

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
STAFF SUMMARY AND RECOMMENDATION**

**Cal Edge Student Loan Program**

April 24, 2003

Resolution Number 135 (Amended):

**Issue**

Staff seeks approval to advance up to \$400,000 to the existing Cal Edge program from California Student Loan Authority (CSLA) reserves.

**Cal Edge Loan Program History**

In April 1998, CEFA issued \$25 million in tax-exempt bonds for the “Cal Edge” program, the second of two student loan programs developed by the Authority. The Cal Edge program was designed to provide a significant contribution to higher education lending in California by offering students a fixed rate loan with flexible repayment and deferment options.

Initially, the Cal Edge program was slow to originate loans, which was expected since the program was a start-up with no prior operating or marketing history. By the end of 2000, Cal Edge had generated approximately \$3 million in loans.

Lending activity for the year 2001 dramatically improved as an additional \$5.5 million in loans were generated. During 2001, the program was the only fixed rate student loan program in the market place and the fixed rate offered was competitive to variable rate student loan programs.

The volume in 2002, however, was impacted by the Federal Reserve Board’s decision to continue easing rates. The Cal Edge program lost it’s pricing advantage, as competing variable rate loan products which are generally tied to Prime or LIBOR, offered rates at two to three percentage points lower than the Cal Edge Loan. Total loans generated in 2002 fell to \$3.3 million.

**Status of Cal Edge Program**

As of March 2003, approximately \$6.4 million in excess of funds committed to be disbursed with respect to approved loans, is available to lend from the original bond issue. All funds must be lent by February 20, 2004 to avoid a bond call. The February 2004 date is a second bond insurer-approved extension to the original October 1, 2001 call date. It is not certain that the call date can be further extended. Federal tax law requirements include that at least 95% of net bond proceeds be used to make or finance student loans.

## **Cal Edge Program Enhancement Proposal**

Financial aid officers at six schools with high Cal Edge loan volume were contacted in March 2003 to assess how the Cal Edge program could be modified to become more attractive to potential borrowers. The officers replied that one factor that could make the program more attractive would be a buy-down of the 5% origination fee. They reasoned that the fixed rate Cal Edge program may actually cost borrowers less over the life of the loan in comparison with the total cost of adjustable rate loans currently offering lower initial interest rates. However, the Cal Edge does not appear competitive when students make a side-by-side comparison of origination fees.

To best ensure that the \$6.4 million in remaining loan funds are lent by February 2004, staff proposes a CSLA equity advance to the Cal Edge program to subsidize the elimination of the 5% origination fee that is subtracted from the borrowers' loan proceeds. The cost to the Authority to eliminate the 5% origination fee will be at most \$400,000. When the program ends, the proposed advance is expected to be repaid without interest from Cal Edge program-related surplus cash.

### **Goals for Program**

The original Cal Edge bond was issued to provide a contribution to higher educational lending in California. Although \$15.7 million has been lent through this program as of February 2003, an additional \$6.4 million remains and is at risk of non-origination with the approaching February 2004 call date.

The Cal Edge Program Administrator has recently secured approval by the bond insurer to slightly ease the FICO credit score criteria and is embarking on a focused marketing effort to increase the number of loans originated through this program. These efforts, in combination with a \$400,000 advance from CSLA reserves to eliminate the 5% origination fee, provide the best assurance the remaining funds will be lent to students and will not be subject to the February 2004 non-origination call date.

### **Staff Recommendation**

Staff recommends approval of Amended Resolution number 135 for the Cal Edge Program, authorizing a commitment for an advance from CSLA reserves not to exceed \$400,000.

\*Based on preliminary estimates, staff does not anticipate the actual advance will exceed \$310,000. Staff is requesting a \$400,000 advance since the \$6.4 million available for student loans may increase as existing borrowers repay their loans.