

# Alaska Student Loan Corporation

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February 9, 2023



4. Approval of November 3, 2022 ASLC Meeting Minutes  
**MEETING MINUTES OF THE  
ALASKA STUDENT LOAN CORPORATION BOARD  
November 3, 2022**

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 3, 2022. Chair Adams called the meeting to order at approximately 1:30 p.m.

**ROLL CALL**

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

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

Presenters in attendance: Bill Milks, Assistant Attorney General with the Alaska Department of Law; Karen Tarver, CPA with Elgee Rehfield; and Lee Donner, Regional Managing Director, and Tim Webb with Hilltop Securities.

**ADOPTION OF AGENDA**

**Donald Handeland moved to adopt the agenda of the November 3, 2022, board meeting. Ms. Fowler 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 12, 2022, board meeting. Ms. Wojtusik seconded the motion. By roll call vote, all members present voted aye. The motion carried.**

Discussion: *Chair Adams noted a typo on the first page of the minutes in which she was noted as "Chair Mackinnon." This has been corrected.*

**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 referenced her written report and highlighted the following key points. During this quarter, the Executive Officer's office has focused on the strategic planning project by holding in-person meetings with Senior Managers, all ACPE Juneau and Anchorage

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Staff, and virtual meetings with education stakeholders. Additionally, she met with the Department of Law regarding eligibility questions surrounding the Alaska Performance Scholarship.

Next, she explained that she and Senior Managers are in the budget preparation and proposal process for the FY2024 Governor's Proposed Budget. She added that Chief Finance Officer and she met with the Office of Management and Budget and the Governor's Office to present ACPE's FY2024 preliminary budget proposal. She noted that the information is confidential and deliberative until the Governor releases his budget in December.

Continuing with budget updates, she explained that Senior Managers continue to meet and monitor the current FY2023 budget for adjustments, efficiencies, or possible increases/decreases to ensure compliance with current authority.

She added that she has regular contact with both the University and DEED to discuss any possible upcoming bill, which may affect the Commission. She has also been in contact with WWAMI leadership at the University of Washington to discuss the expansion increment included in the FY2023 budget and future planning needed to accomplish this.

She then provided a brief update on the Outsourcing project, which was that the loss of additional staff and the unique and complicated characteristics of our State loan programs have necessitated another extension of the timeline now to be completed by April/May 2023.

She then explained that with the passage of HB 114 in the 2022 Legislative Session, came some regulation changes, which were approved for Public Comment at the October 27, 2022 Commission Meeting.

Next, she highlighted that the 2022 Alaska Higher Education Almanac was released on September 15, 2022.

The Executive Officer closed her report by highlighting some meetings and conferences she attended during the quarter.

*Discussion: Vice Chair Fowler wanted to say thank you to Executive Officer Efird and her leadership team for getting us to where we are.*

*Chair Adams also thanked Executive Officer Efird and her staff for all of their hard work.*

### **PRESENTATION ON FINANCIAL STATEMENTS**

Julie Pierce, Chief Finance Officer for ACPE, referenced her Annual Financial Reports Memo starting on page 13. The annual financial reports highlights the primary variances and financial results between FY2021 and FY2022. Overall, total assets declined due to the continued decrease in loan receivable balances as loan principal repayments continue to be greater than loan originations. This trend is resulting in an increase in investment portfolio balance. The net loss for the Fiscal Year was \$9.9 million, \$6.3 million higher than the loss in the prior year. While interest income on loans decreased, as a result of a decline in loan portfolio balance, there was also a more than offsetting decrease in interest expense, provision for loan loss and administration expenses. The increase in the loss for the year is primarily due to investment losses. As reflected in the minutes of

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the May 12, 2022 Corporation Meeting, DOR Chief Investment Officer Zach Hanna provided an update on the market, factors that contributed to investment losses, and how those factors may impact earnings going forward. Management worked with Hilltop Securities, the Board, and DOR Investment Manager to inform policy development based on current and projected future cash flows to define the investment horizon and risk tolerance. As laid out by CIO Hanna (at the May meeting), Investment Policy recommendations are designed to balance fund investment objectives and risk tolerance. CIO Hanna noted ASLC has the time horizon, objectives and other attributes consistent with adopting a high-risk tolerance and ASLC asset allocation should cover downside loan losses and potentially increase assets – CFO Pierce noting this to be the case over time.

She stated that DOR will provide a market update and any recommended investment policy changes at the Corporation meeting scheduled May 11, 2023. Though the Corporation’s financial attributes that inform policy design remain unchanged, with an on-going shift in assets from Loan Receivables to investments and an objective to operate a sustainable loan program to the benefit of student loan borrowers.

She ended her portion of the presentation by explaining that Karen Tarver, Partner on the Audit from Elgee Rehfeld would present the audit reports and letter to the Board. She added that following the presentation, both she and Karen would be available for any questions.

Karen Tarver began her portion of the presentation by explaining that Elgee Rehfeld is responsible for the opinion letter, which is on page 23 of the packet. She added that the letter is straightforward. The formatting was simplified and brought the actual opinion to the forefront. She explained that the good news is that the Corporation has received an unmodified opinion. An unmodified opinion means that the financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S. She highlighted that the opinion letter then goes through their basis for the opinion and the responsibilities of management for the financial statements.

Next, she explained Elgee Rehfeld’s responsibilities, including the following:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, no such opinion is expressed
- And more

She explained that there are prescribed ways to performing their audits. They use professional skepticism and ensure they identify with management what the risks are and how they have implemented controls over those risks. Then they make sure the amounts in the financial disclosures are accurate. Through this process, they get an understanding of the management’s internal controls. They do not issue an opinion over the controls, but they need to understand them for their audit

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planning. Additionally, they will let management know if anything comes to their attention as they are looking at those controls. She added that she is happy to let the Board know that they did not find any weaknesses in the controls. They also look at accounting policies, estimates and ensure management is using accounting standards.

