Alaska Student Loan Corporation

March 11, 2021

ALASKA STUDENT LOAN CORPORATION
BOARD MEETING

[Zoom Link]
Call-in: 1 (888) 788-0099; Meeting ID: 920 4573 0042#

AGENDA

Thursday, March 11, 2021

1.	1:30 p.m.	Convene/Roll Call
2.*		Adoption of Agenda • *Suggested motion: move to adopt the agenda of the March 11, 2021, Corporation meeting.*
3.		Ethics Disclosure Relative to Adopted Agenda
4.*		Approval of January 28, 2021, Minutes • *Suggested motion: move approval of the meeting minutes from the January 28, 2021, Corporation meeting.*
5.	1:35 p.m.	Public Comment
6.		Chief Finance Officer Report – Julie Pierce
7.*		Investment Policy Recommendation – Julie Pierce • *Suggested motion: move to defer action on the Alaska Student Loan Corporation Investment Policy until the next Corporation meeting.*
8.		Update on Redeeming 2013A Notes – Julie Pierce
9.*		Adoption of Loan Program Fixed Interest Rates FY2020-2021 – Julie Pierce • *See suggested motion in memorandum.*
10.		Executive Officer Report – Sana Efird
11.		Review Upcoming Meeting Dates - Thursday, May 13, 2021 at 1:30pm - Thursday, August 12, 2021 at 1:30pm - Thursday, November 4, 2021 at 1:30pm
12.*	3:00 p.m.	Adjourn

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

MEETING MINUTES OF THE
ALASKA STUDENT LOAN CORPORATION BOARD
January 28, 2021

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, January 28, 2021. Chair MacKinnon 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: Anna MacKinnon, Amy Demboski, Barbara Adams, Dave Donely, and Donn Liston.

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; Jamie Oliphant, Director of Information Support Services; Susan Sonneborn, Assistant Attorney General; and Joseph Felkl, Executive Secretary.

Presenters in attendance: Lee Donner, Regional Managing Director, and Tim Webb, Director, Hilltop Securities Inc.; Blake Wade, Bond Counsel, Gilmore & Bell; and Greg Skutnik, Assistant Vice President, U.S. Bank.

ADOPTION OF AGENDA

Ms. Demboski moved to adopt the agenda of the January 28, 2021, board meeting. Vice Chair Liston 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

Ms. Demboski moved to approve the minutes of the October 15, 2021, board meeting. Dr. Adams seconded the motion. By roll call vote, all members present voted aye. The motion carried.

PUBLIC COMMENT

Chair MacKinnon opened the public comment period to accept public testimony. Ms. Malan Paquette provided public testimony. There being no other members of the public wishing to speak, Chair MacKinnon closed the public comment period.

INVESTMENT POLICY

Chief Finance Officer Julie Pierce provided a written report with her recommendation. Staff are working with the Corporation's financial advisors, Hilltop Securities Inc., to model revenue and cash flow activity associated with the Corporation's loan portfolios and related debt. An updated cash flow forecast still needs to be completed and staff recommends no policy changes at this time.

Chair MacKinnon provided a few highlights of the subcommittee meetings held on January 7, 2021, and January 21, 2021. The subcommittee discussed the responsibilities of the board and staff, the action plan for updating the investment policy, and the Corporation's compliance monitoring process, which included review of the past quarter's investment performance. She reiterated that an updated cash flow forecast is needed in order for the board to make an informed decision in changing and approving the investment policy.

Dr. Adams moved to defer action on the Alaska Student Loan Corporation Investment Policy until the next Corporation meeting. Mr. Donley seconded the motion. By roll call vote, all members present voted aye. The motion carried.

LONDON INTERBANK OFFERED RATE (LIBOR) ISSUE

Ms. Pierce referenced her written memorandum included in the meeting packet. As previously reported, LIBOR was expected to cease to exist at the end of 2021. The official termination date for key tenors of LIBOR has been extended until the end of June 2023, but the impact to the corporation remains the same. The 2013 refunding note bears interest at the LIBOR benchmark rate, and the board needs to take action to address the issue. One option to address the LIBOR issue is to seek consent from noteholders to amend and reissue the existing notes with a new benchmark rate such as the Secured Overnight Financing Rate (SOFR), essentially refinancing the existing notes with a new rate. A second option to address the LIBOR issue is to seek noteholder consent to redeem the 2013A Series notes. This option would pay off the existing notes, and ASLC would continue to retain the pledged FFELP loan portfolio on its balance sheet. In addition to the considerations outlined in her written memorandum, Ms. Pierce noted that option one would require one hundred percent bondholder consent while option two only requires a majority. Chair MacKinnon added, regardless of termination date, the Corporation would still need to address the issue and incur the associated transaction costs. Ms. Pierce directed board members to Attachment 1 of her memorandum, Estimated Transaction Costs. Included in the estimate is a redemption premium cost. Hilltop Securities Inc. will provide updated market information related to the redemption premium.

Chair MacKinnon reviewed the considerations provided by staff. Redeeming the notes would result in elimination of a full-time position, reduction in debt service interest expense and debt related fees, increased cash flow in future periods from elimination of debt service payments, and cost reductions in Financial Advisor, Bond Counsel and U.S. Bank Trustee fees. This option also allows for closing of trust related accounts and reduction in associated account fees as well as reduced audit procedure fees. The Corporation could retain the FFELP portfolio on its balance sheet. Not selling it as part of this transaction retains revenue generating loan portfolio balances at a higher rate of return than current investment alternatives with guaranteed loan balances that have comparatively lower credit risk. The FFELP portfolio could be sold at a future point in time for purposes of liquidity or other purposes in the best interest of the Corporation. Although, the need to issue new debt would accelerate if the Corporation chooses not to sell the FFELP loan portfolio.

Lee Donner Regional Managing Director with Hilltop Securities Inc. added that investors holding LIBOR index securities are nervous that the index could become unstable and abandoned by regulatory authorities before the termination date. Bondholders continue to be receptive of consent solicitation efforts related to LIBOR. Mr. Donner noted the biggest costs referenced in the Estimate Transaction Costs, the redemption premium and redemption consent fee, are place holder amounts. Under current market conditions, Hilltop believes the Corporation could receive consent and redeem the bonds at par, without a premium or consent fee. The Missouri Education Loan Authority was successful in getting fifty-one percent bondholder consent at par. If that condition holds, it would dramatically change the cost structure. Hilltop is in the process of running a series of cash flows. One of those scenarios would be to do nothing. In that scenario, at the point LIBOR went away, the bonds tied to LIBOR would lock into a fixed rate. From a bondholder perspective, that would be a catastrophic event. Another cash flow will include presumed bondholder consent and redemption. Hilltop will then run a net present evaluation of the cash flow streams from those scenarios, taking into account lost investment used to pay off these bonds. This information will be available before a final decision needs to be made by the board. It is a very high probability that the net present evaluation will demonstrate that the clear economic advantage lies in redeeming the notes.

Blake Wade, Bond Counsel, Gilmore & Bell, referenced the resolution before the board, which would provide authorization for consent solicitation and redemption of the notes. The authorization at this stage does not mandate the redemption proceed, but it gives staff the authority to proceed. If the consent solicitation were successful, it would allow the Corporation to sign the supplemental indenture if it chooses. The Corporation can choose when to redeem the bonds within a certain window or decide not to move forward. This resolution allows the process to begin. If the resolution were adopted today, it would allow the consent solicitation to be refined and prepared to go out to market. Bondholders would have 30 days to respond. If they consent, the Corporation could choose to execute the supplemental indenture, which would provide the option to redeem the notes. Executing the supplemental indenture does not require the bonds to be redeemed. Mr. Wade clarified the consent solicitation governs the process under which the Corporation will seek bondholder consent while the supplemental indenture spells out the optional redemption feature. The resolution is in final form, but the other documents are still in draft. The Corporation and its financial advisors will need to generate information about the notes, the FFELP loans, and the student loan environment to add to the solicitation before going out to market.

Discussion: Chair MacKinnon asked if the Corporation pays off the bonds for the FFELP loan portfolio, does it retain the federal loan backing, which provides a higher level of certain that the Corporation would receive that revenue stream. Ms. Pierce replied that the federal guarantee would remain in place whether the notes were redeemed or not. Paying off the notes has no impact on the guarantee under the loan program. Dr. Adams asked how this affects borrowers. Ms. Pierce replied it does not impact borrowers in terms of their individual loans. The action makes sense fiscally in terms of being able to offer future borrowers lower rates and in continuing to be a sustainable loan program.

