

STUDENT LOAN AUTHORITY

Enabling Laws

Act 96 of 2012
A.C.A. §6-81-101 et seq.

History and Organization

Since the Authority was created in 1977, its enabling legislation has been amended six times:

Act 633 of 1979

- delineated membership of the Authority board and
- expanded authorized investments.

Act 296 of 1981

- defined the term "obligation",
- increased the obligation "cap" from \$15 million to \$50 million,
- required repayment from the next sale of revenue bonds of any outstanding obligation(s) other than revenue bonds, and
- repealed the requirement that student loans qualify for payment of federal interest benefits.

Act 937 of 1983

- defined the term "bond",
- removed the 10% limit on bond interest rates,
- reduced the notice period for public sale of bonds to ten days, and
- expanded authorized investments.

Act 39 of the 1983 First Extraordinary Session

- increased the obligation "cap" from \$50 to \$100 million.

Act 51 of the 1983 First Extraordinary Session

- authorized negotiated sales of obligations.

Act 429 and 449 of 1985 (identical acts)--

- authorized the Authority to make and purchase PLUS (parent) loans
- re-defined the term "obligation" to authorize the Authority to issue taxable and/or non-taxable debt, and

- designated the Authority as a public body politic and corporate.

Act 705 and 631 of 1985 (identical acts)--

- authorized the Authority to make or purchase loans from any qualified guarantor of its choice,
- removed the limitation on obligations that may be issued by the Authority, and,
- permitted the issuance of obligations, the proceeds of which may be used to acquire investment contracts.

Act 377 of 1989

- authorized the Authority to sell guaranteed educational loan notes where appropriate to its operation

Act 1284 of 1993

- clarified the powers and authority of agency
- authorized the Authority to administer financial assistance for particular health education programs

Act 1218 of 1999

- moved administration of the Health Education Grant Program from the Authority to the Department of Higher Education

Act 521 of 2011

- authorized the Authority to administer federal education loans on behalf of the U.S. Department
- clarified the Authority's ability to provide non-federal education loans

The Arkansas Student Loan Authority ("Authority") was created to provide an enduring source of affordable higher education funding to Arkansas citizens and non-citizens who attend an Arkansas higher education institution. In 1977, as the number of student loan providers dwindled, the Arkansas General Assembly established ASLA to ensure an enduring source of affordable student loans to the citizens. It is ASLA's mission to enhance access to affordable educational funding and to provide localized student loan servicing to Arkansas citizens. All funding to support ASLA programs is provided by cash funds generated from loan program operations. ASLA is a self-sufficient agency that does not receive any state revenue dollars.

The Authority operated as a loan originator and secondary market in the Federal Family Education Loan Program (FFELP) for over 30 years; the agency continues to fulfill loan servicing responsibilities for approximately \$450 million in FFELP student loans owned by the Authority. The Authority anticipates that it will manage a minimum of \$320 million and up to \$550 million in FFELP student loans during the 2013-2015 biennial period. Loan servicing and administration expenses related to FFELP accounts typically run in the range of 1.00%-1.25% of the total outstanding loan portfolio.

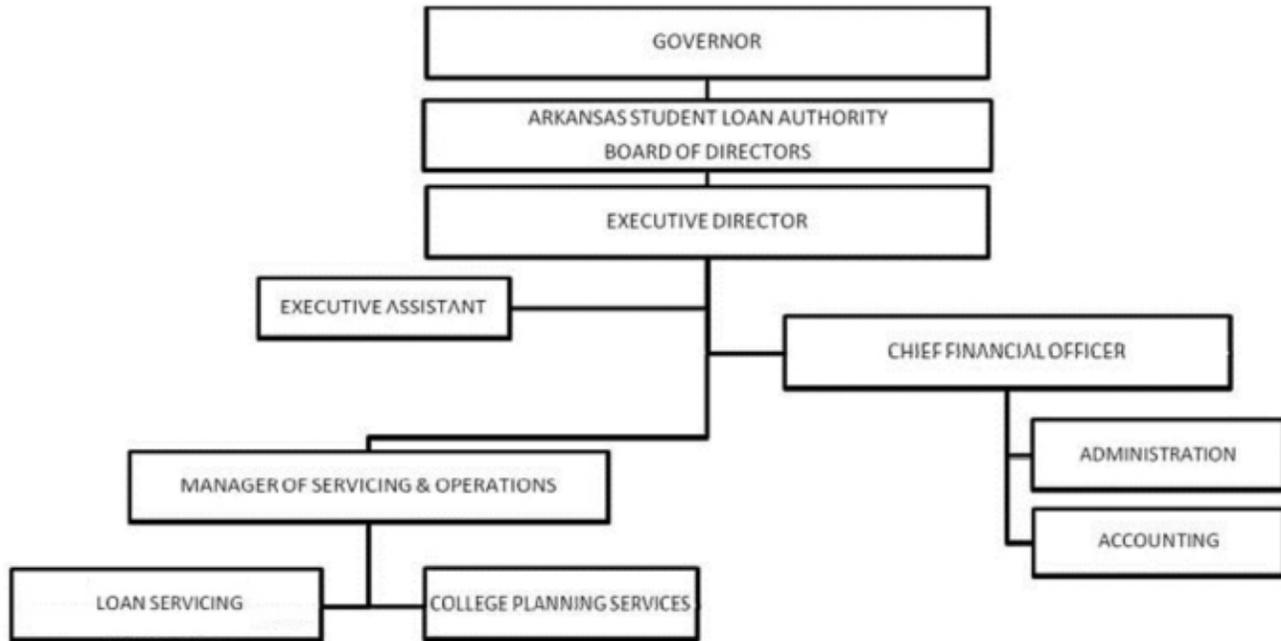
As of July 1, 2010, Congress eliminated FFELP and replaced it with the Federal Direct Loan Program (FDLP) through a mandate included in the Health Care and Education Reconciliation Act of 2010 (HCERA). Under HCERA, the U.S. Department of Education is the only entity authorized to originate federal student loans; however, qualified state agencies, such as the Authority, are authorized to provide loan servicing. ASLA received a allocation of approximately 100,000, student loan accounts during the period of January 2012 through May 2012.

