

MINUTES

CALIFORNIA EDUCATIONAL
FACILITIES AUTHORITY (CEFA)
5th Floor Conference Room
915 Capitol Mall, Room 587
Sacramento, California 95814

Thursday May 27, 2010

1:30 PM

Deputy Treasurer Patricia Wynne, serving as Chairperson, called the CEFA meeting to order at 1:40 p.m.

CEFA Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer, Chairperson
John Hiber for John Chiang, State Controller, Vice-Chairperson
Cynthia Bryant for Ana Matosantos, Director, Department of Finance
Sylvia Scott-Hayes

Member Absent: Michael Jackson

Staff Present: Ronald Washington, Executive Director
Rosalind Brewer, Deputy Executive Director

Chairperson Wynne declared a quorum present.

The minutes from the California Educational Facilities Authority's ("CEFA") February 25, 2010 and the March 17, 2010 meetings were approved. Cynthia Bryant moved for approval of the minutes; John Hiber seconded the motion. The motion was adopted 4-0.

CEFA's Executive Director's Report

Mr. Washington reported the Executive Director's report for both March 31, 2010 and April 30, 2010 noting the following: As of March 31, 2010, total debt issued for CEFA was approximately \$9,712,753,538, total debt outstanding was \$4,636,429,122, and the CEFA fund balance reflected \$4,743,319; as of April 30, 2010, total debt issued for CEFA was approximately \$9,712,753,538, total debt outstanding was \$4,617,079,854, the CEFA fund balance reflected \$4,699,369; and the top borrowers remained unchanged. As of March 30, 2010, the Student Loan Program had issued \$265,372,500 in bonds; total debt outstanding was \$17,590,000; and the fund balance reflected \$7,588,884. As of April 30, 2010, total debt issued for the Student Loan Program was \$265,372,500; debt outstanding was \$17,035,000; and the fund balance reflected \$7,599,184.

Item #4 Delegation of Powers, California Institute of Technology

Mr. Washington reported the Delegation of Powers action taken for California Institute of Technology ("Caltech"). Mr. Washington stated that the Authority executed a letter of consent to U.S. Bank, N.A., Trustee, authorizing the subscription and purchase of State and Local Government Series ("SLGS") to be issued in connection with Caltech's Series 2006A and 2006B bonds. Mr. Washington reported that after an Opinion of Issuer's Counsel was delivered to the Authority, the documents were signed. The SLGS were issued on April 15, 2010.

Item #5 Cal Loan Student Loan Program – Collection Procedures

Ms. Maldonado of staff stated ALL Student Loan ("ASL") is the Administrator of the Cal Loan Program for the Series 1997A and 2001A bonds and they were requesting certain Cal Loan Program documents be amended to allow for the implementation of additional collection procedures for pre-default and defaulted

loans. Ms. Maldonado stated the Cal Loan Program is a needs-based student loan program and approximately \$7.8 million of the loans are currently in delinquent or default status. In 2004, the CEFA Board approved collection procedures that are in place and are currently being utilized. Ms. Maldonado stated that by approving additional collection procedures, it would enhance collection efforts by providing collection agencies with flexible tools and the opportunity to take a more active approach to borrower repayment activities while also providing the borrower with increased repayment options. Representing ALL Student Loan: Mr. Joseph Booth, Managing Director.

Mr. Washington stated that this item was brought before the Board as an informational item intended to give a brief overview of the Cal Loan Program, the default rate and the problems associated with the collection procedures. Mr. Washington said the cumulative default rate is 31%. Mr. Washington stated that Mr. Booth was in attendance to give the Board the opportunity to ask questions about the program.

Ms. Wynne stated that both the Cal Loan Program and the current collection procedures were initiated before the current members were appointed to the CEFA Board and asked Mr. Booth for a summary of the program.

Mr. Booth stated the proposed collection procedures are standard student loan procedures that would help bring a number of borrowers currently in default status back into repayment of their loans.

Ms. Scott-Hayes asked how default rates of other needs-based loans were in comparison and asked if the 31% default rate was high compared to other collection agencies that target needs-based loans.

