

Alaska Student Loan Corporation

December 14, 2023

**ALASKA STUDENT LOAN CORPORATION
BOARD MEETING**

[Zoom link](#)

Meeting #: 943 8236 9624

Password: ASLC

Teleconference: (888) 788-0099; Code: 943 8236 9624#

AGENDA

Thursday, December 14, 2023

1. 1:30 p.m. Convene/Roll Call
- 2.* Adoption of Agenda
 - *Suggested motion: move to adopt the agenda of the December 14, 2023, Corporation meeting.*
3. Ethics Disclosure Relative to Adopted Agenda
- 4.* Approval of November 2, 2023, Minutes
 - *Suggested motion: move approval of the meeting minutes from the November 2, 2023, Corporation meeting.*
5. 1:35 p.m. Public Testimony: Individuals 3-minute limit
Group Representative 5-minute limit
6. 1:40 p.m. Current Year Loan Originations Summary – Program Operations Director Kerry Thomas
- 7.* 1:50 p.m. Adoption of Proposed Annual and Aggregate Loan Limits – Program Operations Director Kerry Thomas
 - *See Suggested Motion in Memorandum*
- 8.* 2:00 p.m. Adoption of Loan Program Fixed Interest Rates FY2023-2024 – CFO Julie Pierce
 - *See Suggested Motion in Memorandum*
9. 2:15 p.m. Strategic Planning Project Update – Executive Officer Sana Efird
10. 2:25 p.m. 2024 Meeting Dates
 - May 9, 2024
 - November 7, 2024
- 11.* 2:30 p.m. Adjournment
 - *Suggested Motion: Move the Corporation adjourn the December 14, 2023 meeting.*

***Action Required – motion, second, and roll call vote**

4. Approval of November 2, 2023 Corporation Meeting Minutes
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A meeting of the Board of Directors of the Alaska Student Loan Corporation (ASLC), conducted via distance delivery, originated from the offices of the Corporation at 3030 Vintage Boulevard, Juneau, Alaska on Thursday, November 2, 2023. Chair Adams called the meeting to order at approximately 1:31 p.m.

ROLL CALL

Members of the board present for all or portions of the meeting: Genevieve Wojtusik, Dr. Barbara Adams, Donald Handeland, and Micaela Fowler.

Staff present for all or portions of the meeting: Sana Efird, Executive Officer; Julie Pierce, CPA, Chief Finance Officer; Kate Hillenbrand, Director of Communications and Outreach; Kerry Thomas, Director of Program Operations, Andrew Bocanumenth, Assistant Attorney General; and Danni Erickson, Executive Secretary.

Guests in attendance: Lee Donner, Regional Managing Director, and Tim Webb with Hilltop Securities; Karen Tarver and Adam Sycks with Elgee Rehfeld.

ADOPTION OF AGENDA

Vice Chair Fowler moved to adopt the agenda of the November 2, 2023, board meeting. Donald Handeland seconded the motion. By roll call vote, all members present voted aye. The motion carried.

ETHICS DISCLOSURE

Relative to the adopted agenda, no potential violations were disclosed by board members.

APPROVAL OF MINUTES

Vice Chair Fowler moved to approve the minutes of the May 11, 2023, board meeting. Donald Handeland seconded the motion. By roll call vote, all members present voted aye. The motion carried.

PUBLIC TESTIMONY

Chair Adams opened the public comment period to accept public testimony. There being no members of the public wishing to speak, Chair Adams closed the public comment period.

EXECUTIVE OFFICER REPORT

Executive Officer Efird explained she would share some highlights from her report, and would then be happy to answer any questions. First, she explained that during this quarter, she supported staff with the transition to third party contractors, worked with senior and general managers to outline projects to support implementation of the new strategic plan with priorities and goals. They also held an all-staff retreat to build relationships and to bring all of the staff up to speed on some of the priorities and projects, and how they are participating, and will participate in reaching this goal. During the quarter, she also presented to various groups, attended a number of

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national conferences with other similar State organizations, and has been in preparation with the Governor's Office of Management and Budget, beginning the FY25 Governor's proposed budget for the upcoming legislative session.

She provided a little bit of detail for the budget update. Of course, she added, that the proposal is confidential and deliberative until the Governor releases his budget on December 15. The one piece she shared is that ACPE is in discussion with the Governor's Office about how it could help support the Governor's priorities and efforts in higher education and help connect students to various pathways, especially ways to help support Alaska's workforce needs as they graduate and move into their postsecondary or higher education programs. She added that she and staff are still waiting to see what the final proposed budget will look like during the upcoming legislative session

In her legislative update highlights, she stated that they are prepared to continue from the direction and priorities of the Commission to work on passing the Alaska Performance Scholarship Legislation, which has been proposed for actually the last 3 years. She added that it was very exciting that both the House Education Committee and the Senate Education Committee both really coalesced around the bill last year. She is hopeful the Legislature will move forward this session to remove some of the barriers that have been holding some students back from actually being eligible for the Alaska Performance Scholarship. Finances have always been the number one barrier that staff hear about in any survey that ACPE does, as well as in any national surveys that she reviews. Not having access to funding is the largest barrier for many to actually moving forward and attending or enrolling in any postsecondary programs. Therefore, ACPE is working hard to remove those barriers to help more students achieve their Performance Scholarship, which also encourages students to stay in Alaska.

