

# STUDENT LOAN AUTHORITY

## Enabling Laws

Act 46 of 2016  
A.C.A. §6-81-101 - A.C.A §6-81-132

## 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- repealed the requirement that student loans qualify for payment of federal interest benefits.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 ("ASLA" or "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 \$375 million in FFELP student loans owned by the Authority. The Authority anticipates that it will manage a minimum of \$300 million and up to \$350 million in FFELP student loans during the 2015-2017 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.

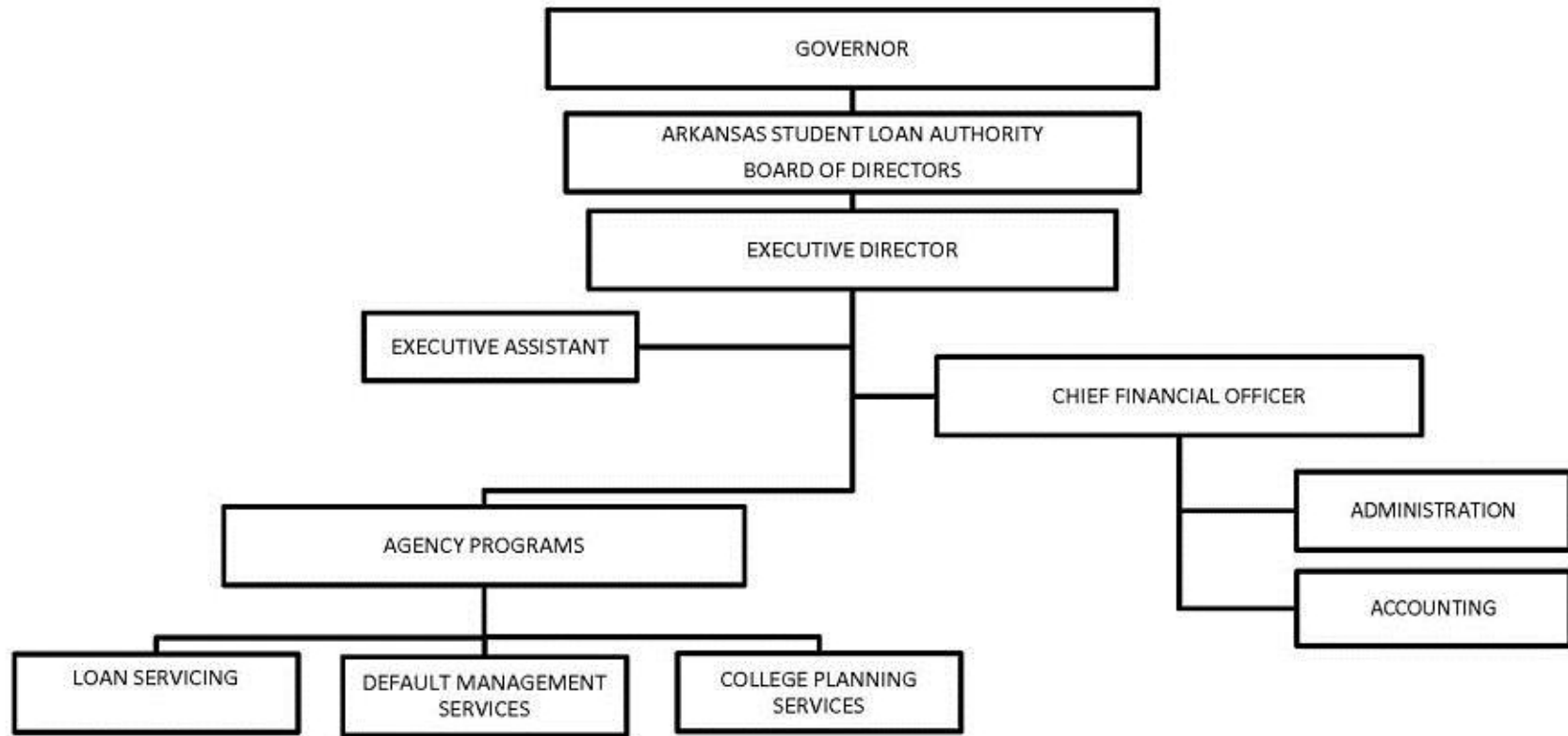
ASLA received an allocation of approximately 100,000, student loan accounts during the period of January 2012 through May 2012. The par value of the FDLP accounts, the Authority is administering on behalf of the U.S. Department of Education, is approximately \$1.6 billion. The initial FDLP loan servicing contract is for a period of five years. ASLA is the only organization in Arkansas eligible to provide loan servicing for the U.S. Department of Education.

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 college fairs and financial seminars statewide every year 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 49<sup>th</sup> highest student loan default rate in the country in 2013, 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 began offering Default Management Services (DMS) to Arkansas colleges and universities in 2013. Under this program, ASLA tracks former students in order to provide loan counseling to the ones who become delinquent. The goal of this program is to protect students from the serious repercussions of student loan default, protect the federal student aid eligibility for Arkansas colleges and universities and to make a positive impact on the State's overall student loan default rate.

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 ("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 \$250 million in FFELP student loans owned by the Authority. Loan servicing and administration expenses related to FFELP accounts typically are approximately 1.00% 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 2,000 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 over 50 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. ASLA also offers Default Management Services to Arkansas colleges and universities in order to assist the schools in lowering their default rates. The Authority communicates with student loan borrowers via incoming and outgoing phone calls, creative mail efforts and periodic call campaigns. Efforts also include advertising campaigns to discourage "over-borrowing". Arkansas had the 48<sup>th</sup> highest student loan default rate in the country in 2014, therefore ASLA is taking measures to make a positive impact on the default rate while also helping students avoid the serious repercussions of default. The overall Arkansas student loan default rate has dropped from 19.0% to 14.5% in the last two years. With a continued focus on default management, we expect the default rate to continue to decrease over the next few years.

