



Senate

General Assembly

File No. 87

January Session, 2009

Senate Bill No. 842

Senate, March 16, 2009

The Committee on Higher Education and Employment Advancement reported through SEN. HANDLEY of the 4th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING A STUDENT LOAN GUARANTEE PROGRAM RESERVE FUND.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage*) (a) As used in this section:

2 (1) "Credit Union League of Connecticut Student Loan Program" or
3 "program" means a program operated by the Credit Union League of
4 Connecticut that offers low interest rate loans to students who
5 experience difficulty obtaining financing for post-secondary education
6 because of more restrictive underwriting criteria, reduced access to
7 home equity loans or decreased market value of homes;

8 (2) "Eligible student" means (A) any student enrolled in an
9 accredited institution of higher education in this state, or (B) any
10 resident of this state enrolled in an accredited institution of higher
11 education;

12 (3) "Participating credit union" means any credit union in this state

13 participating in the program; and

14 (4) "Qualifying student loan" means a loan to an eligible student that
15 is (A) originated by a participating credit union; (B) subject to the
16 participating credit union's underwriting standards applicable to
17 student loans; (C) subject to an interest rate not exceeding six per cent
18 per annum for loans with a one-year deferral of commencement of
19 payment of interest or subject to an interest rate not exceeding five and
20 three-quarters per cent per annum for loans without any deferral of
21 commencement of payment of interest; and (D) disbursed on or before
22 December 31, 2009, or disbursed at a later date if approved by action of
23 the board of directors of the authority.

24 (b) The Connecticut Health and Educational Facilities Authority
25 shall allocate from its reserves an amount not to exceed three million
26 five hundred thousand dollars in the aggregate for purposes of
27 guaranteeing qualifying student loans under the Credit Union League
28 of Connecticut Student Loan Program. The funds so allocated shall be
29 held by the authority in a separate account to be known as the "Credit
30 Union League Student Loan Program protection account" and such
31 funds shall revert to the authority's general reserves at such time as the
32 funds are no longer needed to be held for the program. Said account
33 shall be used to provide a first loss guarantee to participating credit
34 unions not to exceed twenty per cent of the outstanding principal
35 amount of qualifying student loans originated by such credit unions.
36 The amount of any individual loan guaranteed by the authority shall
37 not exceed twenty per cent of the original principal balance thereof.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section

HED *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 10 \$	FY 11 \$
Connecticut Health and Educational Facilities Authority	CHEFA - See Below	See Below	See Below

Municipal Impact: None

Explanation

The bill reduces the level of available reserve funds for the Connecticut Health and Education Facilities Authority (CHEFA). The bill requires CHEFA to allocate up to \$3.5 million from its reserves, to provide a maximum twenty percent first loss guarantee for student loans issued by credit unions participating in the Credit Union League of Connecticut (CULC) for Connecticut residents attending Connecticut institutions of higher education.

As of January 31, 2009 CHEFA's reserve balance, including the \$3.5 million which is restricted for the CULC student loan program, was approximately \$11.3¹ million. The initial commitment of the student loan program is one year. However, the allocated funds must be kept in a separate Credit Union League Student Loan Program Protection Account for as long as they are needed for the program, after which they will lapse back to CHEFA's general reserves.

The Out Years

¹ The \$11.3 million includes the restricted \$3.5 million for the CULC student loan program as well as an additional restricted \$4.32 million to fund loan guarantees pursuant to PA 97-259. The total unrestricted reserve amount is approximately \$3.5 million.

The impact on CHEFA's reserves will continue into the out years until all loans are repaid.

OLR Bill Analysis**SB 842*****AN ACT CONCERNING A STUDENT LOAN GUARANTEE PROGRAM RESERVE FUND.*****SUMMARY:**

This bill requires the Connecticut Health and Education Facilities Authority (CHEFA) to allocate up to \$3.5 million from its reserves to guarantee qualifying student loans issued by credit unions participating in the Credit Union League of Connecticut (CULC) Student Loan Program. The CULC administers the program, which the bill defines as offering low interest loans to students having difficulty obtaining financing for higher education due to (1) restrictive underwriting criteria, (2) reduced access to home equity loans, or (3) the decreased market value of homes.

EFFECTIVE DATE: Upon passage

CREDIT UNION LEAGUE STUDENT LOAN PROGRAM***Loan Guarantee***

CHEFA must keep the allocated funds in a separate Credit Union League Student Loan Program Protection Account for as long as they are needed for the program, after which they revert to CHEFA's general reserves. The funds must be used to provide participating credit unions a first loss guarantee of up to 20% of the qualifying student loans' outstanding principal. The amount of an individual loan guarantee cannot exceed 20% of the loan's original principal.

Qualifying Student Loans

The bill defines a qualifying student loan as a loan:

1. made to an eligible student;

2. originated by a participating credit union;
3. subject to the participating credit union's student loan underwriting standards;
4. subject to an annual interest rate of up to (a) 5.75% or (b) 6% for loans that defer interest payments for one year; and
5. disbursed by December 31, 2009, or at a later date if CHEFA's board of directors approves.

To be eligible, a student must be (1) enrolled in an accredited higher education institution in the state or (2) a state resident enrolled in any accredited higher education institution.

BACKGROUND

CULC

The CULC is a nonprofit trade association representing and serving 146 credit unions in the state.

CHEFA

CHEFA is a quasi-public agency that issues tax-exempt bonds on behalf of nonprofit colleges and health care institutions to support the construction of facilities such as dormitories, academic buildings, athletic facilities, clinics, hospitals, and laboratories. Its bonds are not financed with state funds.

COMMITTEE ACTION

Higher Education and Employment Advancement Committee

Joint Favorable

Yea 18 Nay 0 (02/26/2009)