

Financial Analysis of the Cal Loan Program
for
California Educational Facilities Authority (CEFA)
Board Meeting
February 28, 2013

Cal Loan Program Overview

- \$75.3 million in Bonds were sold to fund two Cal Loan programs (1997 and 2001).
 - \$30.3 million in Student Loan Revenue Bonds were sold in 1997 and an additional \$45 million were sold in 2001.
 - Proceeds from each tranche of Bonds were deposited into separate trustee accounts and each program was administered separately by All Student Loan Resources Corporation (ASLRC).

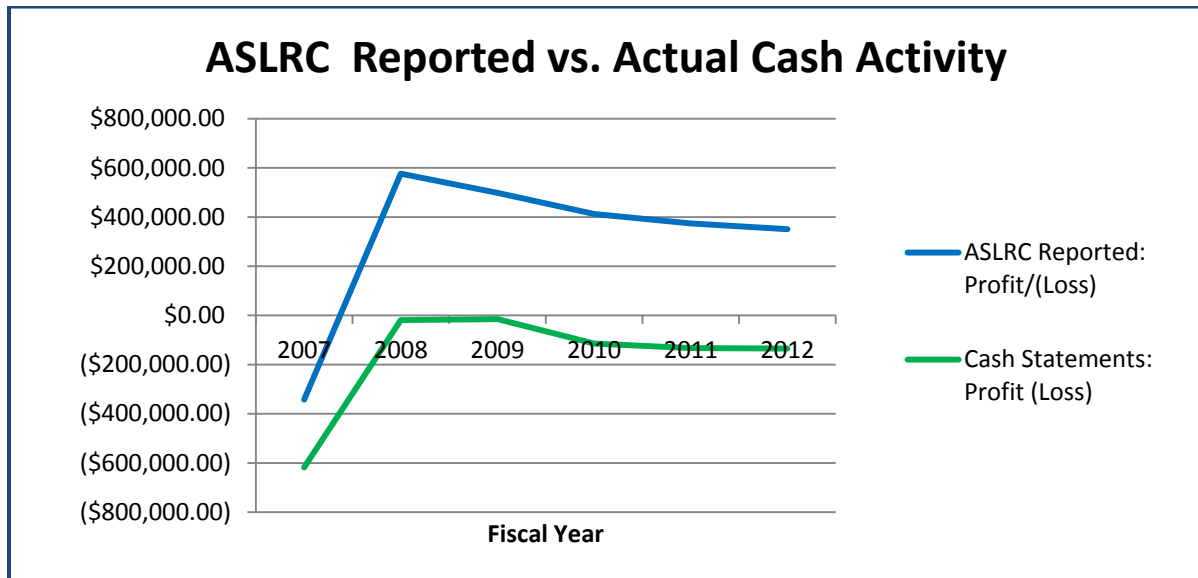
- \$6 million of the \$75.3 million in Bonds remained outstanding as of December 31, 2012.
 - All \$30.3 million of 1997 Bonds were redeemed by March 2007.
 - A net of approximately \$2.7 million of the 2001 Bond proceeds were used for 1997 Bond redemptions.
 - In FY 2008, ASLRC began administering the 1997 Bond program and the 2001 Bond program as one program.
 - As of December 31, 2012, \$39 million in 2001 Bonds had been redeemed, leaving \$6 million outstanding.

- About \$1.6 million in cash was on deposit with the trustee as of December 31, 2012.
 - \$800,000 was used for Bond redemptions in October 2012.

Financial Analysis of Past Cal Loan Activity

- Our analysis of past financial activity focused on comparing actual cash operating results to ASLRC financial reports to highlight significant differences. We assessed cash operating results through an analysis of monthly trustee statements.
 - Positive operating results reported by ASLRC were not confirmed by our analysis of actual cash activity. ASLRC financial reports indicated that the 2001 Bond program generated a \$2 million profit in FYs 2007 through 2012. However, these positive results were not confirmed by our analysis of actual cash activity, as illustrated in Chart 1.