Next, she explained that ACPE just held its very first Alaska FAFSA Summit, adding that the FAFSA is the Free Application for Federal Student Aid. Currently Alaska is at the bottom for completion rates at number 51, sitting below the District of Columbia. It has been and remains a priority for the Commission to increase that FAFSA completion rate, because that is an important resource for students or adults, and even Alaskans that are no longer in a postsecondary program or have not been postsecondary students. Adults can also fill out the FAFSA, and that will open the door, possibly for a lot more Alaskans to receive their Federal Pell Grants. It is the first step that ACPE always advises students in Alaska to pursue to see if they actually have free Federal Pell Grants. The Summit was completed last Thursday and Friday. She noted that a few legislators attended as well as one of the Board of Regents representatives on the Commission. Additionally, some Alaska Native Tribal Organizations and Education Foundations attended. The Summit had speakers on the national level, including Ebony Holmes from the State of Louisiana. Executive Director Efirid noted that Louisiana is number one in FAFSA completion rates and since Alaska is on the bottom, staff thought it best to see what best practices Louisiana is doing. She added that Ms. Holmes was an awesome presenter, and was well received by the audience. University of Alaska System President Pat Pitney and Department of Education and Early Development Commissioner Deena Bishop also spoke. The event was really a groundswell of all kinds of education Stakeholders across the State to help ensure Alaskans are not leaving free federal money on the table and to help support their goals and Alaska's workforce.

Next, she added that she wanted to ensure that the Corporation Board knew that ACPE has fully completed the outsourcing to CampusDoor for originations. Additionally just this past April staff outsourced loan servicing to American Education Services. She noted that there is a common misunderstanding that ACPE has actually sold its loans. Which is not true. It has just outsourced the

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origination and servicing to contractors. ACPE still owns State of Alaska loans that are backed by the Student Loan Corporation, and by its guarantee that ACPE is providing the best product for Alaskans and the best service. Staff have morphed from doing originations work to really oversight and monitoring of the contractors to ensure they are providing the best services possible.

She concluded her report by stating she wanted to give the Corporation a feel of how its support and funding goes forward to support all the work and the efforts toward the Commission's goal of providing Alaskans the resources for financial access to postsecondary education in the way of grants, loans or scholarships and/or a combination of the three. She then opened for questions.

Discussion: Chair Adams asked if Executive Officer Efird could speak a little bit more about the Strategic Planning piece and where ACPE is in that process. Executive Officer Efird explained that the updated Vision, Mission and the Priorities would be included in the December 14, 2023 ASLC Meeting Agenda. She added that the Commission held a work Session on October 20, 2023 and were able to meet with the Strategic Planning Project facilitator, Erin Sedor with Black Fox Strategy. During the work session, commissioners and staff reviewed all of the completed steps from a year and a half ago of engaging with education stakeholders, including commissioners, ACPE employees, and University of Alaska and other Alaska Institution Financial Aid Officers. They tried to do a broad outreach of all the various constituents that ACPE serves in order to put together this new Vision, Mission and Strategic Priorities, which have since been approved by the Commission. She added that she feels like these changes are moving ACPE forward into this change of really supporting Alaskans through connecting them to resources and helping them meet their goals. She reminded members that the updated mission, vision, and strategic priorities would be added to the December 14, 2023 Corporation Meeting.

PRESENTATION ON FINANCIAL STATEMENTS

Julie Pierce, Chief Finance Officer for ACPE, referenced her Annual Financial Reports Memo starting on page 16 of the Meeting Packet. The annual financial reports highlight the primary variances and financial results between FY2023 and FY2022 similar to what is outlined in the management discussion and analysis in the financial statements themselves. Overall, total assets increased, due to an increase in investment balances, while loan receivable and allowance for loan loss balances declined, again as loan principal repayments continue to be greater than loan originations. The trend is resulting in the increase in investment balances. Net income for the fiscal year was \$9.8 million compared to a loss of \$9.9 million in the prior year. The increase is primarily attributable to a decrease in the provision for loan loss and increase in investment income. The provision for loan loss decreased in part due to a reduction in previously non-performing loans partially from a loan, repayment, rehabilitation, and outreach effort to reduce delinquent loans. However, the decrease in provision is primarily due to an overall decline in loan, receivable balances, and the loan receivable or as loan receivable balances decline the required level of allowance for loan loss decreases. Investment income increased due to an increase in investment balances and a higher rate of return on investments. As reflected in the May 11, 2023 Minutes, Department of Revenue Chief Investment Officer, Zach Hanna provided an update on the market factors that contributed to the investment income and the rate of return, and how those factors may impact income and earnings going forward.

