for “demonstrated financial need” could obtain *subsidized* Stafford loans, for which the federal government would pay the interest rate while the student was in school. For the purposes of this report, we focus on *unsubsidized* Stafford loans.

The Health Care and Education Reconciliation Act of 2010 ended the authority of state, nonprofit, and private lenders to make federal loans, effective June 30, 2010. The Commission continues to service outstanding federal loans, and encourages qualified borrowers to look into federal direct loans—now offered only through the federal Department of Education—as these are often the lowest cost loans available for qualified students.<sup>3</sup>

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<sup>1</sup> The Legislature created the Alaska Commission of Postsecondary Education (ACPE) in 1974 and, in 1987, established and capitalized the Alaska Student Loan Corporation (ASLC) as a public corporation to fund programs through tax-exempt bond sales. More information about the ACPE and the ASLC can be found at <http://acpe.alaska.gov/>. Historical interest rates, borrower benefits, and other information for this report were provided by Rochelle Rogers, executive assistant, ACPE, who can be reached at 907-465-6718.

<sup>2</sup> In addition to the loans discussed here, the Commission administers several loans specific to certain fields of study, which are not funded through the Corporation. For example, the Teacher Education Loan (AS §14.43.600 *et seq.*), funded through a teacher education revolving loan fund, provides funding for Alaska high school graduates nominated by rural school districts to pursue a degree in elementary or secondary education. Several memorial loans are offered from loan funds established under AS § 14.43.250 *et seq.*, such as the A.W. “Winn” Brindle Memorial Education Loan, which provides funding for students enrolled in a fisheries-related field. More information about career-specific loans is available at [http://acpe.alaska.gov/STUDENT-PARENT/Loans/Career-Specific\\_Loans.aspx](http://acpe.alaska.gov/STUDENT-PARENT/Loans/Career-Specific_Loans.aspx).

<sup>3</sup> Since federally guaranteed loans are no longer made through the Commission, the previous borrower benefits for Alaskan students are no longer available for new loans. For the 2012-2013 school year, an unsubsidized Stafford Loan is still offered at a base rate of 6.80 percent, but the only rate discount available is a 0.25 percent reduction for automatic payments through electronic fund transfers. More information about federal loans can be found at <https://studentloans.gov>. The Commission provides a comparison of federal and state loans at [http://acpe.alaska.gov/STUDENT-PARENT/Loans/Loan\\_Comparison.aspx](http://acpe.alaska.gov/STUDENT-PARENT/Loans/Loan_Comparison.aspx).

### Stafford Loan Program—For Students

Table 1 shows interest rates for federal Stafford loans offered through the Commission between 2007 and 2010, along with possible benefits for Alaska residency, automatic payments, and timely payments. For example, a student attending school in Alaska could obtain a Stafford Loan for the 2007-2008 school year at an annual interest rate of 5 percent, compared to the federal base rate of 6.8 percent. If that same student lived in Alaska during the repayment period, the loan rate could drop as low as 3.05 percent following 48 consecutive months of timely payments. An AlaskAdvantage “basic benefit” was applied to all loans originated in 2007-2008 and 2008-2009.

**Table 1: AlaskAdvantage Unsubsidized Stafford Loan Interest Rates, 2007-2010**

	2007-2008		2008-2009		2009-2010	
	In-school	Repayment	In-school	Repayment	In-school	Repayment
Base Rate (federal)	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%
AlaskAdvantage Basic Benefit	-0.80%	-0.50%	-0.80%	-0.50%	n/a	n/a
Alaska Presence Benefit	-1.00%	-1.00%	-1.00%	-1.00%	-1.20%	-1.20%
Automatic Payment Benefit	n/a	-0.25%	n/a	-0.25%	n/a	-0.25%
Timely Benefit (after 48 on-time payments)	n/a	-2.00%	n/a	-2.00%	n/a	-2.00%
Lowest rate possible during qualifying periods	5.00%	3.05%	5.00%	3.05%	5.60%	3.35%

**Notes:** The “Timely Benefit” is applied after 48 consecutive months of on-time payments. These rates were offered with a zero percent origination fee. The rates are for unsubsidized Stafford loans; federal interest subsidies were available for some borrowers during these years. As of June, 30 2010, Stafford loans can only be made through the federal Department of Education, but the Alaska Commission on Postsecondary Education continues to service outstanding loans. The AlaskAdvantage program was created in 2001 (AS § 14.43.161) “to provide postsecondary educational financial assistance through the federal guaranteed student loan program.”

