

# STUDENT LOAN AUTHORITY

## **Enabling Laws**

Act 141 of 2010  
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- repealed the requirement that student loans qualify for payment of federal interest benefits.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

Arkansas Student Loan Authority (ASLA) is a state agency created to provide a comprehensive student loan program for the State's citizens. 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 make affordable educational funding available to any citizen who has the desire to attend an institution of higher learning. ASLA provides a full service student loan program for the students and parents of the State and for all participating state banks. The following services are provided by ASLA.

**Education Loans** are provided to students and parents who select an ASLA participating lender as their lender of choice. ASLA believes that a student should exhaust all avenues of college funding available before taking a student loan and then never more than they can repay. If a student loan is needed, ASLA provides interest rate and origination fee discounts to the greatest level possible. **The Arkansas EdLoan** provides teachers, nurses, paramedics, law enforcement officers, and National Guard personnel in Arkansas with a 1% to 4% reduction in their interest rates just for remaining in our State. Student loan borrowers, other than those entering the career fields listed above, are eligible for an interest rate discount up to 2% for making payments in a timely manner.

**The Student Outreach Services Program (S.O.S)** identifies and secures scholarships and grants for students and support school counselors' efforts, which help students get a positive start in college selection and career discovery. ASLA participates in over 100 college fairs and financial seminars 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. ASLA has partnered with the Winthrop Rockefeller Foundation with the Fund My Future web portal which is used to identify resources to address the shortage of nurses and teachers in the state. All services are provided free of charge.

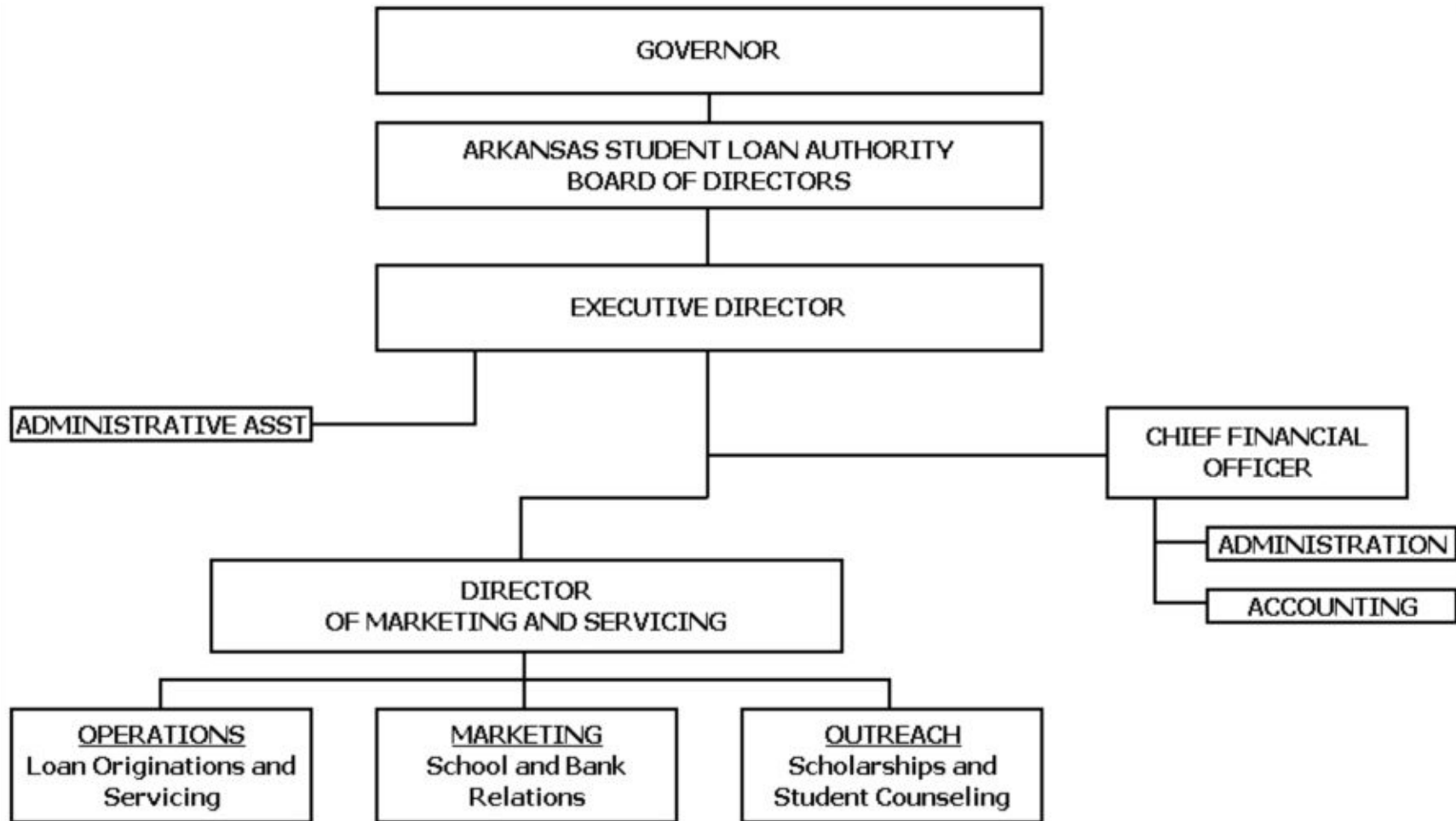
**Secondary Market Services for participating banks** provide banks a market to sell education loans which were made to their customers. Loans sales allow the banks to re-cycle their investment in new student loans. Because ASLA provides life of the loan servicing and never sells its loans to out-of-state entities, banks utilizing ASLA secondary market services ensure investments stay in the State strengthening the Arkansas economy.

