



STATE OF CONNECTICUT  
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE BANKS COMMITTEE  
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Testimony Opposing Raised Bill No. 57

AN ACT CONCERNING EDUCATION LOANS

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Senator Duff, Representative Barry and distinguished members of the Banks Committee thank you for the opportunity to offer testimony on Raised Bill No. 57, An Act Concerning Education Loans.

This bill would prohibit The Connecticut Higher Education Supplemental Loan Authority (CHESLA) from sending a student loan in default to collection while a student is still enrolled in an institution of higher education in the state. While assisting financially troubled student borrowers is a worthy endeavor, this bill has unintended consequences.

CHESLA issues bonds to finance its student loans using private activity bonds governed by federal tax law. Under state statute, the bonds are backed by a state special capital reserve fund. The repayment of loans is the only revenue for CHESLA to payback the bonds. If CHESLA is unable to make its bond repayments the state is responsible under the special capital reserve fund. This would place an unexpected financial burden on the state.

This bill also would increase the costs for future borrowers who do not default because the bond market would consider CHESLA bonds a riskier investment and require higher interest rates that would be passed on to the student borrowers. Bond rating agencies may also consider this greater risk when assessing the credit ratings of CHESLA and the state and lower them.

I thank the committee for the opportunity to present this testimony. I respectfully recommend that the Committee take no action on this bill.