**Source:** The Alaska Commission on Postsecondary Education and Alaska Student Loan Corporation.

### PLUS Loan Program—For Family Support of Students

The AlaskAdvantage PLUS loan was offered to family members of undergraduate students, as well as to graduate students. Table 2 shows interest rates for the PLUS loan program from 2007 to 2010 along with possible benefits. As with the Stafford loan, an AlaskAdvantage basic benefit was applied to all loans originated in 2007-2008 and 2008-2009.

**Table 2: AlaskAdvantage PLUS Loan Interest Rates, 2007-2010**

	2007-2008	2008-2009	2009-2010
Base Rate (federal)	8.50%	8.50%	8.50%
AlaskAdvantage Basic Benefit	-1.00%	-1.00%	n/a
Alaska Presence Benefit	-1.00%	-1.00%	-0.50%
Automatic Payment Benefit	-0.25%	-0.25%	-0.25%
Timely Benefit (after 48 on-time payments)	-1.00%	-1.00%	-1.00%
Lowest rate possible during qualifying periods	5.25%	5.25%	6.75%

**Notes:** The “Timely Benefit” is applied after 48 consecutive months of on-time payments. As of June, 30 2010, PLUS loans can only be made through the federal Department of Education, but the Alaska Commission on Postsecondary Education continues to service outstanding loans. The AlaskAdvantage program was created in 2001 (AS § 14.43.161) “to provide postsecondary educational financial assistance through the federal guaranteed student loan program.” All loans include an origination fee of 3 percent.

**Source:** The Alaska Commission on Postsecondary Education and Alaska Student Loan Corporation.

## State Loans

The Commission continues to offer state loans funded through the Corporation, intended to supplement federal aid. Base rates for these loans are set by the Corporation board, in accordance with formulas set out in 20 AAC 15.855 (f) (g) (h), and the board determines borrower benefits each year, depending on the Corporation's ability to absorb project costs.

### Alaska Supplemental Education Loan—For Students

Table 2 shows interest rates for the Alaska Supplemental Education Loan from 2007 to 2013, as well as possible rate reductions for residency, automatic payments, and consecutive timely payments.

**Table 3: Alaska Supplemental Education Loan (ASEL) Interest Rates, 2007-2013**

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Base Rate	7.30%	7.30%	7.30%	7.20%	7.50%	7.20%
Alaska Presence Benefit	-1.00%	-0.50%	-0.5%	-0.50%	-0.50%	-0.50%
Automatic Payment Benefit	-0.25%	0.25%	0.25%	-0.25%	-0.25%	-0.25%
Timely Benefit (after 48 on-time payments)	-2.00%	-2.00%	-2.00%	n/a	n/a	n/a
Lowest rate possible during qualifying periods	4.05%	4.55%	4.55%	6.45%	6.75%	6.45%

**Notes:** The "Timely Benefit" is applied after 48 consecutive months of on-time payments; this benefit ended for new loans beginning with the 2010-2011 school year, but loans originated between 2002 and 2010 remain eligible. The Alaska Supplemental Education Loan (ASEL) program was created in 2001 (AS § 14.43.170) to provide financial assistance for students who do not qualify for federal loans or who need additional financial aid. Per AS § 14.43.174, the interest rate on ASEL is set by the ASLC but may not exceed 8.25 percent. All loans include an origination fee of 5 percent.

**Source:** The Alaska Commission on Postsecondary Education and Alaska Student Loan Corporation.

### Family Education Loan—For Family Support of Students

The Family Education Loan (FEL) is offered to family members of students. Table 4 shows rates for the FEL from 2007 to 2013.

**Table 4: Alaska Family Education Loan (FEL) Interest Rates, 2007-2013**

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Base Rate	5.00%	5.00%	7.30%	7.20%	7.50%	7.20%
Automatic Payment Benefit	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%
Lowest rate possible during qualifying periods	4.75%	4.75%	7.05%	6.95%	7.25%	6.95%

**Notes:** The Alaska Family Education Loan program was established in 1987 (AS § 14.43.710) to provide low interest loans to assist families in paying the costs of postsecondary education for their family members. Per AS § 14.43.740, the interest rate on these loans is set by the Alaska Student Loan Corporation but may not exceed 8.25 percent. All loans include an origination fee of 5 percent.