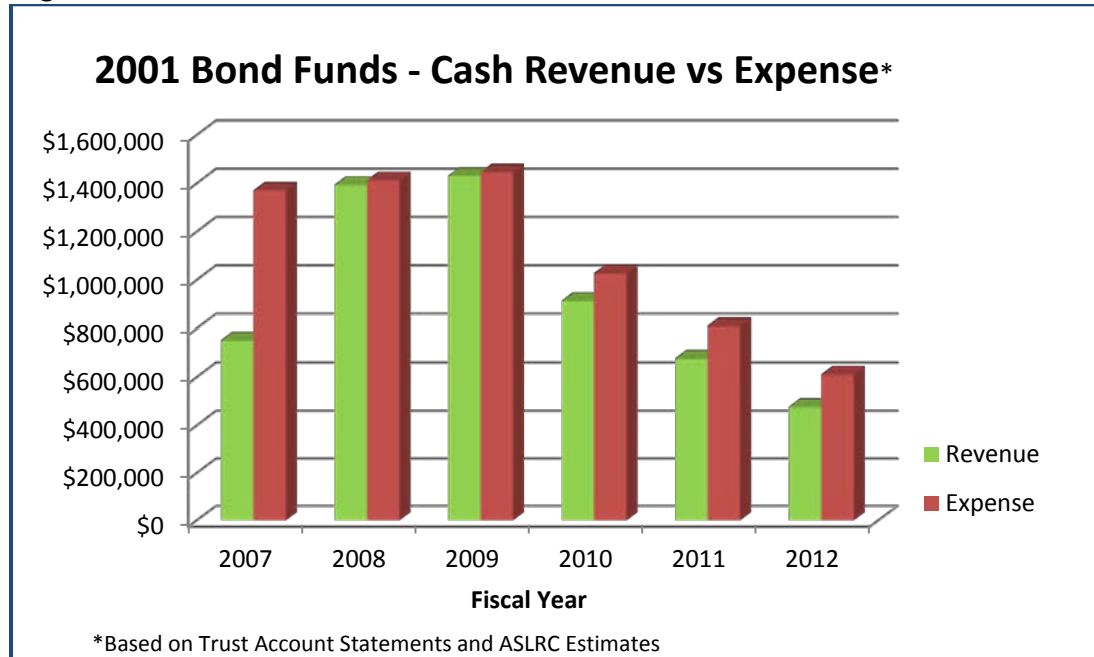
Chart 1: Comparison of ASLRC Reported Operating Results to Actual Cash Operating Results FY 2007 - 2012 for the 2001 Bond Program



Fiscal Years 2007 - 2012	Cash Statements: Profit/(Loss)	ASLRC Reported: Profit/(Loss)
2007	(\$617,735.60)	(\$342,123.00)
2008	(\$18,971.45)	\$576,562.00
2009	(\$14,795.19)	\$498,304.00
2010	(\$114,770.02)	\$412,467.00
2011	(\$132,744.59)	\$374,212.00
2012	(\$134,502.58)	\$350,323.00

- Chart 2 shows that between the years of 2007 and 2012 cash collections of interest on student loans, late payment fees, and interest earned on bank deposits did not cover operating expenses for Bond interest, third-party administrative fees, and bank account fees.

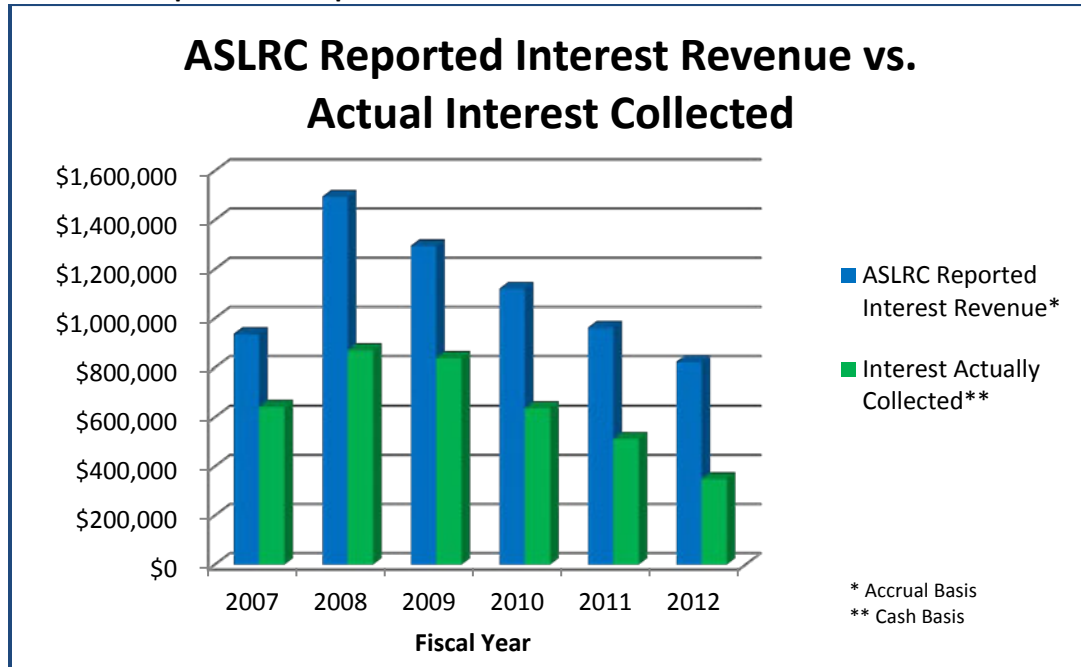
Chart 2: Comparison of Cash Revenue to Expenses FY 2007 - 2012 for the 2001 Bond Program