Dr. Adams asked if Mr. Donner had a timeframe in mind for redeeming the notes at par. Mr. Donner replied that, as part of the process, a consent solicitation agent would go out and solicit consent from bondholders. That process would take approximately 30 to 60 days. If consent is gained, the amendment to the indenture could be executed and a redemption notice sent out on the bonds. It is possible the bonds could be redeemed in as short as 90 days. Chair MacKinnon asked about the current LIBOR rate. Mr. Donner replied 26 basis points, and confirmed a basis point is one one-hundredth. Chair MacKinnon asked about the Corporation's variable rate. Ms. Pierce indicated she would need to verify those numbers. Chair MacKinnon noted, with LIBOR paying about 20 basis points, bondholders might want to move their money to something that is paying more. Mr. Donner agreed, and added bondholders would especially want to do this with the added risk that the interest rate could be locked while other options are going up.

Chair MacKinnon asked if the Corporation were to reach ten percent of the principle, would that allow redemption of the notes without a premium. Mr. Donner clarified the ten percent cleanup clause is tied to the outstanding balance of the Corporation's student loan portfolio. When the outstanding principle balance hits ten percent of what it was when the series 2013 bond issue was closed, the Corporation could redeem without consent. Ms. Demboski commented that it does not seem like the Corporation has the luxury of waiting a few more years, and the most prudent path is to deal with the issue now. Mr. Donner replied the situation could become unworkable before the date the Corporation can redeem the notes under the ten percent cleanup clause. Chair MacKinnon asked if the majority consent needed to redeem the notes was a dollar percentage or bondholder percentage. Mr. Wade confirmed the consent percent is based on the principle amount. Chair MacKinnon asked about the solicitation amounts. Ms. Pierce indicated close to $33 million. Chair MacKinnon noted that the Corporation would be using funds from its operating reserve balance to pay solicitation costs; the current balance is approximately $100 million. A third of the operating reserves would be deployed in this effort. The Corporation would be using money it is currently investing to benefit Alaskans by providing a higher return to Alaskans. Once the board starts down this process, it could decide not to expend those fund and redeem the notes, but it would still incur unrecoverable fees just under $200,000.

RESOLUTION TO REDEEM 2013A NOTES

Mr. Donley moved to adopt the resolution of the Alaska Student Loan Corporation relating to the proposed amendment of an indenture, execution of a supplemental indenture and other documents and solicitation of consent in connection therewith; authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this resolution; and related matters. Ms. Demboski seconded the motion. By roll call vote, all members present voted aye. The motion carried.

Discussion: Ms. Demboski and Mr. Donley commented they are in support of initiating the process, but they would like to see cash flow forecasts before moving forward with redeeming the bonds. Dr. Adams asked for confirmation that the resolution does not include selling the FFELP loan portfolio. Mr. Wade confirmed that would be a separate matter. Chair MacKinnon asked about adding a sideboard that staff can proceed as long as the net present value supports a positive financial benefit to the organization or possibly setting a meeting in February to review cash flow forecasts before moving forward. Mr. Donner and Mr. Webb expect cash flows in the next week to 10 days. Mr. Donner added the motion could be conditional on the cash flows being presented to the board. Ms. Demboski stated she is comfortable without a second meeting, knowing there will be another opportunity to review Ms. Pierce's analysis. Chair MacKinnon stated, in passing the motion to approve the resolution, the board's intent is for staff to work with financial advisors and bond counsel to look through cash flows and provide the board with additional information as reasonable. Staff will move forward if there is a positive financial impact for the Corporation and shareholders. Mr. Donley concurred. Ms. Pierce said she would move forward with those parameters and in consultation with the Corporation's financial advisors. Ms. Efird agreed staff would do its due diligence to ensure those parameters are in place.

ADJOURN

Ms. Demboski moved to adjourn. Mr. Donley 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 3:10 p.m.

Approved by:

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Anna MacKinnon, Chair

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Date

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: March 11, 2021

Re: Chief Finance Officer Report

Fitch Rating

For your notification, in FitchRatings most recent press release and rating action, it has downgraded the rating of the class A notes of Alaska Student Loan Corporation 2013A from AAAsf to AAsf. The rating outlook for the class A notes remains negative. The downgrade is attributable to increased maturity risk stemming from increasing remaining loan term and reduction in payment rate. Staff agree with the data in the press release and attribute the increase in remaining loan term to levels of loans in forbearance and income based repayment (IBR) plans. The Fitchratings press release is included at the end of the Board packet for reference.

Finance Staff Strategic Areas of Focus

Please see updates in red below to the following topics identified last fall by Finance staff as areas of focus over the next year.

Investment Policy - The investment policy review has historically taken place annually in November. In consideration of this combined meeting scheduled earlier, there was not sufficient time to review the existing policy to the extent planned by Staff. Staff plans to work with a financial advisor to review the existing policy in consideration of ASLC's current and forecast asset and liability balances in order to optimize investment risk and return goals and recommend any adjustment to policy informed with analyses. Additionally, staff have reached out to DOR Division of Investments to determine if the Division can assist ACPE with investment management services at a lower cost than current investment manager. The current investment management service contract is through July 2023.

- Reference separate agenda item for this topic.

Allowance for loan loss – As part of an annual process, typically in Q3 based on performance through Q2, staff will be reviewing the methodology used to determine the allowance for loan loss. Staff have discussed some areas briefly with our auditors but did not make any significant changes to methodology for purposes of preparing the estimate for fiscal year end 2020.

- Staff have revised the methodology used to calculate the allowance for loan loss. Staff are working with our auditors to review the change in methodology and seek industry peer group data as it relates to the calculation, qualitative factors and best practices. Staff are also focusing on strategies to decrease overall loan loss and increase recovery.

Financial Projections - As part of an annual and on-going process, staff will be preparing short and long-term income and cash flow forecasts to support management and the Boards strategic goal to operate a financially sustainable loan program. Staff will consider the cost and benefit of working with an outside service provider to perform forecasts of the loan portfolio using modeling software designed to perform projections based on loan level detail.

- Staff have been working with our Financial Advisor to perform forecasts of the loan portfolio and related debt. Staff have been continuing to prepare operating cost forecasts based on known cost reduction measures and as part of strategic planning process. There are still unknowns that Staff need to work through to refine projections of expenses, investment income, other revenue sources and loan loss. Staff will continue to prepare and provide additional comprehensive long term financial projections.

Loan Rate Setting – Prepare loan rate setting recommendations in consideration of income projections, cost recovery and rate environment with the goal of ensuring low cost funding for students.

- Reference separate agenda item for this topic. Staff are continuing to prepare and provide additional long term financial projections including income projections based on proposed rates and expected volume.

Loan Financing – Analyze current and planned future loan financing options and timing as part of overall asset liability management, financial forecast and strategic planning process.

- Reference separate consent solicitation agenda item for this topic as it relates to current financing. Staff will continue to focus on identifying other financing options as outlined.

If you have any questions or wish to discuss this information further, please do not hesitate to contact me at 907-465-6757 or julie.pierce@alaska.gov.

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: March 11, 2021

Re: Report on Subcommittee & Investment Policy Recommendation – Update & Recommendation

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Update & Recommendation: As part of developing a comprehensive cash flow forecast, staff are continuing to work with Hilltop Securities to model revenue and cash flow activity associated with ASLC's loan portfolios and related debt. Staff will continue to incorporate the loan portfolio and related debt forecast and finalize a comprehensive financial forecast including cash flow forecast and work with DOR on policy development. Once this process is finalized, Staff will work with the chair of the sub-committee to schedule a meeting to review policy before being presented to the Board for approval at the next planned meeting, or make a determination about the need to hold an additional ASLC meeting.

In consideration that an updated comprehensive cash flow forecast has not been completed in order for the Board to make an informed decision on investment policy changes, there are no recommended policy changes at this time. Staff recommend deferring action on the Investment Policy until it is finalized and presented for Board approval at a future Board meeting.

MEETING MINUTES OF THE
ALASKA STUDENT LOAN CORPORATION BOARD
AD HOC SUBCOMMITTEE
January 7, 2021

A meeting of an ad hoc subcommittee 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, January 7, 2021. Chair Anna MacKinnon called the meeting to order at approximately 2:30 p.m.

ROLL CALL

Members of the subcommittee attending all or part of the meeting were Barbara Adams, Donn Liston, and Anna MacKinnon.

Staff present for all or part of the meeting were Sana Efird, Executive Officer; Julie Pierce, CPA, Chief Finance Officer; and Joseph Felkl, Executive Secretary.

