CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY ("CEFA")

Cal Loan Student Loan Program

Resolution No. 2013-04

December 5, 2013

Executive Summary

<u>Background</u>:

At the February 28, 2013 Authority meeting, Macias, Gini, and O'Connell (Macias), the Authority's financial analyst submitted a financial analysis (attached) to CEFA that: (1) provided a reconciliation of past Cal Loan Program operating activity shown in the trustee statement and ALL Student Loan's ("ALL")Cal Loan Program quarterly reports and; (2) projected future cash collections and expenses to assess whether cash-on-hand at the end of FY 2012 and cash generated from future operations would provide sufficient funds to redeem the remaining outstanding bonds. Macias' projections of future operating activity estimated that a shortfall of up to $4 million may exist after performing loans are paid off by 2017. To minimize the potential shortfalls, Macias recommended CEFA consider the following:

- Redeeming bonds early to reduce annual bond interest expenses.
- Implementing more aggressive collection strategies for non-performing loans.

Redeeming bonds early

Macias recommended redeeming the bonds early to reduce annual bond interest expenses. The bond interest is $54,000 per year per million in bonds outstanding. The bonds outstanding total $5,100,000 as of October 31, 2013, which equates to approximately $275,400 in annual bond interest expenses. The administrative expenses (including collection agency fees) are approximately $500,000 for the total five-year period. The administrative expenses plus any bond interest received have left CEFA with projected losses over the next four years of $293,750 in FY 2014; $262,600 in FY 2015; $275,300 in FY 2016; and $285,800 in FY 2017. For FY 2013, actual losses totaled $285,000. Early redemption of the bonds outstanding would eliminate approximately $1.7 million in annual bond interest and administrative expenses through 2017.

More aggressive collection strategies

Macias also recommended more aggressive collection strategies for the non-performing loans. For the past several months, staff has worked with ALL to hire a third collection agency. In August 2013, Firstmark was hired by ALL as the third collection agency. Firstmark acquired the defaulted loans that were uncollectable from the current collection agencies, Premiere and RAB. A total of 457 borrowers with 875 defaulted loans totaling over $10,918,000 were transferred to Firstmark for further collection actions. Of the 457 borrowers, 254 borrowers are within the statute of limitations ("SOL") and 203 borrowers are out of SOL, according to the attached SOL table prepared by ALL.

As of October 31, 2013, Firstmark has collected over $33,000 and has settled four accounts totaling over $41,230, as shown on the attached Dashboard report. RAB and Premiere have combined to collect $8,600 for the same time period. The increased collections are due largely to the efforts of Firstmark. The collection efforts of each of the collection agencies continue to be monitored by ALL on a monthly basis.

Most of the performing loans will be paid off by 2017, leaving an estimated balance of up to $4 million in bonds outstanding. According to Macias, collection efforts on the non-performing loans will need to net approximately 40% of the $10,918,000 in defaulted loans outstanding in order to generate sufficient funds to redeem all of the outstanding bonds. The combined average monthly collections for all three collection agencies is approximately $15,000 Over the next five years, the estimated total collections is $900,000, falling well short of the 40% mark or $4,367,2000 of the $10,918,000.

Request:

Since Firstmark started collection activity for the Cal Loan Program, the collection efforts have increased slightly. While collection activity continues, staff would like ALL to conduct due diligence to explore the possibility of selling the Cal Loan portfolio.

Recommendation:

Staff recommends approval of Resolution No. 2013-04 to approve and authorize the execution of the Second Amendment to the Second Amended and Reinstated Administration Agreement, which is attached for your review that permits ALL to hire a consultant to review the Cal Loan portfolio for the possible sale of the loans.

