

STUDENT LOAN AUTHORITY

Enabling Laws

Act 1421 of 2005
A.C.A. §6-81-101 et seq.

History and Organization

Since the Authority was created in 1977, its enabling legislation has been amended six times:

Act 633 of 1979

- delineated membership of the Authority board and
- expanded authorized investments.

Act 296 of 1981

- defined the term "obligation",
- increased the obligation "cap" from \$15 million to \$50 million,
- required repayment from the next sale of revenue bonds of any outstanding obligation(s) other than revenue bonds, and
- repealed the requirement that student loans qualify for payment of federal interest benefits.

Act 937 of 1983

- defined the term "bond",
- removed the 10% limit on bond interest rates,
- reduced the notice period for public sale of bonds to ten days, and
- expanded authorized investments.

Act 39 of the 1983 First Extraordinary Session

- increased the obligation "cap" from \$50 to \$100 million.

Act 51 of the 1983 First Extraordinary Session

- authorized negotiated sales of obligations.

Act 429 and 449 of 1985 (identical acts)--

- authorized the Authority to make and purchase PLUS (parent) loans
- re-defined the term "obligation" to authorize the Authority to issue taxable and/or non-taxable debt, and
- designated the Authority as a public body politic and corporate.

Act 705 and 631 of 1985 (identical acts)--

- authorized the Authority to make or purchase loans from any qualified guarantor of its choice,
- removed the limitation on obligations that may be issued by the Authority, and,
- permitted the issuance of obligations, the proceeds of which may be used to acquire investment contracts.

Act 377 of 1989

- authorized the Authority to sell guaranteed educational loan notes where appropriate to its operation

Arkansas Student Loan Authority (ASLA) is a state agency created to provide a comprehensive student loan program for the State's citizens. In 1977, as the number of student loan providers dwindled, the Arkansas General Assembly established ASLA to ensure an enduring source of

affordable student loans to the citizens. It is ASLA's mission to make affordable educational funding available to any citizen who has the desire to attend an institution of higher learning. ASLA provides a full service student loan program for the students and parents of the State and for all participating state banks. The following services are provided by ASLA.

Education Loans are provided to students and parents who select an ASLA participating lender as their lender of choice. ASLA provides student and parent borrowers with one of the most advantageous loans available in the student loan market. ASLA believes that a student should exhaust all avenues of college funding available before taking a student loan and then never more than they can repay. If a student loan is needed, ASLA provides interest rate and origination fee discounts to the greatest level possible. **The Arkansas EdLoan** provides teachers, nurses, paramedics, law enforcement officers and the National Guard personnel in Arkansas with a 3% to 4% reduction in their interest rates just for remaining in our State. Student loan borrowers, other than those entering the career fields listed above, are eligible for a 3% interest rate discount for making payments in a timely manner.

