

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Cal Loan Collection Procedures
Staff Summary

December 2, 2010

ISSUE:

ALL Student Loan Resources (ALL), Administrator of the Cal Loan Program and the Series 1997A and 2001A bonds, has identified 1,256 borrowers with 511 loans in either delinquent or default status, which total approximately \$7.9 million and were funded by the 1997A and 2001A bonds, for which CEFA is the guarantor. Delinquent loans are defined as any unpaid for more than thirty (30) days. Defaulted loans are any loans that are more than 120 days delinquent. ALL has proposed to implement program changes in order to enhance collection efforts on delinquent loans by providing the collection agencies, through ALL and the service provider, with tools that would provide them the flexibility and opportunity to take a more active approach to borrower repayment activities while also providing the borrower with increased repayment options. The program changes are also expected to decrease non-payment on the defaulted loans. The proposed collection procedures would provide for both pre-default and default collection activities and are standard procedures used throughout the consumer credit and student loan sectors, including the needs-based Federal Direct Student Loan Program and the credit-based Cal Edge program. The program changes are also supported by the bond insurer, MBIA.

BACKGROUND:

In August 1997 and again in August 2001, CEFA issued bonds under the Cal Loan Program to provide “needs-based” loans to students that attended private non-profit colleges and universities in California. Loans were issued to students at Pepperdine University, University of San Diego, Mount St. Mary’s College, University of San Francisco - Law, and University of San Francisco. Under these programs, a total of 6,740 loans were originated.

CEFA issued Series 1997A and Series 2001A bonds for \$30,260,000 and \$45,000,000, respectively to fund the bond programs. As of October 31, 2010, \$11,000,000 remains outstanding.

CURRENT COLLECTION PROCEDURES:

In 2004, the CEFA board approved the collection procedures that are currently utilized. The current collection procedures are as follows:

- Accept and utilize the Federal Family Education Loan Program forms for the purposes of deferring or discharging (in the case of permanent or total disability) the Cal Loan.
- Allow the removal of “Default” on the borrower’s credit report upon receipt of 12 monthly, on-time payments.
- Refer the borrower who is able, but unwilling to establish repayment to a collection agency. Waive interest during certain deferment periods (military and temporary disability) as goodwill and an incentive to the borrower to resume repayment after the deferment.
- Write-off debt if borrower dies and is determined to have no liquefiable assets, or becomes permanently/totally disabled.

PROPOSED ADDITIONAL COLLECTION PROCEDURES:

The proposed collection procedures are expected to enhance the collection efforts of the collection agencies and to decrease non-payment on the defaulted loans. Attached as **Exhibit A, Exhibit B, and Exhibit C**, respectively are the general procedures outlining the Pre-Default Collection Procedures, the Rehabilitation Program, and the Settlement Program.

Below are the collection procedures that are being proposed by ALL:

I. PRE-DEFAULT COLLECTIONS

A. Enhanced Collection features

These pre-default collection procedures will be performed in fifteen-day (15) day increments beginning the 11th day of delinquency.

- Increase telephonic attempts to reach borrower
- Increase collection letters sent to borrower
- Add electronic mail correspondence sent to borrower
- Add contacting borrower references
- Add commercial skip tracing (as needed) to locate borrower and their contact information

Cost

The cost of the additional pre-default collections will be approximately \$313 per month, based on borrower status as of September 2010. This cost will be paid from the program's revenues.

Benefit

The financial benefit of the pre-default collection efforts is expected to exceed the monthly cost to the program as a result of the expected decline in borrower delinquencies and defaults.

II. POST-DEFAULT COLLECTIONS

A. Rehabilitation Program (corrective payment plan)

Implement a rehabilitation ("rehab") loan program with the collection agency that allows for a loan to be rehabilitated and returned to the service provider as a current obligation. The terms of the rehab program will be consistent with National Industry Standards. ALL estimates that as many as sixty-six (66) currently defaulted borrowers will successfully rehabilitate their loans.