CHIEF FINANCE OFFICER REPORT

Ms. Pierce referenced her written memorandum included in the meeting packet that outlines ASLC's current investment policy and the roles and responsibilities of the board and staff. The board is the fiduciary for the development of investment policy and oversight of invested assets in accordance with investment policy. The board is responsible for approving policy based on advice from financial advisors and staff. To support the board in fulfilling their fiduciary responsibility, staff is responsible for administering the investment management of assets, monitoring investments for compliance with policy and providing or facilitating reporting of compliance and investment performance in accordance with policy. Additionally, staff will provide support by arranging financial advisor services to provide advice on investment policy creation and annual review.

Ms. Pierce reviewed updates on the Investment Policy and Procedures action plan. Staff have been working with the Corporation's financial advisors, Hilltop Securities Inc.; current investment manager, US Bank; and the Alaska Department of Revenue (DOR) Treasury Division to determine the scope and approach for investment policy review as well as develop recommendations for the strategies and goals of the policy. Staff has also been working with Hilltop Securities Inc. to develop an updated cash flow forecast; the goal is to have those projections updated by the end of January. DOR's portfolio management team and Hilltop Securities will both be available at the January 21, 2021, subcommittee meeting for discussion and to present investment policy recommendations. DOR is still coming up to speed on Alaska Commission on Postsecondary Education (ACPE) programs, and our cash flow projections are in the process of being updated. DOR may not be in a position to advise on any meaningful investment policy changes by the next subcommittee meeting on January 21, 2021. They will be available to provide a presentation on their asset allocation process and preliminary input on investment policy review. Migrating asset management to DOR would result in a considerable reduction of asset management service fees. Additionally, there could be an opportunity for administrative efficiencies and for optimizing ongoing policy development, maintenance, refinement, and execution. DOR would manage ASLC assets across its existing slate of investment pools. Staff is continuing to work with DOR to develop a plan for migrating investment assets; we hope to finalize that process in the next three to six months, depending on current positions and optimization of liquidation.

Ms. Pierce referenced her Investment Compliance Monitoring Process Outline & 3Q2020 Results memorandum and the US Bank Investment Compliance PowerPoint included in the meeting packet. The PowerPoint reflects portfolio performance compared to the benchmarks set out in policy. Ms. Pierce envisions DOR presenting this type of investment reporting to the board annually as part of the annual Investment Policy and Procedures review and adoption. Ms. Pierce also noted the Alaska Student Loan Corporation Investment Policy and Procedures History memorandum that includes excerpts of meetings minutes and highlights revisions related to the investment policy over the past 10 years.

Ms. Pierce provided an overview of the reasons for taking a deeper dive into the investment review process and the goals for policy review. The Corporation's investment balances have increased over time while loan portfolio balance has decreased over time. Today, we have a larger emphasis on revenue from investments vs. revenue from the loan portfolio as part of operations. Additionally, the investment time horizon has extended over time. It makes sense for the Corporation to revisit its investment policy and gain additional advice on investment goals and the balance between risk and reward of investments. Ms. Pierce added that she would rely on DOR and the Corporation's financial advisors to lead the discussion on this topic at the next meeting.

Discussion: Dr. Adams asked if DOR has conducted this investment role for the Corporation in the past. Ms. Pierce replied that DOR has not managed ASLC investments in the past. The topic was discussed in the past, but DOR management of investments did not make sense at the time. DOR is now performing asset management for other state organizations, and it makes sense to revisit the possibility of DOR managing ASLC assets. Mr. Liston asked how US Bank was selected in the past. Ms. Pierce reported that ASLC managed their own investments for a long period of time. Ms. Pierce is unsure if there was an RFP process, but the Corporation has and will continue to have a relationship with US Bank outside of this service area. Chair MacKinnon commented that the board should also be looking at DOR's rates of return and performance. Ms. Pierce replied that she would work to provide more data on that topic moving forward. Chair MacKinnon added that DOR should have benchmarks available, and the committee should compare that information to other benchmarks, such as those at US Bank. Chair MacKinnon referenced the memorandum included in the meeting packet on historical revisions to the investment policy and inquired about any significant changes. Ms. Pierce noted the changes related to definitions of maturities of the different asset types. Chair MacKinnon inquired about the results listed in the Investment Compliance Monitoring Process Outline & 3Q2020 Results memorandum. Ms. Pierce replied the CDs listed were liquidated to bring the portfolio back into compliance with policy. Ms. Pierce added the funds were reinvested.

DISCUSSION OF POLICY REVIEW

Chair MacKinnon opened the floor to subcommittee members for discussion on investment policy review moving forward. Dr. Adams commented on the Commission's outsourcing of loan originations and servicing and asked if that initiative is connected to the investment policy review. Ms. Pierce replied that staff is assessing ACPE and ASLC's overall financial picture and reviewing investments and how the Corporation is investing is a part of that assessment. Chair MacKinnon remarked on the national student loan debt crisis. She noted, as the board looks for answers to this complex problem, the Commission and Corporation would need to work together in terms of strategic planning. While the Commission will be responsible for operational and programmatic changes, the board will need to consider the impact of programmatic requests on the finances of the Corporation. The board will also need to look at the areas it has purview over, such as the investment policy, to ensure we are able to continue to offer loans to Alaska's students at the lowest possible rates. Chief Executive Officer Sana Efird reported the next piece is to look at benchmarks as mentioned by Chair MacKinnon. After we meet with DOR, we can look at expenses compared to returns on investment. Ms. Efird also highlighted the need for cross collaboration with the Commission and Corporation. We will need to look at ways to reduce agency costs as well as ways to help Alaska's students through program development that addresses financial awareness and postsecondary attainment. Chair MacKinnon added that the board will need to make sure it is asking the right questions of its financial advisors to understand how the student loan market is being affected, specifically related the current financial environment with COVID-19.

Chair MacKinnon summarized the investment policy review process. Staff will be putting together a draft investment policy for the full board to consider while the subcommittee will be providing input on recommendations based on information received from staff, financial advisors and asset managers. Ms. Pierce confirmed the process as stated and reiterated that an updated cash flow forecast is needed in order for DOR to provide any significant recommendations. There is still a lot of information DOR can provide at this time, and they can speak to our current policy at the next meeting. Chair MacKinnon asked if a recommendation would be available for consideration at the full board meeting on January 28 or if adoption of the new investment policy will need to be postponed. Ms. Pierce replied that existing projections provide enough information for a new policy to be drafted. However, in order for DOR to provide recommendations on any significant changes, they would first need updated cash flow projections. Chair MacKinnon concluded discussions by highlighting the big picture for policy review. The subcommittee will look at the cost of doing business and determine if there is a smarter way to realize similar returns on investments, which includes reviewing investment benchmarks and different investment strategies. The board needs to make sure the Corporation is being a prudent investor and establish best practices in its investment policy. Ms. Pierce pointed out maximum maturity is very short in current policy, and that is one of the primary reasons for reanalyzing current policy and potential investment horizons. We need to ensure that we are taking all of that into consideration. This is the lens we should be looking through in analyzing our current policy and the balance between risk and reward. That is what DOR will be walking us through at our next meeting.

ADJOURN

There being no further business to discuss, Chair MacKinnon adjourned the meeting at approximately 3:30 p.m.

Approved by:

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Anna MacKinnon, Chair

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Date

MEETING MINUTES OF THE
ALASKA STUDENT LOAN CORPORATION BOARD
AD HOC SUBCOMMITTEE
January 21, 2021

A meeting of an ad hoc subcommittee 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, January 21, 2021. Chair Anna MacKinnon called the meeting to order at approximately 1:30 p.m.

ROLL CALL

Members of the subcommittee attending all or part of the meeting were Barbara Adams, Donn Liston, and Anna MacKinnon.

Staff present for all or part of the meeting were Sana Efird, Executive Officer; Julie Pierce, CPA, Chief Finance Officer; and Joseph Felkl, Executive Secretary.

Presenters in attendance: Lee Donner, Regional Managing Director, Tim Webb, Director, & Scott McIntyre, Senior Portfolio Manager, Hilltop Securities Inc.; Zach Hanna, Chief Investment Officer & Victor Djajalie, Director of Fixed Income, Alaska Department of Revenue.