She reminded the Board that Management worked with Hilltop Securities and DOR investment managers to inform policy development based on current and projected future cash flows that define the investment horizon and risk tolerance and as laid out by CIO Hanna, Investment

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policy recommendations are designed to balance fund, investment objectives, and risk tolerance. She added that CIO Hanna noted that the Corporation has the time horizon objectives and other attributes consistent with adopting a high-risk tolerance. The high-risk tolerance results in a lot of volatility as seen year over year, and that is what is contributing in large part to the variance in overall income year over year. DOR will provide another market update and any recommended investment policy changes at the meeting scheduled for May 2024.

Next, she stated that other net income activity included interest income on loans, which decreased slightly as a result of the decline in loan portfolio balances. Administrative expenses increased slightly due to an increase in personal services costs from annual salary increases, and due to an increase in contractual costs associated with the implementation of outsourcing, and an increase in interagency costs.

Then she turned over the presentation to Karen Tarver and Adam Sycks, Partners on the Audit from Elgee Rehfeld, as they were going to present the audit reports and Letter to the Board.

Karen Tarver explained that Adam Sycks oversaw the financial statement audit this year, while she oversaw the compliance of it. Adam would cover the financial statement audit first and then she would complete the presentation with a review of the compliance.

Adam Sycks explained that he was the audit partner in charge of the Alaska Student Loan Corporation's financial statement audit this year, but has been involved in the corporation's financial statement audits in various capacities over the past 12 years. This year the audit team consisted of two partners, Karen Tarver and Adam Sycks, as well as three staff accountants. He added that they began their fieldwork for the audit on August 28th, and were able to issue the financial statements on October 2nd. This is considered a very quick turnaround on issuance compared to the majority of their clients. They attribute that quick turnaround to the excellent preparation for the audit by Sana, Julie and their team.

The purpose of the financial statement audit is to issue an opinion on whether the financial statements present fairly in all material respects, the financial position of the corporation and the changes in the financial positions and the cash flows for Fiscal Year 2023. In accordance with generally accepted accounting principles, their objective is to obtain reasonable assurance that the financial statements are free from material and statement. While this is a high level of assurance, it is not an absolute assurance. In achieving this endeavor, they apply a risk based audit approach in our audits that really allows us to focus our audit efforts on areas with the highest risk of material misstatement and non-compliance for increased efficiency and effectiveness in their audits.

He continued by explaining that they issue a letter to the Board that summarizes any of the findings that arose as a result of the audit as well as discloses their required communications to the Board. Their audit process generally involves testing of significant internal controls, including over the revenue and the expense cycle as well as journal entries entered, and by management as well as testing of balances and significant transactions and disclosures. They then draft their audit reports to management for their review, and finally issue the report. Next, he explained that they were happy to report that the corporation received a clean or unmodified opinion from Elgee Rehfeld on their financial statements, which is the desired outcome in the audit. He added that their audit procedures also did not result in any proposed audit adjustments to the financial statements, and they were happy to report that they did not identify any findings or deficiencies in internal control. The footnotes to the financial statements remained largely unchanged from the prior year, with no new accounting standards or required disclosures that affected the corporation. The letter to the Board contains required communications with the Board about the audit results. It also disclosed no

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identified deficiencies in internal control, corrected or uncorrected misstatements. In addition to the financial statement audit, they also perform a compliance audit over the corporation's federal grants, which is commonly referred to as a single audit, at this point he handed over the presentation to Karen Tarver to present the results of the compliance audit.

Karen first explained that since the Corporation does get federal funding, they have to do their audit in current government auditing standards, so they don't issue an opinion on the internal controls. However, they do test those for general compliance and then they let the Board know if there were any compliance matters that arose as a result of those tests. She added that she is happy to report that there were none. She then touched on the report on the major program, which is the Federal Loan Program, referred to as the FFELPS program. There are many compliance requirements that the Board has to comply with, however its third party servicer covers a lot of them in their own audits. She noted that the report provides more in depth detail about the portions of the compliance requirements they test for. Lastly, she stated that they were happy to report what is called the unmodified or clean opinion over the FFELP program for the compliance requirements that they audit. She then turned it back over to CFO Pierce.

CFO Pierce stated that she and Adam had no additional comments on the financial statement reports at the time.