Attachments:

- Second Amendment to the Second Amended and Reinstated Administration Agreement
- Dashboard report
- SOL table
- Macias Financial Analysis of the Cal Loan Program

SECOND AMENDMENT TO
SECOND AMENDED AND RESTATED ADMINISTRATION AGREEMENT

This Amendment dated as of __________, 2013 by and between California Educational Facilities Authority, a public instrumentality and authority of the State of California (together with any successor to its functions under the laws of such State, the "Authority"); and ALL Student Loan Resources Corporation (formerly known as California Alternative Loan Marketing Association), a nonprofit public benefit corporation organized and existing under the laws of the State of California (together with any successor, the "Administrator") amends that certain Second Amended and Restated Administration Agreement dated as of January 3, 2011 (the "Agreement").

RECITALS

WHEREAS, the Indenture permits the Administrator to direct the Trustee to sell Student Loans under certain conditions;

WHEREAS, the Authority desires the Administrator to conduct due diligence for the possible sale of all outstanding Student Loans, including delinquent and defaulted Student Loans; and

WHEREAS, the Authority has determined, with the concurrence of the Administrator, that the amendments effected hereby will not adversely affect the Bondholders;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Subsection 6(C) is hereby added to the Agreement:

(C) The Administrator may contract with a financial consultant to assist with negotiating the terms of the sale, if a sale should occur, and to find a potential purchaser(s) for the Student Loans. The terms of the sale are subject to approval by the Authority and each Credit Enhancer. Any sale of Student Loans shall comply with the Indenture.

Except as amended hereby, the Administration Agreement shall remain in full force and effect and is hereby ratified and confirmed.

The Authority has obtained the consent and approval of the Credit Enhancer to this letter amendment as required by the terms of the Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed in their respective corporate names, all as of the date first written above.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

By: ______________________________
Executive Director

ALL STUDENT LOAN RESOURCES CORPORATION

By: ______________________________
Quentin Wilson
President and CEO

The Credit Enhancer, by the signature below, hereby consents to and approves of this Amendment.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION,
on its behalf and as agent for MBIA Insurance Corporation

By: ______________________________
Brian J. Cooney
Managing Director

DASHBOARD REPORT

Import New Reports

CEFA MONTHLY DEFAULT COLLECTION ACTIVITIES

	Portfolio Activity			FM Only Portfolio Totals (FM Assigned)								Lawfirm Statistics				
	Dials	Letters Sent	Emails Sent	Gross $ Collected	Net $ Collected	Total Balance (CBP + Interest)	Total Balance (CBP)	Recovery Rate	YTD Recovery Rate	Settlements/PIF	Rehabs	Gross $ Collected	Net $ Collected	Total Balance (CBP + Interest)	Total Balance (CBP)	Recovery Rate
August-13	819	286	0	3,392.65	2,374.86	8,469,773.17	5,427,342.07	0.04%	0.04%	0.00	0.00	0.00	0.00	$0.00	$0.00	#DIV/0!
September-13	1289	0	195	12,272.48	8,590.74	8,469,773.17	5,427,342.07	0.14%	0.18%	12,230.17	35,107.98	0.00	0.00	$0.00	$0.00	#DIV/0!
October-13	1050	0	0	33,174.31	23,222.02	8,469,773.17	5,427,342.07	0.39%	0.58%	29,000.00	0.00	0.00	0.00	$0.00	$0.00	#DIV/0!
November-13	0	0	190	0.00	0.00	0.00	0.00	#DIV/0!	#DIV/0!	0.00	0.00	0.00	0.00	$0.00	$0.00	#DIV/0!
December-13	0	0	0	0.00	0.00	0.00	0.00	#DIV/0!	#DIV/0!	0.00	0.00	0.00	0.00	$0.00	$0.00	#DIV/0!

* Dictated by state law if a payment resets the statue of limitations

** $ entering OOS measurement will be projected out each month

Definitions

OOS - Out of Statue (Unable to seek legal judgement)

CPB - Current Principle Balance

Int - Interest

	Statue of Limitations (FM/RAB/Premier)				
	OOS Dollars (CPB + Int)	Dollars entering OOS	Out of Statue Resets *	Out of Statue Resets $*	OOS Reset %
August-13	0.00	0.00	0	$0	0.00%
September-13	5,723,511.79	0.00	3	$75,979	1.33%
October-13	5,723,511.79	0.00	4	$181,210	3.17%
November-13	0.00	2,193.83	0	$0	#DIV/0!
December-13	0.00	159,934.70	0	$0	#DIV/0!

