

# CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

## Public Benefit Analysis Student Loan Program 2003 Round 1

Student Loan Bonds are tax-exempt private activity bonds issued by authorized agencies for the purpose of either financing direct loans to college students and their parents or purchasing bundles of already-originated loans on the secondary market. When used for direct lending programs, tax-exempt bond allocation allows lenders to pass on interest rate savings to needy students via below market interest rate loans. Needy students are borrowers for whom the cost to attend college exceeds their ability to pay, as determined by their school's financial aid office. Currently, only three agencies are authorized to issue tax-exempt bonds for student loan programs in California: ALL Student Loan Corporation, Chela Financial, Inc. and the California Educational Facilities Authority.

The California Debt Limit Allocation Committee ("Committee") is responsible for administering California's annual tax-exempt private activity bond program, known as "the annual State ceiling". For calendar year 2003, California's State ceiling is \$2.633 billion. Each year the Committee divides the annual State ceiling among several bond programs, known as "Program Pools", including the Student Loan (SL) Program Pool. For calendar year 2003, the Committee reserved \$155 million, or 5.9%, of the State ceiling for the SL Pool.

The Committee awarded the entire \$155 million SL allocation in the First Allocation Round of 2003. The ALL Student Loan Corporation and Chela Financial, Inc. each received an allocation award of \$77.5 million. Both issuers operate direct lending programs in California. Overall, the allocation will help to originate approximately 30,000 loans, saving borrowers hundreds of dollars over the life of the loan compared to conventional loans. Approximately \$128,340,000 or 83% of the allocation will benefit needy borrowers.

### 2003 Total Benefit of Student Loan Program

Allocation Amount	Approximate % to Needy Borrowers <sup>1</sup>	Approximate Allocation Assisting Needy Borrowers	Estimated # of Loans Originated <sup>2</sup>
\$155,000,000	82.8%	\$128,340,000	30,342

### Benefit By Issuer

Applicant	Program Type	Allocation Amount	Approximate % to Needy Borrowers <sup>3</sup>	Approximate Allocation Assisting Needy Borrowers	Estimated # of Loans Originated <sup>4</sup>	Maximum Interest Rate Discount	Maximum Savings for Subsidized Stafford Loans <sup>5</sup>	Maximum Savings for Unsub. Stafford Loans <sup>6</sup>
ALL Student Loan Corporation	Direct Lending	\$77,500,000	86%	\$66,650,000	15,171	2.00%	\$1,220	\$1,493
Chela Financial	Direct Lending	\$77,500,000	79.6%	\$61,690,000	15,171	1.75%	\$1,085	\$1,242

<sup>1</sup> Based on information presented in issuers' applications.

<sup>2</sup> Assuming an average loan amount of \$5,108.

<sup>3</sup> Based on information presented in issuers' applications.

<sup>4</sup> Assuming an average loan amount of \$5,108.

<sup>5</sup> Savings compared to loans without discounts, assuming \$10,000 principal balance, over a ten-year repayment period.

<sup>6</sup> Ibid.