Vice Chair Fowler moved to accept the annual Financial Statements of the Alaska Student Loan Corporation for the year ending June 30, 2023. Genevieve Wojtusik seconded the motion. By roll call vote, all members present voted aye. The motion carried.

Discussion: Chair Adams asked how the timing of the third party servicer's audit rolls up into the Corporation's timing. Karen explained that it is a bit unique and that some of the dates are referenced in the report. She added that their attestation is performed in the fall of each year. When ACPE started using the third party services, Elgee Rehfeld went to the Office of the Inspector General and clarified that they could use prior year's audit report for the audit report, since that was the only one issued at the time of audit, and they said that was fine. Essentially, they are always looking back a year at their previous audit. It is specifically required by the compliance supplement, which is the guide the Federal Government releases, that they have to ensure they have already engaged an audit for their current year audit. Lastly, she noted that there were no issues that had an impact on processing. Chair Adams then asked if the third party servicer's audit report contained information about just its servicing for ACPE or if it encompassed everything. Karen explained that they service many loan providers, so their audit encompasses everyone.

Karen wanted to state that the Corporation has a very good team and its financial information is provided in a very professional and transparent manner. She added that everyone holds themselves accountable for the work they are doing with Elgee Rehfeld's audits. Chair Adams thanked Karen for the feedback and added that she was thankful for the team and for their expertise.

Chair Adams pointed out the big swing from 2022 at \$9.9 million in the negative to 2023 at the \$9.8 million in the positive and asked if CFO Pierce could touch on that. CFO Pierce stated that the long-term plan is to continue to work with the Department of Revenue as the investment manager and the asset allocation under the policy that was recommended to and adopted by the Board. This policy was over a period to gradually get to what would be the long-term asset allocation plan. There has been two years of performance under that policy and that has been during the period of transition for the asset allocation. At this point, she believes, the Corporation is fully invested at the

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long-term allocation plan for the overall investment policy. Executive Officer Efird wanted to add that the Board will review where the fund is at in May and work with Revenue and the CFO to see if there are any recommended changes. She added a huge thank you to Julie for her foresight, the Department of Revenue for their diligent assistance, and the entire Board for their oversight and for taking a conservative step forward. She is thankful that they have seen some positives in the financial reports. She stated that during the December meeting, they will share where loan volume is at. She concluded that while they are happy the fund is where it is at, they know there is more work to do.

DIVIDEND RECOMMENDATION

CFO Pierce highlighted her memo on page 65 of the meeting packet. She explained that for the year ending June 30, 2023, which is the year relative to a fiscal year 2025 dividend, the Corporation's net income exceeded 2 million dollars. Therefore, the Board could declare a dividend based on net income. She included some historical corporation board action for reference, regarding dividends. In light of the Corporation's efforts to keep loan interest rates as low as possible, and continue to stabilize and offset past losses to the Loan Corporation Fund, management recommended that no dividend be declared for the 2025 Fiscal Year.

Executive Officer Efird added that when the packet was originally sent out it stated that she had met with the Office of Management and Budget, but unfortunately, she was able to do so before the Board met. The updated version stated she had a meeting scheduled. She wanted to ensure OMB was aware. She added that while there is positive movement, at this point they felt it was prudent not to recommend a dividend based on some of the things they are trying to implement.

Vice Chair Fowler moved to accept management's recommendation that no ASLC dividend be declared for fiscal Year 2025. Genevieve Wojtusik seconded the motion. By roll call vote all members present voted aye. The motion carried.

Discussion: Donald Handeland asked what the percentage historical dividends were roughly paid at. CFO Pierce stated she would need to go back to find out the answer to that question as she didn't have it available.

Vice Chair Fowler wanted to point out that this time last year, the Corporation was unable to pay out a dividend, so the fact that it is now in a position to is exciting. She is looking forward to seeing more positive trajectory.

Donald Handeland asked if there were certain metrics or a timeline that Management was hoping to get to that would put us in a position to provide a dividend to the state. CFO Pierce stated this is something the Board and Management need to continue to consider and hopefully in years down the line they will continue to be in the position to. Executive Officer Efird explained that Management would work with Hilltop Securities and financial advisors on solidifying metrics that would give them the confidence they could ensure they are not putting the sustainability of the fund in jeopardy. Lee Donner with Hilltop Securities stated that they'd look for an established trend, as there was a definite downhill trend for a considerable amount of time as a result of a number of factors working together to produce that effect. Hopefully, the Corporation, staff, along with the financial advisors have tackled all of those problems by trying to bring down expenses through various methodologies. Obviously, the change in investment policy is a huge one. The result is good, however they do not

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recommend that the corporation determine, just based on this one good result, that the fund has turned the corner. There is certainly some uphill movement, but it would be best to see this over some period before issuing a dividend.