**Source:** The Alaska Commission on Postsecondary Education and Alaska Student Loan Corporation.

The Commission also offers an Alternative Consolidation Loan Program (AS § 14.43.122), which allows students to consolidate their current state education loans into a single fixed-rate loan. The current interest rate for this program is 7.2 percent.<sup>4</sup>

We hope this is helpful. If you have questions or need additional information, please let us know.

<sup>4</sup> During the years when the Commission offered federal loans, there was a similar consolidation program for AlaskAdvantage federal loans (AS § 14.43.167). The federal government also offers loan consolidation programs.

**RATE AND FEE SCHEDULE FOR LOANS**

For the Month of November 2012

LOAN TYPE	DESCRIPTION	ANNUAL PERCENTAGE RATES	TERMS	FEEES (as applicable)
VEHICLES	CARS & TRUCKS NEW USED	2.73% to 17.75% 2.73% to 17.75%	48 to 84 Months	
	RECREATIONAL VEHICLES NEW & USED	5.38% to 13.19%	72 to 180 Months	
	RECREATIONAL BOATS NEW & USED	5.50% to 15.00%	72 to 180 Months	
	AIRCRAFT: NEW USED	7.85% 7.85%	Up to 180 Months Up to 180 Months	
	MOTORCYCLES	3.50% to 12.00%	36 to 72 Months	
	SNOWMOBILES, ATV, JET SKI	3.50% to 12.00%	Used – up to 36 Months New – up to 48 Months	
LIFESTYLE LOANS	NEW COMPUTERS	8.35% to 12.85%	Up to 36 Months	
	SECURED – SAVINGS	Savings rate + 2% Savings rate + 2.5% Savings rate + 3%	Up to 36 Months 37 to 60 Months Over 60 Months	
	– CERTIFICATE	Certificate Rate +3%	Term of Certificate	
	QUICK CASH	16.00%	Revolving Line of Credit; Payment = 3% of Outstanding Balance	
	VARI-QUICK	10.00%	Revolving Line of Credit; Payment = 3% of Outstanding Balance	
	SIGNATURE LOANS	14.25% to 18.00%	Up to 48 Months	

All loan interest rates subject to change without notice. There may be additional third-party fees. For more information, call the loan center at 257-7283. Actual APR on some loans may be higher based on loan amount and term selected.

All loans on approval of credit.

Effective March 19, 2012



Denali Alaskan is an equal housing lender. Deposits at Denali Alaskan are insured by the National Credit Union Administration up to \$250,000.

## Student Loans: The Next Bailout?

Published: Wednesday, 25 Apr 2012 | 8:49 AM ET

By: Kelly Evans  
CNBC Reporter

Here's what we do know **about student loan debt**: it's roughly \$1 trillion in size, greater than either auto or credit-card debt and second only to mortgage debt in the U.S.



Dave Bradley Photography | Getty Images

Borrowers in their 30s today owe \$28,500, on average. The debt burden has soared just as — and partly because — the recession hit, so younger graduates carrying the highest balances are hit with the double whammy of a **weak job market** (that still isn't showing any sign of rapid improvement).

And this all comes as globalization and technological change have upended once-reliable career paths, wiped out many mid-level professional jobs and leave low-paying fields in health, food and beverage services, and retail as among the fastest growing job markets over the next decade.

Oh, and consider that student loan debt remains one of the most difficult types to forgive or discharge in bankruptcy, in part because the federal government (i.e. taxpayers) made or guaranteed 80 percent of all outstanding student loan debt as of last year. And finally, that once loans in deferral or forbearance are excluded, the delinquency rate on student loan debt was an estimated 27 percent as of the third quarter of 2011, according to a study by the New York Fed.



Still, acknowledging the problem is perhaps the easiest step. Much more difficult is the question of what to do about it. Not surprisingly, young, heavily indebted grads are calling for forgiveness in full or in part of their student loan burdens. Petitions on advocacy website Change.org include calls for federal student loan interest rates to be capped at 3 percent or eliminated altogether. (Indeed, **President Obama** is currently among those urging Congress not to allow the interest rate on federally subsidized Stafford loans, which are aimed at low — and middle-class borrowers, to double to 6.8 percent on July 1, matching the rate for unsubsidized loans.)