INVESTMENT POLICY REVIEW UPDATE

Ms. Pierce referenced her written report on page 2 of the meeting packet. Staff are continuing to work with Hilltop Securities to model revenue and cash flow activity associated with ASLC's loan portfolios. Since an updated cash flow forecast has not been completed, there are no recommended policy changes at this time. Staff prepared a draft summary cash flow forecast and investment balance summary, which can be found on page 3 of the packet. The draft is based on outdated loan portfolio activity; it does offer a directional indicator of liquidity position in the near-term for purposes of policy discussion with DOR and other financial management purposes. The cash flow forecast indicates a trend in continued declines of principal and interest payments on loans, slight increases in loan originations and a decline in administration costs. After the 2013 Note is redeemed in 2021, the forecast indicates that invested balances will continue to increase during the forecast period and no additional financing is required to fund operations and loan originations. Additional information on redeeming the 2013 Note will be provided at the full board meeting on January 28, 2021.

OVERVIEW OF PORTFOLIO MANAGEMENT & ASSET ALLOCATION

Chief Investment Officer for the Alaska Department of Revenue Zach Hanna provided an overview of the Treasury Division's investment processes. The division's focus is on portfolio management, accounting, operations, compliance, and cash management. The division helps state fiduciaries solve investment challenges by providing advice and low cost options for investments. It currently manages $46 billion in assets for a range of state fiduciaries. Mr. Hanna explained the division's annual process for setting investments policies for state assets, which run a risk tolerance spectrum from low risk cash funds through higher risk long-term endowments. DOR staff reviews the policy statement for each fund annually and takes into consideration account balances, time horizons, nominal and real returns, liquidity needs, and capacity for loss and volatility. Mr. Hanna reviewed the division's risk tolerance assessment calculations. The Corporation's current investment risk profile focuses on a 1-2 year time horizon, putting it in the more conservative half of the intermediate time horizon with a low to moderate risk tolerance. As the Corporation develops its updated cash flow forecast, it can evaluate strategic objectives, need for return, ability to sustain losses, and assess an appropriate risk tolerance.

Once the investment policies are set, they generally do not change markedly year-to-year. After the policy is set, focus turns to asset allocation. The division uses financial consultants, Callan LLC, for state allocation work. Callan uses a building block approach for capital market assumptions. Mr. Hanna noted that return expectations have steadily declined over time due to lower global growth and inflation expectations, and this year returns have taken a marked step down due to the economic impact of the pandemic. The division takes the capital market assumptions and combines them with an evaluation of current market conditions to develop an approach for each asset allocation. Callan releases the projections once a year in January. Mr. Hanna referenced the 2021 Capital Market Assumptions and asset class allocations on pages 11 and 12 of the meeting packet. Mr. Hanna focused on General Fund and Other Non-Segregated Investments (GeFONSI) I and II, which use a blend of asset classes to arrive at asset allocations that have a low to moderate risk profile similar to the Corporation. With an increased time horizon, the Corporation could construct a portfolio focused on using its ability to bear risk to generate additional expected return. Having access to a range of asset classes, including equities, would give the Corporation additional flexibility.

Mr. Hanna concluded his report by reviewing the performance of funds the division manages, which can be found on pages 15 and 16 of the meeting packet. He also provided a comparison of the Corporation's performance and DOR performance. Found on page 17, the first section of the comparison chart shows the Corporation's performance through September 30, 2020. The corporation has two bench marks: a 1-3 year government only bond index and a 1-3 year government bond index that includes credit and corporate exposure. Included in the difference line is the performance relative to a 50/50 mix of those two benchmarks. The 1-3 year performance has been considerably lower than the Corporation's benchmark while the 5 year and longer performance has been modestly in excess of the benchmark or right at the level of the benchmark. The next section has DOR's cash and broad market fixed income portfolios performance. Both of these accounts have had consistent out-performance of 12-21 basis[1] points over the long-term. However, neither of them is directly comparable to the Corporation's investments because both of them have different risk profiles. The last section of the chart is an exercise in risk-adjusting the two DOR portfolio's to make them more comparable to the Corporation's portfolio. As of September 30, 2020, the Corporation's portfolio had a benchmark duration of 9.1. The first two tables combine DOR's cash and bond portfolios with the same duration of 71% cash and 29% bonds, adjusting those two portfolios down. The adjustment shows the expected yield of the combined portfolios, which is 42 basis points. That is the weighted average yield the Corporation would have had if it invested in those portfolios. The weighted average yield of the Corporation's actual portfolio was 32 basis points. The last line in the chart is a comparison of past performance for DOR and ASLC

[1] A basis point is one hundredth of one percent, used chiefly in expressing differences of interest rates.

portfolios. Constructing portfolios using this building block approach gives state clients the ability to specifically tailor, and potentially adjust, an investment approach over time without having to make significant changes to investment mandates and managers. It is a flexible approach that allows investment policies to be tailored for a wide range of different risk tolerances, which could be beneficial for the Corporation.

Discussion: Chair MacKinnon asked about REITs, TIPS. Mr. Hanna explained that REITs is a Real Estate Investment Trust; these are public equities of corporations involved largely in the ownership of commercial real estate. It is a way to get some exposure to real estate with a high income component, but in a public market fashion rather than having to use private market real estate investments. TIPS are Treasury Inflation Protected Securities, which are U.S. government securities indexed to inflation.

Dr. Adams asked how DOR determines benchmarks. Mr. Hanna referenced the 2021 Capital Market Assumptions on page 11 of the meeting packet. Each of the assets classes listed specifies an industry recognized standard. There are a lot of reasons to use something different than the broad market accepted benchmark, but DOR exclusively uses benchmarks recommended by its consultant, Callan LLC. Ms. Pierce noted that, as staff move forward with DOR and develop a policy recommendation, defining the benchmarks associated with pools of assets is part of the work DOR does and is not something the Corporation would come up with as much as it would be accepting the benchmarks that go along with the asset pools that DOR recommends our investments be placed. Mr. Hanna confirmed that statement and added all of DOR's guidelines and asset class specific benchmarks and risk tolerances are listed on their website. When entities invest with DOR, they are effectively accepting its set of guidelines. Those asset class specific guidelines do not stay in investment policies, but are rather adopted by reference to the broader set of DOR guidelines. This approach would likely result in significant changes to the Corporation's investment policy, since the existing policy is based on a custom portfolio with security specific guidelines embedded in the policy. Most of those would be removed from the policy and replaced with reference to DOR policy and a set of risk tolerance, time horizon investment objectives that would be relatively short, similar to GeFONSI. Mr. Hanna noted that DOR's process of making and adopting recommendations takes place before the upcoming fiscal year, and their ideal timeframe in working with the Corporation would be later in the fiscal year after DOR's Commissioner adopts the recommendations for the coming fiscal year.

Mr. Donner commented on the Corporation's existing policy history. The policy was created based on the investment restrictions in various financings, going back to a time when the Corporation only had a modest amount of funds held outside trust indentures. As financings have been paid off, more and more cash has been released from the pledges in the financing documents. If the Corporation redeems the 2013 series bond issue, it would no longer be subject to any of the previous financing or investment covenants. This allows the Corporation the ability to develop its own investment policy instead of having it dictated by rating agencies. Ms. Pierce added, in terms of policy development, she thinks there is a large pool of reserve balances that do not have the same limitations of pledged funds. Scott McIntyre, Senior Portfolio Manager for Hilltop Securities Inc., remarked that he was impressed with the numbers in DOR's presentation. The proposed strategy appears sound and has a nice balance between safety and protection of principle. In terms of being too conservative, there is no slope to the curve or additional spread to fixed income securities at this time, so the Corporation is limited in what it is going to earn, but it all makes sense, and DOR knows what they are doing.

ADJOURN

There being no further business to discuss, Chair MacKinnon adjourned the meeting at approximately 2:45 p.m.

Approved by:

____
Anna MacKinnon, Chair

____
Date

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: March 11, 2021

Re: 2013A Series Notes – Consent Solicitation Update

Update:

As approved by the Board at the January 28th Board meeting, Staff have continued to move forward with issuing a consent solicitation statement seeking Bondholder approval to redeem the 2013A Series Notes.

Status and action steps taken include the following:

- Staff are continuing to work with Bond counsel, Financial Advisor, Trustee and Dept of Law to finalize drafting the consent solicitation statement.
- Staff are working with Financial Advisor to obtain fee estimate and enter in to an agreement with a Consent Solicitation Agent (CSA)
- Staff have continued to work with Financial Advisor to prepare loan portfolio financial projections and a comparative PV calculation. Based on results, Staff considers redeeming the Notes to have a positive financial impact and be in the best interest of the Corporation.
    - Please see PV calculation summary prepared by Hilltop Securities included in this packet.