DEFAULT MANAGEMENT PROGRAM PRESENTATION

Adam Weed, Default Management Specialist, began his presentation by thanking the Board for allowing him some time to meet with them. He continued by stating that they created the Default Management Team, or the DMT, with the ultimate goal of assisting borrowers to avoid default and all the negative consequences that come with it. Additionally, they hope to increase recoveries on those loans that have already defaulted. The group consists of Sana, the Executive Director/Officer; Adam Weed, Team Lead; Kerry Thomas, Director of Program Operations; and Julie Pierce, Chief Finance Officer.

Next, he explained that the first goal of the DMT is to assist borrowers in avoiding default and that he would cover the methods they plan to utilize to do so. Everyone knows that defaulting is bad and ACPE wants to help borrowers avoid it in every possible way. It is harmful to both the borrowers and ACPE. He then explained a few examples of how the DMT plans on going about helping borrowers. First, he touched on the goal of increasing access to financial literacy information. He stated that students already have many resources for this, as the schools should be providing it as well as the student loan lenders. ACPE also has a ton of great information on its website, but since students have a lot of stuff going on, it is a challenge to get them to digest and understand the information. The next example is increasing communication campaigns for those at risk populations. This could be done by taking a look at borrower data and trying to identify those delinquent populations that are at risk of being unable to recover from their past due status, and then are going to continue to move toward default and working with those individuals. They could reach out specifically to those borrowers and offer any assistance that the commission can offer. The DMT is also looking at increasing the recoveries on those defaulted loans that are already delinquent.

Next, he explained that they plan to increase recoveries on defaulted loans. He provided a few examples of how they plan to do this. First, they plan on creating a rehabilitation plan for borrowers that have already defaulted that will set them up to successfully repay their education loans. This would look like a borrower making a certain amount of payments over a certain amount of time that demonstrates that they can make payments and then once they do that, ACPE would remove the default from their loans. This would set them up to kind of start over with their education loans. This would be hugely beneficial for the student as there are many negative consequences with default, including the inability to get future education. Additionally, they plan to start a communication campaign to borrowers that have previously paid on their loans but have recently ceased payments. Lastly, they want to increase litigation when appropriate. The Commission has certain authority over these loans and sometimes they don't take all the actions that are available.

Then he explained how the DMT would move these initiatives forward. First, they plan to develop and implement strategies that will assist in meeting the primary goals. They also plan to prioritize current activities. Additionally, he plans to meet with the rest of the DMT to report on progress, receive feedback and discuss additional strategies. Lastly, he will measure and report the effectiveness of activities to the rest of the DMT. He concluded by stating he wanted to provide the Board with a high-level overview of the DMT and its priorities and strategies. He then opened for questions.

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Discussion: Genevieve Wojtusik wanted to clarify that defaulting on education loans would make it difficult to get any other type of loan, for example a home loan. Adam explained that delinquency in general has many negative effects for these borrowers, including a lower credit score, so yes; it would impact their ability to qualify for a home loan.

Chair Adams asked when litigation would be more necessary compared to all of these other supportive and proactive pieces. Adam explained that it is really in the infancy, but it is definitely a priority for the Commission to help borrowers avoid the default first, and then take any other actions. The litigation piece is one of the more negative consequences, so they would rather avoid that where possible.

CLOSING COMMENTS

Chair Adams reminded Board Members that the February 8, 2024 Corporation Meeting was rescheduled to December 14, 2023 to better align with contractor’s timeline for implementing new loan limits.

Vice Chair Fowler wanted to express her continued appreciation for the staff and Executive Officer Efird. She added that she appreciates all of the information they share during these meetings and all of the work that has gone into the progress seen over the last several years.

Executive Officer Efird wanted to say a huge thank you to her staff and for their ability to shift into the changes and to constantly adapt. She also thanked the Board Members for their dedication to the Corporation.

FUTURE MEETING DATES

- **Thursday, December 14, 2024 at 1:30 p.m.**
- **Thursday, May 9, 2024 at 1:30 p.m.**
- **Thursday, November 7, 2024 at 1:30 p.m.**

ADJOURN

Vice Chair Fowler moved to adjourn. Genevieve Wojtusik seconded the motion. By roll call vote, all members present voted aye. There being no objection, and no further business to discuss, the motion carried.

The meeting adjourned at approximately 2:41 p.m.