Cost

The cost of implementing the Rehabilitation Program would be approximately 25% of the amount collected through rehab and will be paid from borrower payments.

Benefits

- Borrower is offered the option to 'rehab' the loan by making nine (9) on-time payments of principal.

- Payment amounts can be re-amortized based on outstanding balance and remaining repayment period.
- Once a borrower makes nine (9) on-time payments of principal, the account is returned to the servicer and the loan considered current. The current status is reported to credit agencies.
- The financial benefits are expected to exceed the cost of implementation

B. Settlement authority

Provide for the ability for the collection agencies to utilize a settlement authority, in 5% increments up to a maximum amount of 25% of the amount outstanding at the time of the settlement (including principal, interest, fees, and penalties).. The approval period is to be set at three business days from the date of submission from the collection agency. This amendment and process would be documented in the collection agency agreements. ALL estimates that as many as twenty-eight (28) defaulted borrowers will successfully settle their accounts over the next twelve months.

Cost

The cost of the implementing the settlement authority would be approximately 25% of the amount collected through settlement and will be will be paid from borrower payments.

Benefit

The financial benefits are expected to exceed the cost of implementation.

As Administrator, ALL is unable to quantify a specific monetary benefit for each of the proposed program changes. As a result, staff will monitor the results of the proposed changes and at each Authority meeting over the next ~~six~~-nine months will report to the Authority, the result of the proposed program changes. If proven successful, staff may come back to the board to request Authority approval of a permanent resolution to implement the program changes.

STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 2010-01 for a period of ~~six~~-nine months to implement the following pre-default and post-default collection procedure program changes for the 1997A and 2001A Cal Loan bond programs:

1. Enhanced pre-default collection features
2. Extension of the Rehabilitation Program
3. Extension of Settlement Authority

EXHIBIT A

Cal Loan Pre-Default Collection Procedures

| Existing Procedures | | Proposed Procedures | |
|-------------------------------|---|---------------------|--|
| Day 11 Day 22 | <ul style="list-style-type: none"> • Delinquency Letter • Delinquency Letter | Day 11-29 | <ul style="list-style-type: none"> • Delinquency Letter • Diligence Calls 4 attempts / 2 contacts |
| Day 29-58 Day 45 | <ul style="list-style-type: none"> • Diligence Calls 4 attempts/1 contact • Delinquency Letter | Day 30-45 | <ul style="list-style-type: none"> • Delinquency Letter • Diligence Calls 4 attempts / 2 contacts • Commercial Skip Tracing search • Begin e-mail correspondence with borrower • Begin calling references |
| | | Day 46-60 | <ul style="list-style-type: none"> • Delinquency Letter • Diligence Calls 4 attempts / 2 contacts • Continue emailing borrowers • Continue calling references |
| Day 59-88 Day 60 Day 75 | <ul style="list-style-type: none"> • Diligence Calls 4 attempts/1 contact • Delinquency Letter • Final Demand Letter | Day 61-75 | <ul style="list-style-type: none"> • Delinquency Letter • Diligence Calls 6 attempts / 3 contacts • Continue emailing borrowers • Continue calling references |
| | | Day 76-90 | <ul style="list-style-type: none"> • Delinquency Letter • Diligence Calls 6 attempts / 3 contacts • Continue emailing borrowers • Continue calling references |
| Day 89-118 Day 105 | <ul style="list-style-type: none"> • Diligence Calls 4 attempts/1 contact • Delinquency Letter | Day 91-120 | <ul style="list-style-type: none"> • Diligence Calls 6 attempts / 3 contacts • Continue emailing borrowers • Continue calling references • Final Demand Letter sent Day 120 |