And yet the trouble with those initiatives, or with forgiving student loan debt in whole or part, is threefold. For starters, the straight mathematics: the losses from any such debt reduction scheme will have to be borne by someone, most likely taxpayers, at a time when government finances are already stretched.

Second is the issue of "moral hazard," that is, rewarding and implicitly encouraging imprudent behavior rather than punishing it. (Of course, it is easier for the public at large to demand that over-leveraged banks be punished for imprudence than 24-year-olds trying to further their education.)

And third is the question of how to keep future graduates from accumulating a mountain of student loan debt just as large, if not larger, than the one just leveled.

It is this third issue which perhaps is most pressing — and most vexing — and which also offers the most opportunity for innovation. Levying an "education tax," making college free and assigning students to institutions based on a lottery system? Abolishing "college" altogether for more specialized trade institutions instead, while at the same time requiring a "gap year" of liberal arts prior to entry? Offering high-school grads the choice between student loans or business loans to fund new ventures? These all seem ridiculous, but then so too is our current state of affairs.

Our current system, in fact, has so failed that it may now be exacerbating income inequality (by saddling low-income students with high loan balances and shaky job prospects), economic malaise (by keeping would-be homebuyers stuck in costly rentals because of already high debt loans and/or poor credit histories, thereby damaging both the housing market and potential consumer spending), and long-term economic vitality (by hampering household and family unit formations with a higher share of 20- and 30-somethings currently stuck at home with mom and dad).

This, in fact, is why it may be far less costly for taxpayers in the long run to forgive as much of the current student-loan burden as possible. Before doing anything like that, however, there must be systematic reform to ensure debt loads simply won't start to pile up again. (Not to mention the need for repercussions for those borrowers who most benefit from any such

initiative, for the sake of fairness.) That is why the need for innovation or overhaul is so pressing.

One thing is certain: if we do nothing to alter the status quo, we will have no one to blame but ourselves for the bleak outcome.

*Follow Kelly Evans on Twitter: @kelly\_evans*

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January 14, 2013

Gentlemen:

I want to thank you for the opportunity of express my opinion on the burden of Alaska student loans facing our young people. We have encouraged them to attend college for a higher education to become a more productive asset to our State, however, they are now burdened with monumental debt.

I want to commend you gentlemen for having the foresight to see that there is a problem with student loans in the State of Alaska.

House Bill No. 17 is a great step in taking action on this problem, but this is only the first step in solving the student loan problem in Alaska.

I realize that our Country's economy is not where we would like it to be since we are spending billions of dollars in other countries. Numerous people are still unemployed in our country.

Thousands of students are dropping out of college because they can no longer afford to take on more student loans with the debt they already have and are unable to pay. Many Students owe from \$50,000 to \$100,000 on student loans.

The retirement age is continually being raised, therefore, we are keeping our college graduates out of the work field.

We should forgive the debt completely or by 50%. As a state we are not out to make a profit on these loans, therefore, we should tie the repayment loan interest rate to what the banks are paying on passbook savings.

A student who obtains a 4-year college degree should be able to start his or her life, to marry, to start a family and buy a home. This would be the greatest asset to the State of Alaska for their investment in the student loan program.

Thank you, Robert D. Dotson, P. O. Box 1054 Cordova, AK 99574





**State of Alaska**  
**Cordova Legislative Information Office**  
P.O. Box 2248 Cordova, Alaska 99574  
907-424-5461 Fax 907-424-5462  
Cordova.LIO@akleg.gov

**To:**  
The House Education Committee

Bill Sponsor(S): Representative(S) Gara, Drummond, Guttenberg, Holmes, Kawasaki, Kerttula, Tuck, Tarr, Josephson, Kreiss-Tomkins, Gruenberg

R -35 Legislators: Senator Stevens, Representative Austerman

**Comments:**

Constituent Robert D. Dotson, P.O. Box 1054, Cordova, AK 99574, 907-424-7810, is expressing his support and submitting his written testimony now for HB 17 "An Act providing for a reduction of the principal of postsecondary education loans for residents.", to: the House Education Committee, the bill sponsors, and his legislators.

Thank you for distributing this to the House Education Members.