Approved by:

Dr. Barbara Adams, Chair

Date

Alaska Commission on Postsecondary Education
Loan Summary for FY 2024
July to October 2024

Loans Awarded

	2023-2024		2022-2023		% Change	
	# of Loans	Amount Awarded	# of Loans	Amount Awarded	# of Loans	Amount Awarded
Family Education Loans	11	\$162,142	12	\$133,366	-8.33%	21.58%
AK Supp. Education Loans	281	\$3,982,443	287	\$3,220,391	-2.09%	23.66%
Refinance Loans	20	\$1,440,266	29	\$1,330,432	-31.03%	8.26%
Total	312	\$5,584,851	328	\$4,684,189	-4.88%	19.23%
Total Number in October	109	\$1,621,563	105	\$1,413,831	3.81%	14.69%



MEMORANDUM

To: Alaska Student Loan Corporation Members
Through: Kerry Thomas, Director of Program Operations
Sana Efird, Executive Director
From: Jackie Hall, Program Manager
Date: November 16, 2023
Subject: Annual and Aggregate Loan Limits for the Alaska Supplemental Education Loan Program and the Alaska Family Education Loan Program

This proposal provides recommendations for ACPE's annual and aggregate loan limits beginning with the 2024/2025 program year. Recommendations are based on available data and aligns with statutory and regulatory changes to ACPE's annual and aggregate loan limits for the Alaska Supplemental Education (ASEL) and Alaska Family Education Loan (FEL) Programs.

Background

Statutory changes to AS 14.43.173, approved under HB 114 in 2022, permits the Alaska Student Loan Corporation to finance Alaska Supplemental Education and Alaska Family Education Loans to an eligible borrower in a maximum amount to be determined by the Corporation for undergraduate, graduate, and career education programs.

To meet the current costs of education and student's supplemental needs for funding, the Corporation increased the annual loan limit to \$24,000 for full-time enrollment and increased the aggregate loan limit to \$96,000, beginning with the 2023/2024 program year.

Annual Review

To ensure existing loan limits continue to align with the current costs of attendance, staff conduct an annual review of in state and out of state tuition levels, student financial aid sources and unmet need, as well as ACPE's loan awards and student borrowing trends as a basis for considering adjustments to existing loan limits.

At the time of this report, federal financial aid data was unavailable; therefore staffs review and recommendation is based on ACPE's loan awards and borrowing trends for the 2023/2024 program year.

- **Annual Loan Awards and Trends:** As of October 2023, ACPE has awarded 290 loans for the current program year. Of the total loans awarded, 283 loans were for full-time enrollment and seven loans for half-time enrollment. The majority of loans were awarded for less than the annual maximum of \$24,000 for full-time or \$12,000 for half-time enrollment. In fact, only 49 loans were awarded at the annual maximum, representing only 17% of the loan volume to date.
- **Aggregate:** ACPE has disbursed loans to approximately 164,312 borrowers since inception of our ASEL and FEL programs. The majority of borrowers have aggregate levels of less than half of the current aggregate loan maximum of \$96,000.

Recommendation

Based on the research conducted and data trends identified, ACPE recommends no changes to the existing annual and aggregate loan limits for the 2024/2025 program year. This recommendation continues to support ACPE's objective to meet student's supplemental needs for funding.

Sample Motion

Move approval of maintaining the existing annual and aggregate loan limits for the Alaska Supplemental Education Loan Program and Alaska Family Education Loan Program as outlined in this memorandum.

Definitions

Cost of attendance (COA) is the average annual cost to attend a particular college, university, or training program.

Unmet need is the amount left to be paid after financial aid is awarded.



THE STATE
of ALASKA
GOVERNOR MIKE DUNLEAVY

Alaska Student Loan Corporation

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Memorandum

To: Alaska Student Loan Corporation Board Members
 Thru: Sana Efird, Executive Officer
 From: Julie Pierce, Chief Finance Officer
 Date: December 14, 2023
 Re: Recommended Interest Rates for Loans Awarded and Specified Effective Dates

The Corporation sets the interest rate for loans it originates pursuant to the provisions set forth in AS 14.42.215 and 20 AAC 14.050. The interest rates set are fixed rates that, once set, remain in effect for the life of the loan. From time to time as deemed appropriate, but at least annually, the Corporation will set loan interest rates and the effective date for those interest rates. The interest rates apply to loans that the Corporation originates, consolidates, or refinances starting on the effective date.

Corporation regulations specify that the Corporation establish rates that:

- do not exceed the legal rate applicable in the state for such loans (10%);
- do not exceed the all-inclusive cost, expressed as a rate on fixed rate debt incurred to finance the loans plus a percentage representing operating and servicing costs;
- ensure loans made are of sufficient value to be financed or refinanced; and
- ensure the financial stability of the Corporation's loan programs.