The par value of the FDLP accounts, the Authority is administering on behalf of the U.S. Department of Education, is approximately \$1.6 billion. The initial FDLP loan servicing contract is for a period of five years.

ASLA continues to offer extensive college planning services through its Fund My Future (FMF) program. FMF provides students, parents and high school counselors with comprehensive college financial aid information. The FMF website houses a free scholarship search with more than 3,000 state and national scholarships. ASLA publishes a "How To Pay For College" booklet in cooperation with the Arkansas Department of Higher Education to ensure that Arkansas students are familiar with the resources available to assist in paying for higher education. ASLA participates in approximately 100 college fairs and financial seminars annually to help families understand the federal and state financial aid application processes and to help students understand that higher education can be an affordable option for most any Arkansas citizen. Social media (Twitter and Facebook) have become important tools supported by ASLA that are being utilized to reach and communicate with students and their families. All college planning services are provided free of charge.

Student loan debt and defaults have become a major issue for student loan borrowers. ASLA has partnered with the Arkansas Association of Student Financial Aid Administrators to educate students about the options and tools available to assist in repayment of their student loans. The Authority's efforts include a campaign to discourage "over-borrowing". Arkansas had the 48th highest student loan default rate in the country in 2012, therefore ASLA is taking measures to make a positive impact on the default rate while also helping students avoid the serious repercussions of default.

ASLA is the designated student loan agency in the state and is authorized to issue taxable and tax-exempt revenue bonds to finance student loan in Arkansas for the benefit of its citizens; however, the agency's current primary focus is to administer loans on behalf of the U.S. Department of Education, as referenced above. The ASLA board of directors is committed to the support of students, the efficient management of the agency and the protection of the State's individual and corporate investment by keeping student loan funds Arkansas.



Agency Commentary

The Arkansas Student Loan Authority (ASLA, Authority) was created to provide an enduring source of affordable higher education funding to Arkansas citizens and non-citizens who attend an Arkansas higher education institution. All funding to support ASLA programs is provided by cash funds generated from loan program operations. ASLA is a self-sufficient agency which does not receive any state revenue dollars.

As of July 1, 2010, Congress eliminated the Federal Family Education Loan Program (FFELP) and replaced it with the Federal Direct Loan Program (FDLP) through a mandate included in the Health Care and Education Reconciliation Act of 2010 (HCERA). Under HCERA, the U.S. Department of Education is the only entity authorized to originate federal student loans; however, qualified state agencies such as the Authority will be allocated 100,000 accounts per state to administer on behalf of the U.S. Department of Education. The Authority received an allocation of approximately 100,000 student loan accounts during the period of January 2012 through May 2012. The par value of the FDLP accounts the Authority is administering on behalf of the U.S. Department of Education is approximately \$1.6 billion. The initial FDLP loan servicing contract is for a period of five years.

The Authority operated as a loan originator and secondary market in the FFELP for over 30 years; the agency continues to fulfill loan servicing responsibilities for approximately \$450 million in FFELP student loans owned by the Authority. The Authority anticipates it will manage a minimum of \$320 million and up to \$550 million in FFLEP loans during the biennial period. Loan servicing and administration expenses related to FFLEP accounts are typically 1.00% - 1.25% of the total outstanding loan portfolio.

