

## CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

### Staff Report for Resolution No. 2008-04

#### **Resolution of the California Educational Facilities Authority Authorizing the Purchase of Subordinate Bonds as Credit Enhancement for Senior Bonds Issued by Access to Loans for Learning Student Loan Corporation (ALL Student Loan), a Qualified Scholarship Funding Corporation, to Finance the Origination of Student Loans under the Federal Family Education Loan Program (FFELP)**

**Background:** Due to the credit downgrades and the general market instability associated with variable and auction rate upheavals, the student loan market apparently no longer has ready access to credit support. ALL Student Loan faces a challenge in meeting credit support and has approached CEFA requesting that the Authority invest assets of its Student Loan Fund (\$6,750,000) in ALL Student Loan's Series VI-B-1 Senior Subordinate bonds as a mechanism for credit enhancement, enabling them to go out in the market for a much larger sum of \$225 million. ALL Student loan will be investing \$2.25 million into the transaction, and their debt will be subordinate to the funds provided by CEFA. ALL Student Loan was granted allocation by CDLAC for the \$225 million senior bonds at its most recent July board meeting.

**Analysis:** Specifically, ALL Student Loan's tax-exempt Series VI A-1 Senior Bonds, expected to amount to \$225,000,000, and the taxable Series VI B-1 Senior Subordinate Bonds, in an amount as requested of \$6,750,000, and taxable Series VI-B-2 Senior Subordinate Bonds, in an expected amount of \$5,000,000, and taxable VI C-1 Junior Subordinate Bonds, in an expected amount of \$2,000,000 are proposed to be issued to use the proceeds to purchase California loans from ALL Student Loans other indentures for the purpose of assisting in the restructuring of ALL Student Loan's balance sheet. Please refer to the attached chart for the numerical depiction of ALL Student Loan's proposal.

The subordinate bonds will be issued as subordinate debt pursuant to ALL Student Loan's Series VI Indenture. ALL Student Loan proposes the subordinate bonds be issued as variable rate debt with the Authority holding the Series VI-B-1 Bonds, the College Access Foundation of California ("CAF") holding the Series VI-B-2 Bonds, and ALL Management Corporation holding the Series VI-C-1 Bonds.

The Subordinate Bonds are apparently necessary to increase the Series VI-A-1 Senior Bonds parity ratio to 105% and to satisfy the requirements of a Letter of Credit provider for the Senior Bonds. As reported by ALL Student Loan, the credit crisis has severely impacted the market for student loan revenue bonds, making the financing of these bonds apparently nearly impossible without considerable credit enhancement. The Subordinate Bonds proposed by ALL Student Loan will apparently provide the necessary enhancement.

ALL Student Loan proposes the subordinate bonds to carry a variable interest rate indexed to the 3-month Commercial Paper rate. The specific rate will be determined over the next week between ALL Student Loan and the Authority's financial Advisor, Public Financial Management to reflect appropriate market rates and the level of risk to the Authority. ALL Student Loan also proposes for interest payments to be paid semi-annually following issuance. Terms for repayment will also be determined over the course of the next week.

ALL Student Loan indicates these actions, together with other restructuring activities are critical to improving ALL Student Loan's ability to participate in the Federal Student Loan Facility created by the US Department of Education to address the current and unprecedented funding crisis for student loans. According to ALL Student Loan, without such restructuring, ALL Student Loan's ability to re-open its Federal Family Education Loan Program origination channel will be seriously damaged. ALL Student Loan believes the \$225,000,000 in senior bonds can be instrumental in enabling it to make more than \$500 million in student loans funding available for California students and their schools.

### **About ALL Student Loan**

ALL Student Loan is headquartered in Los Angeles. According to ALL Student Loan, in 30 years, the corporation has made more than \$4 billion in affordable student loan financing available to California students through the FFELP. The Corporation also has longstanding partnerships with the State of California, including conducting business with the California Student Aid Commission/EdFund, receiving allocations of \$948.2 million in Private Activity Bonds since 2001 from the California Debt Limit Allocation Committee, and administering the CAL Loan and CAL Edge student loan programs under contract with the Authority and CAF respectively.

**Recommendation:** Staff is working with its financial advisor to work out the specific terms of moving forward with ALL Student Loan's proposal, including the proposed rate and repayment obligations, and on this basis recommends the Authority authorize the purchase of subordinate bonds as credit enhancement for senior bonds issued by Access to Loans for Learning Student Loan Corporation (ALL Student Loan), a Qualified Scholarship Funding Corporation, to finance the origination of student loans under the Federal Family Education Loan Program (FFELP), subject to the following terms and conditions:

- The Authority and ALL Student Loan work out the specific terms for the transaction on or before the Authority's meeting date of July 31, 2008 to be reflected in a formal resolution to be circulated to the board in advance of the July 31, 2008 meeting date.
- The Authority's legal counsel, both in-house and the assigned Deputy Attorney General to this transaction review and approve of the resolution to be circulated to the board.

## **Series VI Pro Forma Balance Sheet**

### **Sources of Funds**

Senior Debt	\$ 225,000,000
Sr. Subordinate Debt (CEFA)	\$ 6,750,000
Sr. Subordinate Debt (CAF)	\$ 5,000,000
Jr. Subordinate Debt (ALL)	\$ 2,000,000
Total	\$ 238,750,000

### **Uses of Funds**

FFELP Loans	\$ 236,950,000
Cost of Issuance and Underwriter's Discount	\$ 1,800,000
Total	\$ 238,750,000

Assets	\$ 236,950,000
Liabilities	\$ 238,750,000

Senior Parity Ratio	105.31%
Sr. Subordinate Parity Ratio	100.08%
Total Parity Ratio	99.25%