CHESLA

www.chesla.org

Connecticut Higher Education Supplemental Loan Authority
21 Talcott Notch Road, Suite 1, Farmington, Connecticut 06032
(860) 678-7788 Outside CT • (800) 252-3357 In CT • FAX (860) 678-0006

Testimony Before the
Banks Committee
February 25, 2010
By
Gloria F. Ragosta, Executive Director
Connecticut Higher Education
Supplemental Loan Authority (CHESLA)

My name is Gloria Ragosta and I am the Executive Director of the Connecticut Higher Education Supplemental Loan Authority (CHESLA). On behalf of the CHESLA Board I am submitting written testimony in opposition to SB 57, "An Act Concerning Education Loans."

I want to assure you that CHESLA's staff and its servicer Firstmark Services work with any borrower who calls our office for help. We do as much as we can to assist borrowers who are undergoing financial hardships and we encourage CHESLA's collection company to work with people who may be in default and need to make alternative payment arrangements. The Authority must act within the limitations of its enabling legislation, the CHESLA Loan Program, and the governing bond documents.

SB 57 would "prohibit the Authority from initiating collection actions against a student who is in default on such a loan made by CHESLA while such student is enrolled in an institution of higher education in this state". This provision would cause the cost of lending to all students in CT who participate in the program to increase and it would encourage irresponsible behavior on the part of borrowers.

I must highlight the fact that CHESLA's bonds, which are issued to finance its loan program, are backed by the State of Connecticut's obligation to fund a Special Capital Reserve Fund. CHESLA's only sources of funds to pay its bonds are the student loan repayments and the Special Capitol Reserve Fund. **To the extent that loan repayments are insufficient to pay debt service on the bonds, the State of Connecticut is obligated to make payments into the Special Capital Reserve Fund. While the intent to reduce the burden**

on students is understandable, now is not the time to transfer this burden to the State.

With all the new restrictions imposed on bond issuers, if this legislation passes, I believe that the **rating agencies might subject the Authority's bonds to a stress test which assumes that nearly all the students stopped paying during that period. That would be a difficult stress test for CHESLA to pass and could make it too costly for the Authority to issue bonds to fund student loans.** The CHESLA loans are an important source of funds to State students attending college at a time when the availability of private loans in the national market is declining.

CHESLA is a quasi-state authority established pursuant to Chapter 187b of the Connecticut General Statutes, Revision of 1958, as amended. CHESLA doesn't receive any direct general funds from the State. It is an alternate student loan program for credit worthy students and their parents or guardians. The CHESLA loan program allows the Authority to offer to Connecticut residents and those attending school within the state **one of the lowest fixed-rate loan programs in the country, with a current fixed-interest rate of 6.8%**.

In order to provide CT students with a low fixed-rate product, **there are several procedures and safeguards in place to meet the requirements of both the rating agencies and the bond market, and protect the interests of the bondholders, the Authority, and the State.** CHESLA has a contract with its bondholders in connection with each bond issue and a **fiduciary responsibility to repay the bondholders from the repayments of the student loans.** The borrowers also have a contract with CHESLA through their promissory notes. **In the majority of cases there are two or three people responsible for the loans including the student and one or more co-borrowers (usually a parent or a guardian).**

In addition, **CHESLA's bonds (not the individual student loans) are secured by special capital reserve funds pursuant to C.G.S Section 10a-232.** This requires that CHESLA's bond issuance, and financing procedures are subject to the approval of the Treasurer and the Secretary of the Office of Policy and Management in order to protect the interests of the state. **The State has a statutory obligation to make payment in connection with the bonds to the extent of any deficiency in the special capital reserve funds.** Except for this obligation of the State to fund the special capital reserve fund, CHESLA has no source of revenue to make payments on its bonds other than the repayments of the student loans.

The program structure detailed above ensures: 1) there are sufficient cash flows to meet bond rating agency analysis (Moody's and Fitch) and to provide "low fixed interest rates" to students; and 2) there are sufficient cash flows to avoid debt service shortfalls and tapping the Special Capital Reserve Fund (SCRF) which would require funds from the Legislature.

Delinquent loans are worked for 30, 60 and 90 days (attempts to remedy past due balances) by the loan servicer till they reach 120 days past due.

Defaulted loans are turned over to CHESLA's administrative office after 120 days. The staff makes one final attempt to recoup the past due balance to make the loan current before sending the account to the Collection Company.

High emphasis is placed on the collection and payment of defaulted loans to minimize the significant negative impact on the interest rate for future borrowers during the ratings and underwriting cash flows for each bond deal.

CHESLA has an eight member Board of Directors including the State Treasurer, the Secretary of the Office of Policy and Management and the Commissioner of Higher Education. While the Governor appoints the five other members, no more than three may be of the same political party. The Chair is appointed by the Governor, with the consent of both houses of the General Assembly. CHESLA has an independent advisory board.

CHESLA currently issues bonds for its CHESLA Loan Program every year or two, in an amount of between $30 and $45 million.

On behalf of the CHESLA Board I **respectfully oppose SB 57 so that the Authority may better serve its student borrowers, their families and the state.**

Thank you for the opportunity to submit testimony.