

SB675

Presentation on March 1, 2011 at 10:15 a.m.  
to the  
Senate Committee on Higher Education and the Committee on Commerce and Consumer  
Protection

Senator Tokuda, Chair,  
Senator Baker, Chair,  
And Members of the Committees:

My name is Lorraine Teniya. I am Director of Customer Relations for USA Funds and SMS Hawaii. For the past 31 years, I have worked with Hawaii's colleges, universities, banks, and credit unions in support of the guaranteed student loan program. Starting in the early 1980s I was very much involved in seeking the approval for legislation which authorized the establishment of SMS Hawaii, but today I am requesting your support to repeal that legislation.

Specifically, SB 675 seeks to repeal section 309-1.5, which authorized Secondary Market Services Corp., "SMS Hawaii," to serve as a not-for-profit student loan secondary market. SMS Hawaii used tax-exempt financing to support the purchase of federal student loans from Hawaii's lending institutions, in order to continually replenish the supply of capital to fund new loans to students and parents, and ensuring liquidity in the student loan program.

With the passage of the federal Health Care and Education Reconciliation Act of 2010, new student loan originations under the Federal Family Education Loan program ended. Thus, the function of a student loan secondary market for Hawaii has been eliminated.

The repeal of section 309-1.5, Hawaii Revised Statutes, will permit SMS Hawaii to continue to support higher education in Hawaii through other educational and charitable activities authorized for tax-exempt organizations under section 501 (c) (3) of the Internal Revenue Code. In addition SMS Hawaii will seek the advice of and input from state officials, colleges and universities, and community organizations that support college access and success, to help us determine the educational and charitable activities we will pursue.

SMS Hawaii's parent company, USA Funds, has served as Hawaii's designated student loan guarantor since 1979. USA Funds, a 501 (c) (3) organization, has provided significant support to higher education in Hawaii, providing millions of dollars in scholarship support, grants to local organizations that support college access and success, funds to support STEM initiatives, and assistance to families in overcoming major paperwork barriers in obtaining financial aid for college. If HRS Section 309-1.5 is repealed, SMS Hawaii envisions providing comparable support to benefit higher education in Hawaii.

Given these benefits to higher education in Hawaii, I would appreciate your support of SB 675. Thank you very much.



PO Box 2300  
Honolulu HI 96804-2300

**Presentation to the Senate Committee on Higher Education and  
Committee on Commerce and Consumer Affairs  
Tuesday, March 1, 2011, at 10:15 AM**

Senator Jill N. Tokuda, Chair,  
Senator Rosalyn H. Baker, Chair, and  
members of the committees:

My name is Terry O'Reilley. I am a Senior Vice President and the Director of Marketing and Product Development for American Savings Bank ("ASB"). ASB is a Federal savings bank doing business in Hawaii for eighty-six (86) years, and has assets of over \$4.8B.

**ASB supports the intent of Senate Bill 675, and respectfully requests its passage.**

Since 1991 ASB maintained a business relationship with USA Funds, Hawaii's student loan guarantor, to offer student and parent loans under the federal guaranteed student loan program. Subsequently, ASB entered into an agreement with SMS Hawaii to help finance loans to Hawaii students and parents. ASB was pleased to work with SMS Hawaii because it supported reduced interest rate loans for borrowers who made their payments on time. However, the Federal health care legislation that was enacted last March contained provisions that ended the role of lenders, like ASB, and student loan secondary markets, like SMS Hawaii, in originating new federal student loans, effective last June 30.

Although its role in financing new federal student loans has ended, SMS Hawaii has advised ASB of its intent to continue to provide services to Hawaii's students and families as a IRC §501(c)(3) not-for-profit organization. It's the understanding of ASB that for SMS Hawaii to pursue continued support of higher education in Hawaii, the enactment of this legislation is necessary.

I appreciate your kind attention.

Testimony regarding SB 675, to be heard on March 1, 2011 Room 229 at 10:15 a.m.