**Loan Referral Programs** allow banks to provide student loans to their customers without committing to funding or servicing of the loan. ASLA originates the loan on behalf of the local bank, which creates access to college funding for students in all areas of the State.

This program has made it possible and profitable for small Arkansas banks to provide customers an important community service. ASLA provides each participating bank with informational materials and brochures to assist in promoting education loans. Presently, approximately ninety banks participate in this important state program. As with ASLA's secondary market services, the loan referral programs ensure investments stay in the State, which strengthens the Arkansas economy.

**Loan Consolidation** has been offered to student and parent loan borrowers who have loans with multiple lenders or who need to extend their repayment term for more affordable monthly payments. This refinancing tool has been in great demand recently with the tremendous rise in college education costs. ASLA suspended the loan consolidation program in April of 2008 due to yield cuts made by the College Cost Reduction and Access Act of 2007 which made originating the loans economically unfeasible.

ASLA is the designated student loan agency in the state and is authorized to issue taxable and tax-exempt revenue bonds to finance Arkansas' comprehensive student loan program specifically for the benefit of its citizens. 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.

The Authority is not requesting additional appropriation at this time. The Authority feels the current baseline appropriation is sufficient for the 2011-2013 biennial period.

The Authority has operated as a loan originator and secondary market in the Federal Family Education Loan Program (FFELP) for over 30 years. 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 will be allocated 100,000 accounts per state to administer on behalf of the U.S. Department of Education. In addition administering FDLP loans in the future, the Authority will continue to administer approximately \$500 million in FFELP loans made prior to July, 1, 2010.

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 maintains three internet sites designed to be used by students, parents, high school guidance counselors, financial aid administrators, and investors. 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 anticipates that it will manage a minimum of \$375,000,000 and up to \$495,000,000 in student loans during the biennial period. Loan servicing and administration expenses typically average approximately 1.00%-1.25% of outstanding loans per year.

**Audit Findings**

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
ARKANSAS STUDENT LOAN AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2009

| Findings |  | Recommendations |  |
|----------|--|-----------------|--|
| None     |  | None            |  |

## **Employment Summary**

|                         | Male | Female | Total | %     |
|-------------------------|------|--------|-------|-------|
| White Employees         | 3    | 1      | 4     | 67 %  |
| Black Employees         | 0    | 1      | 1     | 17 %  |
| Other Racial Minorities | 0    | 1      | 1     | 16 %  |
| Total Minorities        |      |        | 2     | 33 %  |
| Total Employees         |      |        | 6     | 100 % |

## **Cash Fund Balance Description as of June 30, 2010**

| Fund Account | Balance   | Type     | Location                   |
|--------------|-----------|----------|----------------------------|
| 1570000      | \$429,514 | Checking | Regions Bank - Little Rock |