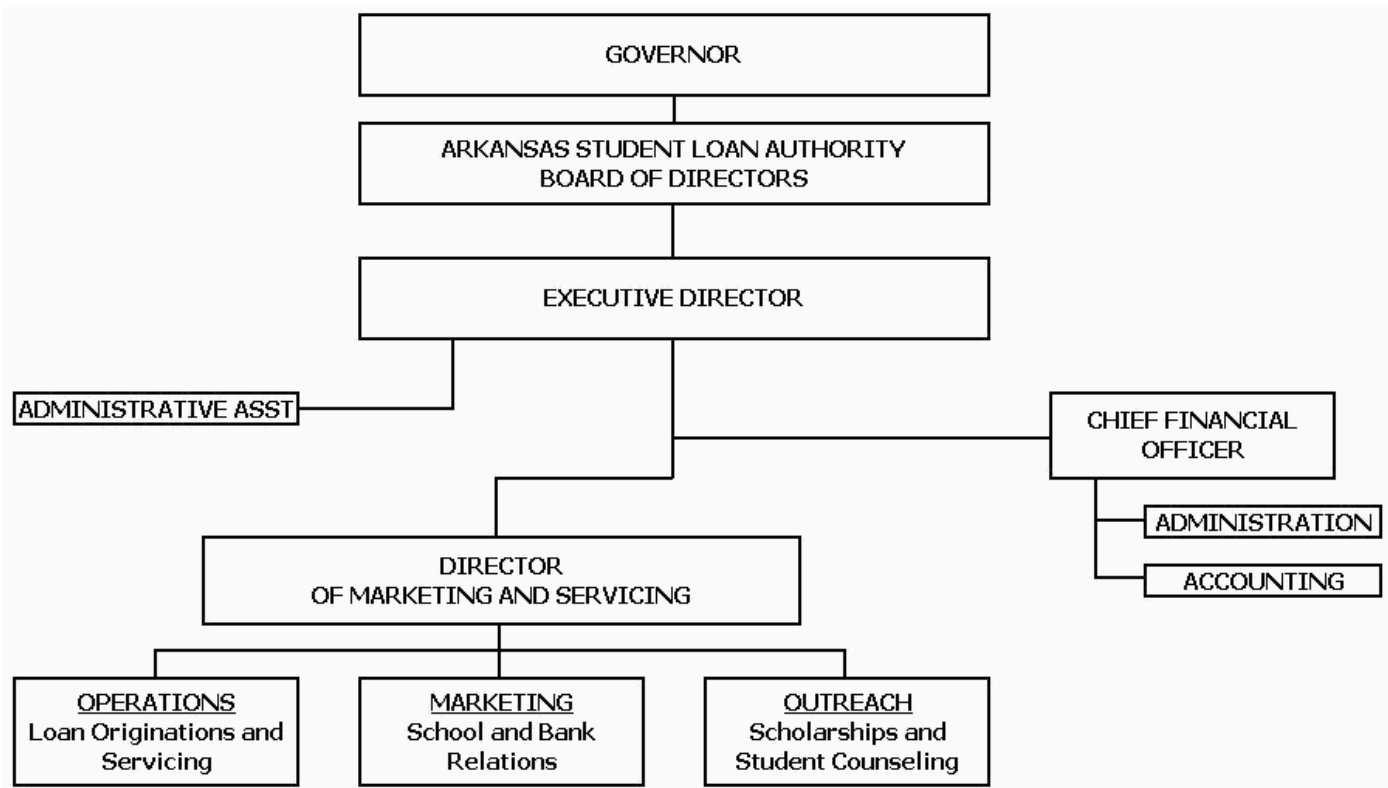
The Student Outreach Services Program (S.O.S) identifies and secures scholarships and grants for students and support school counselors' efforts, which help students get a positive start in college selection and career discovery. ASLA participates in over 100 college fairs and financial seminars to help families understand the federal and state financial aid application processes and to help students understand that higher education can be an affordable option for most any Arkansas citizen. The services are provided free of charge.

Secondary Market Services for participating banks provide local banks a market to sell loans made to their customers. Loans sales allow the banks to re-cycle their investment in new student loans. Because ASLA provides life of the loan servicing and never sells its loans to out-of-state entities, banks utilizing ASLA secondary market services ensure investments stay in the State strengthening the Arkansas economy.

Loan Referral Programs allow banks to provide student loans to their customers without committing to funding or servicing of the loan. ASLA originates the loan on behalf of the local bank, which creates access to college funding for students in all areas of the State. This program has made it possible and profitable for small Arkansas banks to provide customers an important community service. ASLA provides each participating bank a reimbursement for marketing expenses. Presently, approximately ninety banks participate in this important state program. As with ASLA's secondary market services, the loan referral programs ensure investments stay in the State, which strengthens the Arkansas economy.

Loan Consolidation is offered to student and parent loan borrowers who have loans with multiple lenders or who need to extend their repayment term for more affordable monthly payments. This refinancing tool has been in great demand recently with the tremendous rise in college education costs.

ASLA is the designated student loan agency in Arkansas and is authorized to issue revenue bonds to finance Arkansas' comprehensive student loan program specifically for the benefit of its citizens. The ASLA board of directors is committed to the support of students, the efficient management of the agency and the protection of the State's individual and corporate investment by keeping student loan funds Arkansas.



Agency Commentary

The Arkansas Student Loan Authority provides an enduring source of affordable higher education funding to Arkansas citizens and non-citizens who attend an Arkansas higher education institution. All funding to support ASLA programs is provided by cash funds generated from loan program operations. ASLA is a self-sufficient agency which does not receive any state revenue dollars.

We are not requesting additional appropriation for personnel at this time.