Fisrtmark Loan Settlements				
Account #	Outstanding Bal.	Settlement Am	Percentag	Date
503714	$ 2,230.17	$ 2,230.17	100%	8/13/2013
571649	$ 17,032.62	$ 10,000.00	59%	9/26/2013
380100	$ 5,631.33	$ 3,500.00	62%	10/16/2013
405503	$ 50,168.13	$ 25,500.00	51%	10/23/2013
Total	**$ 75,062.25**	**$ 41,230.17**		

2013 Statute of Limitation

SoL Status	# of Borrowers	# of Loans	Principal Balance	Accrued Interest	Total Payoff (CPB & Interest)	% on Grand Total	Average Drop Rate - Monthly
In Statute	254	500	$ 3,706,850.07	$ 1,487,849.71	$ 5,194,699.78	51.47%	
Out of Statute	203	375	$ 3,495,403.77	$ 2,228,108.02	$ 5,723,511.79	48.53%	
	457	**875**	**$ 7,202,253.84**	**$ 3,715,957.73**	**$ 10,918,211.57**		

History of SOL up to date

SoL Status	# of Borrowers	# of Loans	Principal Balance	Accrued Interest	Total Payoff (CPB & Interest)	% on Grand Total	Average Drop Rate - Monthly
1/31/2013	2	3	$ 21,555.26	$ 10,492.43	$ 32,047.69	0.30%	0.30%
2/28/2013	1	1	$ 2,192.83	$ 1,160.91	$ 3,353.74	0.03%	0.03%
3/31/2013	6	14	$ 128,521.73	$ 73,945.96	$ 202,467.69	1.78%	1.78%
4/30/2013	2	3	$ 46,779.34	$ 22,550.30	$ 69,329.64	0.65%	0.65%
5/31/2013	2	3	$ 22,678.64	$ 15,527.70	$ 38,206.34	0.31%	0.31%
6/30/2013	1	1	$ 2,085.55	$ 690.73	$ 2,776.28	0.03%	0.03%
7/31/2013	12	15	$ 90,717.28	$ 50,508.14	$ 141,225.42	1.26%	1.26%
8/31/2013	2	2	$ 8,010.93	$ 5,052.96	$ 13,063.89	0.11%	0.11%
9/30/2013	1	1	$ 17,455.19	$ 7,056.99	$ 24,512.18	0.24%	0.24%
10/31/2013	2	5	$ 44,202.08	$ 28,666.11	$ 72,868.19	0.61%	0.61%
Totals	**31**	**48**	**$ 384,198.83**	**$ 215,652.23**	**$ 599,851.06**	**0.53%**	**0.53%**

