**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**
**Information Item**
**Cal Loan Collection Procedures**
**May 27, 2010**
**Staff Summary**

ALL Student Loan (ASL), administrator of the Cal Loan Program for the Series 1997A and Series 2001A bonds, will be requesting that certain Cal Loan Program documents be amended to allow for the implementation of additional collection procedures for pre-default and defaulted loans. Defaulted loans are any loans at least 120 days delinquent. These collection procedures are expected to enhance collection efforts by providing the collection agencies, through ASL and the service provider, with tools that would provide them the flexibility and opportunity to take a more active approach to borrower repayment activities while also providing the borrower with increased repayment options. The proposed collection procedures would provide for both pre-default and default collection activities.

## BACKGROUND:

In 1997, CEFA implemented the Cal Loan Program to provide "needs-based" loans to students who attend private non-profit colleges and universities. Under the Cal Loan Program, loans were issued to students at Pepperdine University, University of San Diego, Mount St. Mary's College, University of San Francisco - Law, and University of San Francisco. The Cal Loan Program includes a risk-sharing component, whereby participating schools assume responsibility for the first 12% of defaulted loans originated to their respective students.

CEFA issued Series 1997A and Series 2001A bonds for $30,260,000 and $45,000,000, respectively to fund the Cal Loan Program. A total of 6,740 loans were originated, equaling $37,959,482. According to ASL, there is currently $13,759,595 outstanding. Of the outstanding loans, 510 are in delinquent or default status, totaling $7,871,082.

The cumulative default rate for the Cal Loan Program is 31%. By comparison, the stress case default rate used by Fitch Ratings for the Series 2001A bonds was 67%, significantly higher than actual performance.

## CURRENT COLLECTION PROCEDURES:

In 2004, the CEFA board approved the collection procedures that are currently utilized. The current collection procedures are as follows:

- Accept and utilize the Federal Family Education Loan Program forms for the purposes of deferring or discharging (in the case of permanent or total disability) the Cal Loan.
- Allow the removal of "Default" on the borrower's credit report upon receipt of 12 monthly, on-time payments.
- Refer the borrower who is able, but unwilling to establish repayment to a collection agency, an attorney or for wage garnishment to compel repayment.
- Waive interest during certain deferment periods (military and temporary disability) as goodwill and an incentive to the borrower to resume repayment after the deferment.

- Write-off debt if borrower dies and is determined to have no liquefiable assets, or becomes permanently/totally disabled.

**POSSIBLE ADDITIONS TO COLLECTION PROCEDURES:**
CEFA has been provided with additional collection procedures that are expected to enhance the collection efforts of the collection agencies. Below are the proposed collection procedures that are being considered by the servicer and collection agencies:

Pre-default Collections
- Attempts (verbal)
- Collection letters
- E-mail correspondence
- Contact references
- Commercial skip tracing search.

Default Collections
- Settlement authority - implement the ability
- Waive interest rate increase
- Waive late payment fee
- Waive repayment service charge
- Modify order payments are applied
- Settlement authority at a predetermined percentage
- Waive all or part of interest
- Rehab program (a corrective payment plan)

Staff is reviewing the additional collection procedures and is expected to request Authority approval at its June 2010 meeting.

# Cal Loan Pre-Default Collection Procedures

<table>
<tr><th colspan="2">Existing Procedures<br>(every 20 days)</th><th colspan="2">Proposed Procedures<br>(every 15 days)</th></tr>
<tr><td>Phase 1</td><td>• Delinquency Letter<br>• Delinquency Letter</td><td>Phase 1</td><td>• Delinquency Letter<br>• Diligence Calls 4 attempts / 2 contacts</td></tr>
<tr><td rowspan="2">Phase 2</td><td rowspan="2">• Diligence Calls 4 attempts/1 contact<br>• Delinquency Letter</td><td>Phase 2</td><td>• Delinquency Letter<br>• Diligence Calls 4 attempts / 2 contacts<br>• Commercial Skip Tracing search<br>• Begin e-mail correspondence with borrower<br>• Begin calling references</td></tr>
<tr><td>Phase 3</td><td>• Delinquency Letter<br>• Diligence Calls 4 attempts / 2 contacts<br>• Continue emailing borrowers<br>• Continue calling references</td></tr>
<tr><td rowspan="2">Phase 3</td><td rowspan="2">• Diligence Calls 4 attempts/1 contact<br>• Delinquency Letter<br>• Final Demand Letter</td><td>Phase 4</td><td>• Delinquency Letter<br>• Diligence Calls 6 attempts / 3 contacts<br>• Continue emailing borrowers<br>• Continue calling references</td></tr>
<tr><td>Phase 5</td><td>• Delinquency Letter<br>• Diligence Calls 6 attempts / 3 contacts<br>• Continue emailing borrowers<br>• Continue calling references</td></tr>
<tr><td>Phase 4</td><td>• Diligence Calls 4 attempts/1 contact<br>• Delinquency Letter</td><td>Phase 6</td><td>• Diligence Calls 6 attempts / 3 contacts<br>• Continue emailing borrowers<br>• Continue calling references<br>• Final Demand Letter sent Day 120</td></tr>
</table>

Based on historical data, the additional pre-default procedures will add an estimated $22,330 in servicing costs to the remaining portion of the portfolio, paid by the Trust.