Requests for additional budgetary authority in Commitment Item 02 - Operating Expenses, Commitment Item 09 - Conference Fees & Travel, Commitment Item 10 - Professional Fees and Services, Commitment Item 11 - Capital Outlay, will allow us to meet the increased cost directly related to growth of ASLA’s student loan volume and the general inflationary increase in the cost of doing business and provide for normal replacement of computer equipment. Student loan volume growth has increased over 30% a year for the previous three years and is expected to continue at a comparable rate.

Volume and complexity of the student loan program has made computer support essential to efficient and effective control of loan operations. The Authority currently utilizes computers in each staff workplace. We utilize the Windows NT Local Area Network to facilitate constant communication between all internal workstations. Most correspondence is now available on-line, saving postage, and handling and storage of paper documents.

The Authority maintains an Internet Home Page, designed to be used by students, parents and high school guidance counselors. Financial aid forms and financial aid information can be down loaded

and forms can be completed electronically in many cases. Many of ASLA's student services, such as free scholarship searches, are provided on-line.

The Authority must be in position to utilize similar systems and enhancements as they become available. In accordance with our Agency's Information Technology Plan for the 2007- 2009 biennium, the Authority is requesting a change level eight request of \$9,000 in each year of the biennium for computer system and equipment upgrade. Funding for this expenditure will be provided by the cash funds from loan program operations.

In August 2005, we requested a cash holding appropriation in the amount of \$3,300,000 needed for the purchase or construction of a building, land acquisition, plus associated expenses to house ASLA and its servicing center currently located in the Main Street Mall Building at 101 East Capitol Avenue, Little Rock, Arkansas 72201. The appropriation was granted in September 2005; however, it has not been used due to the fact we have not identified a reasonably priced building to purchase or a building site on which to construct a building. The reasons for seeking a new location have not changed. ASLA is making this request to lack of public accessibility and visibility and lack of space to expand current operations. Funding for this expenditure will be provided by the cash funds from loan program operations. The Authority requests additional budget authority in Commitment Item 05 - Building/Land Acquisition (FY 2007-2008 \$3,300,000, FY 2008-2009 \$3,300,000) for this purpose. The Authority wants to make a fiscally responsible decision with the appropriation; therefore, we are requesting the appropriation be included in FY 2007-2008 and FY 2008-2009. The Authority fully expects to use the appropriation before FY 2007-2008, but cannot guarantee this because of constant changing market conditions and the availability of quality existing buildings. The Authority would like the appropriation to be available during the Biennial period (if not used prior), so we can act quickly if we find a building or location that will satisfy our needs.

The change level one requests for additional budgetary authority in Commitment Item 02 - Operating Expenses (FY 2007-2008 \$129,932 , FY 2008-2009 \$153,546), Commitment Item 09 - Conference Fees & Travel (FY 2007-2008 \$6,453, FY 2008-2009 \$7,839), Commitment Item 10 - Professional Fees and Services (FY 2007-2008 \$2,754,289, FY 2008-2009 \$4,254,289) and Commitment Item 11 - Capital Outlay, (FY 2007-2008 \$4,000, FY 2008-2009 \$9,500) are to meet not only the general inflationary increases in the cost of doing business, but more importantly, the necessary increases in support which are directly proportional to the growth in current and anticipated loan volume and loan assets to be managed. ASLA anticipates that it will manage a minimum of \$500,000,000 and up to \$700,000,000 in student loans during the biennial period. Loan servicing and administration expenses typically average approximately 1.25% of outstanding loans per year.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS STUDENT LOAN AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2005

Findings	Recommendations
None	None

Employment Summary

	Male	Female	Total	%
White Employees	3	1	4	67 %
Black Employees	0	1	1	17 %
Other Racial Minorities	0	1	1	16 %
	Total Minorities		2	33 %
	Total Employees		6	100 %

Cash Fund Balance Description as of June 30, 2006

Fund Account	Balance	Type	Location
1570000	\$830	Checking	Regions Bank, Little Rock

Statutory/Other Restrictions on use:

Arkansas Code §6-81-102 established the Arkansas Student Loan Authority to provide federal guaranteed educational loans through the process of originating, buying, and selling educational loan notes. Use of cash fund balances is restricted by Bond Trust Indentures.