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](http://www.asla.info)
- [www.fundmyfuture.info](http://www.fundmyfuture.info)
- [www.aslafinancials.info](http://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.

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.

ASLA requests Base Level appropriation for the 2017 -2019 Biennium.

## **Audit Findings**

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
ARKANSAS STUDENT LOAN AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2015

Findings

Recommendations

None

None

## **State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2016**

None

## **Employment Summary**

	Male	Female	Total	%
White Employees	2	0	2	50 %
Black Employees	0	1	1	25 %
Other Racial Minorities	0	1	1	25 %
	Total Minorities		2	50 %
	Total Employees		4	100 %

## **Cash Fund Balance Description as of June 30, 2016**

Fund Account	Balance	Type	Location
1570000	\$190,923	Checking	Regions, 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 received from the repayment of principal and interest on guaranteed Educational loans, investments, and fees received from the U.S. Department of Education for servicing Federal Direct Loans.

### Revenue Receipts Cycle:

Funds drawn from the outstanding loan balances in Trust Indentures and are deposited monthly. Investment returns and fees received from the U.S. Dept. of Education for servicing Federal Direct Loans.

### 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. 25-1-201 et seq.

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		Governor	General Assembly				
None	N/A	N	N	0	N/A	0	0.00

## Agency Position Usage Report

FY2014 - 2015						FY2015 - 2016					FY2016 - 2017						
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		
12	4	1	5	7	66.67 %	5	4	1	5	0	20.00 %	5	4	1	5	0	20.00 %



## **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 80 basis points or 0.8% of the outstanding loan balance on a monthly basis for loan servicing, 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.

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.

Base Level Regular Salaries and Personal Services Matching include the continuation of the previously authorized 2017 Salaries and Career Service Payments for eligible employees. Personal Services Matching includes the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$420 per month. Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Merit Pay Increases. The Base Level request for Regular Salaries includes board member stipend payments.

The Agency requests Base Level appropriation of \$3,819,765 in FY18 and \$3,819,887 in FY19.

Subsequent to Agency's initial Budget Request, the Office of Personnel Management and Agency personnel evaluated the Agency's position usage and ongoing staffing needs. The Executive Recommendation reflects position reductions based on the personnel evaluation. 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		
		2015-2016 Actual	2016-2017 Budget	2016-2017 Authorized	2017-2018			2018-2019		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	353,100	369,187	365,877	369,187	369,187	339,936	369,287	369,287	340,036
<b>#Positions</b>		<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>
Personal Services Matching	5010003	103,350	106,581	107,010	108,633	108,633	96,949	108,655	108,655	96,971
Operating Expenses	5020002	103,705	205,717	205,717	205,717	205,717	205,717	205,717	205,717	205,717
Conference & Travel Expenses	5050009	13,282	22,839	22,839	22,839	22,839	22,839	22,839	22,839	22,839
Professional Fees	5060010	1,842,945	3,113,389	3,113,389	3,113,389	3,113,389	3,113,389	3,113,389	3,113,389	3,113,389
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Capital Outlay	5120011	0	0	0	0	0	0	0	0	0
<b>Total</b>		<b>2,416,382</b>	<b>3,817,713</b>	<b>3,814,832</b>	<b>3,819,765</b>	<b>3,819,765</b>	<b>3,778,830</b>	<b>3,819,887</b>	<b>3,819,887</b>	<b>3,778,952</b>
<b>Funding Sources</b>										
Fund Balance	4000005	220,650	190,923		270,000	270,000	270,000	285,000	285,000	325,935
Federal Revenue	4000020	0	220,000		220,000	220,000	220,000	220,000	220,000	220,000
Cash Fund	4000045	2,386,655	3,676,790		3,614,765	3,614,765	3,614,765	3,428,265	3,428,265	3,428,265
<b>Total Funding</b>		<b>2,607,305</b>	<b>4,087,713</b>		<b>4,104,765</b>	<b>4,104,765</b>	<b>4,104,765</b>	<b>3,933,265</b>	<b>3,933,265</b>	<b>3,974,200</b>
Excess Appropriation/(Funding)		(190,923)	(270,000)		(285,000)	(285,000)	(325,935)	(113,378)	(113,378)	(195,248)
<b>Grand Total</b>		<b>2,416,382</b>	<b>3,817,713</b>		<b>3,819,765</b>	<b>3,819,765</b>	<b>3,778,830</b>	<b>3,819,887</b>	<b>3,819,887</b>	<b>3,778,952</b>

FY17 Budget amount in Regular Salaries exceeds the authorized amount due to salary adjustments during the 2015-2017 Biennium.

## Change Level by Appropriation

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

### Agency Request

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>3,819,765</b>	<b>5</b>	<b>3,819,765</b>	<b>100.0</b>	<b>3,819,887</b>	<b>5</b>	<b>3,819,887</b>	<b>100.0</b>

### Executive Recommendation

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>3,819,765</b>	<b>5</b>	<b>3,819,765</b>	<b>100.0</b>	<b>3,819,887</b>	<b>5</b>	<b>3,819,887</b>	<b>100.0</b>
C13	Not Recommended	(11,684)	0	3,808,081	99.7	(11,684)	0	3,808,203	99.7
C19	Executive Changes	(29,251)	(1)	3,778,830	98.9	(29,251)	(1)	3,778,952	98.9

### Justification

C19	The Executive Recommendation reflects the reduction of a Fiscal Support Analyst position. This reduction will result in a decrease of \$29,251 in Regular Salaries each year of the 2017-2019 Biennium.
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