

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
STAFF SUMMARY AND RECOMMENDATION**

Cal Edge Student Loan Program

February 28, 2002

Resolution Number: 197

Background

In April 1998, CEFA issued \$25 million in tax-exempt bonds for the “Cal Edge” program, the second of two student loan programs developed by the Authority. The Cal Edge program was designed to provide a significant contribution to higher education lending in California by offering important benefits for students, such as:

- A fixed interest rate, compared to the Federal Stafford and Plus loan programs, and the majority of commercially available loans which offer only variable interest rates. Since its inception, this program’s fixed interest rates have remained attractive to potential borrowers even as many competing variable rate loan products have offered a lower initial rate.
- Three repayment and deferment options, unlike the Federal Plus program, combined with a 15-year repayment period versus a 10-year repayment period for Federal Stafford and Plus loan programs.

Lending History

Initially, the Cal Edge program was slow to originate loans, which was expected since the program was a start-up with no prior operating or marketing history. By the end of 2000, Cal Edge had generated approximately \$3 million in loans. More recently, however, program performance has improved dramatically as (i) colleges and students have familiarized themselves with the benefits of the program and have increased usage accordingly and (ii) the Program has begun to realize the “multiplier effect” as repaid funds are made to subsequent borrowers.

Over the last year of operations, approximately \$6.5 million in loans have been generated. Of the 85 schools participating in the program, six schools have loan volumes exceeding \$400,000. The University of Southern California, has outpaced all other school participants with its loan volume exceeding \$2.2 million as of December 31, 2001. Current program projections indicate the program will exhaust the entire \$18.8 million¹ dedicated for loans by October 2002. Exhibit A provides an analysis of expected program demand through October 2002.

¹ Although the program issued \$25 million in bonds, only \$18.8 million is available for student loan lending. The remaining \$6.2 million has been targeted to capitalized interest/liquidity (\$5.7 million) and issuance costs (\$0.5 million)

Board Request

In preparation for issuing bonds in June 2002 to continue the Cal Edge program, staff is requesting that the Authority:

1. Approve staff to seek a \$30 million bond allocation in April 2002 from the California Debt Limit Allocation Committee (CDLAC). This will finance program operations for an estimated additional two years through 2004.
2. Commit to a loan for the program in an amount at least \$500,000, but not to exceed \$1 million from Student Loan Authority Fund (SLAF) reserves to finance program reserves, cash flow requirements and certain operating expenses. This proposed loan is consistent with the first issuance of the program that also required a SLAF loan, in the amount of \$572,575.

Staff will return to the Authority in April or May 2002 requesting final approval for bond issuance and specific program funding requirements. Bonds are anticipated to be issued in early July.

Expected Structure of Transaction

The expected financial structure and estimated sources and uses of funds are as follows. Other relevant program structure information can be found in Exhibit B.

Type of Issue:	Public offering, fixed rate
Maturity:	20 years, single term bond
Credit Enhancement:	Ambac Insurance
Credit Rating:	AAA (Fitch) & Aaa (Moody's) based on insurance
Senior Underwriter:	UBS PaineWebber Inc.
Bond Counsel:	Hawkins, Delafield & Wood

<u>Preliminary Sources of Funds:</u>		<u>Preliminary Uses of Funds:</u>	
Bond proceeds	\$30,000,000	Amount available for loans	\$25,500,000
SLAF loan	700,000	Revenue Fund	4,500,000
		Debt Service Reserve Fund	<u>700,000</u>
Total Sources	<u>\$30,700,000</u>	Total Uses	<u>\$30,700,000</u>

Student Loan Authority Fund Loan

Staff is proposing a loan to the program in the amount estimated at \$700,000 to assist with additional reserves and liquidity and to fund ongoing program operating costs. CEFA's Student Loan Authority Fund (SLAF) has an approximate \$6 million balance and money from this fund was used for these purposes during the initial start-up of the Cal Edge Program as well as the start-up and extension of the Cal Loan Program.

Given specific rating and bond insurance stipulations that govern program cash flows, the SLAF loan would be structured such that periodic payments would be contingent on the program achieving threshold levels of excess cash reserves. Therefore, the final loan amount requested by staff will be primarily based on a review of program cash flows indicating that income generated by the program will be sufficient to repay the loan.

Summary

The Cal Edge Program has provided a significant contribution to higher education student lending for public and private institutions in this state. However, without a bond issuance this year, the program funds will be fully exhausted. Receiving bonding allocation through CDLAC and issuing a subsequent bond is necessary to continue the program.

Recommendation

Staff recommends the approval of a resolution number 197 for the Cal Edge Program, authorizing the following:

- Approval for staff to seek a \$30 million bond allocation in April 2002 from the California Debt Limit Allocation Committee (CDLAC).
- Commitment for a loan at least \$500,000 but not to exceed \$1 million from the Student Loan Authority Fund (SLAF) to finance program reserves, cash flow requirements and certain operating costs.