Sen. Tokuda, Chair, and Sen. Baker, Chair:

I am Frank Green, president of Travel Institute of the Pacific, which is located here in Honolulu and is one of the nation's oldest and most respected training organizations specializing in travel, hospitality, food and beverage service and culinary arts studies.

I am asking for your support of SB675, legislation that would repeal a section of Hawaii statute that has been made obsolete by federal legislation and, which if allowed to remain on the books, would unfortunately limit resources to promote access to college for Hawaii students and parents.

The provision in question designates a student loan secondary market for Hawaii. The current secondary market is SMS Hawaii, which is an affiliate of USA Funds, our state's student loan guarantor.

Because Travel Institute of the Pacific uses the Federal Direct Loan Program to serve its students, we have not used the student loan services of USA Funds or SMS Hawaii. But I can tell you that in my experience, there is no stronger partner than USA Funds for supporting higher education access in this state. Let me give you just two examples.

Financial and staff support from USA Funds 10 years ago helped us launch and continues to support our annual College Goal Sunday program in Hawaii. College Goal Sunday provides free help to students and parents in completing the Free Application for Federal Student Aid. This is the form required to qualify for federal grants, work-study and loans, as well as many other sources of financial aid to help pay college costs. It's a complex form, especially for families with no previous college experience. So the help we provide through College Goal Sunday can really make the difference in whether a student can afford to go to college.

Through PacFAA, our association of state financial aid administrators, we deliver financial aid nights to parents and high school students so they understand the variety of options that are available to pay for education and training after high school. Financial support from USA Funds has enabled us to take this valuable information throughout the state.

My understanding is that, if this legislation passes, SMS Hawaii will convert to a 501(c)(3) nonprofit organization and undertake charitable activities, similar to those supported by USA Funds, to help more students and parents in this state benefit from higher education.

If we are to strengthen the economy in Hawaii, we need to have a better- educated workforce, one that has the skills needed to perform the jobs of the 21st century. Additional support for activities that promote higher education, such as those that SMS Hawaii could support, is vital for enhancing the education levels of our state's workforce.

For this reason, I would ask you to support SB 675. Thank you.

Testimony to the Committees on Education and Commerce and Consumer Protection

March 1, 2011 at 10:15 a.m. Conference Room 229

Committee Chairs Tokuda and Baker:

My name is Adam Hatch. I am director of financial aid at Hawaii Pacific University. I am also the past president of PacFAA, an association of college and university financial aid administrators in Hawaii, and I am currently vice president of the Western Association of Student Financial Aid Administrators, which represents financial aid professionals throughout the Western states.

Thank you for the opportunity to address the committee in support of SB 675, which would repeal a section of Hawaii state law that designates a student loan secondary market for Hawaii.

My interest in this issue stems from my familiarity with the work of Hawaii's student loan secondary market, SMS Hawaii, and its parent company, USA Funds, the designated student loan guarantor for Hawaii. Both organizations have demonstrated a commitment to helping Hawaii residents benefit from higher education.

USA Funds has supported a variety of charitable activities —including scholarships, financial aid nights, college fairs, and financial aid application assistance — that have helped thousands of Hawaii students and parents plan and pay for college. Together, USA Funds and SMS Hawaii supported initiatives that reduced fees and interest rates on federal student loans for Hawaii residents.

With passage last year of federal legislation requiring all new federal student loans to be financed directly by the federal government, there no longer is the need for a secondary market like SMS Hawaii to support private financing of these loans. But the need for programs that help Hawaii families prepare for, pay for and succeed in higher education continues.

It is my understanding that SMS Hawaii intends to support charitable activities that promote higher education in Hawaii, but the current provisions of Hawaii state law would prevent it from doing so. That's why I would urge you to support SB 675, to eliminate these outdated provisions and permit SMS Hawaii to pursue its mission of higher education access and success as a 501(c)(3) nonprofit organization.

Thank you for your consideration.