Next Steps:

As previously summarized, next steps and responsible party include the following:

- Finalize agreement with a CSA – ASLC/BC/HTS
- Perform Market Valuation of Series 2013 Notes - CSA
- Finalize Consent Solicitation Documents – ASLC/BC/HTS/CSA
- Issue Solicitation – ASLC/BC/HTS/CSA
- Obtain ASLC Board Approval to Redeem Notes and notify affected parties – ASLC
- Liquidate ASLC's investments – ASLC/Trustee
- Purchase FFELP loan portfolio from Series 2013 Trust – ASLC/Trustee
- Issue Redemption Notice/Redeem Series 2013 Notes – ASLC/Trustee

ASLC - 2013 Trust -
Board Summary - Cash Flow Project Series 2013A

Cash Flow Project - Taxable Education Loan Backed Notes, Series 2013A

Original Issuance Date:		March 20, 2013
Original Bond Balance:	$	144,730,000
Cash Flow Start Date:		April 1, 2020
Balance Sheet as of Date:		March 31, 2020
Bond Balance as of Start Date:	$	37,350,405
Bond Balance as of 2.1.2021:	$	32,484,083
Actual Principal Redemption:		
April 25, 2020	$	736,158
May 25, 2020		344,940
June 25, 2020		345,100
July 25, 2020		441,953
August 25, 2020		521,118
September 25, 2020		501,086
October 25, 2020		524,723
November 25, 2020		442,534
December 25, 2020		280,824
January 25, 2021		727,886
Total Redemptions	$	4,866,322
Bond Balance	$	32,484,083

ASLC - 2013 Trust -
Board Summary - Cash Flow Project Series 2013A

Cash Flow Project - Taxable Education Loan Backed Notes, Series 2013A

Interest Rate Curves

Projected Forward Interest Rates

Market Data as of 1/29/2021

Historical Rates from 4/1/2020 to and including 1/1/2021;
implied forward rates thereafter

Source: Bloomberg

Interest Rate Spike (10 bps/month)

Date	91 Day T-Bill	1Y CMT	1M LIBOR	91 Day T-Bill (Interest Rate Spike)	1Y CMT (Interest Rate Spike)	1M LIBOR (Interest Rate Spike)
4/1/2020	0.0610%	0.3300%	0.9929%	0.0610%	0.3300%	0.9929%
7/1/2020	0.1293%	0.1800%	0.1623%	0.1293%	0.1800%	0.1623%
10/1/2020	0.0915%	0.1300%	0.1483%	0.0915%	0.1300%	0.1483%
1/1/2021	0.0583%	0.1000%	0.1439%	0.0583%	0.1000%	0.1439%
4/1/2021	0.0813%	0.0995%	0.2018%	0.181300%	0.200%	0.302%
7/1/2021	0.0909%	0.1173%	0.1578%	0.490900%	0.517%	0.558%
10/1/2021	0.0911%	0.1331%	0.1690%	0.791100%	0.833%	0.869%
1/1/2022	0.1367%	0.1489%	0.2015%	1.136700%	1.149%	1.202%
4/1/2022	0.1530%	0.1818%	0.1725%	1.453000%	1.482%	1.473%
7/1/2022	0.1530%	0.2242%	0.1855%	1.753000%	1.824%	1.786%
10/1/2022	0.1530%	0.2676%	0.2410%	2.053000%	2.168%	2.141%
1/1/2023	0.2706%	0.3107%	0.2612%	2.470600%	2.511%	2.461%
4/1/2023	0.3238%	0.4300%	0.3631%	2.823800%	2.930%	2.863%
7/1/2023	0.3238%	0.5524%	0.3987%	3.123800%	3.352%	3.199%
10/1/2023	0.3238%	0.6748%	0.4340%	3.423800%	3.775%	3.534%
1/1/2024	0.7457%	0.7986%	0.4695%	4.145700%	4.199%	3.870%
4/1/2024	0.8161%	0.8161%	0.6958%	4.516100%	4.516%	4.396%
7/1/2024	0.8161%	0.8161%	0.7577%	4.816100%	4.816%	4.758%
10/1/2024	0.8161%	0.8161%	0.8202%	5.116100%	5.116%	5.120%
1/1/2025	0.8161%	0.8161%	0.8834%	5.416100%	5.416%	5.483%
4/1/2025	0.8161%	0.9518%	1.0280%	5.716100%	5.852%	5.928%
7/1/2025	0.8161%	1.1578%	1.0983%	6.016100%	6.358%	6.298%
10/1/2025	0.8161%	1.3660%	1.1691%	6.316100%	6.866%	6.669%
1/1/2026	1.3759%	1.5768%	1.2385%	7.175900%	7.377%	7.039%
4/1/2026	1.6421%	1.6421%	1.3421%	7.742100%	7.742%	7.442%

ASLC - 2013 Trust - PV Results
High IBR Assumption to 53%

Forward Curve Rate Scenario

Status Quo			Early Redemption				
PV Rate	**External Distributions FV**	**External Distributions PV**	**External Distributions FV**	**External Distributions PV**	**ASLC Redemption Cost**	**Adjusted PV**	**Status Quo vs Redemption Difference**
1%	9,689,958	8,469,247	42,381,243	39,509,718	(29,400,000)	10,109,718	(1,640,471)
2%	9,689,958	7,411,620	42,381,243	36,916,701	(29,400,000)	7,516,701	(105,081)

Note: The forward curve projects maximun and average 1ML rates of 1.32% and 1.20%, respectively. Discount Rates selected reflect interest rate environment used in the cash flows.

Rate Spike Scenario (10bps/month)

Status Quo			Early Redemption				
PV Rate	**External Distributions FV**	**External Distributions PV**	**External Distributions FV**	**External Distributions PV**	**ASLC Redemption Cost**	**Adjusted PV**	**Status Quo vs Redemption Difference**
5%	15,651,756	8,423,319	51,605,424	36,830,314	(29,400,000)	7,430,314	993,005
6%	15,651,756	7,466,783	51,605,424	34,630,638	(29,400,000)	5,230,638	2,236,146

Note: The forward curve projects maximun and average 1ML rates of 7.44% and 6.66%, respectively. Discount Rates selected reflect interest rate environment used in the cash flows.

Assumptions:

(1) 5 yr Forward Curve - Cash flows presume flat rates from 4/1/2026 forward.
(2) Redemption Date = 4/25/2021
(3) ASLC Contribution to Redeem all Bonds = $29.4 mm
(4) Rate Spike = 10bps/months from 4/1/2021

ASLC - 2013 Trust - PV Results
Reduced IBR Assumption to 38%

Forward Curve Rate Scenario

Status Quo			Early Redemption				
PV Rate	**External Distributions FV**	**External Distributions PV**	**External Distributions FV**	**External Distributions PV**	**ASLC Redemption Cost**	**Adjusted PV**	**Status Quo vs Redemption Difference**
1%	9,562,933	8,365,870	41,972,551	39,231,829	(29,400,000)	9,831,829	(1,465,959)
2%	9,562,933	7,328,085	41,972,551	36,751,274	(29,400,000)	7,351,274	(23,189)

Note: The forward curve projects maximun and average 1ML rates of 1.32% and 1.20%, respectively. Discount Rates selected reflect interest rate environment used in the cash flows.

Rate Spike Scenario (10bps/month)

Status Quo			Early Redemption				
PV Rate	**External Distributions FV**	**External Distributions PV**	**External Distributions FV**	**External Distributions PV**	**ASLC Redemption Cost**	**Adjusted PV**	**Status Quo vs Redemption Difference**
5%	15,314,532	8,329,548	50,560,498	36,517,237	(29,400,000)	7,117,237	1,212,311
6%	15,314,532	7,400,776	50,560,498	34,411,919	(29,400,000)	5,011,919	2,388,857

Note: The forward curve projects maximun and average 1ML rates of 7.44% and 6.66%, respectively. Discount Rates selected reflect interest rate environment used in the cash flows.

Assumptions:

(1) 5 yr Forward Curve - Cash flows presume flat rates from 4/1/2026 forward.
(2) Redemption Date = 4/25/2021
(3) ASLC Contribution to Redeem all Bonds = $29.4 mm
(4) Rate Spike = 10bps/months from 4/1/2021

THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

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Memorandum

To: Alaska Student Loan Corporation Board Members

Thru: Sana Efird, Executive Officer

From: Julie Pierce, Chief Finance Officer and Kerry Thomas, Director of Program Operations

Date: March 11, 2021

Re: Recommended Interest Rates for Loans Awarded and Specified Effective Dates

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Pursuant to AS 14.42.215 and 20 AAC 14.050, the Corporation sets the interest rate for loans it originates. The rates proposed 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 an 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.