Statutory Provisions for Fees, Fines, Penalties:

Proceeds from repayment of principal & interest on guaranteed educational loans and from investments shall be used to meet expenses of the Authority in the fulfillment of its mission.

Revenue Receipts Cycle:

Funds collected from the sale of revenue bonds are deposited monthly. Various investment strategies are used to maximize proceeds available to meet necessary costs of the Authority.

Fund Balance Utilization:

The use of fund balances is restricted by the terms of Trust Indentures that pertain to the maintenance of various funds and reserves, and the investment of such when not needed for authorized purposes.

Publications

A.C.A 25-1-204

Name	Statutory Authorization	Required for		# Of Copies	Reason (s) for Continued Publication and Distribution
		Governor	General Assembly		
None	N/A	N	N	0	N/A

Agency Position Usage Report

FY2004-2005						FY2005-2006						FY2006-2007					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
5	5	0	5	0	0.00%	6	6	0	6	0	0.00%	6	6	0	6	0	0.00%

Analysis of Budget Request

Appropriation: A51 - Student Loan Authority - Cash Operations

Funding Sources: 157 - Student Loan Authority - Cash

The Arkansas Student Loan Authority was created for the purpose of originating and acquiring student loans and support Arkansas student financial assistance by purchasing loans made by local lenders to higher education students. The process provides liquidity to banks so additional loans may be made to students in need.

Funding for the Agency is derived from bond issues.

A cost of living increase is not incorporated in Base Level pending the outcome of the Classification and Compensation Study. The Base Level request of \$343,475 for FY08 and \$343,475 for FY09 for Regular Salaries does not include board member Stipend payments. FY07 salary levels have been held flat each year for all incumbents. Personal Services Matching may reflect increases in the Base Level due to the Social Security Tax maximum income limit and certain increases in Worker's Compensation and Unemployment Tax rates. Personal Services Matching also includes a \$30 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$350 per month.

The Agency requests additional appropriation of \$6,203,674 for FY08 and \$7,734,174 for FY09 for Operating Expenses, Travel, Professional Fees, Building/Land Acquisition, and Capital Outlay. Increases in Operating Expenses of \$129,932 for FY08 and \$153,546 for FY09 are due primarily, to an update in accounting procedures, which affected office rent, office equipment rent, telephone services and postage. Various other increases in Operating Expenses are for staff travel, board member travel, advertising, and association member dues.

Increases in Travel of \$6,453 in FY08 and \$7,839 in FY09 are based upon increases in conference registration fees, airline fees, hotel charges, and gas prices and the additional travel expenses of a new staff member.

The Authority requests increases in Professional Fees of \$2,754,289 in FY08 and \$4,254,289 in FY09. The increases are based upon loan servicing and program administration expenses, which are directly proportional to the balance of outstanding student loan receivables. Loan acquisition volume increased from \$124.9 million in FY05 to approximately \$180 million in FY06. The Authority's outstanding receivable loan balance was \$357.7 million for FY05 and is expected to be approximately \$440 million for FY06. Due to higher demand, the agency expects increases in student loan acquisitions at a rate of 18% to 24% per year.

The Authority requests a continuation of \$3.3 million for each year of the biennium for Building/Land Acquisition to purchase or construct a building, land acquisition, and associated expenses to house the Authority. The Agency has not yet identified a reasonably priced building to purchase, nor a site on which to construct a building. The Agency expects to use the appropriation before FY08; however, due to constantly changing market conditions and the availability of quality buildings, this cannot be assured.

An increase in Capital Outlay of \$4,000 for FY08 and \$9,500 for FY09 is requested for additional needs for office furniture and general equipment upgrades.

The Agency requests an increase of \$9,000 for each year of the biennium for computer system and equipment upgrade due to the volume and complexity of the student loan program.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation

