

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
Amendment to Extend the Expiration Date Authorizing the Collection and Enforcement of
Delinquent and Defaulted Student Loans
Amended Resolution No. 2010-01

Cal Loan Collection Procedures Update
Staff Summary

August 25, 2011

ISSUE

At the December 2, 2010 Authority meeting, the Authority approved Resolution Number 2010-01, which authorized the modification of various Cal Loan program documents. The amended documents implemented program changes that would enhance collection efforts on delinquent and defaulted loans. The enhanced collection procedures are described in the Administration Agreement between the Authority and ALL Student Loan Resources (ALL), the Administrator of the Cal Loan Program. In the Administration Agreement, the Authority agreed that ALL could implement the new collection procedures on a temporary basis for a period of nine months. The nine-month period ends September 2, 2011. However, the program changes were not implemented until May 2011. The collection agencies that contract with ALL needed the additional time to adapt their computer systems with the new program changes.

BACKGROUND

At ALL's request, the Authority approved enhanced pre-default collection features, and for defaulted loans, the implementation of a rehabilitation program, and the extension of settlement authority. The program changes are expected to decrease non-payment on student loans.

The rehabilitation ("rehab") loan program with the collection agency allows for a loan to be rehabilitated and returned to the service provider as a current obligation after nine consecutive scheduled on-time payments. At the time of approval, ALL estimated approximately sixty-six (66) defaulted borrowers may successfully rehabilitate their loans. There are currently no borrowers in the rehab program. According to ALL, the collection agencies are still performing skip-tracing on the non-paying borrowers. For the paying borrowers, they cannot afford to pay the higher rehab payment amount (the amount is higher because the loan balance is re-amortized over 10 years once they enter repayment). These borrowers continue to pay whatever they can afford, whenever they can. For the ones that had some means to repay, the borrowers simply wanted to settle the accounts. The collection agencies continue to monitor the collection process for potential borrowers for the rehab program.

In addition to the rehab program, the Authority provided authority to ALL to settle defaulted loans, 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). At the time of approval, ALL estimated approximately twenty-eight (28) defaulted borrowers would successfully settle their accounts over the next twelve months. There have been three settlements to date. Nineteen (19) borrowers with 37 loans have been reviewed and considered for settlement. Of the 19, five borrowers with 13 loans have been approved for settlement. The remaining 14 borrowers with 24 loans were denied for

settlement because their payment history did not warrant offering settlement. Of the five approved for settlement, only three borrowers with five loans have made the settlement payments totalling \$81,768.96.

At this time, staff supports extending the new collection procedures until the end of the year to allow ALL sufficient time to fairly evaluate the program changes.

RECOMMENDATION

Staff recommends the Authority extend the expiration date of Resolution No. 2010-01 until December 31, 2011.