As outlined in the prior year and discussed over the last several years, the decline in the loan portfolio poses a challenge to setting rates. Based on current cash flow and loan origination projections, the loan portfolio is expected to continue to decline through the foreseeable future unless there are significant increases in loan originations. Costs have not declined at the same pace as the loan portfolio and it will take some time to align costs to a level the loan portfolio can support. While cost reduction plans are being implemented, staff propose continuing to set rates that are competitive. The Corporation has equity to absorb losses providing the needed time to bring about cost reductions and increase revenue. This approach maintains awareness of the loan programs offered and does not negatively impact new loan volume levels.

The Corporation considers the Federal PLUS loan program to be its competitor in addition to other private student loan originators. The interest rate on the PLUS program is set in early

May based on the 10 Year Treasury. The rates being proposed assumes the PLUS rate will be approximately equal to the current rate of 5.30%.

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

Program (max loan term)	Fixed Rate ASEL (10 years)		
Effective Date	July 1, 2021		
FICO[1] Range	650-679[2]	680-719	720+
Base Rate	8.50%	6.00%	5.50%
Interest Rate Reduction [3]	0.25%	0.25%	0.25%
Lowest Rate	8.25%	5.75%	5.25%

Other loan program rates proposed are as follows:

Program (max loan term)	Variable Rate ASEL[4]	Fixed Rate PSEP[5] (10 years)	Fixed Rate FEL (10 years)
Effective Date	July 1 – June 30	July 1, 2021	July 1, 2021
Underwriting Criteria	No Adverse Credit	No Adverse Credit	No Adverse Credit
Base Rate	TBD TBD[6]	6.00%	6.00%
Interest Rate Reduction	0.25%	0.25%	0.25%
Lowest Rate	TBD TBD[6]	5.75%	5.75%

[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] Borrower or cosigner must also have an absence of adverse credit in order to qualify for loan.
[3] Rate reduction is available to borrowers making recurring $50 monthly payments on loans not in repayment, deferment or forbearance or borrowers making recurring payments on loans current on their repayment schedule.
[4] No longer originated but rate is reset annually for existing loans. Rate to be set in May 2021.
[5] Professional Student Exchange Program
[6] Applicable in-school interest rate.

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

ASEL 650 – 679 FICO – no change
ASEL 680 – 719 FICO, PSEP and FEL – no change
ASEL 720+ FICO – no change

No change is being proposed to underwriting criteria or the borrower benefit.

If the Corporation were to set ASEL/PSEP/FEL interest rates at the level necessary to recover current costs, the weighted average rates would need to increase by approximately 0.00% - 2.00%.

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)**		
Effective Date	**May 1, 2021 (or as soon as administratively feasible after May 1, 2021)**			**May 1, 2021 (or as soon as administratively feasible after May 1, 2021)**			**May 1, 2021 (or as soon as administratively feasible after May 1, 2021)**		
Underwriting Criteria	FICO 680-719[7]	FICO 720-779	FICO 780+	FICO 680-719[8]	FICO 720-779	FICO 780+	FICO 680-719[9]	FICO 720-779	FICO 780+
Base Rate	4.60%	3.80%	3.55%	4.80%	4.00%	3.75%	5.00%	4.20%	3.95%

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

REFI 15-year, 680 - 719 FICO – new rate tier by FICO (set at 80bp higher than next FICO tier)
REFI 15-year, 720 – 779 FICO – reduction of 90bp
REFI 15-year, 780+ – reduction of 90b

REFI 10-year, 680 – 719 FICO – new rate tier by term (20bp lower than 15-year)
REFI 10-year, 720 – 779 FICO – new rate tier by term (20bp lower than 15-year)
REFI 10-year, 780+ – new rate tier by term (20bp lower than 15-year)

REFI 10-year, 680 – 719 FICO – new rate tier by term (20bp lower than 10-year)
REFI 5-year, 720 – 779 FICO – new rate tier by term (20bp lower than 10-year)
REFI 5 -year, 780+ – new rate tier by term (20bp lower than 10-year)

[7] Borrower or cosigner must also have an absence of adverse credit in order to qualify for loan.
[8] Borrower or cosigner must also have an absence of adverse credit in order to qualify for loan.
[9] Borrower or cosigner must also have an absence of adverse credit in order to qualify for loan.

If the Corporation were to set interest rates at the level necessary to recover current costs, the weighted average REFI rates would need to increase by approximately 0.00% - 2.50%.

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 are typically a higher balance. In order to offer the most competitive rate to high FICO score borrowers while mitigating loan loss and interest rate risk, Staff developed additional rate tiers by term (shorter the term, lower the rate). We currently offer in-school loans to borrowers with FICO scores between 680-719. In order to serve those students, Staff also added an additional rate tier for borrowers with a FICO score between 680-719 with a proposed rate set to be competitive and cover the additional risk of loss.

Considerations associated with these proposed Refi rates are as follows:

- interest rate environment over time and competitive rates
- borrowers with higher FICO scores are subject to stricter credit criteria, reducing anticipated loan losses;
- 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.
- Refi rates can be adjusted at anytime
- Auto pay utilization is comparatively higher than other loan programs, reducing anticipated loan losses. Staff intend to focus efforts at increasing auto pay enrollment as part of planned Refi outreach campaign.

The Corporation considers private loan originators to be its competitor and industry benchmark for setting refinancing loan rates. Staff compiled rate survey results from multiple sources. Survey results indicate average prequalified rates for borrowers with credit scores of 720 or higher as low as 2.99% - 3.82% offered by private student loan originators, including financial institutions. Additional public entity, private student loan originators, refinancing rate ranges are as low as 4.16% - 4.70%, depending on FICO score, co-borrower and repayment term.

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.

Staff recommend the fixed interest rates and underwriting criteria for the 2021-2022 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 2021-2022 academic year loans be set as shown in the tables above.

THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Alaska Student Loan Corporation

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MEMORANDUM

TO: Board Members, Alaska Student Loan Corporation

FROM: Sana Efird, Executive Officer

DATE: March 3, 2021

SUBJECT: Executive Officer's Report

The Request for Proposal (RFP) for the outsourcing of the Corporation's private supplemental loan originations issued on February 22, 2021. We anticipate issuing the contract in May 2021, and expect the initial conversion cutover for originations to occur in October 2021. Relating to servicing of those loans, the Commission selected the Pennsylvania Higher Education Assistance Agency (PHEAA), conducting business as American Education Services (AES), as the new servicer of the Corporation's supplemental loans. AES was selected after evaluating other vendors that service education loans. The primary reasons AES was selected were cost savings, better customer experience, and flexibility in options to meet the needs of our agency. AES is also the servicer for the Corporation's FFELP loan portfolio. The Commission is currently documenting our private loan servicing specifications, which will translate into a servicing contract with PHEAA. The Commission and AES are engaged in high-level discussions regarding servicing requirements for non-standard loan terms such as post-default collections, garnishments, and forgiveness. These discussions will help define the contract terms for these processes. The servicing contract is projected to be complete by June 30, 2021, (FY2022) with Phase I of servicing conversion cutover in October 2021, and Phase II of servicing conversion cutover at the end of May 2022.

The legislative proposal the Commission approved at its July 2020 meeting, which was subsequently reviewed in an executive session with both the Commission and Corporation at the joint October 2020 meeting, was introduced as SB 94 and HB 114 in the Senate and House, respectively. Commission staff will be working directly with legislators and with the Department of Education and Early Development's legislative liaison to move this legislation forward. The Senate Education Committee will hold an initial hearing on SB 94 Friday, March 5 at 9:00am. An update on the hearing and this topic will be provided at the upcoming meeting on March 11, 2021.

Earlier last year, the Commission was awarded $786,000 in CARES funds to make grants that would provide the equivalent of a 0% interest rate to borrowers, similar to the 0% interest benefit available to borrowers with loans held by the federal government. This amount was determined based on the estimated number of borrowers experiencing hardship during the initial Governor's emergency declaration period ending on November 15, 2020. When the Governor extended the emergency declaration through December 15, 2020, the Commission requested and was awarded supplemental funding in the amount of $73,000 to provide the benefit for the additional 30-day extension. The Commission also received funding to provide for the administrative costs of implementing this benefit. All of the CARES funds were utilized. The number of borrowers who took advantage of this benefit was 843 for a total of $849,178.