Volume and complexity of the federal student loan program has made technical support essential to efficient and effective control of loan operations. The Authority utilizes the Windows NT Local Area Network to facilitate operations and communication between internal workstations. Most correspondence is now available on-line, saving postage, and handling and storage of paper documents.

The Authority continuously enhances its internet-based products and services in order to fulfill its mission and to enhance communications with its stakeholders. The Authority maintains three internet sites designed to be used by students, parents, high school guidance counselors, financial aid administrators, and investors. The websites are:

- www.asla.info
- www.fundmyfuture.info
- www.aslafinancials.info

Financial aid forms and financial aid information can be down loaded and forms can be completed electronically in many cases. Many of ASLA's Fund My Future services, such as free scholarship searches, are provided on-line. Rating agency quarterly servicing reports, annual audit reports, and other important financial information can be obtained by investors from the Authority's investor website.

The Authority requests a change level of \$146,303 in Regular Salaries and Personal Services Matching for restoration of three (3) positions and discontinuation of one (1) position. The three positions requested for restoration are two (2) ASLA Program Officer Grade C127 positions and one (1) Financial Aid Analyst Grade C115 position. This restoration is requested to fulfill agency responsibilities which may be required under the federal loan servicing contract with the US Department of Education. The agency is responsible for a minimum of 100,000 student loan accounts continuously during the five-year contract period which began January 2012. Currently the agency is in the developmental phase of the federal contract and is making a final determination of the positions required. The agency did not expect to need the positions for FY13 and were not budgeted; however, there is a potential need for the positions for the biennium.

Due to HCERA, the agency no longer disburses student loans; therefore, the agency requests discontinuation of the Accountant II Grade C117 position. This primary responsibility of this position was disbursing and accounting for the disbursements of student loans to students and schools across the State. This position is no longer necessary for the agency to fulfill its commitment to serve Arkansas students and families.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS STUDENT LOAN AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2011

Findings

The Authority failed to properly review and reconcile interfund transfers.

Recommendations

Management review the activity at the end of each month to ensure all interfund transfers are eliminated in the financial statements.

State Contracts Over \$25,000 Awarded To Minority Owned Businesses Fiscal Year 2012

None

Employment Summary

	Male	Female	Total	%
White Employees	2	1	3	60 %
Black Employees	0	1	1	20 %
Other Racial Minorities	0	1	1	20 %
Total Minorities			2	40 %
Total Employees			5	100 %

Cash Fund Balance Description as of June 30, 2012

Fund Account	Balance	Type	Location
1570000	\$62,300	Checking	Regions Bank, Little Rock

Statutory/Other Restrictions on use:

Arkansas code §6-8-102 established the Arkansas Student Loan Authority to provide federal guaranteed educational loans through the process of originating, buying and selling, and servicing educational loans. Use of cash fund balances is restricted by Bond Trust indentures.

Statutory Provisions for Fees, Fines, Penalties:

Proceeds from the repayment of principal and interest on guaranteed Educational loans and from investments shall be used to meet necessary expenses of the ASLA in the fulfillment of its mission.

Revenue Receipts Cycle:

Funds drawn from the outstanding loan balances in Trust Indentures and are deposited monthly. Investment returns are also available to be used to meet necessary costs of the ASLA.

Fund Balance Utilization:

The use of fund balances is restricted by the terms of Trust Indentures that pertain to the maintenance of various funds and reserves, and the investment of such when not needed for authorized purposes.

Publications

A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
None	N/A	N	N	0	N/A

Agency Position Usage Report

FY2010 - 2011					FY2011 - 2012					FY2012 - 2013							
Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused
	Filled	Unfilled	Total				Filled	Unfilled	Total				Filled	Unfilled	Total		
6	6	0	6	0	0.00 %	20	5	4	9	11	75.00 %	20	5	5	10	10	75.00 %

Analysis of Budget Request

Appropriation: A51 - Student Loan Authority - Cash Operations

Funding Sources: 157 - Student Loan Authority - Cash

The Arkansas Student Loan Authority was created for the purpose of originating and acquiring student loans and support Arkansas' student financial assistance by purchasing loans made by local lenders to higher education students. The process provides liquidity to banks so additional loans may be made to students in need. Funding is based upon Trust Indentures which allow the Authority to draw the cost of loan servicing plus 70 basis points or 0.7% of the outstanding loan balance on a monthly basis for program administration and general and administrative costs.

Funding for the Agency is derived from bond issues and participation in loan administration under the Health Care and Education Reconciliation Act of 2010 (HCERA). As of July 1, 2010, Congress eliminated the Federal Family Education Loan Program (FFELP) and replaced it with the Federal Direct Loan Program (FDLP) through a mandate included in HCERA. The par value of the FDLP accounts the Authority is administering on behalf of the U.S. Department of Education is approximately \$1.6 billion. The initial FDLP loan servicing contract is for a period of five years. The Agency continues to fulfill loan servicing for approximately \$450 million in FFELP student loans owned by the Authority. The Authority anticipates it will manage between \$320 million and \$550 million in FFELP loans during the biennial period.