### Statutory/Other Restrictions on use:

A.C.A. § 6-8-102 established the Arkansas Student Loan Authority (ASLA) to provide federal guaranteed educational loans through the process of originating, buying and selling educational loan notes. 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 collected from the sale of revenue bonds are deposited monthly. Various investment strategies are used to maximize proceeds available 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

| FY2008 - 2009     |          |          |       |            |                        | FY2009 - 2010     |          |          |       |            |                        | FY2010 - 2011     |          |          |       |            |                        |
|-------------------|----------|----------|-------|------------|------------------------|-------------------|----------|----------|-------|------------|------------------------|-------------------|----------|----------|-------|------------|------------------------|
| Authorized in Act | Budgeted |          |       | Unbudgeted | % of Authorized Unused | Authorized in Act | Budgeted |          |       | Unbudgeted | % of Authorized Unused | Authorized in Act | Budgeted |          |       | Unbudgeted | % of Authorized Unused |
|                   | Filled   | Unfilled | Total | Total      |                        |                   | Filled   | Unfilled | Total | Total      |                        |                   | Filled   | Unfilled | Total | Total      |                        |
| 6                 | 6        | 0        | 6     | 0          | 0.00 %                 | 6                 | 6        | 0        | 6     | 0          | 0.00 %                 | 6                 | 6        | 0        | 6     | 0          | 0.00 %                 |

## **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 providing Arkansas' students 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.

Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Career Service Payments.

The Agency requests Base Level appropriation for the 2011-2013 biennium.

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                |         | 2009-2010        | 2010-2011        | 2010-2011         | 2011-2012        |                  |                  | 2012-2013        |                  |                  |
|--------------------------------|---------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                |         | Actual           | Budget           | Authorized        | Base Level       | Agency           | Executive        | Base Level       | Agency           | Executive        |
| Regular Salaries               | 5010000 | 385,691          | 384,260          | 393,874           | 381,160          | 381,160          | 381,160          | 381,160          | 381,160          | 381,160          |
| <b>#Positions</b>              |         | <b>6</b>         | <b>6</b>         | <b>6</b>          | <b>6</b>         | <b>6</b>         | <b>6</b>         | <b>6</b>         | <b>6</b>         | <b>6</b>         |
| Personal Services Matching     | 5010003 | 100,104          | 105,355          | 104,333           | 104,960          | 104,960          | 104,960          | 104,960          | 104,960          | 104,960          |
| Operating Expenses             | 5020002 | 95,173           | 225,997          | 240,397           | 225,997          | 225,997          | 225,997          | 225,997          | 225,997          | 225,997          |
| Conference & Travel Expenses   | 5050009 | 20,072           | 22,839           | 22,839            | 22,839           | 22,839           | 22,839           | 22,839           | 22,839           | 22,839           |
| Professional Fees              | 5060010 | 4,697,667        | 7,694,289        | 9,354,289         | 7,694,289        | 7,694,289        | 7,694,289        | 7,694,289        | 7,694,289        | 7,694,289        |
| Data Processing                | 5090012 | 0                | 0                | 0                 | 0                | 0                | 0                | 0                | 0                | 0                |
| Capital Outlay                 | 5120011 | 0                | 13,500           | 13,500            | 0                | 0                | 0                | 0                | 0                | 0                |
| <b>Total</b>                   |         | <b>5,298,707</b> | <b>8,446,240</b> | <b>10,129,232</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> |
| <b>Funding Sources</b>         |         |                  |                  |                   |                  |                  |                  |                  |                  |                  |
| Fund Balance                   | 4000005 | 703,754          | 429,514          |                   | 429,514          | 429,514          | 429,514          | 900,269          | 900,269          | 900,269          |
| Bond Proceeds                  | 4000125 | 5,024,467        | 8,446,240        |                   | 8,900,000        | 8,900,000        | 8,900,000        | 8,900,000        | 8,900,000        | 8,900,000        |
| Total Funding                  |         | 5,728,221        | 8,875,754        |                   | 9,329,514        | 9,329,514        | 9,329,514        | 9,800,269        | 9,800,269        | 9,800,269        |
| Excess Appropriation/(Funding) |         | (429,514)        | (429,514)        |                   | (900,269)        | (900,269)        | (900,269)        | (1,371,024)      | (1,371,024)      | (1,371,024)      |
| <b>Grand Total</b>             |         | <b>5,298,707</b> | <b>8,446,240</b> |                   | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> | <b>8,429,245</b> |

The FY11 Budget amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2009-2011 biennium.