She continued stating that with the Board's strategic planning and good staff, there is no doubt at this time about whether it is safe to continue. Included with the financial statements is what is called, Required Supplementary Information. Lastly, they do an audit of the Federal loan program to ensure it is following federal protocols.

Next, she went into the report on compliance for the major federal program. In moving to a third party servicer for the loan programs, the loan servicer will handle the majority of the compliance activities related to the FFELPS Program. The federal government's Compliance Supplement, which sets the auditing standards, says if you have a third party servicer you can look at their audit reports to ensure that the third party's auditor has not found any problems with how they are operating. She added that Elgee Rehfeld did not do procedures over the compliance requirements because they were able to point to that third party servicer. She then stated that they found no material weaknesses or issues in the audit of the financial statements and compliance.

In the letter to the Board, she highlighted a few points. First, she explained that they did not have any difficulties with the timing of the audit and that it was within the parameters of what had been planned. Then, she stated that during the year, the corporation changed its method of accounting for leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The change had no effect on net assets as of June 30, 2022 and 2021. She explained that there were no significant unusual transactions, no identified or suspected fraud, no uncorrected or corrected misstatements, and no disagreements with management.

She concluded her presentation by thanking CFO Pierce and her team for their work. She added that the audit went very smoothly, which is a testament to the preparation that went into it. She then opened up for questions.

CFO Pierce also wanted to thank Ms. Tarver for her work, diligent assistance and professionalism throughout the process.

*Discussion: Ms. Wojtusik wanted to thank CFO Pierce and Ms. Tarver for taking the time to run through the reports with the Board.*

**Deputy Commissioner Donley moved to accept the annual Financial Statements of the Alaska Student Loan Corporation for the year ending June 30, 2022. Ms. Wojtusik seconded the motion. By roll call vote, all members present voted aye. The motion carried.**

### **DIVIDEND RECOMMENDATION**

CFO Pierce highlighted her memo on page 64 of the meeting packet. She explained that for the year ending June 30, 2022, which is the year relative to a fiscal year 2024 dividend, the Corporation's Income before return of capital was a loss of \$9,863,000. Therefore, the board is not in a position to declare a dividend based on net income.

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Discussion: *None*

**Vice Chair Fowler moved the Corporation not declare a 2024 dividend based on recommendation from Staff, DOR Investment Team, and Financial Advisor. Mr. Handeland seconded the motion. By roll call vote, all members present voted aye. The motion carried.**

**FIDUCIARY DUTY TRAINING – ASSISTANT ATTORNEY GENERAL BILL MILKS  
AND ASSISTANT ATTORNEY GENERAL ANDREW BOCANUMENTH**

AAG Bill Milks began the presentation by thanking the Board for having them. He explained that this training is important for the Board to learn because ASLC’s primary purpose is to finance education loans through the issuance of bonds as well as loan repayments. The Board’s Fiduciary Duty is to invest money held by the Corporation according to the same rules governing investment of other state funds in AS 37.10.071 – Prudent Investor Rule. Fiduciary means, one who transacts business, and handles money and property, not for self-interest, but for the benefit of another, implying and necessitating great confidence and trust, and a high-degree of good faith. A fiduciary duty is when one party must act for another. The Fiduciary is entrusted with the care of property or funds.

Next, he explained the sources of Fiduciary Duty for ASLC Board Members which are directly – state statutes and indirectly – federal/ERISA/pension law and Common Law. Then he explained the administrative functions for ASLC, which are that the supervision of the administration of the corporation is delegated to the executive director; ASLC contracts with ACPE for administrative support and loan servicing, including complying with federal laws regarding student loans; ASLC is responsible for any risks resulting from non-compliance. The ASLC shall invest money in accordance with AS 37.10.071, which applies to investments by fiduciaries of other state funds. They are also subject to contracts with bondholders and note holders.

Continuing on, he then explained the Prudent Investor Rule, which is that the fiduciary of a state fund, shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. He added that it is the basic rule of governing investments and state funds. Investment decisions are based on the best financial interest of that fund.

Next, he explained the Prudent Investor Standard of Care, which are the following:

- Invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution
- *Black’s Law Dictionary (11<sup>th</sup> ed. 2019)* **“The principle that a fiduciary must invest in only those securities or portfolios of securities that a reasonable person would buy. The origin of the prudent-investor rule is *Harvard College v. Armory*, 26 Mass. 446 (1830). This case stressed two points for a trustee to consider when making investments: probable income and probable safety. The Trustee must consider both when making investments.”**

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He briefly listed a few Discretionary Powers, including the following:

- Delegate investment, custodial, or depository authority on a discretionary or nondiscretionary basis to officers or employees of the state or to independent firms, banks, financial institutions, or trust companies by designation through appointments, contracts, or letters of authority;
- Utilize consultants, advisors, custodians, investment services, and legal counsel for assistance in investment matters on either a continuing or limited-term basis and with or without compensation

Next, he summarized what he had discussed so far. He stated that it is important for Board Members to understand the purpose of the program being administered (student loan program). The fiduciary duty is to set policies for invested assets for the long-term sustainability of the program. There is no ideal prudent behavior for all situations and times. He then explained that the Board can rely on expert advisors or a delegate. Then, he explained how the Board can carry out these obligations, which were the following:

- Only with substantial assistance
- ASLC’s Board’s resources:
  - Staff,
  - Authority to engage managers, consultants, and other professionals
  - Setting prudent standards through regulations, policies, and procedures,
  - Monitoring financial performance,
  - Governance practices.