Michelle Hahn O'Leary  
Information Officer  
Cordova Legislative Information Office

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Wednesday, 23 January 2013

[CAUCUS FACEBOOK](#) [RSS](#)

# THE HOUSE DEMOCRATIC CAUCUS 28TH ALASKA STATE LEGISLATURE

Posted on 20th December 2012

[NEWS: Democrats Push to Lower Student Loan Burden for Alaskans](#)

## REPRESENTATIVE LES GARA

(907) 269-0106 | [www.replesgara.com](http://www.replesgara.com)

CONTACT: Toby Smith (907) 269-0106    [www.akdemocrats.org](http://www.akdemocrats.org)

FOR IMMEDIATE RELEASE  
December 20, 2012

### **Democrats Push to Lower Student Loan Burden for Alaskans**

*Measure cuts high loan rates for Alaskans who remain in or return to Alaska*

JUNEAU—Today, seven Democratic legislators announced they will pre-file legislation to reduce the high cost of student loans for Alaskans who stay in or return to Alaska. “It is telling that you can get a 2.75 percent interest rate for a used car loan, but pay upwards of 6.5 to 8 percent for job training and college loans in Alaska,” said Rep. Les Gara. Lowering the cost of education and job training for Alaskans helps both students and the state by reducing costs to Alaskans and giving all Alaskans who want to open new career doors the incentive to help improve Alaska’s economy.

“Student loans are an investment in human capital, and human capital is the only asset that appreciates over time, rather than depreciates. It makes a lot of sense for the state to invest in our human capital base,” said Representative-Elect Harriet Drummond.

Under the proposed legislation, all Alaskan students would receive an annual reduction of 2.5 percent of the principal amount of their Alaska student loans each year if the borrower establishes and maintains Alaska residency. According to the Alaska Student Loan Corporation (ASLC), a 2.5 percent principle reduction is roughly equivalent to a 3 percent interest rate reduction, and is a cheaper way to administer the discount.

According to CNBC (article attached), student loan debt in America is roughly \$1 trillion in size, exceeds either auto or credit card debt, and is

second only to mortgage debt. "Money shouldn't be a barrier to college and job training, and student loans shouldn't cost Alaskans twice the rate of a used car loan. Student loan debt is crushing for many people and we should stand with people who want to succeed and contribute to the community and economy," said Rep. Les Gara.

Molly Towner, an Anchorage-area teacher and single mother of two children, said, "I attended graduate school in Alaska when my children were very young to prepare myself for a job that could cover the living expenses for our family of three. I am committed to the teaching profession and the state of Alaska. It is challenging, however, to cover all of our expenses, which include a monthly student loan payment of over \$600. I support the plan to reduce the student loan burden for families like mine in Alaska through the student loan reduction bill."

"For Alaska to be competitive, we need to make sure our workforce gets the training it needs and that our students put their skills to work in Alaska," said Rep. Guttenberg. "This bill makes it easier for Alaskans to stay here or to return to help build our state."

House Democratic Leader Beth Kerttula (Juneau), Representative Les Gara (D-Anchorage), Representative-Elect Harriet Drummond (D-Anchorage), Representative David Guttenberg (D-Fairbanks), Representative Lindsey Holmes (D-Anchorage), Representative Scott Kawasaki (D-Fairbanks), and Representative Chris Tuck (D-Anchorage) are primary sponsors of the legislation.

[http://akdemocrats.org/gara/121812\\_AS\\_L\\_IR\\_07-13.pdf](http://akdemocrats.org/gara/121812_AS_L_IR_07-13.pdf)

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# STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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January 31, 2012

Representative Les Gara, *et al.*  
Alaska House of Representatives  
State Capitol, Room 500  
Juneau, Alaska 99801

Dear Representative Gara:

The following is provided to identify some of the concerns and issues relative to legislation introduced earlier this month, sponsored by you and others. The bill in question is SSHB272, an Act providing for a reduction in interest on postsecondary education loans for residents.

In summary, this bill would require the Alaska Commission on Postsecondary Education (ACPE) to, under certain conditions, reduce the interest rate or provide a rebate of interest on loans which are assets of the Alaska Student Loan Corporation (ASLC). These are: Alaska Student Loans, including consolidation loans (AS 14.43.090-.160); AlaskAdvantage federally guaranteed loans, including consolidation loans (AS 14.43.161-.168); and AlaskAdvantage Supplemental Education Loans (AS 14.170-.175). Not covered are loan types not funded by the ASLC: memorial scholarship loans and WWAMI medical education loans, as well as other ASLC-funded loans: Teacher Education Loans, Alaska Family Education Loans, or WICHE Professional Student Exchange Program Loans.

