

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
February 27, 2008

**Consideration and Adoption of the Proposed Revisions to the Procedures of the California Debt
Limit Allocation Committee**
(SECTION 22- STUDENT LOAN PROGRAM)

Prepared by Joanie Jones Kelly and Brady Hill.

I. ACTION

Approve proposed Procedures of the California Debt Limit Allocation Committee (CDLAC) as presented to the Committee at the January 23, 2008 meeting.

II. BACKGROUND

Staff recommends technical changes and clean-up language to the existing CDLAC Student Loan procedures. These changes are recommended to achieve the following goals for the Student Loan Program:

- **Predictability:** Streamline and simplify the allocation process to enable the Applicant to plan for the academic school year by providing a predictable allocation award process.
- **Fairness/Objectivity:** Establish an objective and fair process that will mirror the procedures for other CDLAC allocation awards. The proposed process will be transparent so as to allow the Applicant to Self-Score their CDLAC application.
- **Public Benefit:** Create a process that focuses on the creation of public benefits. The major benefit identified is the reduction in borrowing costs for students enrolled in California colleges and universities. The proposed Procedures establish an allocation priority for Applicants that lower the cost of student loans.

III. SUMMARY OF MINIMUM REQUIREMENTS

The proposed Procedures would enhance threshold requirements by implementing the following change:

- In order to receive a student loan allocation the Applicant would be required to provide the federal STUDENT MARKETMEASURE Standard Report 10D, (or other source deemed by the Executive Director to be accurate) to validate the number of student loans their agency made to students in California. This requirement is intended to insure that the allocation is granted to an Applicant who participates in the California Student Loan Market and that the Applicant has demonstrated the ability to utilize the allocation requested.

IV. SUMMARY OF EVALUATION CRITERIA

The proposed Procedures would include the following changes to the evaluation criteria:

- The Applicant's pro-rata share of the Student Loan Program allocation will in part be determined by the total dollar amount of student loans originated in California as documented in the STUDENT MARKETMEASURE Standard Report 10 D (or other sources deemed to be accurate by the Executive Director).
- The Applicant will be required to provide the actual interest rates that students will have to pay when they enter repayment on loans made in the most recent academic year. The actual interest rate information will be compared to the interest rates the Applicant proposed in their most recent application. Based on the Committee's analysis and assessment, an Applicant could be rewarded and/or penalized based on whether or not they met their loan cost projections.

COMMENTS:

In developing the proposed Student Loan Procedures staff met with both All Student Loan and EFSI and received comments and suggestions from both agencies. Both agencies supported the proposed changes in concept and provided additional comments during the 30-day public comment period.

A. EFSI Comments

Staff received comments from EFSI. EFSI wanted clarification on the Procedures. Staff clarified some ambiguity in the Procedures and addressed EFSI's concerns.

B. All Student Loan Comments

Staff received comments from All Student Loan. All Student Loan had two general comments and multiple technical comments.

All Student Loan's first general comment and staff's response:

1) All Student Loan has suggested that staff use the Federal Fiscal Year to evaluate the applicant's pro-rated portion of cap and that staff use the Academic Year to evaluate the applicant's stated financial products in the previous year's applications versus their actual products in the marketplace.

2) Staff's response: Staff agrees with the use of both the Federal Fiscal Year and the Academic Year in the analysis of Student Loan Applications. That is to say, staff agrees with the use of the Federal Fiscal Year for the evaluation of the applicant's pro-rated portion of cap. In addition, staff agrees that the Academic Year should be used to evaluate applicants' stated financial products in the previous year's applications versus their actual products in the marketplace. Staff has incorporated said changes into the Procedures.

All Student Loan's second general comment and staff's response:

1) All Student Loan has suggested that staff consider Applicant's non-loan origination activity as part of the evaluation process. All Student Loan states that they use other resources to support these students through scholarships, financial aid outreach, etc. They argue that these activities must be considered in the evaluation process if the CDLAC goal is to increase college access for students for whom the cost to attend college exceeds their ability to pay. All Student Loan suggests that the evaluation of this information is necessary for a complete evaluation of the public benefit of an Applicant's program.

2) Staff's response: While staff appreciates All Student Loan's position on the evaluation of non-loan origination activity, staff asserts that the evaluation of an applicant's "loan origination performance" captures the effectiveness of an Applicant's program. Specifically, staff asserts that the ability of an Applicant to make loans shows the effectiveness and/or ineffectiveness of their business model and all the activities thereof. In addition, staff argues that the evaluation of an Applicant's products (i.e-their interest rate) would show quantitatively the affordability of the Applicant's loans. In sum, staff asserts that the evaluation of an Applicant's capacity to make affordable loans is both a complete as well as a necessary analysis of an Applicant's contribution to public benefit.

Technical comments:

1) Staff also received multiple technical comments from All Student Loan. Staff appreciates the thorough treatment of the Procedures that was provided by All Student Loan. Staff has incorporated the technical changes into the Procedures that are necessary for clarification.

IV. RECOMMENDATION:

Approve the proposed Procedures as outlined and recommended by staff in this summary.