Continuing, he explained the Fiduciaries and Delegated Duties, which are the following:

- Generally, fiduciaries are not liable for breach of duty if the delegation is prudent or assigned by law to another person
- A fiduciary may still be liable for breach of a delegated duty if the fiduciary:
  - Participates in or conceals a breach
  - Enables a breach
  - Knows about a breach and does not attempt to remedy

He then explained the state statute on indemnification, which is, AS 37.10.071(e): “The state shall defend and indemnify the fiduciary or an officer or employee of the state against liability under (d) of this section to the extent that the alleged act or omission was performed in good faith and was prudent under the applicable standard of prudence.”

In conclusion, he offered some suggestions for Board Members as they hold significant responsibility. He suggested they use available resources such as subject matter experts. He also suggested that when in doubt, they should ask the question. He then opened the floor for questions.

*Discussion: Deputy Commissioner Dave Donley asked if there were any specific duties for the Commissioner of Administration. AAG Milks explained that each Commissioner Designee has the same collective Fiduciary Duties.*



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*Chair Adams thanked AAG Milks for all of the information and stated that it was very timely. She then thanked Executive Officer Efird for bringing this to the agenda.*

*Vice Chair Fowler stated the presentation was very helpful and she appreciated all of the information.*

*AAG Milks wanted to thank everyone for having him and then stated that AAG Bocanumenth will be around in future meetings for any questions or concerns that the Board may have. He is also available to answer questions.*

*Executive Officer Efird wanted to extend her appreciation and thanks for AAG Milks and AAG Bocanumenth for taking the time to put the PowerPoint together and provide the training. She added that she wanted the Board Members to feel as though they had the background knowledge on all of their responsibilities, especially with the new loan limits that they will be discussing in February. She added that staff will be recommending a new process about resources, data, and researching for what the loan limits will look like to ensure the responsibilities that AAG Milks brought forward in the training. She concluded by saying Board Members are welcome to reach out to her with any questions they may have.*

**FUTURE MEETING DATES**

- **Thursday, February 9, 2023 at 1:30 p.m.**
- **Thursday, May 11, 2023 at 1:30 p.m.**
- **Thursday, November 3, 2023 at 1:30 p.m.**

**ADJOURN**

**Deputy Commissioner Donley moved to adjourn. Ms. 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 2:43 p.m.

Approved by:

\_\_\_\_\_  
Dr. Barbara Adams, Chair

\_\_\_\_\_  
Date



THE STATE  
of **ALASKA**  
GOVERNOR MIKE DUNLEAVY

## Alaska Student Loan Corporation

EXECUTIVE OFFICE

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### MEMORANDUM

**To:** Alaska Student Loan Corporation Members  
**Through:** Kerry Thomas, Director of Program Operations  
Sana Efird, Executive Director  
**From:** Jackie Hall, Quality Assurance Officer  
**Date:** January 23, 2023  
**Subject:** Proposed Annual and Aggregate Loan Limits for the Alaska Supplemental Education Loan Program and the Alaska Family Education Loan Program

Recent statutory changes to AS 14.43.173, removes the specific annual and aggregate loan limits for the Alaska Supplemental Education Loan (ASEL) and Alaska Family Education Loan (FEL) Programs, and permits the Alaska Student Loan Corporation (the Corporation) to finance loans made under these programs, in a maximum amount to be determined by the Corporation.

#### Background

ACPE's programs and services are designed to increase access to benefits of higher education by providing low-cost or no-cost financial aid for college and career training for Alaskans. The purpose of the ASEL is to provide supplemental financial assistance and assist qualified borrowers with unmet costs of attendance. The FEL provides low-cost loans to Alaska families to assist in paying the costs of postsecondary education for family members.

Since inception of ACPE's primary loan programs, the annual and aggregate loan limits, for the most part, remained unchanged until 2015. Statutory changes approved under SB195, increased the annual and aggregate loan limits for the ASEL and FEL Programs, to better align with current costs of attendance. In recent years, as postsecondary costs of attendance increased, a financial need gap has grown. Inability to access sufficient funding to fill this gap is often prohibitive to student access and pursuit of postsecondary education. Our recommendation to increase loan limits allows ACPE's primary loan programs to be more responsive to students' financial needs, thereby increasing access to postsecondary education.

#### Objectives

1. Determine annual and aggregate loan limits for the ASEL and FEL programs to better align with the current costs of attendance.

2. Meet students' supplemental needs for funding without burdening them with excessive debt.
3. Simplify or reduce loan levels;
  - a) Consider combining on-time and full-time enrollment award levels, and
  - b) Consider combining undergraduate and graduate annual maximums.
4. Develop a plan for ongoing monitoring and annual proposal for potential changes to ACPE's annual and aggregate loan limits.

## Methodology

The following items were evaluated when conducting the analysis related to loan limits:

- In-state and out-of-state average cost of attendance, financial aid, and unmet need from 2016-2021;
- Aggregate totals since program inception and the percent of undergraduate and graduate loans under current limits;
- Number of full-time and on-time loans awarded from 2016-2021; and
- Survey of non-profit lenders related to loan limits.

