

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
The Chela Companies  
Merger Activity

Staff Summary of  
Resolution no. 2004-05

June 24, 2004

**ISSUE:**

Under the various documents entered into in connection with the \$25 million Student Loan Revenue Bonds (CalEdge Loan Program), issued in 1998, Chela Financial USA, Inc. ("Chela USA") is currently obligated as the Borrower, the Program Administrator and the Bond Administrator. The Chela Companies are planning to merge Chela USA into its affiliate, Chela Financial, Inc. ("Chela Inc.") and seeks consent from the California Educational Facilities Authority to transfer all of Chela USA's rights and obligations under the CalEdge Loan Program Documents to Chela Financial Resources, Inc. ("Chela Resources").

**BACKGROUND:**

The Chela Companies are comprised of three affiliated California nonprofit public benefit corporations, Chela Resources, Chela Inc., and Chela USA. The parent organization, Chela Resources, is the sole corporate member of and manages and operates its two affiliates. Chela Inc. and Chela USA have no employees and were established to permit separate Chela Resources affiliates to originate, buy, hold and sell Federal Family Education Loan Program loans and other educational loans (e.g. CalEdge) in compliance with certain federal restrictions.

To achieve operating and financial efficiencies, Chela Resources intends to merge Chela USA into Chela Inc., with Chela Inc. being the surviving entity and to itself assume the functions that Chela Inc. may not perform in accordance with such federal restrictions, including its participation in the CalEdge Program. The respective Chela Boards of Directors approved the merger on June 8, 2004. The transaction is expected to be complete effective June 30, 2004 and will result in no change in Chela Inc.'s use of assets or charitable purpose, and no change in parent entity (Chela Resources will remain as its sole member). All assets and liabilities of Chela USA immediately prior to the merger will be transferred to and assumed by Chela Inc. as a result of the merger.

Bond counsel expects to deliver an opinion that the tax-exempt status of the 1998 bonds will not be affected.

**STAFF RECOMMENDATION:**

Staff recommends the Authority approve the transfer of all rights and obligations under the CalEdge Loan Program of Chela Financial USA, Inc. to Chela Financial Resources, Inc.