As currently drafted it appears the rate reduction and/or rebate is to be provided if:

- 1) the borrower is a state resident;
- 2) the borrower completed the education for which the loan was issued;
- 3) the borrower is in repayment;
- 4) the loan is not in default; and,
- 5) the loan is not eligible to be repaid or forgiven by a third party.

The reduction/rebate appears to be applicable to any outstanding, otherwise eligible loan.

Let me preface these comments by stating that I recognize the bill sponsors' well-meaning interest in assisting borrowers with managing the increasing costs of postsecondary education. However, as described herein, the approach to doing so as set out in this legislation raises fundamental legal, financial, and operational concerns.

Although the agency services these education loans, ACPE does not own the loans nor are they assets of the state. ASLC is the owner of the loans, and its Board establishes the loan interest rates pursuant to AS 14.43.200, 14.43.165, 14.43.174 etc. As you know, in 1987 the state created ASLC as a separate legal entity and transferred loans originated prior to 1988 to ASLC. Given that, I requested ASLC bond counsel, Ballard Spahr, review and comment on the legislation. The enclosed memorandum from Blake Wade and Darci Stephens of Ballard Spahr identifies two substantial legal issues with the bill as drafted: the possible violation of AS 14.42.270, and a constitutional concern arising from ASLC's contractual relationship with debtholders.

Notwithstanding the legal implications of the proposed legislation, ASLC would face very serious financial and reputational consequences related to this legislative action. Enclosed is a memo from ASLC financial advisor Lee Donner, FirstSouthwest, containing his comments and concerns relative to the proposals in SSHB272. As Mr. Donner notes, the outstanding loans are assets pledged as security for the purposes of repaying outstanding debt and paying operating costs. Any effort to amend the loan terms retroactively will not only result in negative action by bond rating agencies, but even the attempt to do so in this matter may cast a pall over ASLC's future financing opportunities. ASLC anticipates issuing future debt to continue to finance new education loans.

As discussed with you previously, ASLC has, to the extent possible, provided borrower benefits in the form of cost reductions which are annually approved by the Board. Over the past ten years ASLC has provided such benefits to our borrowers totaling approximately \$30 million. Benefits have been reduced as a result of various changes impacting ASLC's financial capacity—primarily as a result of the collapse of the asset-backed bond market and resulting increase in the costs of financing. Unlike a depository lender with access to cash at historically low rates, ASLC's lending costs are such that the current net yield on the loan portfolio is less than one percent (0.95%). This bill appears to provide a new entitlement for new and existing borrowers, but without an external source of funding from which to pay the costs of the benefit, which would have serious adverse impacts on ASLC.

In addition to these legal and financial concerns, even were those matters to be resolved in some fashion, implementation of the bill, as proposed, would be highly manual and labor intensive, resulting in significant costs to the state above and beyond the expense of the interest reduction and rebates. Bear in mind that currently covered loan types encompass both fixed and variable rate loans, the base rates of which range from between 2.9% and 9.0%<sup>1</sup> depending on when the loans were originated, and, after borrower benefits are applied, from 0.55% to 7.55%. The bill proposes no floor to the reduction to be paid; therefore, while some borrowers may be

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<sup>1</sup> Loans made prior to 2002-03 were charged 0% interest while enrolled in their program of study. The interest began accruing only after they left school, resulting in repayment interest being set at a higher rate.

paying a lower rate, others would be receiving principal reduction credits. Because of the proposed method for determining an individual's rebate, each and every borrower's rebate would be unique given their school enrollment patterns and timeline, and interest rates and related adjustment, as well as their loan(s) status history. As such, both the calculation and benefit application would need to be manually performed.

To be able to respond fully on the feasibility of implementing this benefit program a number of unanswered questions would need to be resolved. These questions include:

