



CONNECTICUT STUDENT LOAN FOUNDATION

MINUTES OF THE BOARD OF DIRECTORS

April 24, 2014

A meeting of the Connecticut Student Loan Foundation's Board of Directors was held on Thursday, April 24, 2014 at 2:00 p.m., at the office of the Connecticut Board of Regents for Higher Education, 39 Woodland Street, Hartford, Connecticut 06105.

Members Present:

Sarah K. Sanders (designee of the State Treasurer of Connecticut) Chairman of the Board and Assistant Secretary of the Board

James R. Howarth (designee of the President of the Connecticut Board of Regents for Higher Education) Vice-Chairman of the Board

Craig S. Lappen (designee of the Chairman of the Connecticut Board of Regents for Higher Education) Secretary of the Board

Other Attendees:

Nancy A. D. Hancock, Esquire – Pullman & Comley, LLC

Darlene H. Dimitrijevs – Education Solution Partners, LLC

Randall M. Behm – Education Solution Partners, LLC

I. Call to Order:

Ms. Sanders called the meeting to order at 2:00 p.m.

II. Approval of January 24, 2014 Minutes:

A motion was made by Mr. Howarth and seconded by Mr. Lappen that the Board of Directors of the Connecticut Student Loan Foundation approves the minutes of the January 23, 2014 meeting as presented.

The motion passed unanimously.

III. Financial Report:

Ms. Dimitrijevs provided the financial report as of March 31, 2014. She presented the Net Change in Position, Balance Sheet, Non-Trust Cash Flow, Available Funds Report, Bond Redemptions and Funds Management Ratios.

She noted that the Net Change in Position for CSLF was a positive \$3.2 million for the first six months of the fiscal year. This is a slight increase from the prior fiscal year and about \$375,000 over plan. Interest income was below the prior year by \$1.2 million, which was offset by lower servicing costs (\$300,000) and no need for a loan loss provision (\$800,000).

Ms. Dimitrijevs indicated that the trust parity ratio now stands at 108.07% versus a planned level of 107.58%. Assets within the Trust exceed the Board required parity level by \$17.1 million. Of this amount \$13.7 million is in cash or cash equivalents with the remainder primarily made up of the loan balances exceeding that of the bonds outstanding.

The Non-Trust Cash Flow of CSLF continued to be positive for the quarter at \$62,475.

On the Available Funds Report she noted that the Unrestricted Funds totaled \$5.9 million, while the Restricted Funds received from the ECMC contract were \$13.4 million as of March 31, 2014. Within the trust \$1.4 million of funds were immediately available, while another \$17.1 million could become available over the next 3 months if bond redemptions were terminated. The trust currently produces approximately \$6 million in cash each month which is being used to redeem bonds under the existing Board policy.

Ms. Dimitrijevs reviewed the bond redemption activity for the quarter. \$15.5 million in bonds were redeemed in the quarter. Included in that amount were \$3.0 million in bonds that were offered by the owner at a discount. As of March 31, 2014, \$383.65 million in bonds remain outstanding. The original issuance was \$935.9 million.

Ms. Dimitrijevs reviewed the funds management levels within the trust estate and indicated that CSLF is in compliance with its internal policies, as well as the requirements of the trust indenture, for all three ratios.

During the quarter Fitch confirmed its ratings on the CSLF bonds of AAA for the senior bonds and AA for the subordinate bonds. In response to a question, it was noted that the interest rate on the bonds are tied to Treasury Bill rates, subject to a LIBOR-based cap and an average rate calculation with a 12-month look back period. This formula has been favorable to CSLF and has created periods of zero to ten basis points as the interest rate on most tranches during portions of the year. By policy of the Board, bond redemptions are halted during any period with a zero interest rate on a tranche.

IV. Update of 403(b) Plan:

Ms. Hancock provided a background on the 403(b) plan of CSLF. She indicated that this plan was funded solely by employee contributions and that no additional contributions had been made since 2010. Of the various retirement plans offered by CSLF, this was the only one that had not been terminated several years ago. In order to ensure that former employees would not be required to liquidate their positions in the plan in a manner that would create a taxable event for them, the 403(b) plan has continued to remain in force. She noted that recent IRS rulings will now allow CSLF to terminate the plan while retaining the tax-exempt status of the individual annuities. These rulings have been verbally confirmed by the two third-party entities providing the individual annuities in the CSLF 403(b) plan.

