

Virginia Education Loan Authority 1972-1997

Background Information and History
Jessica Eades and Nikki Cheuk, Staff
Attorneys, Legislative Services

Original Legislation – Chapter 864 of the Acts of Assembly 1972

- Created the Virginia Education Loan Authority as a separate political subdivision “to facilitate the college and vocational education of residents of this Commonwealth and to promote the industrial and economic development of the Commonwealth-”
- Authorized to make direct loans to or acquire the loans of students at public and private institutions of higher education and vocational schools for the purpose of obtaining an education and to buy and sell obligations representing such loans
- To qualify, a student had to be: (i) a resident of VA or a non-resident attending an institution of higher ed in VA; (ii) enrolled or accepted for enrollment on at least a halftime basis at a school approved by the US DOE, and the State Education Assistance Authority (guarantee agency).
- Original state appropriation for the Authority to get up and running = \$10,000

Original Legislation – SB 486 (1972)

Authority authorized and empowered to:

1. To fix and revise, charge and collect interest and fees for loans made by it
2. To issue revenue bonds
3. To borrow money in anticipation of the issuance of bonds
4. To establish rules and regulations
5. To acquire, hold and dispose of personal property

VELA's authorized powers cont'd

6. To make and enter into all contracts and agreements necessary
7. To employ consultants, attorneys, accountants and financial experts, superintendents, managers and other employees
8. To receive and accept from any federal or private agency, corp., assoc., or person, grants to be expended in accomplishing its objectives and to receive and accept from the Commonwealth, from any municipality, county or other political subdivision thereof and from any other source aid or contributions of either money, property, or thing of value
9. To sue and be sued
10. Do all other acts and things necessary or convenient to carry out the powers expressly granted

Important Facts

- Up and running with first loans in 1977 after Congress established financial incentives to increase lender participation
- Essentially VELA was a supplemental lender and secondary market to banks, savings and loans, and other financial institutions in VA; students unable to secure Guaranteed Student Loans through commercial lenders could pursue funds through VELA
- Revenues consisted primarily of interest payments, investment earnings, and moneys earned from servicing loans on behalf of other lenders
- Expenses consisted primarily interested paid on bonds, notes, and other obligations, and operating expenses incurred in making, acquiring, and servicing student loans

Snapshot of VELA in 1985

- Student loan landscape changing as there was starting to be an increase in participation in the student loan industry by banks
- 146 schools in VA and 1268 out of state schools (with VA resident students) participating
- \$58,121,756 in approved loans for 8,290 students – undergraduates could borrow a max of \$2,500/year and grad students \$5,000/year
- Financed up until this point with tax exempt notes and bonds
- From its inception to 1985, VELA had served 116,000

Snapshot of VELA in 1985

- Effectiveness of collections improving with an average of \$3 million a month – 4 years after the decision was made to service their own loans and focus on collection methods to reduce delinquency and default rates
- VCU was the #1 institution for amount of loans flowing into the university - \$9 million
- Public 4-year #1 type of institution receiving loan money from students - \$35 million
- Private 4-year #2 type of institution receiving loan money from students - \$13 million
- The agency employed 110 full-time staff; one of the largest direct lending programs in the country

Virginia Education Loan Authority and State Education Assistance Authority Consolidation -1992

- Chapter 630, Acts of Assembly 1992 combined the Virginia Education Loan Authority and the State Education Assistance Authority (guarantee agency) jointly and independently to comprise the Virginia Student Assistance Authorities
- Governed by a single Board of Directors – stated that “no action by the Board shall be subject to attack by any person on the grounds that it is in the furtherance of the interest of either Authority over another
- Separate fund accounting

Liquidation and Sale 1995-1997

- As of June 30, 1994, VELA's outstanding student loans totaled \$305 million and its outstanding bonds totaled \$470.8 million
- HB 2026 (Callahan)/SB 995 (Stosch) – at the request of then Governor Allen – introduced legislation in January 1995 to direct VELA to liquidate its assets with all moneys, after payment of expenses and provision for any reserves deemed appropriate, to be deposited in the general fund of the Commonwealth
- Final sale in 1997 to Sallie Mae – and \$64 million deposited into the General Fund

Additional Information

- Gene Cattie, former executive director (1976-1992) of VELA has offered to attend and speak in greater detail about VELA and about his insight as to why the decision was ultimately made to shut it down as well as his view of higher education finance at the next joint subcommittee meeting in August.