Cost expressed as a Rate: As outlined in the prior year and discussed over the last several years, loan principal repayments on the Corporation's outstanding student loan portfolio significantly exceeded loan originations resulting in a decline in the total loan portfolio principal balance. This decline may be slowing. Current year loan principal repayments are lower due to the overall decline in outstanding loan portfolio balance, and originations are slightly higher than for the prior year. Although operating costs have declined in recent years, further cost reductions are expected to be less significant. Investment earnings are expected to be reflective of the volatility expected as the result of the risk tolerance approved in investment policy. The Corporation has equity to absorb some level of losses due to volatility. Cost reduction efforts, net of expected long term investment income and loan losses, have been made to reduce net costs to a level the loan portfolio can support at rates proposed to be competitive but financially sustainable. Some of the interest rates proposed herein are not projected to cover current and recent year cost of loan operations and losses, however, the proposed rates are set to be competitive and with further cost or loss reductions

6. Adoption of Loan Program Fixed Interest Rates FY23-FY24

are forecast to be financially sustainable. This is a long-term approach that sets rates at a level that is competitive in the market and is beneficial to borrowers and the Corporation.

Credit Risk: As part of an overall focus on default management, Staff continues to review existing, and develop additional, strategies to reduce credit risk. Staff considered the fact that higher loan limits, or no limit, increases exposure to loan loss. ASLC reduces credit risk by adopting risk based lending practices by setting loan rates based on FICO score tiers, requiring no adverse credit for in-school loans and, providing reduced rate tiers for the immediate repayment loan option. Student loans with immediate repayment terms have higher rates of repayment and lower credit risk. Staff has proposed lower rates for the immediate repayment loan option due to lower credit risk.

Rates proposed for program year 24-25 include an increase in the lowest FICO score tier based on staff consideration of the elevated credit risk inherent in that FICO score band. Additional default management practices include rate reduction incentives for enrollment in auto-pay and for borrowers making payments while their loan is not in repayment status. Staff will continue to review and evaluate implementation of additional strategies such as rate reductions for borrowers with a co-signer.

Market Rates: The Corporation considers the Federal PLUS loan program to be its primary competitor, in addition to other private student loan originators. The interest rate on the PLUS program is reset each year based on the high yield of the 10-year Treasury notes auctioned at the final auction held before June 1 plus 4.60%. The maximum interest rate allowed for Direct PLUS Loans is 10.50%. The Direct PLUS loan rate for program year 2023 and 2022 was 8.05% and 7.54%, respectively (additionally, PLUS loans require a 4.23% origination fee that increases the APR of these loans). The 10-Year Treasury has increased approximately 0.90%, from 3.5% to approximately 4.4% between June 2023 and the end of November 2023. Interest rates being proposed herein are based on the assumption that the PLUS rate for 2024-25 will be equal to or lower than the current PLUS rate of 8.05%.

Staff also considers known rates offered by other private loan originators and their underwriting criteria.

6. Adoption of Loan Program Fixed Interest Rates FY23-FY24

Proposed Rates

Alaska Supplemental Education Loans (ASEL) rates proposed are as follows:

Program (max loan term)	Fixed Rate ASEL (10 years)		
Effective Date	July 1, 2024		
FICO¹ Range	650-679	680-719	720+
Underwriting Criteria	No Adverse Credit	No Adverse Credit	No Adverse Credit
Base Rate	10.00%	7.00%	6.25%
Interest Rate Reduction ²	0.25%	0.25%	0.25%
Lowest Rate	9.75%	6.75%	6.00%

Alaska Supplemental Education Loans (ASEL) rates WITH Immediate Repayment option proposed are as follows:

Program (max loan term)	Fixed Rate ASEL – Immediate Repay Option (10 years)		
Effective Date	July 1, 2024		
FICO³ Range	650-679	680-719	720+
Underwriting Criteria	No Adverse Credit	No Adverse Credit	No Adverse Credit
Base Rate	9.00%	6.50%	5.75%
Interest Rate Reduction ⁴	0.25%	0.25%	0.25%
Lowest Rate	8.75%	6.25%	5.50%

¹ Fair Isaac & Company score (FICO) is the score used to secure the loan and can be either the borrower’s score or the cosigner’s score. In the event both the borrower and the cosigner have qualifying scores, the highest score will be used to determine the loan rate.

² Rate reduction is available to borrowers in repayment, making recurring monthly payments and those not in repayment making at least a \$50 monthly recurring payment per loan.

³ Fair Isaac & Company score (FICO) is the score used to secure the loan and can be either the borrower’s score or the cosigner’s score. In the event both the borrower and the cosigner have qualifying scores, the highest score will be used to determine the loan rate.

⁴ Rate reduction is available to borrowers in repayment, making recurring monthly payments and those not in repayment making at least a \$50 monthly recurring payment per loan.