Relating to the Commission's proposed Fiscal Year 2022 budget, the request for $431.5 in Higher Education Investment Funds (HEIF) to replace Corporation funds and pay the operating costs of the Alaska Performance Scholarship (APS), Alaska Education Grant (AEG), WWAMI, and Institutional Authorization is included. The request to delete seven PCNs and associated budget reduction of $1,057.0 was accepted. The $33.5 HEIF increment request to fund the WWAMI contractual increase is also included. Please note WWAMI loans are funded from the HEIF, but repayments go to the general fund. The added language below is included in the governor's budget proposal; the change would allow for repayments to be returned to the HEIF for sustainable loan issuance.

> ** Sec. 23 Fund Transfers. (m) The amount received as repayment from WWAMI Medical Program loans by the Alaska Commission on Postsecondary Education, estimated to be $504,044, is appropriated to the Higher Education Investment Fund (AS 37.14.750).*

The Commission's senior management team continues to meet and consider changes or confirmation of the agency's strategic plan. The Commission's Executive Committee met to discuss current progress on the strategic plan on November 18, 2020, December 16, 2020, and January 20, 2021. One of the focal points of strategic planning is engagement with Alaska's education stakeholders. To that end, I have attended a couple of regular meetings with education groups and identified collaboration prospects related to our ongoing strategic planning. Additionally, senior management recently participated in two half-day internal strategic planning sessions with Demaree Michelau at the Western Interstate Commission for Higher Education (WICHE) to aid in developing the strategic plan for our agency. Additional information and updates will be provided on this topic as planning moves forward.

Attachment: Text for Senate Bill 94

SENATE BILL NO. 94

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 2/24/21
Referred: Education, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the education loan program and Alaska supplemental education loan program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** AS 14.43.122(b) is amended to read:

(b) For a borrower to be eligible for consolidation of a loan under this section, the borrower must apply on a form approved by the corporation and **must** [PROVIDE PROOF SATISFACTORY TO THE CORPORATION THAT THE BORROWER]

(1) physically **reside** [RESIDES] in the state and **have** [HAS] maintained a domicile in the state for not less than 12 consecutive months before submitting an application for consolidation;

(2) **be a previous borrower, cosigner, or beneficiary of an education loan made under AS 14.43 or AS 14.44** [HAS NOT BEEN PHYSICALLY ABSENT FROM THE STATE FOR MORE THAN 60 DAYS IN THE 12 MONTHS BEFORE SUBMITTING AN APPLICATION FOR

CONSOLIDATION]; **or**

(3) **be a graduate of a high school or postsecondary institution physically located in the state** [HAS NOT DECLARED RESIDENCY IN ANOTHER STATE;

(4) HAS NOT RECEIVED A BENEFIT OF RESIDENCY IN ANOTHER STATE].

* **Sec. 2.** AS 14.43.173(a) is amended to read:

(a) In a school year, the corporation may finance a loan to an eligible borrower under AS 14.43.170 - 14.43.175 attending an eligible postsecondary institution **in a maximum amount to be determined by the corporation for an eligible** [NOT TO EXCEED]

(1) **undergraduate attending a college or university** [$14,000 TO AN ELIGIBLE UNDERGRADUATE STUDENT ATTENDING A COLLEGE OR UNIVERSITY];

(2) **graduate student attending a college or university** [$15,000 TO AN ELIGIBLE GRADUATE STUDENT ATTENDING A COLLEGE OR UNIVERSITY]; **and**

(3) **student attending a career education program** [$10,000 TO AN ELIGIBLE STUDENT ATTENDING A CAREER EDUCATION PROGRAM].

* **Sec. 3.** AS 14.43.173(b) is amended to read:

(b) The corporation may finance loans made under AS 14.43.170 - 14.43.175 to **an eligible** [A] borrower **a maximum total** [IN AN] amount **to be determined by the corporation for** [THAT IS NOT MORE THAN]

(1) **an** [A TOTAL OF $56,000 FOR] undergraduate study **program**;

(2) a [TOTAL OF $60,000 FOR] graduate study **program; and** [; OR]

(3) a combined [TOTAL OF $87,000 FOR] undergraduate and graduate study **program**.

* **Sec. 4.** AS 14.43.173(d) is amended to read:

(d) The commission shall determine a borrower's loan award amount for a specific school year [BASED ON A STUDENT'S ON-TIME, HALF-TIME, AND FULL-TIME STUDENT STATUS] and may not exceed the limits established **by the**

corporation [IN THIS SECTION] or the borrower's costs of attendance.

* **Sec. 5.** AS 14.43.175 is amended to read:

Sec. 14.43.175. Repayment of loans. A borrower's obligation to commence repayment of the principal of and interest on a loan under AS 14.43.170 - 14.43.175 begins not **later** [MORE] than six months following the borrower's completion or other termination of the postsecondary program or the date that the borrower ceases to be enrolled on at least a half-time basis. **The commission and borrower may agree to a repayment schedule commencing repayment immediately upon disbursement of a loan.**

* **Sec. 6.** This Act takes effect July 1, 2021.

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: March 11, 2021
Re: Proposed Annual Meeting Calendar

Staff have developed a schedule of annual topics for ASLC meetings. Staff are presenting this schedule for information and planning purposes. Adoption of the changes proposed in this schedule will be an agenda item for the board's consideration at the May 13, 2021, meeting.

ASLC Annual Meeting Schedule			
Currently Scheduled	**Proposed**	**Meeting Purpose**	**Note**
March	Beginning of February	Set Fixed Rates	Rates can be set as deemed appropriate but at least annually. Proposed annual rate setting scheduled at the beginning of February allows for rates to be set and approved by the Board in advance of the annual program year project.
May	May	Set Variable Rates	Corporation regulations specify the ASEL variable interest rate be 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."
Annually in November	May	Investment Policy Approval	Schedule Investment Policy Approval at an ideal timeframe for working with DOR in consideration of DOR's process of working with DOR's Financial Advisor to develop and adopt capital market assumptions and benchmark recommendations for the coming fiscal year.

August	Eliminate Mtg.		From the end of June to the beginning of September is a period of significant work compression for the Finance Division focused on preparing the next fiscal year budget, closing the fiscal year end, preparing financial statements, and preparing for and undergoing the annual financial statement audit.
November	End of October	Review Annual Audited Financial Statements	Annually in October as a standalone or joint meeting with the Commission. Benefit of not juggling with Veterans or Thanksgiving Holiday in November.
November	End of October	Approve Dividend back to SOA	
ad hoc	ad hoc	Various	Legislative proposals. Statutory/regulation changes. 2013 Note Redemption or other Financing topics. Other special purpose.

FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Alaska Student Loan Corporation 2013A; Outlook Remains Negative

Wed 03 Mar, 2021 - 3:39 PM ET

Fitch Ratings - New York - 03 Mar 2021: Fitch Ratings has downgraded the rating for the only outstanding class of Alaska Student Loan Corporation 2013A (Alaska 2013-A). The Rating Outlook Remains Negative.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Alaska Student Loan Corporation 2013A				
• A 011855CM3	LT	AAsf Rating Outlook Negative	Downgrade	AAAsf Rating Outlook Negative

Feedback

VIEW ADDITIONAL RATING DETAILS

TRANSACTION SUMMARY

The downgrade of the notes reflects Fitch's stressed cashflow results, which indicate the bonds are not paid in full by the legal final maturity date under Fitch's 'AAAsf' maturity scenarios and marginally pass 'AAsf' and 'Asf' maturity scenarios. Although the bonds are not paid in full under the 'AAAsf' maturity scenario, there is no indication of principal shortfall.

The increased maturity risk in the transaction stems primarily from increasing remaining loan term and a reduction in payment rate. The weighted average remaining term has increased to 144.5 months, compared to 138.1 months as of July 31, 2020, used during the last annual review. The Negative Outlook highlights that the transaction may be susceptible to further negative rating pressure if the prepayment rate declines and/or the remaining term continues to increase.

KEY RATING DRIVERS

U.S. Sovereign Risk: The trust collateral comprises Federal Family Education Loan Program (FFELP) loans, with guaranties provided by eligible guarantors and reinsurance provided by the U.S. Department of Education (ED) for at least 97% of principal and accrued interest. The U.S. sovereign rating is currently 'AAA'/Outlook Negative.

Collateral Performance: Fitch assumes a base case default rate of 38.25%, and a 100% default rate under the 'AAA' credit stress scenario. The base case default assumption implies a constant default rate of 7.0%, consistent with the sustainable constant default rate (sCDR) assumption utilized in the maturity stresses. Fitch applies the standard default timing curve in its credit stress cash flow analysis. The claim reject rate is assumed to be 0.5% in the base case and 3% in the 'AAA' case.