2013 Statute of Limitation

Projections out of SOL

SoL Status	# of Borrowers	# of Loans	Principal Balance	Accrued Interest	Total Payoff (CPB & Interest)	% on Grand Total	Average Drop Rate - Monthly
11/30/2013	2	2	$ 4,958.24	$ 1,478.71	$ 6,436.95	0.07%	0.07%
12/31/2013	1	3	$ 32,542.18	$ 15,895.69	$ 48,437.87	0.45%	0.45%
1/31/2014	-	-	$ -	$ -	$ -	0.00%	0.00%
2/28/2014	-	-	$ -	$ -	$ -	0.00%	0.00%
3/31/2014	1	1	$ 11,841.88	$ 6,969.12	$ 18,811.00	0.16%	0.16%
4/30/2014	90	158	$ 1,344,959.79	$ 636,127.09	$ 1,981,086.88	18.67%	18.67%
5/31/2014	1	1	$ 4,360.97	$ 2,276.66	$ 6,637.63	0.06%	0.06%
6/30/2014	5	9	$ 50,268.21	$ 17,573.10	$ 67,841.31	0.70%	0.70%
7/31/2014	1	1	$ 10,400.94	$ 2,881.89	$ 13,282.83	0.14%	0.14%
8/31/2014	-	-	$ -	$ -	$ -	0.00%	0.00%
9/30/2014	2	2	$ 17,474.31	$ 7,097.44	$ 24,571.75	0.24%	0.24%
10/31/2014	1	1	$ 5,014.14	$ 2,641.56	$ 7,655.70	0.07%	0.07%
11/30/2014	2	2	$ 8,612.42	$ 2,767.82	$ 11,380.24	0.12%	0.12%
12/31/2014	-	-	$ -	$ -	$ -	0.00%	0.00%
1/31/2015	1	2	$ 9,672.27	$ 4,421.23	$ 14,093.50	0.13%	0.13%
2/28/2015	-	-	$ -	$ -	$ -	0.00%	0.00%
3/31/2015	-	-	$ -	$ -	$ -	0.00%	0.00%
4/30/2015	3	6	$ 45,887.56	$ 22,157.50	$ 68,045.06	0.64%	0.64%
5/31/2015	2	2	$ 4,836.15	$ 1,767.56	$ 6,603.71	0.07%	0.07%
6/30/2015	3	3	$ 29,458.04	$ 22,090.61	$ 51,548.65	0.41%	0.41%
7/31/2015	1	1	$ 17,386.08	$ 6,155.21	$ 23,541.29	0.24%	0.24%
8/31/2015	4	4	$ 30,624.58	$ 15,756.61	$ 46,381.19	0.43%	0.43%
9/30/2015	16	31	$ 208,417.63	$ 49,531.57	$ 257,949.20	2.89%	2.89%
10/31/2015	3	4	$ 3,111.60	$ 487.00	$ 3,598.60	0.04%	0.04%
11/30/2015	1	1	$ 3,606.65	$ 2,128.12	$ 5,734.77	0.05%	0.05%
12/31/2015	2	2	$ 9,237.41	$ 1,796.61	$ 11,034.02	0.13%	0.13%
Total	**142**	**236**	**$ 1,852,671.05**	**$ 822,001.10**	**$ 2,674,672.15**	**0.99%**	**0.99%**

Financial Analysis of the Cal Loan Program

for

California Educational Facilities Authority (CEFA)

Board Meeting

February 28, 2013

Cal Loan Program Overview

- <u>$75.3 million in Bonds were sold to fund two Cal Loan programs (1997 and 2001).</u>
  - $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).

- <u>$6 million of the $75.3 million in Bonds remained outstanding as of December 31, 2012.</u>
  - 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.

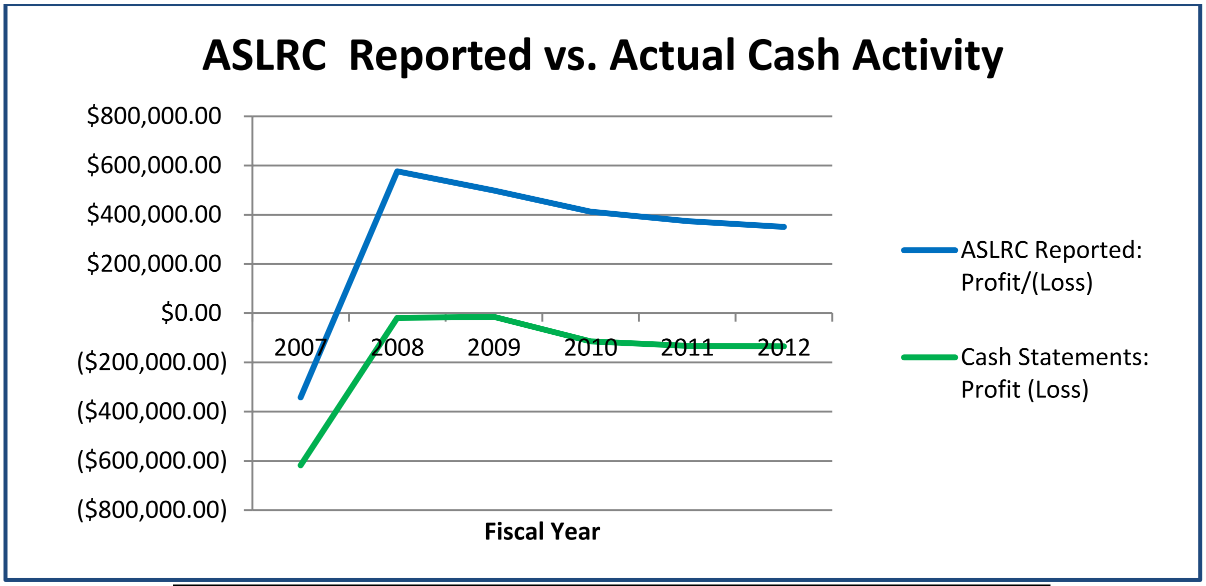
- <u>About $1.6 million in cash was on deposit with the trustee as of December 31, 2012.</u>
  - $800,000 was used for Bond redemptions in October 2012.

