CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
STAFF SUMMARY AND RECOMMENDATION

Cal Loan Student Loan Program
April 26, 2001
Resolution Number 184 (Amended):

Issue

Staff seeks approval to issue up to $45 million in bonds for the Cal Loan program and lend up to $1.1 million to the program from CSLA reserves. Of the total bond issue, approximately $5 million will current refund repaid principal and unused proceeds from the 1997 issue.

Resolution History

At the December 7, 2000 Authority meeting, the Board approved Resolution Number 184, which:

1. Authorized staff to seek a $40 million bond allocation in January 2001 from the California Debt Limit Allocation Committee (CDLAC).

2. Approved a loan for the program in an amount not to exceed $700,000 from the California Student Loan Authority (CSLA) reserves to finance certain program reserve and cash flow requirements.

3. Authorized staff to continue developing a program enhancement to further improve program accessibility. Staff proposed a change to the loan guarantee structure that would require a CSLA loan to the program, estimated at between $200,000 and $400,000. At the time, staff had not presented the proposal to the program's bond insurer and rating agencies and had not reviewed finalized cash flows, which would determine the actual CSLA loan amount.

The Board approved Resolution No. 184 with the understanding that staff would present a finalized description of the Cal Loan program, including all enhancements, at this meeting for Board review and approval to issue bonds. A copy of the December staff summary and resolution are included as Attachment A.

CDLAC Status

On April 2nd, the CDLAC Committee approved the $40 million Cal Loan allocation.

Refunding Proposal

To fully capture the benefits of the anticipated interest rate savings and proposed program enhancements of the new Cal Loan bond issue, staff recommends current refunding the unused 1997 bond proceeds and repaid principal, estimated at approximately $5 million.

At the December 2000 Board meeting, staff presented program projections which indicated the Cal Loan program would utilize the entire $23 million dedicated for loans by August of 2001. The unused portion of the original bond available for lending through March is approximately $4 million and is consistent with the program projections.

Aside from the original Cal Loan bond proceeds dedicated for loans, there is an additional $1 million of repaid principal (net of the 5% loan loss guarantee fund) that is available for lending.

Based on the current interest rate environment, staff, in consultation with the senior underwriter assigned to this transaction, anticipates that the new bond issue will enable students to obtain loans through the enhanced Cal Loan program at an interest rate lower than the existing Cal Loan program. In addition, recommended program enhancements will make the new Cal Loan program more attractive to new participants. Waiting to issue bonds until the 1997 proceeds are fully utilized will result in unmet fall 2001 demand for the program by its existing participants. Alternatively, if the new bond is issued prior to exhausting all funds available for lending in the existing program, the program will be competing against itself.

Structure of Transaction

Type of Issue:	Public offering, fixed rate
Credit Enhancement:	MBIA insurance
Credit Rating:	AAA (Fitch) & Aaa (Moody's) based on insurance
Senior Underwriter:	Prager, McCarthy & Sealy
Bond Counsel:	Orrick, Herrington & Sutcliffe

Preliminary Sources of Funds:		Preliminary Uses of Funds:	
Bond proceeds	$45,000,000	Amount available for loans	$30,720,000
Original issue discount	(200,000)	Refund repaid principal/unused proceeds	5,000,000
CSLA loan for reserves/cash flow	1,100,000	Capitalized interest	5,500,000
		Debt service reserve fund	4,000,000
		Costs of issuance	600,000
		Set-up charges/first insurance prem.	80,000
Total Sources	$45,900,000	Total Uses	$45,900,000

Cal Loan Program Enhancement

Although the existing Cal Loan program has met its initial objectives of serving low-income students and generating strong demand, the current structure has discouraged some colleges from participating in the program and could pose lending limitations for existing college participants. The current structure of the program requires participating colleges to guarantee 12% of all loans made to their students. Since this guarantee is in first loss position, many colleges do not want to assume this loss risk. The 12% guarantee may also cause participating colleges to reach a tolerance threshold, whereby they do not want to assume any additional risk and may discontinue their student lending under this program.

To attract additional participants to the program, staff proposed to the Authority at the December 7th meeting, a change to the existing loan loss structure. Currently, the 12% college guarantee is in first loss position and a 5% loan loss fee deducted from each loan is in second loss position. Staff proposed moving the 5% loan loss into first loss position, which would shift the college 12% guarantee into second loss position. Although the proposed program enhancement does not affect the overall 17% guarantee for the program, the enhancement does impact program liquidity. Finalized cash flows indicate that the Authority will need to lend the program approximately $400,000 to meet program liquidity requirements acceptable to the bond insurer and rating agencies.

In total, the program requires a $1.1 million loan from the Authority, to be financed from CSLA reserves. General program reserve and cash flow requirements require approximately $700,000, which is significantly less than the $900,000 originally lent to the program in 1997 for this purpose. In addition, the proposed program enhancement requires an additional $400,000. Finalized cash flows indicate that income generated by this program will be sufficient to pay back the $1.1 million loan.

Timeline for issuing bonds

To meet the demand for the program by its existing participants prior to the fall 2001 school term, the Authority anticipates the proposed bonds will be issued in early June.

Staff Recommendation

Staff recommends approval of Amended Resolution number 184 for the Cal Loan Program, authorizing the following:

- Approval for staff to issue $45 million in new bonds, which includes $5 million to current refund the balance of the loan fund and repaid principal from the 1997 bond issue, subject to the program obtaining bond insurance as described above.

- Commitment for a loan from CSLA reserves not to exceed $1.1 million.