Mr. Booth responded that it is hard to compare default rates because the information is not available for private loan programs however, by comparing the Cal Loan Program to the Cal Edge Program, the rate of borrowers in repayment status is higher for the Cal Edge Program. Mr. Booth stated that the underlying structure of the Cal Edge Program is credit-based whereas the Cal Loan program is not, and that the comparison of these two programs was presented to show other collection options that could be utilized. Mr. Booth stated borrowers have asked for other repayment options and feels very confident that once the collection procedures are implemented, the 31% default rate will decline.

Ms. Scott-Hayes asked if the interest rates were fixed or variable and if changes to the rates were being considered.

Mr. Booth stated that the interest rates were fixed at 7.5% and changes to the interest rates were not contemplated at this time. Mr. Booth said that from a historical perspective, both the Cal Loan and Cal Edge programs were implemented around the same time with the Cal Edge credit-based program being the driver of the two programs. Mr. Booth stated that the Cal Loan Program was started because some borrowers would not be able to qualify for the Cal Edge Program, and the Authority started the program knowing there would be a higher rate of defaults associated with it.

Mr. Hiber asked for clarification on the interest rate for loans in default status.

Mr. Booth said once the loan is in default status, the interest rate goes up to 9.5% and that there are additional penalties.

Mr. Hiber asked that a more detailed explanation of the default procedures be provided at the next meeting and asked for clarification on what options a borrower has who is interested in making payments.

Mr. Booth said that if a borrower missed their first payment, the Servicer begins pre-default collection procedures, which goes from day 1 to day 120. On day 120, if the borrower is still not making payments, the loan is forwarded to the collection agency. The collection agency goes through their due-diligence procedures and once they have contacted the borrower, a credit counselor talks with them to try to get them to make some form of a payment. If a borrower can start making payments, the collection agency collects as much as they can. Mr. Booth stated that the most significant change to the current collection

procedures that ASL is requesting is to allow the credit agency the ability to settle the account with borrowers for up to 25% discount off the account balance.

Mr. Hiber asked if the proposed changes to the collection procedures are similar to other collection procedures by other state or public entities and asked if the proposed changes fall within current law.

Mr. Booth reported that the California Student Aid Commission (“CSAC”) is the State’s guarantor through their affiliate EdFund and their procedures are very similar to the proposed changes ASL was presenting. Mr. Booth stated that CSAC is in the federal student loan program and the borrower doesn’t go into default until day 270. If the borrower is still not making payments on day 270, a claim is filed with the guarantor and they purchase the loan. Mr. Booth reported that it is hard to collect default rates from the guarantee agencies because they are competing against each other for the lowest default rate so the numbers are privately kept. Mr. Booth said they will contact EdFund and see if they can get some of their information. Mr. Booth stated that All Student Loan’s legal counsel did a preliminary review of the changes and they fall within the law and will provide a full analysis once the Board approves the changes.

Ms. Wynne requested staff to follow up with EdFund.

Mr. Washington stated that the information provided was to show the Board the efforts staff was putting towards bringing the item to the Board as an action item. Mr. Washington stated that specific details will be provided at the next meeting and staff would provide a detailed outline of how the additional procedures would benefit all parties.

Mr. Hiber asked for a legal analysis of the proposed changes to be sure existing law supports them prior to Board taking action on the item.

Ms. Smith said that the Board can give a conditional consent whereby all future changes to the collection procedures must comply with state and federal lending laws.

Ms. Scott-Hayes asked if the loans in default are from students out of school.

Mr. Booth said that some of the students may still be in school but he will verify the number and provide the information at a later time. Mr. Booth stated 80% of borrowers were undergraduate students and that a term of the program was that only 20% of loan funds could be used towards graduate school. Mr. Booth stated a number of those undergraduates have gone on to graduate school and may still be in school status. Mr. Booth stated that if a student returns to school they can be granted a deferment.

Ms. Scott-Hayes asked if there was anything in place for loan forgiveness.

Ms. Wynne stated loan forgiveness was not set up in the program.

Mr. Washington stated that the proposed amendments to the collection procedures would allow borrowers the opportunity to make payments or partial payments that aren’t applied to fees or interest and gives the borrower ability to negotiate a partial settlement on the loan.

With no public comment for CEFA, the meeting was adjourned at 2:10 p.m.

Respectfully submitted,
Ronald L. Washington
Executive Director