Exhibit A

**California Educational Facilities Authority
Cal Edge Program**

Projected Lending

	Month	<u>Feb-02</u>	<u>Mar-02</u>	<u>Apr-02</u>	<u>May-02</u>	<u>Jun-02</u>	<u>Jul-02</u>	<u>Aug-02</u>	<u>Sep-02</u>	<u>Oct-02</u>
Monthly Loan Activity:										
Projected Disbursements	\$	838,000	\$ 1,230,000	\$ 600,000	\$ 800,000	\$ 210,000	\$ 400,000	\$ 1,110,000	\$ 1,700,000	\$ 900,000
Utilization of Available Funds:										
Total Loan Disbursements, Begin	\$	11,360,555	\$ 12,198,555	\$ 13,428,555	\$ 14,028,555	\$ 14,828,555	\$ 15,038,555	\$ 15,438,555	\$ 16,548,555	\$ 18,248,555
Projected Disbursements for Month		838,000	1,230,000	600,000	800,000	210,000	400,000	1,110,000	1,700,000	900,000
Total Loan Disbursements, End	\$	12,198,555	\$ 13,428,555	\$ 14,028,555	\$ 14,828,555	\$ 15,038,555	\$ 15,438,555	\$ 16,548,555	\$ 18,248,555	\$ 19,148,555
Original Loan Funds Available	\$	18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000	\$ 18,800,000
Total Disbursements to Date		(12,198,555)	(13,428,555)	(14,028,555)	(14,828,555)	(15,038,555)	(15,438,555)	(16,548,555)	(18,248,555)	(19,148,555)
Unutilized Loan Funds	\$	6,601,445	\$ 5,371,445	\$ 4,771,445	\$ 3,971,445	\$ 3,761,445	\$ 3,361,445	\$ 2,251,445	\$ 551,445	\$ (348,555)

Exhibit B

California Educational Facilities Authority Cal Edge Program

Cal Edge Program Structure

Targeted Borrowers: Due to federal statutory requirements for alternative loan programs, this program is available to those students who have exhausted all available federal, state and school based aid.

Borrower Eligibility Criteria: A student must be enrolled at least half-time at a participating California college or university, be a U.S. citizen or permanent U.S. resident and meet the certain credit criteria. If a student does not meet the criteria, a qualified co-borrower will be required.

Loan Terms:

- Loans may not exceed the cost of attendance less “generally available” sources of financial aid, excluding Federal PLUS loans.
- Current loans are either 7.8% or 8.25% for the life of the loan, depending on method of repayment. Loans funded from the new bond issue are anticipated to be very similar.
- Loans have three payback options:
 - Option 1: Principal and interest commencing within 60 days of origination (interest rate = 7.8%)
 - Option 2: Interest only for up to a maximum of six years. Principal will begin to amortize no later than the start of the seventh year from origination (interest rate = 7.8%)
 - Option 3: Interest and principal being deferred for each of borrower’s “in-school” period, and any applicable grace period thereafter (interest rate = 8.25%).
- Loans will be amortized on the basis of a level monthly payment over a period of up to 15 years, based upon the principal amount borrowed, together with any interest accrued during deferral periods.
- A 5% origination fee is deducted from the face value of the loans.

Loan Loss Reserve Fund: This fund, consisting of Loan Origination Fees, is the first source of funds used to pay any loan defaults. Currently, the default rate is less than 3%.

Debt Service Reserve Fund: The Cal Edge program maintains a Debt Service Reserve Fund which was partially funded from proceeds of the Bonds and from a start-up loan by the Authority. This fund is available after the Loan Loss Reserve Fund monies and any contingent liabilities are used.

Participating Colleges: There are currently 85 schools participating in the program. These schools consist of California Community Colleges, California State Universities, or University of California campuses, branches, or programs. Other participating colleges are private higher education institutions that are empowered to provide a program of education beyond the high school level and that grant undergraduate degrees, graduate degrees, or both.

Program Contractors:

Program Administrator. The Program Administrator, Chela Financial, manages the day to day operations, provides oversight of the other program contractors, markets the program to new and existing participants and provides borrower assistance.

Loan Servicer. The management of loan repayments and collection activities are provided by the Servicer, AFSA Data Corporation. Upon disbursement of a loan to a borrower, the AFSA provides billing and collection services for each loans and coordinates payments to the Indenture Trustee for paying bondholders. The Servicer also provides oversight for the collection process of defaulted loans.

Loan Originator. AFSA Data Corporation also serves as Loan Originator for the program with credit underwriting support provided by Chela Financial's Credit Manager. The Loan Originator verifies that the borrower meets all program funding criteria and ensures that all required documents are in place and properly executed for each loan funded.

Indenture Trustee. The Indenture Trustee, Union Bank of California, holds in trust all monies associated with this program, including funds maintained for bond reserve requirements and funds for making loans to students.