# Cal Loan RAB/Premiere Performance Data

| Program | Collection Agency | Return Rate |
|---|---|---|
| Cal Loan | RAB, Inc. | 16.5% |
| Cal Loan | Premiere Credit | 12.74% |
| CalEdge | DCS | 21.12% |

Return Rate is the ratio of cash received from borrowers divided by the total amount of loans in collection.

The Return Rate for CalEdge is higher than that for Cal Loan due the underlying characteristics of the borrowers, the fact that many CalEdge loans have a co-signer, and additional collection tools allowed in the CalEdge program.

# Cal Loan Current Delinquent and Default Status

### 1997A and 2001A

### As of March 31, 2010

| Item | | Amount | Calculation |
|---|---|---|---|
| A | Dollar amount of loans originated | $ 37,959,482 | |
| B | Number of loans originated | 6,740 | |
| C | Number of borrowers | 4,064 | |
| | | | |
| D | Cumulative default amount | $ 11,891,463 | |
| E | Cumulative default % | 31% | D/A |
| F | School risk-share of cumulative defaults (12%) | $ 4,555,138 | A*12% |
| G | Cumulative default % for trust | 19% | (D-F)/A |
| | | | |
| H | Current amount outstanding | $ 13,759,595 | |
| I | Current amount of delinquent loans | $ 7,871,082 | |
| J | Current number of borrowers in delinquent status | 510 | |
| K | Current % of loans in delinquent status | 57% | I/H |

1997A was redeemed with a final redemption date in March 2007.

Line E is the appropriate number to report for the default rate (31%), as it compares cumulative defaulted dollars to total dollars originated.

The stress case default rate (Fitch's) used for the 2001A financing was 67% - which says two things. One, all parties knew going in that this would be a risky program and, two, the program is still performing better than the stress case, regardless of the which calculation – Line E or Line K – is used.

# Cal Loan: Update on CEFA Resolution 2004-06

In August 2004, the California Educational Facilities Authority approved Resolution 2004-06 enabling use of a limited number of additional tools to enhance collection of defaulted Cal Loans. The following table summarizes the status of each procedure.

| Procedure | April 2010 Status |
|---|---|
| Accept FFELP forms for the purposes of deferring or discharging (in the case of permanent or total disability) the Cal Loan. | Since this amendment was adopted, 369 deferments have been granted. As in the FFELP program, borrowers can apply for deferment if they return to school for at least half-time attendance, lose their job or are unable to find a job, economic hardship, or if they are on active duty during war, national emergency or military operation. No requests for discharge have been received. |
| Allow the removal of "Default" on the borrower's credit report upon receipt of 12 monthly, on-time payments. | Since this amendment was adopted, no loans have been rehabbed. The additional tools currently under consideration are expected to improve the rehab rate. |
| Refer the borrower who is able, but unwilling to establish repayment to a collection agency, an attorney or for wage garnishment to compel repayment. | Since this amendment was adopted, 876 loans totaling $7,413,734 have been referred to collection agencies. No loans have been referred to an attorney or for wage garnishment; at CEFA's direction, loans deemed 'uncollectable' can be subjected to these more severe collection practices. |
| Waive interest during certain deferment periods as an incentive to the borrower to resume repayment after the deferment. | Since this amendment was adopted, no interest has been waived during deferment periods. The additional tools currently under consideration are expected to improve the repayment rate. |
| Write-off debt if borrower dies or becomes permanently/totally disabled. | Since this amendment was adopted, no requests for discharge have been received. |

# Cal Loan: CEFA's Financial Involvement

## CEFA's Financial Obligation

CEFA contributed $2 million to the Cal Loan Program Trust Indenture in order to provide equity to meet Bond Interest Reserve requirements. Such monies are to be returned to CEFA out of remaining funds, if any, when the bonds are completely paid off. The Indenture is completely non-recourse to CEFA, thus the Authority has no additional financial commitment to Cal Loan. If there are insufficient funds in the trust estate to pay off the bonds, the bond insurer, MBIA, is obligated to make such payments. MBIA has no right of claim for reimbursement by the authority.

## 5% Guaranty Reserve

It is important to understand that the 5% Guaranty Reserve obligation of the Cal Loan Trust and the 12% Guaranty Reserve of the Participating Institutions is applicable only to default loan loss coverage. In the 1997 loan program, the Participating Institutions were responsible for the first default loan losses up to 12% of total Cal Loans funded for that institution; all other default losses were absorbed by the Trust. In the 2001 loan program, the Trust absorbed the first 5% of default losses before the Participating Institution funded the next 12% of default losses; thereafter, the Trust absorbs all additional default losses.

In the beginning of the program, bond proceeds equal to 5% of loans funded was set aside as a Guaranty Reserve for loan loss. In effect only 95% of the bond proceeds, after cost of issuance and interest reserve, were used to fund new loans.

The Participating Institutions fulfilled their 12% obligations by purchasing from the Trust the defaulted loans plus accrued interest thereon. All other defaulted loans remain assets of the Trust, albeit with a fair value of less than par.

## Potential Deficiency in Trust Assets

The initial thought when the Cal Loan program was put together is that the "expected" defaults would not exceed 17%, the 12% Participating Institution share and 5% of bond proceeds set aside as a Guaranty Reserve.

However, in structuring the financings, the rating agencies subjected the cash flow projections to substantially higher default assumptions. Utilizing those stress cases the bonds still paid off.

So, while defaults are substantially higher than expected, there is potential for the bonds to be paid in full without claim on MBIA. Enhanced collection strategies would further assist in achieving this objective.