## Findings

- **In-state Institutions** - Since 2016, in-state cost of attendance increases are outpacing available financial aid. Data suggest a widening gap of unmet need, peaking in 2019, of \$7,233. The average cost of attendance increase from 2016-2021 is roughly 15%.
- **Out of State Institutions** - Since 2016, out-of-state cost of attendance increases are also outpacing available financial aid. Data suggest a widening gap of unmet need during this time period from \$19,922 in 2016 to \$23,840 in 2021. The average cost of attendance increase from 2016-2021 is just over 15%.
- **Aggregate Totals** - ACPE has disbursed loans to a total of 156,890 borrowers since inception of our primary loan programs. Borrowers with undergraduate loans represent 151,618 and 12,320 borrowers have taken out graduate loans. Between these subsets, 7,046 borrowers have both undergraduate and graduate loans. The majority of borrowers in both subsets have aggregate levels of less than \$10,000. In fact, the vast majority of borrowers do not even exceed half (\$43,500) of the current aggregate loan maximum.
- **Non-profit Lenders** – ACPE sent a request for information to select non-profit lending partners, who fund their own programs, to collect information on how they determine loan limits for their private education loan programs. The following is a summary of the relevant responses:
  - Three out of five lenders offer annual limits up to the cost of attendance, minus other aid;
  - Aggregate loan maximums range between \$100,000-\$170,000;
  - One out of five lenders set separate undergraduate and graduate loan limits;
  - Two out of three lenders review their program limits annually and adjust as needed. Three partners review limits periodically while one partner monitors

borrowing amounts to consider increases based on the number of borrowers approaching current thresholds.

**Recommendation**

Based on the research conducted and data outcomes identified, ACPE recommends the following changes to its ASEL and FEL loan programs beginning with the 2023/2024 academic year. This recommendation supports objectives to align ACPE’s primary loan programs with the current costs of education and meet student’s supplemental needs for funding:

- Revise enrollment levels by eliminating the distinction between on-time and full-time enrollment. On-time enrollment has historically been an ACPE-specific term regarding enrollment type. Eliminating this distinction and moving forward with the same limit for on-time and full-time enrollment streamlines loan processing and aligns more closely with institutional and federal enrollment terminology.
- Revise enrollment levels by combining undergraduate and graduate annual maximums. Historically, only 7.85% of ACPE borrowers have taken out graduate loans.
- Increase annual loan limit to \$24,000, which represents an increase to cover the current unmet needs for in-state and out-of-state attendance.
- Increase aggregate loan limit to \$96,000, which is in alignment with the proposed annual loan limit increase. The aggregate maximum is based on four-years of study at the proposed annual limit of \$24,000.
- No changes to CTE loan limits as tuition costs have remained, for the most part, unchanged over the last several years.
- Ongoing tracking of in-state and out-of-state tuition levels, ACPE aggregate amounts, student financial aid sources and unmet need as a basis for considering future adjustments to annual and aggregate loan limits. ACPE to conduct annual review and submit recommendations for Corporation approval.

<b>Enrollment Level</b>	<b>Current Annual Loan Limit</b>	<b>Proposed Annual Loan Limit<sup>1</sup></b>	<b>Current Aggregate Loan Limit</b>	<b>Proposed Aggregate Loan Limit</b>
Undergraduate	\$14,000 <sup>2</sup>	\$24,000	\$56,000	\$96,000
Graduate	\$15,000	\$24,000	\$60,000	\$96,000
CTE	\$10,000	\$10,000	\$56,000 <sup>3</sup>	\$96,000

**Suggested Motion**

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

<sup>1</sup> Undergraduate and graduate enrollment levels combined

<sup>2</sup> On-time enrollment level

<sup>3</sup> CTE aggregate loan limit is part of undergraduate aggregate loan limit

**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.



## **Supplemental Loan Limits Information**

### **HB 114 Summary**

The Alaska Commission on Postsecondary Education (ACPE) and the Alaska Student Loan Corporation (ASLC) board jointly approved proposing legislation to address issues affecting Alaska students and Alaska institutions. The legislation passed during the second session of the Alaska 32<sup>nd</sup> Legislature. The bill provided changes to ACPE loan programs including:

- Removed annual and lifetime loan limits from statute
- Gave ASLC the responsibility to set annual and lifetime loan limits
- Provided for an optional immediate repayment choice
- Expanded refinance loan eligibility

### **Loan Limit Recommendations**

ACPE staff recommendations for discussion and approval by the ASLC Board.

- Increase annual loan limit to \$24,000
- Increase lifetime loan limit to \$96,000

### **ACPE Education Loan Programs**

ACPE's programs and services are designed to increase access to higher education opportunities by providing low-cost or no-cost financial aid for college and career training for Alaskans.

Student loan debt is certainly at the forefront of consideration. We are always mindful of the drain on students and families faced with large loan repayment. Student loans are a viable way to cover the unmet need for students to attend higher education and training programs, but they must be done in a responsible manner. Research shows that students who have a financial aid package which covers the costs of attendance for their higher education program, are more likely to complete their program and to successfully repay their loans.

Some of the checks and balances ACPE provides are:

- Loan amounts do not exceed the unmet need related to the student's cost of attendance and are certified by postsecondary institutions financial aid office. ACPE loans are used after grants, scholarships and federal aid.
- ACPE offers financial literacy education sessions for Alaskans to encourage responsible financing of higher education/training.
- Our education offerings include guidance to Alaskans to first apply for scholarships, grants, and federal aid, and if there is still a financial need gap, to then apply for loans.

- Enrollment in a degree or certificate program and minimum half time attendance is required to receive a loan
- Schools certify continuing eligibility for students (related to GPA and completed credits/progress towards completion of a credential)
- Other private lenders loans can exceed the documented unmet need for students and they will provide these loans to students at much higher interest rates without the checks and balances (such as ensuring progress towards completion).

### **Current Work Focus**

ACPE is in the final push to complete the outsourcing project for servicing of our loan portfolio. Deadline for completion is April 2023 with some post outsourcing work and monitoring throughout the next months to ensure new processes are functioning as intended.