As of Dec. 31, 2020, The TTM levels of deferment, forbearance, and income-based repayment (prior to adjustment) were 9.0%, 14.3%, and 26.7%, respectively, and are used as the starting point in cash flow modelling. Fitch assumed a sustainable constant prepayment rate (voluntary and involuntary prepayments; sCPR) of 14%. For these assumptions, any subsequent declines or increases are modelled as per criteria. The borrower benefit is assumed to be approximately 0.05%, based on information provided by the sponsor.

Feedback

Basis and Interest Rate Risk: Basis risk for this transaction arises from any rate and reset frequency mismatch between interest rate indices for SAP and the securities. As of December 2020, all loans and notes are indexed to one-month LIBOR.

Payment Structure: Credit Enhancement (CE) is provided by excess spread and overcollateralization. As of the Dec. 31, 2020 report date, Fitch's total effective parity was 117.04%. Liquidity support is provided by a reserve account currently sized at $217,097. The reserve account balance is required to be maintained at the greater of (i) 0.25% of the bond balance and (ii) $217,095. The trust is currently in turbo, and no excess cash will be released from the trust until the notes are paid in full.

Operational Capabilities: Effective April 1, 2020, day-to-day servicing is provided by American Education Services (AES). Fitch believes AES to be an acceptable servicer, due to its extensive track record of servicing FFELP loans.

Coronavirus Impact: Fitch's baseline (rating) scenario assumes an initial activity bounce in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid high unemployment and further pullback in private-sector investment. To assess the sustainable assumptions, Fitch analyzed a decline in payment rates and an increase in defaults to previous recessionary levels for two years, and then a return to recent performance for the remainder of the life of the transaction. Fitch maintained the sCDR and sCPR assumptions, which reflect healthy cushions from current performance.

RATING SENSITIVITIES

This section provides insight into the model-implied sensitivities the transaction faces when one assumption is modified, while holding others equal. Fitch conducts credit and maturity stress sensitivity analysis by increasing or decreasing key assumptions by 25% and 50% over the base case. The credit stress sensitivity is viewed by stressing both the base case default rate and the basis spread. The maturity stress sensitivity is viewed by stressing remaining term, IBR usage and prepayments. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Credit Stress Sensitivity

--Default decrease 25%: class A 'AAAsf';

--Basis Spread decrease 0.25%: class A 'AAAsf';

Maturity Stress Sensitivity

--CPR increase 25%: class A 'AAAsf';

--IBR usage decrease 25%: class A 'AAsf';

-- Remaining Term decrease 25%: class A 'AAAsf'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Credit Stress Rating Sensitivity

--Default increase 25%: class A 'AAAsf';

--Default increase 50%: class A 'AAAsf';

--Basis spread increase 0.25%: class A 'AAAsf';

--Basis spread increase 0.50%: class A 'AAAsf';

Maturity Stress Rating Sensitivity

--CPR decrease 25%: class A 'BBsf';

--CPR decrease 50%: class A 'CCCsf';

--IBR usage increase 25%: class A 'Asf';

--IBR usage increase 50%: class A 'BBBsf;

--Remaining Term increase 25%: class A 'Asf';

--Remaining Term increase 50%: class A 'BBBsf'.

Feedback

To conduct rating sensitivity under Fitch's coronavirus downside scenario, Fitch assumed a 50% increase in defaults, IBR and remaining term for the credit and maturity stresses, respectively. Under this scenario, the model-implied rating was 'AAAsf' for the class A notes, for the credit stress. The model-implied rating was 'BBBsf' for class A notes, for the maturity stress under each increased IBR and increased remaining loan term.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Feedback

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)

U.S. Federal Family Education Loan Program Student Loan ABS Rating Criteria (pub. 11 Jun 2020) (including rating assumption sensitivity)

Global Structured Finance Rating Criteria (pub. 17 Jun 2020) (including rating assumption sensitivity)

Feedback

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FFELP SL CF Model, v2.19.3 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Alaska Student Loan Corporation 2013A	EU Endorsed, UK Endorsed

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Feedback

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Feedback

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Structured Finance: ABS Structured Finance North America United States

THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

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Memorandum

To: Alaska Student Loan Corporation Board Members

Thru: Sana Efird, Executive Officer

From: Julie Pierce, Chief Finance Officer

Date: March 11, 2021

Re: ARPA and Impact to ASLC

American Rescue Plan Act of 2021 – Eliminating Taxation on Portions of Education Loans that are Discharged:

The U.S. Senate passed an amended version of the American Rescue Plan Act of 2021 (ARPA) on Saturday, March 6, 2021. One of the amendments adds tax-free student loan forgiveness to the House version of the bill. The bill would, starting after December 31, 2020 through January 1, 2027, not count any amount discharged from a loan made for postsecondary education expenses as income and therefore be taxable. The provision covers loans for postsecondary educational expenses, including Federal student loans and certain private education loans.

On March 10, 2021, the U.S. House of Representatives approved the Senate version of the bill. There are expectations that President Biden will sign the legislation soon.

Impact to ASLC – IRS Tax Reporting:

Staff are in the process of evaluating how the elimination of taxation provision included in ARPA will impact tax reporting requirements associated with loan discharge processes that occur annually as part of normal operations.

Impact to ASLC – *Anticipated* Debt Forgiveness and 2013A Notes:

While ARPA did not contain provisions to discharge education loans, there has been reported efforts to include this type of provision at varying amounts in legislation or as part of an executive action.

Staff have been monitoring this topic and considering the impact to ASLC. There have been and still are a lot of unknowns and speculation associated with this evolving topic, but with the tax component of ARPA passing, it makes the likelihood of some form of student loan debt forgiveness legislation seem more likely. Staff are working with our financial advisor to analyze the potential impacts.

Impact Question - Based on this possible landscape, does it make sense to move forward with the consent solicitation to redeem now or pause and monitor for any loan forgiveness legislation?

The Notes are subject to redemption when the outstanding FFELP pool balance is 10% or less of the initial pool balance.

Broadly, average outstanding principal balance per borrower is approximately $14,800 for FFELP loans and $15,700 for State loans.

In order to assist Staff with analyzing the financial impact of a $10,000 debt forgiveness plan if implemented and applicable to the FFELP portfolio, our Financial Advisor modeled the forgiveness of $10,000 per borrower to occur approximately one year in the future based on average borrower indebtedness. The results indicate that the $10k forgiveness reduces the portfolio to below the 10% threshold and assuming all bonds are redeemed, the difference between FV and PV are reduced and minimal. In other words, if we move forward with the redemption, the financial benefit per the PV calculation of redeeming now would be eliminated if the loan forgiveness plan is subsequently implemented. Additionally, the transactional cost of issuing a clean up call is minimal compared to the transaction cost of issuing a consent solicitation.

Staff determined today that, based on review of FFELP portfolio loan detail, the balance of loans that would be discharged if $10,000 of FFELP loans were discharged a year from now is approximately $18M. This level of forgiveness would result in the FFELP portfolio declining to approximately 12% of the initial pool balance, just above the10% threshold.

Other considerations include the following:

- The possibility, timing of approved plan, timing of implementation, parameters of implementation and applicability to ASLC's FFELP portfolio of a forgiveness plan is still unknown
- The issue of LIBOR ceasing to exist still needs to be addressed in a defined timeframe
- Cost reductions and administrative efficiencies previously identified is estimated to offset a good portion of the transactional costs of moving forward with the redemption
- There may be legal issues associated with a federally mandated plan of action applied to loans pledged to publicly held bonds. Anytime the Corporation has to navigate an issue associated with the Trust or Bonds, it can be anticipated to be costly.
- Due to the unknowns, there may be fewer administrative complications to implement a forgiveness plan without navigating implementation within a Trust

Staff Recommendation:
Big picture, if a debt forgiveness plan is implemented, the portfolio would pay down eliminating the estimated $1 M gain from redeeming the Notes but the economic efficiencies offset the transactional costs of moving forward. Based on this, discussion with our financial advisor and in light of the other considerations outlined above, Staff recommends continuing to move forward with the consent solicitation to redeem the 2013A series Notes.

Impact to ASLC – *Anticipated* Debt Forgiveness and FFELP Portfolio Sale:

The option to sell the FFELP portfolio is possible once the Notes are redeemed because the loans are no longer pledged, but the decision to sell the FFELP portfolio is a separate decision from redeeming the Notes. If a debt forgiveness plan is implemented and the FFELP portfolio is reduced, it will impact the Corporations ability to sell the portfolio at par. Staff have been documenting and analyzing considerations associated with selling the FFELP portfolio and have identified this as a topic to consider next fall as part of strategic planning and prioritization.