Ms. Hancock indicated that the entire 403(b) plan is in the form of annuities with either TIAA-CREF (approximately 100 annuities) or Great American Insurance (approximately 40 annuities). As the

sponsor of the 403(b) plan, CSLF has a fiduciary responsibility that primarily consists of assuring that funds withheld from an employee's pay is deposited (CSLF has had no employees since 2010) and executing paperwork whenever a former employee wishes to begin receiving payments from an annuity in the plan. By terminating the plan the former employees will work directly with TIAA-CREF or Great American on any future transactions involving the annuities.

Ms. Hancock indicated that CSLF would need to amend the 403(b) plan to incorporate recent regulatory changes prior to terminating the plan. She provided resolutions that would amend the plan and then terminate it effective June 1, 2014.

Mr. Lappen made the motion in Attachment A, which was seconded by Mr. Howarth.

The motion passed unanimously.

The Board was presented with a draft letter to be sent to each of the former employees who hold annuity contracts under the 403(b) plan but have not yet requested payments. The Board members discussed the letter at length, suggesting various changes. They then directed the Administrative Agent and Counsel to continue to revise the letter to make it as clear and simple as possible while still conveying the appropriate message and direction to each of the former employees. The Board requested that the proposed letter be circulated to each of the Board members prior to dissemination to the former employees.

V. Connecticut Auditors of Public Accounts:

Ms. Dimitrijevs indicated that the Connecticut Auditors of Public Accounts have begun a review of the CSLF fiscal year ended September 30, 2013. At this time they have requested and received copies of the Audited Financial Statements as well as the related letter to management.

VI. Discussion on Proposed Legislation regarding CSLF:

Ms. Sanders noted that legislation that was introduced by the Governor to create the CHET Baby Scholars Program contained language that would redefine the CSLF organization structure and Board member composition. The legislation, as currently proposed, would make CSLF a subsidiary of the Connecticut Health and Educational Facilities Authority (CHEFA). However, CSLF would retain its status as a 501(c)(3), non-profit entity and would not become a state agency. Under the proposed legislation the Board members of CSLF would consist of the same individuals that are members of the Board of the Connecticut Higher Education Supplemental Loan Authority. The proposed legislation has an effective date of July 1, 2014 if enacted.

Ms. Sanders also indicated that the proposed legislation to enact the Governor's budget contains language that would require CSLF to provide \$12 million in funds for the newly created CHET Baby Scholars Program.

Discussion ensued concerning both of these proposed legislative bills. In response to a question concerning the level of independence of the CSLF Board, Ms. Hancock indicated that since CSLF was originally created by a legislative directive, the legislature retains the ability to alter the structure of CSLF. The Board has the ability to take any actions within the structure created by the legislature. Mr. Behm noted that the proposed legislation would address the one remaining finding from the last review

by the Auditors of Public Accounts with respect to CSLF not having a full complement of Board members. Ms. Sanders indicated that she expected the legislature to vote on both bills in May.

VII. Change in Regular Meeting Date:

Mr. Howarth made the following motion, which was seconded by Mr. Lappen:

The regular meeting of the CSLF Board originally scheduled for July 24, 2014 at 2:00 at the Office of the Board of Regents for Higher Education is changed to July 23, 2014 at 3:00 at the Office of the Connecticut Health and Educational Facilities Authority.

The motion passed unanimously.

VIII. Adjournment

Ms. Sanders then asked whether there was any other business properly brought before the Board, and there was none. Ms. Sanders requested a motion for adjournment.

Mr. Howarth made a motion, which was seconded by Mr. Lappen to adjourn the meeting.

The motion passed unanimously and the meeting was adjourned at 3:14 p.m.