- What will be the standard for maintaining residency?
- What does "completion of the education for which the loan was issued" mean—successful completion of the term, academic year, or degree completion/graduation?
- Will a borrower be permitted to move in and out of "default" for the purpose of receiving the interest reduction?
- Will involuntary payments (wage garnishment, PFD garnishment) on a loan make the loan eligible for the interest reduction?
- How will eligibility for loan repayment or forgiveness by a third party be determined?
- What constitutes third-party repayment—does that include available cosigners on the loans?
- Eligibility is "for the time period in which the borrower establishes and maintains residency"—how will instances of borrowers moving in and out of the state while repaying the loan impact their benefit?
- Would borrowers who accelerate their loan repayment be eligible for the benefit, and how would it be paid out in such cases?
- In 14.43.123 (b), what does "amortized and prorated from the beginning of the interest accrual period..." mean?
- In 14.43.123 (c), what does this mean and how is it calculated?
- What is meant by "repayment" period? Loans may be in: in-school, grace, deferment, and forbearance statuses—how are those periods to be treated for borrowers who are in state, either continuously or periodically?
- Given that the language appears to create an unlimited borrower entitlement at the point of loan disbursement, or the effective date of the bill that is triggered by the "completion of education," over what period of years would a borrower be able to stretch their pursuit of that goal and retain their eligibility for the rate reduction and rebate?
- The bill also seems predicated on the idea that the borrower left the state for postsecondary education—how are borrowers who remain in Alaska to be treated with respect to the interest rate reduction and/or interest expense rebate prior to the start of their "repayment period" but before their "completion of education"?

I am very much aware of, and share your growing concerns about, the escalating costs of postsecondary education, specifically as it impacts borrowers' levels of education loan debt. Your support for Alaska Performance Scholarship and AlaskAdvantage Education Grant funding

Representative Les Gara  
January 31, 2012  
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is much appreciated and, I am convinced, will have a positive impact on Alaska's students. In the case of SSHB272, the proposed approach to lowering costs of education loan borrowing is very problematic, and I wanted to bring these matters to your attention prior to a public hearing.

Sincerely,



Diane Barrans  
Executive Director/Executive Officer

DB/dv

cc: Representative Sharon Cissna  
Representative Berta Gardner  
Representative Max Gruenberg  
Representative David Guttenberg  
Representative Lindsey Holmes  
Representative Scott Kawasaki  
Representative Beth Kerttula  
Representative Bob Miller  
Representative Pete Petersen  
Representative Chris Tuck

Enclosures

MEMORANDUM

TO Diane M. Barrans, Alaska Student Loan Corporation

FROM Blake K. Wade  
Darci L. Stephens

DATE January 27, 2012

RE Alaska House Bill No. 272

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As bond counsel to the Alaska Student Loan Corporation (the "Corporation"), we have been asked to review Alaska House Bill No. 272 ("House Bill 272") on behalf of the Corporation. Set forth below is a brief summary of some of the legal issues raised by House Bill 272.

Violation of Alaska Statutes 14.42.270

As you know, House Bill 272 is designed to provide an interest rate reduction on certain loans (the "Student Loans") issued under the provisions of Alaska law. Pursuant to Alaska Statutes 14.42.100 et seq. (the "Act"), the Corporation has issued various series of bonds and other debt which are secured by a pledge of certain Student Loans. Under Section 14.42.270 of the Act, the State of Alaska (the "State") has pledged to not impair the rights of the Corporation to fulfill its obligations to its bondholders. Section 14.42.270 reads as follows:

**Sec. 14.42.270. Pledge and agreement of state.**

The state pledges to and agrees with holders of bonds issued by the corporation that the state will not limit or alter the rights and powers vested in the corporation under AS 14.42.100 - 14.42.990 to fulfill the terms of a contract made by the corporation with the bondholders or in any way impair the rights and remedies of the bondholders until the bonds, together with the interest on them with interest on unpaid installments of interest, and all costs and expenses in connection with an action or proceeding by or on behalf of the bondholders, are fully met and discharged. The corporation may include this pledge and agreement of the state in a contract with bondholders.

As written, House Bill 272 would result in the reduction of the interest rate on the Student Loans which serve as the source of repayment for the Corporation's bonds. The enactment of House Bill 272 would impair the rights of the Corporation's bondholders and thus appears to violate the "non-impairment" pledge made by the State under Section 14.42.270 of the Act.

Violation of the Alaska and U.S. Constitution

House Bill 272 likely violates both the U.S. Constitution and the Alaska State Constitution. Article I, Section 10 of the U.S. Constitution prohibits a state from passing a "Law impairing the Obligation of Contracts." This "Contract Clause" prohibits states from enacting any law that retroactively impairs contractual rights. Article I, Section 15 of the Alaska Constitution contains a similar provision, which provides that "No law impairing the obligation of contracts . . . shall be passed."