### **Increased Efforts to Support Borrowers**

Building stronger relationships with borrowers

- Increased usage of text and email
- Send reminders/tips

### **Intentions for Risk Mitigation Going Forward**

- Immediate repay
- Revise current co-signer structure to incorporate additional criteria
- Interest reductions to encourage auto pay
- Implement loan default prevention and management program
  - Position reclassified to Loan Management Position
  - Consistent communication with new borrowers and current borrowers
  - Repayment counseling
  - Delinquency intervention
  - Explore additional post default recovery options
    - Out of state wage garnishment
    - Increase second placement collections

### **Historical Cohort Default Rate**

The Commission calculates default rates annually, based on Alaska alternative educational loans entering repayment between January 1<sup>st</sup> and December 31<sup>st</sup> of the cohort year. Alaska alternative educational loans greater than six months past due at the end of the first 12 months of repayment are included in the annual default rate calculations.

The Institutional Rate below is the rate of default on Alaska Supplemental, Alaska Student and Teacher Education Loans at institutions administering education loan programs on behalf of Alaska students. The rates for 2021 are nearly complete and the preliminary rates show a decline in all three categories. Final 2021 rates will be available in March 2023.

6. Adoption of Proposed Increased Annual and Aggregate Loan Limits

<b>Institution Location</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Alaska	1.69%	3.20%	4.97%	10.99%	7.45%
Out-of-State	2.15%	2.53%	0.80%	2.40%	4.70%
Combined Rate	1.87%	2.84%	3.11%	6.75%	5.97%





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: February 9, 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 it deems 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, the continuing decline in the outstanding principal balance of the Corporation's loan portfolio poses a challenge to setting rates. Based on current loan repayment and loan origination projections, the loan portfolio is expected to continue to decline for the foreseeable future unless there are significant increases in loan originations. Although operating costs have declined year over year, in order to align costs to a level the loan portfolio can support, additional operating cost reductions, reductions in loan losses and increases in investment income will need to be achieved. The Corporation has sufficient equity to absorb losses to provide the needed time to achieve additional cost and loss reductions, and increase revenue. 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 forecast to result in financial sustainability within the next 2 – 3 fiscal years. This is a long-term approach that sets rates at a level that is competitive to the market and is to the benefit of borrowers and the Corporation.

## 7. Adoption of Loan Program Fixed Interest Rates FY2023-2024

**Immediate Repay – New Rate Tier:** Recent statutory changes to AS 14.43.175, provides for ACPE to offer future student loan borrowers a loan program with immediate repayment requirements. Staff are working with our loan servicer to set up this loan program repayment option and are recommending separate fixed interest rate tiers for these type of loans. Student loans with immediate repayment terms have higher rates of repayment. Staff have proposed lower rates for the immediate repayment loan option due to lower credit risk.

**Credit Risk:** As part of an overall focus on default management, Staff has been reviewing existing, and developing additional, strategies to reduce credit risk. Staff considers the increase in loan limits to increase exposure to loan loss. ASLC already 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, new this year, providing reduced rate tiers for the immediate repayment loan option. Additional information regarding staff recommended change in loan limits and planned strategies to mitigate increased credit risk is included in the Loan Limits Supplemental attachment. 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 develop additional strategies such as rate reductions for borrowers with a co-signer. Staff are mindful of these types of rate reduction strategies in proposing rates.

**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 2022 and 2021 was 7.54% and 6.28%, respectively. The 10 Year Treasury has increased approximately 0.60%, from 2.94% to approximately 3.54% between June 2022 and January 2023. The interest rates being proposed herein are based on the conservative assumption that the PLUS rate will be equal to or higher than approximately 8.14%. Additionally, PLUS loans include a 4.23% origination fee that increases the APR of those loans.

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

7. Adoption of Loan Program Fixed Interest Rates FY2023-2024

**Proposed Rates**

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

<b>Program (max loan term)</b>	<b>Fixed Rate ASEL (10 years)</b>		
<b>Effective Date</b>	<b>July 1, 2023</b>		
<b>FICO<sup>1</sup> Range</b>	<b>650-679</b>	<b>680-719</b>	<b>720+</b>
<b>Underwriting Criteria</b>	No Adverse Credit	No Adverse Credit	No Adverse Credit
<b>Base Rate</b>	9.25%	7.00%	6.25%
<b>Interest Rate Reduction <sup>2</sup></b>	0.25%	0.25%	0.25%
<b>Lowest Rate</b>	9.00%	6.75%	6.00%

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

<b>Program (max loan term)</b>	<b>Fixed Rate ASEL – Immediate Repay Option (10 years)</b>		
<b>Effective Date</b>	<b>July 1, 2023</b>		
<b>FICO<sup>3</sup> Range</b>	<b>650-679</b>	<b>680-719</b>	<b>720+</b>
<b>Underwriting Criteria</b>	No Adverse Credit	No Adverse Credit	No Adverse Credit
<b>Base Rate</b>	8.50%	6.50%	5.75%
<b>Interest Rate Reduction <sup>4</sup></b>	0.25%	0.25%	0.25%
<b>Lowest Rate</b>	8.25%	6.25%	5.50%

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

7. Adoption of Loan Program Fixed Interest Rates FY2023-2024

Other loan program rates proposed are as follows:

<b>Program (max loan term)</b>	<b>Variable Rate ASEL<sup>5</sup></b>	<b>Fixed Rate PSEP<sup>6</sup> (10 years)</b>	<b>Fixed Rate FEL (10 years)</b>
<b>Effective Date</b>	<b>July 1 – June 30</b>	<b>July 1, 2023</b>	<b>July 1, 2023</b>
<b>Underwriting Criteria</b>	No Adverse Credit	No Adverse Credit	No Adverse Credit
<b>Base Rate</b>	TBD TBD <sup>7</sup>	7.00%	7.00%
<b>Interest Rate Reduction</b>	0.25%	0.25%	0.25%
<b>Lowest Rate</b>	TBD TBD <sup>6</sup>	6.75%	6.75%

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

- ASEL 650 – 679 FICO – 0.75% increase, immediate repay no change**
- ASEL 680 – 719 FICO, PSEP and FEL – 1.00% increase, immediate repay 0.50% increase**
- ASEL 720+ FICO – 0.75% increase, immediate repay 0.25% increase**

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<sup>5</sup> No longer originated but rate is reset annually for existing loans. Rate to be set in May 2023.

