



Memorandum

To: Alaska Student Loan Corporation Members
Thru: Diane Barrans, Executive Officer
From: Charlene Morrison, Chief Finance Officer
Date: April 27, 2015
Re: Recommended Interest Rate for Fixed Rate Alaska Education Loans awarded for the period beginning July 1, 2015 and ending June 30, 2016.

Pursuant to AS 14.42.200 and 20 AAC 15.855, the Corporation sets the interest rate for loans it originates, consolidates or purchases. The fixed rate on education loans is set on or after March 1 of each year and remains in effect for the life of the loan.

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.

Corporation regulations further stipulate that if the Corporation has not issued fixed-rate debt within the six-months immediately preceding the setting of fixed interest rates, it may estimate the true interest cost that would result from a current fixed-rate debt issuance to ensure loans made are financeable.

In consultation with the Corporation's financial advisor, the estimated true interest cost on a current rated fixed rate revenue bond issuance would be 3.52%. The five-year average operating and servicing costs associated with the Corporation's loan pool is 2.73%.

Staff recommends the fixed interest rate for 2015-2016 academic year loans be set at 6.25%. This rate is applicable to Alaska Supplemental Education, Alternative Consolidation, Family Education, Teacher Education and Professional Student Exchange Program loans.

Given the Corporation does not plan to issue debt to finance academic year 2015-2016 loans and does not anticipate refinancing these loans, the recommended rate is exclusive of costs associated

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with issuance of debt, reserve account requirements or negative arbitrage due to timing issues. Management anticipates these loans will be used to collateralize a future debt issuance and understands that their value, when pledged to a future deal, may not be equal to par value due to market conditions at the time of the bond issue.

Agenda Item 8

Requested Motion:

Move approval of 6.25% for fixed rate ASEL, ACL, FEL, TEL and PSEP loans originated for the 2015-2016 academic year.



Memorandum

To: Alaska Student Loan Corporation Members
Thru: Diane Barrans, Executive Officer
From: Charlene Morrison, Chief Finance Officer
Date: April 27, 2015
Re: Recommended 2015-2016 Interest Rate for Variable Rate Alaska Supplemental Education Loans

Pursuant to AS 14.42.200 and 20 AAC 15.855, the Corporation sets the annual interest rate for variable rate Alaska Supplemental Education Loans (ASEL) on or after May 1 of each year. This rate will be in effect for the 12-month period beginning July 1, 2015 and ending June 30, 2016. The Corporation issued variable rate ASELS from July 1, 2002, through June 30, 2006.

Corporation regulations specify the ASEL variable interest rate is based on “the bond equivalent rate of the 91-day U.S. Treasury bills auctioned at the final auction held before May 1 of the loan year plus up to 2.8 percent.” The final auction held before May 1st occurred on April 27, 2015.

Staff recommends the interest rate for variable rate ASELS be set as follows for the 12-month period beginning July 1, 2015:

1. During the in-school period and applicable grace and deferment periods, 2.7%¹ (91-day U.S. Treasury Bill rate set April 27th of 0.02% plus 2.70%.)
2. During the repayment period and applicable forbearance periods, 2.8%¹, (91-day U.S. Treasury Bill rate set April 27th of 0.02% plus 2.80%.)

Requested Motion:

Move approval of 2.7% for variable rate ASELS during the in-school and applicable grace and deferment periods for the year beginning July 1, 2015.

Move approval of 2.8% for variable rate ASELS during the repayment and applicable forbearance periods for the year beginning July 1, 2015.

¹ The base rate has been rounded to the nearest full tenth of a percent, consistent with past practice.