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.

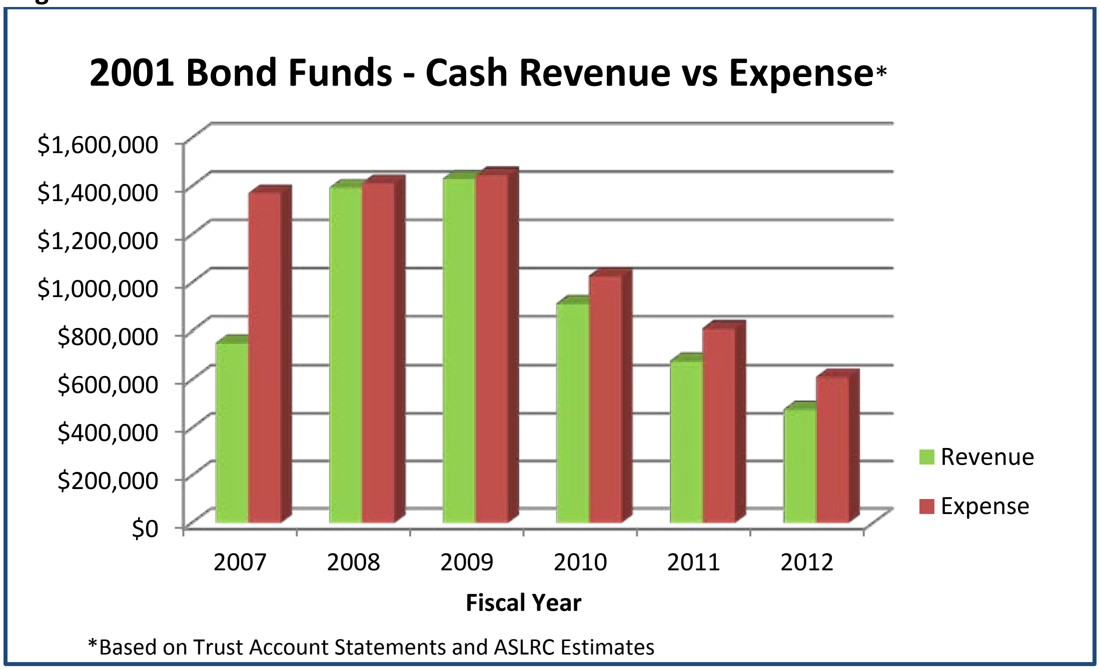
Chart 1: Comparison of ASLRC Reported Operating Results to Actual Cash Operating Results FY 2007 - 2012 for the 2001 Bond Program



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.