<sup>6</sup> Professional Student Exchange Program

<sup>7</sup> 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)		
	April 1, 2022			April 1, 2022			April 1, 2022		
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	6.10%	5.30%	5.05%	6.30%	5.50%	5.25%	6.50%	5.70%	5.45%

**Proposed REFI rates are 100bp higher than rates currently being offered for all term and FICO score 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.
- With board approval, Refi rates can be adjusted at anytime
- 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 auctioned at the final auction held before May 1. A board meeting has been scheduled in May to set these rates.

## 7. Adoption of Loan Program Fixed Interest Rates FY2023-2024

**Staff recommendation:** The fixed interest rates and underwriting criteria for the 2023-2024 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 2023-2024 academic year loans be set as shown in the tables above.



## Alaska Commission on Postsecondary Education

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### MEMORANDUM

**TO:** Members, Alaska Commission on Postsecondary Education  
**FROM:** Sana Efird, Executive Officer  
**DATE:** January 30, 2023  
**SUBJECT:** Executive Officer Report

During this quarter, the Executive Officer's Office continued to work with staff on our two large and very detailed outsourcing projects; worked with the Governor's Office to finalize our FY2024 Governor's Proposed Budget, began preparations for the upcoming legislative session; and attended numerous meetings with staff, partners, and stakeholders.

#### Budget Update:

Governor Dunleavy released his FY2024 Proposed Budget on December 15, 2022. The Press Release concerning the Budget can be viewed [here](#). The Governor has named the following budget priorities: Public Safety, Alaska State Defense Force, 2023 PFD Payment, Public Health and Wellness, Fisheries Research, Statehood Defense, Education, and Transportation. The Alaska Commission on Postsecondary Education (ACPE) budget includes:

- One increment request in the amount of \$36.9 to cover a routine annual increase in the cost of the state's WWAMI contract with the University of Washington;
- Technical adjustments for PERS increases;
- The APS, AEG, and WWAMI programs' funding source was switched from Unrestricted General Fund (UGF) back to the Higher Education Investment Fund (HEIF);
- A UGF increment of \$1,647.5 to fund an additional ten WWAMI students, increasing the program from 20 to 30 students per year which was originally only through FY2024, was included in WWAMI base operating budget to ensure students have funding to complete their program.

Senior Managers continue to meet consistently to review and revise our current operating budget to ensure oversight and control of expenditures.

#### Legislative Planning:

The first session of Alaska's 33rd Legislature will convene on January 17, 2023. The new Senate announced their organization of a 17-member bipartisan majority caucus. Senator Gary Stevens, a Republican, will serve as president of the body and Republican Cathy Giessel will serve as

majority leader. Senator Matt Claman will chair the Judiciary Committee. The caucus consist of nine Democrats and eight Republicans. At this time, the new House of Representatives body has not announced a formalized caucus.

Since this is the first session, no bills are carried forward from the 32<sup>nd</sup> Legislature. January 9 is the first release of prefiled legislation and January 13 is the second prefile release date. ACPE does not have any Governor sponsored bills; however, we will be monitoring bills as they are filed for possible impact on higher education or ACPE operations and programs. We are particularly interested in working with legislators on improving the Alaska Performance Scholarship program to better meet the needs of Alaskans pursuing higher education and training. Another top priority will be continued support of the Higher Education Investment Fund. With the addition of many new members to the legislature, I will be meeting individually with each legislator to share information on ACPE's mission and programs and to advocate for support of higher education access and funding opportunities for all Alaskans.

I continue to meet regularly with University of Alaska leadership and am actively involved with legislative strategic planning with both DEED and UA. As during past sessions, Executive Secretary Dannielle Erickson will begin sending Commissioners a newsletter which will include updates on legislative activities and bills of interest once session begins.

The 2023 Alaska Performance Scholarship (APS) Outcomes Report is due to the legislature in late January and will be shared with commission members and higher education stakeholders.

### **Outsourcing Projects Update:**

With the completion of the loan origination transfer to CampusDoor, staff are fully immersed in the transfer of loan servicing to American Education Services (AES). As we reach the April implementation date for loan servicing, workload for staff continues to be heavy and focused on working through data accuracy and reporting to begin user acceptance testing (UAT) the end of February. Since the completion of the loan origination shift to CampusDoor, we have reinstated consistent meetings with financial aid officers to monitor students and institutions experience with the new origination process so concerns or issues can be addressed quickly.

### **Human Resources Update:**

Recruitment efforts and staff changes over the last quarter resulted in the separation of one employee, Customer Service Specialist Ashley Adams; and the hire of three employees, Accounting Technician II Demrie Isaak on November 16<sup>th</sup>, Student Intern II Alyanna Marie Juan in Finance on December 19<sup>th</sup>, and College Intern Amara Sanguni in the Executive Office on December 27<sup>th</sup>. There are a total of six (6) employees eligible to retire in calendar year 2023.