Fiscal Year	2007	2008	2009	2010	2011	2012
Revenue	\$754,143.90	\$1,395,447.94	\$1,432,962.73	\$915,180.91	\$679,349.39	\$478,343.01
Expense	\$1,371,879.50	\$1,414,419.39	\$1,447,757.92	\$1,029,950.93	\$812,093.98	\$612,845.59
Revenue-Expense	(\$617,735.60)	(\$18,971.45)	(\$14,795.19)	(\$114,770.02)	(\$132,744.59)	(\$134,502.58)

- The difference in operating results was due to overstated interest revenues. ASLRC reported interest revenue on an "accrual" basis. Under "accrual" basis reporting, the interest revenue booked is equal to the amount of interest owed by students each month. In comparison, our analysis of bank records showed actual "cash" collected from students each month. Chart 3 shows the difference between interest revenue reported to that actually collected each year.

Chart 3: Comparison of Reported Interest Revenue to Actual Interest Collections



Fiscal Year	2007	2008	2009	2010	2011	2012
ASLRC Reported Interest Revenue*	\$938,142	\$1,495,790	\$1,296,199	\$1,121,740	\$963,307	\$824,771
Interest Actually Collected**	\$645,079	\$872,873	\$840,818	\$639,456	\$514,088	\$350,815
Difference	\$293,063	\$622,917	\$455,381	\$482,284	\$449,219	\$473,956

- ASLRC's bad debt provisions for uncollectible interest and principal do not appear adequate. The difference between interest revenue accrued and that actually collected should be accounted for as a bad debt expense each year. In FY 2012, ASLRC reported interest revenue of \$825,000, which was \$475,000 more than the \$351,000 in interest actually collected. ASLRC reported a "Loan Loss Provision" of \$275,000 as an operating expense for the year. This bad debt expense appears inadequate, especially given that ASLRC management reported that the "Loan Loss Provision" includes both uncollectible interest and loan principal.
- Reserve funds are being depleted. The "Reserve" account established for the 2001 Bond program had \$4 million at the end of FY 2003, but only \$324,000 remains as of December 31, 2012.

Projected Future Cal Loan Activity

- Based on historical trends, we projected cash collections and expenses into the future to assess whether cash-on-hand as of June 30, 2012 and cash generated from future operations would provide sufficient funds to redeem the remaining \$6 million in Bonds that were outstanding as of December 31, 2012.
 - Performing loans
 - Performing loans of \$2.3 million as of June 30, 2012
 - Most of the performing loans will be closed out over the next 5 years, as shown in table 1 below.
 - Collecting on only performing loans over the next 5 years is likely to result in up to \$4 million in bonds remaining outstanding
 - Our analysis of actual activity in the first half of FY 2012-13, indicates that collections have exceeded projections by a little over \$100,000.

Table 1: Projected Cal Loan Activity (July 1)

	FY 2013	2014	2015	2016	2017	Total
Beginning Bank Balance	\$1,969,391	\$884,400	\$30,650	\$103,050	\$100,250	\$1,969,391
Projected Income from Interest and Late Fees	\$175,000	\$86,250	\$53,400	\$30,700	\$10,200	\$355,550
Administration Expenses	(\$120,000)	(\$110,000)	(\$100,000)	(\$90,000)	(\$80,000)	(\$500,000)
Bond Interest	(\$340,000)	(\$270,000)	(\$216,000)	(\$216,000)	(\$216,000)	(\$1,258,000)
Operating Income (Loss)	(\$285,000)	(\$293,750)	(\$262,600)	(\$275,300)	(\$285,800)	(\$1,402,450)
Loan Principal Payments	\$900,000	\$540,000	\$335,000	\$272,500	\$272,500	\$2,320,000
Bond Redemptions	(\$1,700,000)	(\$1,100,000)	\$0	\$0	\$0	(\$2,800,000)
Ending Bank Balance	\$884,391	\$30,650	\$103,050	\$100,250	\$86,950	\$86,941
Bonds Outstanding at Year End	\$5,100,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	
Performing Loans Outstanding at Year End	\$1,420,000	\$880,000	\$545,000	\$272,500	\$0	

- Non-performing loans
 - Non-performing loans totaled \$7.3 million as of June 30, 2012 with an additional \$3 million in uncollected interest on these loans at that date.
 - Cost/benefit of increased collection efforts are unknown.
 - Collection efforts will need to net approximately 40% of the non-performing loan principal and interest outstanding as of June 30, 2012 to generate sufficient funds to redeem all outstanding bonds

Recommendations and Considerations

1. Request ASLRC report both accrual and cash basis operating results in its quarterly reports and highlight significant differences.
2. Work with ASLRC to develop appropriate loss provisions for uncollectible interest, principal, and late fees owed on student loans. Request that ASLRC separately report loss provisions for uncollectible interest, principal, and late fees.
3. Consider redeeming bonds early to reduce annual bond interest expenses (bond interest is \$54,000 per year per million in bonds outstanding).
4. Consider more aggressive collection strategies for non-performing loans.