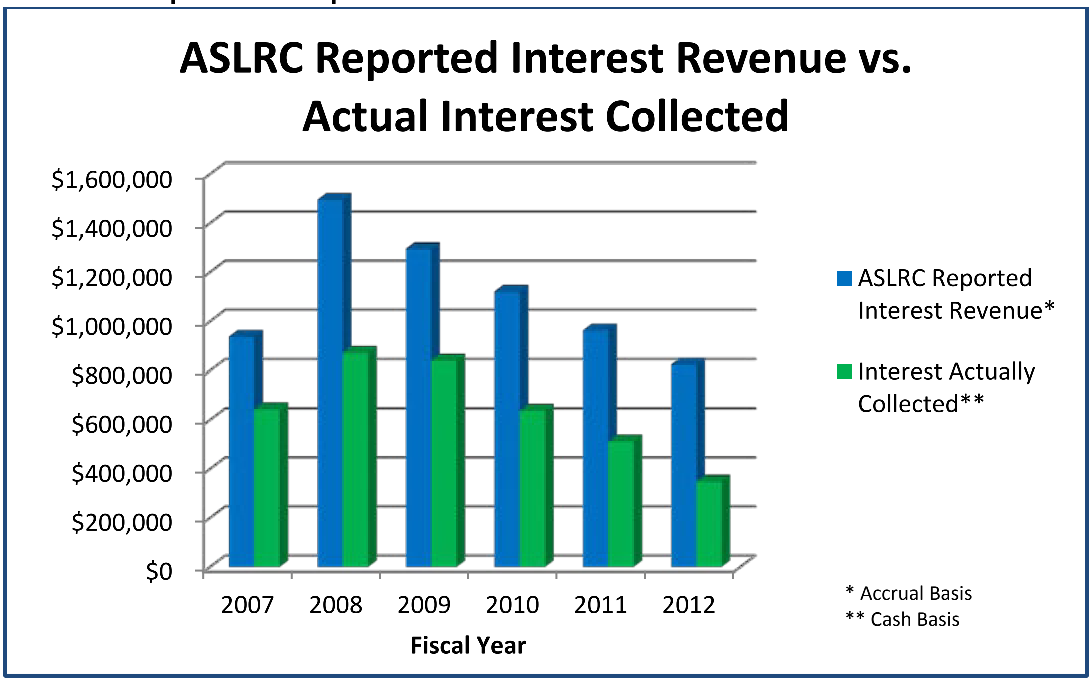
Chart 2: Comparison of Cash Revenue to Expenses FY 2007 - 2012 for the 2001 Bond Program



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)

- <u>The difference in operating results was due to overstated interest revenues</u>. 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

- <u>ASLRC's bad debt provisions for uncollectible interest and principal do not appear adequate.</u> 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.

- <u>Reserve funds are being depleted.</u> 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.

Resolution No. 2013-04

Resolution Authorizing the Second Amendment to the Second Amended and Reinstated Administration Agreement Allowing for the Potential Sale of Student Loans

WHEREAS, the California Educational Facilities Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Educational Facilities Authority Act (the "Act") to issue bonds, notes, debentures or other securities, including commercial paper notes, to finance and refinance the acquisition, construction, expansion, rehabilitation, remodeling, renovation and equipping of educational facilities by participating private colleges (as defined in the Act) situated within the State of California; and

WHEREAS, the Authority desires the Administrator to conduct due diligence for the possible sale of all outstanding Student Loans, including delinquent and defaulted Student Loans, under the Cal Loan Student Loan Program;

NOW, THEREFORE, BE IT RESOLVED by the California Educational Facilities Authority, as follows:

Section 1. The Authority approves the Second Amendment to the Second Amended and Reinstated Administration Agreement, which permits the Administrator to contract with a financial consultant to assist with negotiating the terms of the sale, if a sale should occur, and to find a potential purchaser(s) for the Student Loans. The Authority's approval is conditional on providing to the Trustee an Opinion of Bond Counsel and written consent of the Credit Enhancer as required in Section 6.07(B) of the Indenture.

Section 2. The Executive Director is hereby authorized and directed to do any and all things and to execute and deliver any documents, which the Executive Director may deem necessary or advisable in order to effectuate the purposes of this resolution and the directions contemplated herein.

Date of Adoption: ____________________