EXHIBIT B

Cal Loan Rehabilitation Program

- The Administrator will first determine the reasons for non-payment and assess the debtor's ability to pay on the Student Loan account.
- If the Administrator reasonably determines that the debtor is able to repay 100% of the Student Loan account balance, the Administrator shall schedule an aggressive repayment schedule.
- If the Administrator reasonably determines that the debtor is unable to follow an aggressive repayment schedule, the Administrator shall offer a rehabilitation program to the debtor where the Student Loan account is reamortized for the remaining term.
- Once the debtor makes nine consecutive scheduled on-time payments, the status of the Student Loan account is updated to current and returned to the Servicer for servicing.
- At the time the debtor enters the rehabilitation program, the debtor's interest rate on any rehabilitated Student Loans will revert to the interest rate charged to such debtor prior to default.
- If the debtor fails to make any of the nine consecutive scheduled payments on time, the interest rate on the Student Loan will revert to the default rate. The debtor's credit report shall be updated as appropriate.

EXHIBIT C

Cal Loan Settlement Program

- Account must have been in collection for at least 300 days.
- The Administrator shall have the authority to waive up to 25% of the outstanding balance of a defaulted Student Loan account submitted to a debt collection agency.
- The Administrator will first determine the reasons for non-payment and assess the debtor's ability to pay on the Student Loan account.
- If the Administrator reasonably determines that the debtor is unable to repay 100% of the Student Loan account balance the Administrator may offer to settle the account by waiving a percentage of the account balance in 5% increments up to 25% of the outstanding balance of the Student Loan account
- . Borrower must be offered rehab program before a settlement is offered. Settlement is offered when the borrower:
 - 1) rejects to rehab the loan or
 - 2) fails to make the nine (9) on-time payments.
- In total, no account will be reduced, or settlement offered, that is less than 75% of the total amount outstanding (including principal, interest, fees, and penalties).
- Upon securing a verbal agreement with the debtor, the agreement shall be confirmed in writing with the debtor and shall include a demand that the settlement amount be paid within thirty days.
- Upon payment of the settlement amount, the debtor's account shall be paid in full and the debtor's credit report shall be updated as appropriate.
- If the debtor fails to pay the settlement amount within thirty days the settlement agreement shall be rescinded and the Student Loan will continue in default.
- The Administrator agrees to provide the certificate that is attached for each debtor prior to offering settlement to such debtor.

CERTIFICATE OF THE ADMINISTRATOR
REGARDING LOAN STATUS OF Loan [loan #]

The undersigned, on behalf of ALL Student Loan Resources (the “Administrator”) hereby certifies as follows:

1. On [date], the borrower received a loan through the Cal Loan program, loan [loan #].
2. On [date], principal and interest payments on the loan, in the amount of [\$], became due each month.
3. On [date], the loan became delinquent. Based on our review of records provided by the Servicer, and **to our knowledge**, all efforts of the Servicer to collect on the account, including several attempts to contact the borrower by telephone, electronic mail and US mail after the account became delinquent, as specified in the Servicing Agreement, have been exhausted.
4. On [date], the loan changed from delinquent status to default status and the Servicer referred the loan to the Administrator. Based on our review of records provided by the Servicer, and to our knowledge, the Servicer reported to the credit reporting agencies the default status of the loan.
5. On [date], the Administrator referred the defaulted loan to [Name of Collection Agency]. Based on our review of records, and **to our knowledge**, all efforts of the Collection Agency to collect on the account, including several attempts to contact the borrower by telephone, electronic mail and US mail, and offers to rehabilitate the loan, as specified in the Administration Agreement and the Collection Agreement, have been exhausted.
6. We have reviewed our records and determined that the Borrower is currently experiencing a financial hardship or otherwise has elected not to make payments on their loan. For purposes of this certificate, “financial hardship” means the borrower is in bankruptcy or foreclosure, is unemployed or underemployed, has a high debt-to-income ratio, or receives disability income.
7. Based on the Administrator’s review of the account and understanding of the borrower’s financial condition, it is the Administrator’s reasonable belief that any further attempts to collect payment from the borrower would be unproductive.

ALL STUDENT LOAN RESOURCES
CORPORATION, LLC

By [signature]

Name [name]

Title [title]