Base Level Regular Salaries and Personal Services Matching includes Career Service payments for eligible employees. Personal Services Matching also includes a \$20 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$410 per month. Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Merit Pay increase.

The Agency's Change Level Request of \$146,303 for each year of the biennium in Regular Salaries and Personal Services Matching for restoration of three (3) positions and discontinuation of one (1) position.

- The positions to be restored increases Regular Salaries and Personal Services Matching \$178,552 includes two (2) ASLA Program Officer Grade C127 positions and one (1) Financial Aid Analyst Grade C115 position to fulfill responsibilities which may be required under the federal loan servicing contract. The Agency is currently in contract development and a determination will be made upon contract agreement.
- The one (1) position discontinuation request is for the Accountant II Grade C117 position. This will decrease Regular Salaries and Personal Services Matching \$32,249 each year of the biennium. This position was responsible for disbursing and accounting for the disbursements of student loans. This position is no longer needed due to the enactment of FDLP.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation Summary

Appropriation: A51 - Student Loan Authority - Cash Operations

Funding Sources: 157 - Student Loan Authority - Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	2013-2014			2014-2015		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	398,078	546,091	955,186	546,709	648,771	648,771	546,709	648,771	648,771
#Positions		6	10	20	10	12	12	10	12	12
Personal Services Matching	5010003	125,625	166,339	285,497	157,203	201,444	201,444	157,203	201,444	201,444
Operating Expenses	5020002	68,529	212,217	225,997	212,217	212,217	212,217	212,217	212,217	212,217
Conference & Travel Expenses	5050009	16,366	22,839	22,839	22,839	22,839	22,839	22,839	22,839	22,839
Professional Fees	5060010	1,836,233	3,713,389	7,694,289	3,713,389	3,713,389	3,713,389	3,713,389	3,713,389	3,713,389
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Capital Outlay	5120011	0	0	0	0	0	0	0	0	0
Total		2,444,831	4,660,875	9,183,808	4,652,357	4,798,660	4,798,660	4,652,357	4,798,660	4,798,660
Funding Sources										
Fund Balance	4000005	74,471	62,300		247,855	247,855	247,855	535,498	389,195	389,195
Federal Revenue	4000020	0	240,000		240,000	240,000	240,000	240,000	240,000	240,000
Cash Fund	4000045	2,432,660	4,606,430		4,700,000	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000
Total Funding		2,507,131	4,908,730		5,187,855	5,187,855	5,187,855	5,475,498	5,329,195	5,329,195
Excess Appropriation/(Funding)		(62,300)	(247,855)		(535,498)	(389,195)	(389,195)	(823,141)	(530,535)	(530,535)
Grand Total		2,444,831	4,660,875		4,652,357	4,798,660	4,798,660	4,652,357	4,798,660	4,798,660

Change Level by Appropriation

Appropriation: A51 - Student Loan Authority - Cash Operations
Funding Sources: 157 - Student Loan Authority - Cash

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	4,652,357	10	4,652,357	100.0	4,652,357	10	4,652,357	100.0
C01	Existing Program	178,552	3	4,830,909	103.8	178,552	3	4,830,909	103.8
C03	Discontinue Program	(32,249)	(1)	4,798,660	103.1	(32,249)	(1)	4,798,660	103.1

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	4,652,357	10	4,652,357	100.0	4,652,357	10	4,652,357	100.0
C01	Existing Program	178,552	3	4,830,909	103.8	178,552	3	4,830,909	103.8
C03	Discontinue Program	(32,249)	(1)	4,798,660	103.1	(32,249)	(1)	4,798,660	103.1

Justification

C01	The agency requests a change level of \$178,552 in Regular Salaries and Personal Services Matching for restoration of three (3) positions, two (2) ASLA Program Officer Grade C127 positions and one (1) Financial Aid Analyst Grade C115 position. This restoration is requested to fulfill agency responsibilities which may be required under the federal loan servicing contract with the US Department of Education. The agency is responsible for a minimum of 100,000 student loan accounts continuously during the five-year contract period which began January 2012. Currently the agency is in the developmental phase of the federal contract and is making a final determination of the positions required. The agency did not expect to need the positions for FY13 and were not budgeted; however, there is a potential need for the positions for the biennium.
C03	The agency requests a change level reduction of \$32,249 in Regular Salaries and Personal Services Matching due to discontinuation of the Accountant II Grade C117 position. The primary responsibility of this position was disbursing and accounting for the disbursements of student loans to students and schools across the State. The agency no longer disburses loans due to the federal Health Care and Education Act of 2010. This position is no longer necessary for the agency to fulfill its commitment to serve Arkansas students and families.