The terms of municipal bonds are contractual obligations protected by the Contract Clause. The U.S. Supreme Court has developed a two-part analysis to determine whether an initiative by a state legislature violates the Contract Clause. This same basic test has been adopted by the courts in Alaska. The Corporation, as a public corporation and governmental instrumentality under Alaska law, would likely be subject to this same analysis. The major determinant for a violation of the Contract Clause is whether the initiative substantially impairs the issuer's obligations to debtholders. House Bill 272 appears to impair the Corporation's obligation to its bond and other debtholders through the reduction of the interest rate on the Student Loans pledged to repay the debt. This reduction in the revenues making up the source of repayment of the Corporation's debt would likely violate both the U.S. Constitution and the Alaska Constitution as an impairment of the Corporation's contract with debtholders.

DLS/

**Lee Donner**  
Managing Director

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**Date:** January 27, 2012

**To:** Diane Barrans, Executive Officer  
Alaska Student Loan Corporation

**Cc:** Charlene Morrison, Chief Financial Officer  
Alaska Student Loan Corporation

**Subject:** HB 272, an Act providing for a reduction in interest on Postsecondary education loans for residents

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You have asked that FirstSouthwest Company ("FSC") review Alaska HB 272 and advise Alaska Student Loan Corporation (the "Corporation") as to the implications of this proposed legislation for the currently outstanding student loan financings of the Corporation as well as the impact it might have on future anticipated student loan securitizations issued by the Corporation.

As it currently reads the proposed legislation would create the potential for a significant but unquantifiable reduction in yield on some of the Corporation's student loan portfolios, and does not provide any funding to offset that loss of revenue. In addition, implementation of the provisions in the legislation would be administratively complex and result in the expenditure of some portion of current net revenues on increased operational expense. The Corporation currently has two types of student loan financing vehicles in place: (1) the Straight-A Commercial Paper Conduit program, and (2) multiple student loan revenue bond issues and special project bond issues secured by student loan portfolios. The impact on these financings would vary.

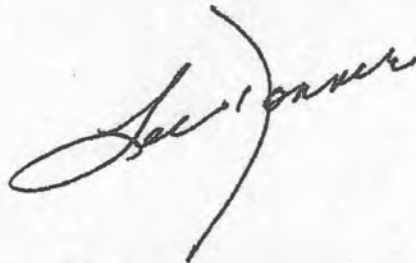
**Straight-A Commercial Paper Conduit:** Implementation of HB 272 would represent a retroactive addition of a significant "borrower benefit" to loans pledged as security under the Corporation's Straight-A borrowing. Had said "borrower benefit" been in place prior to the Corporation executing its Straight-A borrowing, the program administrator would have, at the least, imposed a higher borrower benefit reserve requirement, and might have precluded the Corporation from pledging any loans that could be subject to the benefit. Should the benefit created by HB 272 take effect after the Corporation has entered into the Straight-A borrowing, the financial implications range from an unquantifiable impairment to the economics of that transaction to the possibility that the Corporation could be required to repurchase those loans from the Straight-A conduit, a requirement that the Corporation might not be able to comply with because it lacks the requisite liquidity to do so.

**Outstanding Bond Issues:** All of the Corporation's outstanding bond issues contain certain covenant restrictions with respect to actions taken or not taken that could have a material impact on the yield of the student loans securing the bonds. I will not attempt to address the legal implications of breaching those covenants, but from a financial perspective, it is a virtual certainty that the rating agencies rating the

affected bonds would institute a ratings review with possible outcomes ranging from ratings downgrades to requirements for the deposit of additional assets into the affected trusts, all of which would present significant financial challenges to the Corporation.

**Future Bond Issues/Finncings:** New money or refunding bond issues in the student loan arena are already dramatically more challenging as a result of changes to the Higher Education Act, the market impact of the credit crisis of 2009, changes in rating agency criteria for all types of student loan assets, and new regulatory requirements emanating from Dodd/Frank. The administrative and economic impact of HB 272 would put the Corporation in a position where successful execution of new money or refunding transactions would be doubtful at best.

Even if HB 272 were amended to provide state funds to offset the revenue losses on the affected loans, there would still be significant issues with both currently outstanding and future financings, primarily as a result of annual appropriation risk, time lags between loss of revenue and reimbursement, and the fact that utilization of or "take rates" on the benefit are effectively unquantifiable.

A handwritten signature in black ink, appearing to read "S. J. [unclear]", is written across the center of the page.

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