Currently, there are eight vacant positions, including: one in the Executive Office, one in Finance, one in Postsecondary Planning Activities - Outreach, one in Information Support Services, and four in Program Operations. There are currently two active recruitments: one for a Programmer/Analyst position in Information Support Services, and one for a Quality Assurance Analyst in Operations. There are no immediate plans to take action on the six remaining vacancies, but management retains the flexibility to do so if needed to provide support for agency



initiatives. At present ACPE has 47 positions filled: 10 in Anchorage, 37 in Juneau. The breakdown of those positions by divisions is as follows: ISS-10, Finance-13, Program Operations-14, Postsecondary Planning Activities - Outreach-6, and Executive Office-4.

### **Juneau and Anchorage Lease/Space Update:**

Juneau Office is undergoing retrofitting currently to prepare the new smaller space for move in. We continue to work with State of Alaska Leasing to find new space to locate our Anchorage Office. There have been some ongoing vandalism acts and safety concerns in the Anchorage space which resulted in a decision to suspend mandatory in-office time for Anchorage staff.

### **Alaska Student Loan Corporation Meeting:**

The Alaska Student Loan Corporation (ASLC) Board held their regularly scheduled meeting on November 3, 2022. Chief Finance Officer Julie Pierce and Karen Tarver Partner, Elgee Rehfeld presented the annual financial statements of the Corporation to the board. The board reviewed and voted to accept the annual Financial Statements of the Corporation for the year ending June 30, 2022.

### **Professional Organization Meetings/Presentations:**

I attended regular monthly and semi-monthly meetings with the Education Finance Council, State Higher Education Officers Association, Western Interstate Commission for Higher Education (WICHE), and the Alaska Business Education Compact.

In November, I spoke at the Now for Next workshop that was organized in partnership with the Alaska Association of School Boards (AASB) and the Alaska Postsecondary Access & Completion Network (AKCAN). A number of ACPE staff also helped coordinate this event and served as facilitators of workgroups during the event. The goal of the workshop was to identify what Alaska can do NOW to help students prepare for what is NEXT to improve Alaska's postsecondary outcomes. Recommendations were identified by work groups that Alaska education stakeholders can support to help meet the stated goal. For more information, you may want to view [the Full Report](#) of the event.

### **Other Meetings:**

- Participated in the Now for Next Workshop
- Held third ASLC Meeting of the year
- Introduction meeting with Bartlett Regional Hospital CEO David Keith to discuss partnership between ACPE and the Hospital to combat nursing shortage
- Presented at the Board of Regents Academic Committee Meeting on November 3<sup>rd</sup>
- Met with Department of Law regarding APS Eligibility
- Meetings with Lee Donner from Hilltop Securities

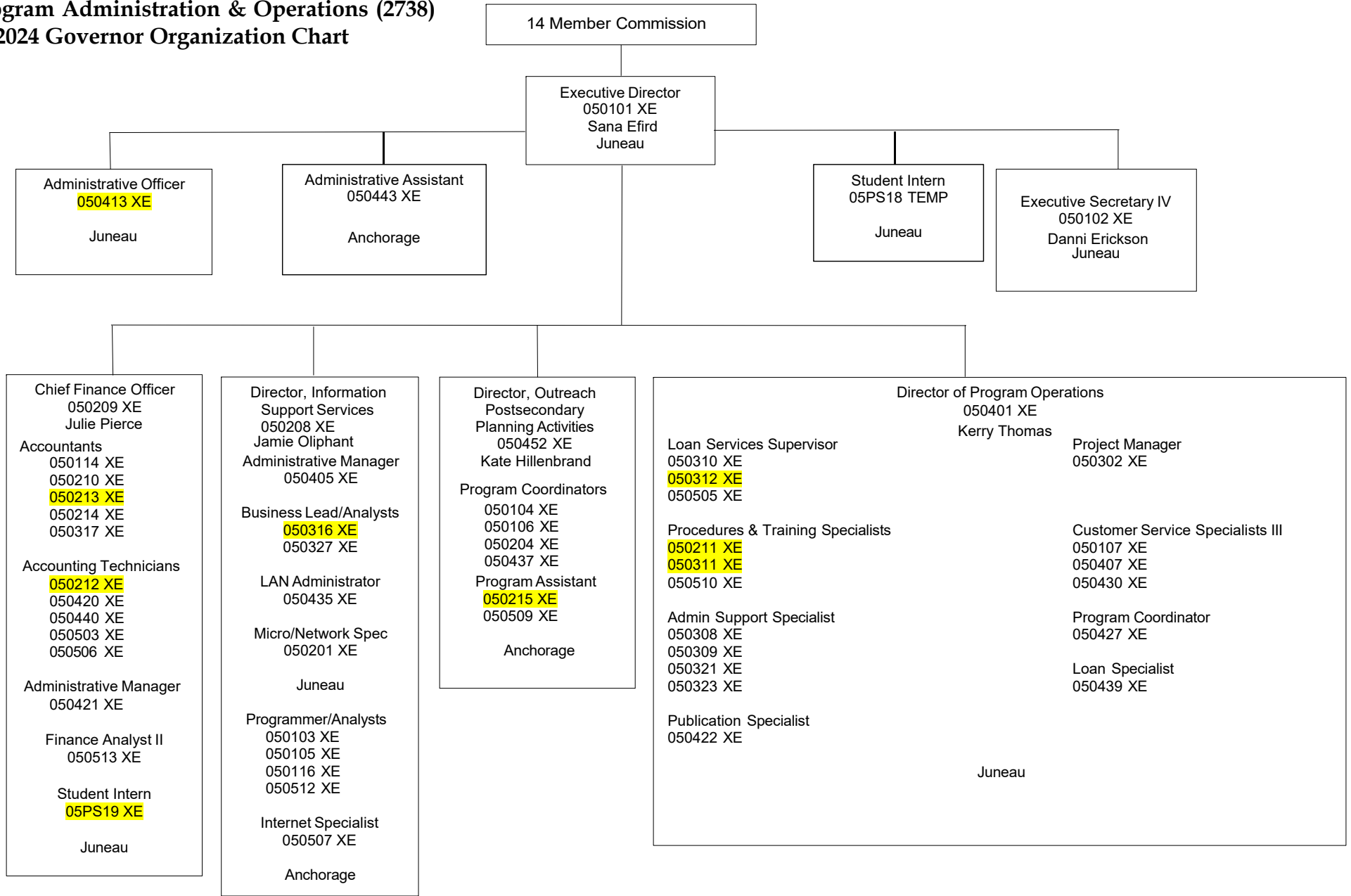
- WWAMI discussions with University of Washington Medical School
- Virtual legislative meetings
- Preliminary meetings to discuss potential bills for 2023 Legislative Session
- Marketing discussions with contractor and leadership
- Continued meetings with UA President Pat Pitney
- Alaska Statewide Education Leaders Collaboration meetings