6. Adoption of Loan Program Fixed Interest Rates FY23-FY24

Other loan program rates proposed are as follows:

Program (max loan term)	Variable Rate ASEL⁵	Fixed Rate PSEP⁶ (10 years)	Fixed Rate FEL (10 years)
Effective Date	July 1 – June 30	July 1, 2024	July 1, 2024
Underwriting Criteria	No Adverse Credit	No Adverse Credit	No Adverse Credit
Base Rate	TBD TBD ⁷	7.00%	7.00%
Interest Rate Reduction	0.25%	0.25%	0.25%
Lowest Rate	TBD TBD ⁶	6.75%	6.75%

The proposed rates differ from rates currently being offered as follows:

ASEL 650 – 679 FICO: Deferred 0.75% increase, Immediate repay 0.50% increase

ASEL 680 – 719 FICO: Deferred, Immediate repay, PSEP and FEL – no change

ASEL 720+ FICO: Deferred and Immediate repay - no change

⁵ No longer originated but rate is reset annually for existing loans. Rate to be set in May 2024.

⁶ Professional Student Exchange Program

⁷ Applicable in-school interest rate.

Refinance Rates proposed are as follows:

Program (max loan term)	Fixed Rate REFI (5 years)			Fixed Rate REFI (10 years)			Fixed Rate REFI (15 years)		
	May 1, 2024, or as soon as administratively feasible			May 1, 2024, or as soon as administratively feasible			May 1, 2024, or as soon as administratively feasible		
FICO Range	FICO 680-719	FICO 720-779	FICO 780+	FICO 680-719	FICO 720-779	FICO 780+	FICO 680-719	FICO 720-779	FICO 780+
Base Rate	7.10%	5.30%	5.05%	7.30%	5.40%	5.15%	7.50%	5.70%	5.45%

Proposed REFI rates are 100bp higher than current rates for the 680-719 FICO score tier, and 10bp lower for the 10-year FICO 720-779 and 10-year 780+ FICO score tiers, and no change for the remaining tiers.

Alaska Education Loan Refinance Program (REFI) rates are historically lower than other Corporation loan program rates. Refi program term distribution is heavily weighted toward 15 years compared to 5 and 10 year terms as refi loans typically carry a higher balance.

As previously outlined, considerations associated with proposed Refi rates are as follows:

- Projected interest rate environment over time, and competitor rates
- Borrowers with higher FICO scores have demonstrably lower default rates;
- Borrowers enter repayment immediately and have very limited options to defer payments;
- Loan servicing is less complicated by design, reducing servicing costs for this program;
- Competitive rates retain premium borrowers who would otherwise refinance elsewhere; and
- Competitive rates build volume by allowing borrowers to refinance loans not originated by the Corporation.
- There is currently no loan limit on refinance loans
- With board approval, Refi rates can be adjusted at any time
- Auto-pay utilization is comparatively higher than other loan programs, reducing anticipated loan losses. Staff intends to focus efforts on increasing auto-pay enrollment as part of planned Refi outreach campaign.

Variable Rates: As indicated in the table above, the Corporation also needs to reset the interest rate applicable on ASEL variable rate loans. However, regulations require this rate be based on the bond equivalent rate of the 91-day U.S. Treasury bill

6. Adoption of Loan Program Fixed Interest Rates FY23-FY24

auctioned at the final auction held before May 1. A board meeting has been scheduled in May to set these rates.

Staff recommendation: The fixed interest rates and underwriting criteria for the 2024-2025 academic year loans be set as shown in the tables above.

Requested Motion:

Move approval of the fixed interest rates and underwriting criteria for the 2024-2025 academic year loans be set as shown in the tables above.

New Vision and Mission as Adopted by the Commission

Vision

Alaskans are educated and skilled contributors to our vibrant communities and economy.

• **Mission**

- The Alaska Commission on Postsecondary Education provides sustainable solutions for college, career and technical training.
 - We champion individuals and families through broad access to federal and state programs, grants, scholarships, and loans together with the tools and resources that allow them to make informed decisions about funding their education
 - As the Higher Education Agency for the State of Alaska, we advance policy and foster collaboration to build a skilled workforce that meets the needs of communities and employers, supporting economic development across the state.

Become the education lender of choice in Alaska and for Alaskans

- Increase visibility, understanding and awareness of ACPE and its products, resources, partnerships, and programs
- Offer loan programs responsive to consumer and organization needs
- Modernize and streamline the customer experience
- Enhance and refine financial planning resources appropriate for target audiences

Increase access to, and utilization of, federal and state education funding sources

- Enhance and refine financial planning resources appropriate for target audiences
- Increase visibility, understanding and awareness of ACPE and its products, resources, partnerships, and programs
- Modernize and streamline the customer experience

Operate a sustainable organization responsive to students, customers, stakeholders and employees

- Foster an environment where employees thrive as the agency evolves
- Improve financial sustainability of the organization
- Modernize and streamline the customer experience
- Develop and implement robust systems for oversight and monitoring commensurate with changes in operational and consumer support models

Position ACPE to help bridge the education gap in Alaska's current and future workforce needs

- Identify the current state of higher education programs and resources in Alaska
- Increase visibility, understanding and awareness of ACPE and its products, resources, partners, and programs