Appropriation: A51 Student Loan Authority - Cash Operations
Funding Sources: 157 - Student Loan Authority - Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2005-2006	2006-2007	2006-2007	2007-2008			2008-2009		
	Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	303,387	343,475	350,687	343,475	343,475	343,475	343,475	343,475	343,475
#Positions	6	6	6	6	6	6	6	6	6
Personal Services Matching 5010003	83,422	92,503	88,925	94,754	94,754	94,754	94,754	94,754	94,754
Operating Expenses 5020002	150,839	300,755	186,000	186,000	315,932	315,932	186,000	339,546	339,546
Conference & Travel Expenses 5050009	14,730	20,163	15,000	15,000	21,453	21,453	15,000	22,839	22,839
Professional Fees 5060010	4,648,030	6,329,000	5,100,000	5,100,000	7,854,289	7,854,289	5,100,000	9,354,289	9,354,289
Building/Land Acquisition 5090005	0	3,300,000	0	0	3,300,000	3,300,000	0	3,300,000	3,300,000
Data Processing 5090012	0	100	100	100	100	100	100	100	100
Capital Outlay 5120011	0	0	0	0	13,000	13,000	0	18,500	18,500
Loans 5120029	0	200	200	200	200	200	200	200	200
Total	5,200,408	10,386,196	5,740,912	5,739,529	11,943,203	11,943,203	5,739,529	13,473,703	13,473,703
Funding Sources									
Fund Balance 4000005	30,099	20,353		134,157	134,157	134,157	190,154	190,154	190,154
Bond Proceeds 4000125	5,190,662	10,500,000		5,796,326	12,000,000	12,000,000	6,265,826	14,000,000	14,000,000
Total Funding	5,220,761	10,520,353		5,930,483	12,134,157	12,134,157	6,455,980	14,190,154	14,190,154
Excess Appropriation/(Funding)	(20,353)	(134,157)		(190,954)	(190,954)	(190,954)	(716,451)	(716,451)	(716,451)
Grand Total	5,200,408	10,386,196		5,739,529	11,943,203	11,943,203	5,739,529	13,473,703	13,473,703

The FY07 Budgeted amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2005-07 biennium.

The FY07 Budgeted amount exceeds Authorized in Operating Expenses, Conference & Travel Expenses, Professional Fees, and Building/Land Acquisition due to a transfer from the Cash Fund Holding Account.

Change Level by Appropriation

Appropriation: A51-Student Loan Authority - Cash Operations

Funding Sources: 157 - Student Loan Authority - Cash

Agency Request

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	5,739,529	6	5,739,529	100.0	5,739,529	6	5,739,529	100.0
C01	Existing Program	6,194,674	0	11,934,203	207.9	7,725,174	0	13,464,703	234.6
C08	Technology	9,000	0	11,943,203	208.0	9,000	0	13,473,703	234.7

Executive Recommendation

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
BL	Base Level	5,739,529	6	5,739,529	100.0	5,739,529	6	5,739,529	100.0
C01	Existing Program	6,194,674	0	11,934,203	207.9	7,725,174	0	13,464,703	234.6
C08	Technology	9,000	0	11,943,203	208.0	9,000	0	13,473,703	234.7

Justification

C01	<p>The Authority requests an increase in Operating Expense of \$129,932 in FY 08 and \$\$153,546 in FY09 due to an update in accounting procedures, increases are necessary for office rent, office equipment rental, telephone services, and postage. Other increases are for advertising expenses, board member travel, staff travel, and association member dues. An increase in Travel Expenses of \$6,453 in FY08 and \$7,839 in FY09 is based upon increases in conference registrations, airline fees, hotel charges, and gas prices and the additional travel expenses of a new staff member. An increase in Professional Fees of \$2,754,289 in FY08 and \$4,254,289 in FY09 is based upon loan servicing and program administration expenses which are directly proportional to the balance of outstanding student loan receivables. Loan acquisition volume has increased from \$124.9 million in FY 2005 to approximately \$180 million in FY 2006. The Agency's outstanding receivable loan balance was \$357.7 million for FY05 and is expected to be approximately \$440 million for FY06. We expect to see continued increases in student loan acquisitions, at a rate of 18% to 24% per year, due to greater demand. The Authority requests a \$3.3 million increase for Building/Land acquisition for each year of the 2007-2009 biennium to purchase or construct a building, land acquisition, and associated expenses to house the Authority. The Authority fully expects to use the appropriation before FY08, but cannot guarantee this because of constant changing market conditions and the availability of quality buildings. An increase in Capital Outlay of \$4,000 for FY08 and \$9,500 is based upon additional needs for office furniture and general equipment upgrades.</p>
C08	<p>The Authority is requesting appropriation of \$9,000 for each year of the 2007-2009 biennium for computer system and equipment upgrade due to the volume and complexity of the student loan program.</p>