As always, I am grateful for the opportunity to serve the Commission and lead this talented team of individuals to support Alaskans and their access to higher education opportunities. I could not be prouder of the dedication and expertise our staff demonstrates to meet the needs of our customers and constituents. I always want to highlight and emphasize the tremendous role they play in providing ACPE programs to Alaskans. I always invite your feedback and discussion and encourage you to reach out to me any time.

**Attachments:**

1. ACPE Organization Chart

**State of Alaska  
Alaska Postsecondary Education Commission  
Program Administration & Operations (2738)  
FY2024 Governor Organization Chart**



We suggest that any potential changes be assessed in the light of some basic principles. The Education Commission of the States’ recommends that in redesigning financial aid programs, states should aim to ensure programs are

- **student-centered**
- **goal-driven and data-informed**
- **timely and flexible**
- **broadly inclusive.**

With these principles in mind, we recommend program administrators and policymakers consider changes under three broad categories. Some recommendations will require statutory changes; others can be accomplished administratively.

**1. Simplify program eligibility.**

- Eliminate the distinction between CTE and academic eligibility.
- Offer multiple pathways and opportunities for students to demonstrate academic rigor as an alternative to the current rigid curriculum requirements.
- Base eligibility determinations on the first three years of high school so students have APS award information when they are making their decisions. This will also bring APS in line with other scholarships (including UA’s University Scholars) and will help make Alaska postsecondary schools more competitive.
- Consider using round numbers for award levels to make them easier to remember and calculate.

**2. Simplify and increase flexibility of APS awards.**

- Eliminate the distinction between CTE and academic tracks to enable students to grow and change their goals.
- Reduce continuing eligibility requirements, particularly the number of credits required per semester, to give students the best chance of success.
- Consider adopting Satisfactory Academic Progress standards or University Scholars standards to simplify continuing eligibility tracking.
- Increase the number of semesters and years students are allowed to use the award to enable Alaska’s high proportion of nontraditional students to achieve their goals.

**3. Increase access and commit to equity.**

- Eliminate standardized testing requirements. This will improve access for underrepresented groups, simplify program eligibility, and eliminate the distinction between academic and CTE award eligibility. This may increase rates of program use, because subgroups most adversely impacted by the testing requirements are typically those with the highest APS usage rates among eligible students.
- If testing requirements are not eliminated, reestablish state policy requiring and paying for all Alaska high school students to take a standardized test.

- Likewise, if testing requirements remain in statute, consider replacing numerical cut scores with qualitative criteria for establishing cut scores, as test creators periodically change the way tests are scored.
- Ensure all students get early and ongoing academic counseling to meet eligibility requirements.
- Include disparity analysis in annual outcomes reports.

### Other Considerations

**The dollar value of awards will need to be addressed.** The statute currently prescribes award levels in absolute dollars, and these levels have not changed since the program’s inception. At some point inflation will erode the value of awards significantly enough to reduce the competitiveness of the APS. Policymakers should consider when and how they will increase awards, possibly by introducing flexibility or a trigger mechanism into the statute.

**Alaska’s fiscal imbalance has an impact.** This study found evidence of an upward trend in students wanting to leave Alaska for higher education. Indications suggest the shift is due more to students avoiding or leaving University of Alaska programs than affirmatively wanting to go out of state. Interviews and surveys indicate recent budget and program cuts and ongoing fiscal uncertainty are factors. In addition, a veto in 2018 of APS funding – though it was subsequently reversed – has left residual apprehension about the reliability of the scholarship. Both of these issues are symptoms of Alaska’s systemic fiscal imbalance. Until this imbalance is resolved in a sustainable way, students may continue to lean away from Alaska.

**Quality and relevant postsecondary education programs are essential.** This study found that students consider more than money when making postsecondary choices. Alaska’s postsecondary program offerings must meet contemporary needs in terms of quality, access, cost, and relevance.

**School districts need adequate funding to provide necessary academic rigor and student supports.** Both students and school districts report that district curriculum offerings, academic rigor, counseling, and encouragement are critical for supporting APS eligibility and student achievement more broadly. While money will not solve all the challenges Alaska districts face, inadequate funding makes it more difficult for districts to promote excellence and improve outcomes.

Alaska Student Loan Corporation  
2023 Future Meeting Dates

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Thursday, May 11, 2023

Thursday, November 2, 2023