Respectfully Submitted for the
Board of Directors by:

Craig S. Lappen, Secretary

Attachment A
CONNECTICUT STUDENT LOAN FOUNDATION

BOARD OF DIRECTORS

April 24, 2014

WHEREAS, the Connecticut Student Loan Foundation (the "Foundation") has maintained a Section 403(b) Plan for the benefit of its eligible employees (the "403(b) Plan" or "Plan"), which is intended to satisfy the requirements of Section 403(b) of the Internal Revenue Code, and

WHEREAS, all employees have previously severed from employment with the Foundation, and the Board has determined to terminate the Plan; and

WHEREAS, it is recommended that the Board amend the Plan to (i) provide for such termination and distribution of Plan benefits in full to participants; (ii) clarify that the delivery to participants of their annuity contracts from the Plan constitutes distribution of their benefits in full for this purpose as permitted under applicable Treasury Regulations and Internal Revenue Service guidance, and that the Foundation may direct such distribution; and (iii) comply with the applicable terms of Section 403(b) of the Internal Revenue Code and related Treasury Regulations and Internal Revenue Service guidance; and

WHEREAS, it is further recommended that the Board authorize each of the Vice Chair of the Board and Ms. Sarah K. Sanders as Chair and as a member of the Board, acting singly on its behalf, after consultation with counsel to the Foundation and, to the extent he or she deems necessary or appropriate, the consultants to the 403(b) Plan, to implement such amendment and termination of the Plan and Plan benefit distributions (including delivery of annuity contracts from the Plan), and to take other actions to assure the tax-qualified status of the 403(b) Plan and distributions therefrom.

NOW, THEREFORE, BE IT:

RESOLVED, that amendments to the 403(b) Plan be and hereby are adopted, in such form to be recommended by counsel to the Foundation to (i) provide for the Plan termination, (ii) provide for distribution of Plan benefits in full to participants as a result of such termination; (iii) clarify that the delivery to participants of their 403(b) annuity contracts from the Plan by the applicable annuity providers in accordance with their respective procedures constitutes distribution of their benefits in full for this purpose as permitted under applicable Treasury Regulations and Internal Revenue Service guidance, and that the Foundation may direct such delivery; and (iv) comply with the applicable terms of Section 403(b) of the Internal Revenue Code and related Treasury Regulations and Internal Revenue Service guidance; and further

RESOLVED, that the 403(b) Plan be and hereby is terminated, effective as of June 1, 2014, and further

RESOLVED, that each of the Vice Chair of the Board and Ms. Sarah Sanders, in her capacity as Chair of the Board and in her capacity as a member of the Board, be, and each of them hereby is, acting singly, authorized to take such actions as he or she deems necessary or appropriate, after consultation with counsel to the Foundation and, to the extent he or she deems necessary or appropriate, the consultants to the 403(b) Plan, (including, but not limited to provision of notice of the termination to the applicable annuity providers and to the participants; distribution of benefits, including the delivery of 403(b) annuity contracts to participants; the execution of any amendments, agreements and other documents; communications and filings with the Internal Revenue Service directly or through counsel; authorization of counsel to communicate with and obtain copies of contracts and other documentation from annuity providers and other parties) to effectuate the foregoing resolutions and complete the termination and winding up of the 403(b) Plan, or to postpone or rescind the termination, or to freeze the 403(b) Plan in lieu of termination; and to assure the tax-qualified status of the 403(b) Plan and distributions therefrom under the applicable terms of the Internal Revenue Code of 1986, as amended, and related regulations and guidance thereunder; and further

RESOLVED, that Mr. Randy Behm and Ms. Darlene Dimitrijevs, acting jointly in their capacities as principals of Education Solution Partners, LLC, Administrative Agent for the Foundation, may, after consultation with and upon approval of counsel to the Foundation, take any action that Ms. Sanders or the Vice Chair is authorized to take by any of the foregoing resolutions, and all third persons shall be entitled to rely conclusively upon the presumption that they were acting within the authority granted to them by this resolution.

Attachment A (continued)

CONNECTICUT STUDENT LOAN FOUNDATION

403(b) RETIREMENT PROGRAM

Amendment Addendum

WHEREAS, the Connecticut Student Loan Foundation (the “Foundation”) has maintained a Section 403(b) Plan for the benefit of its eligible employees, which is intended to satisfy the requirements of Section 403(b) of the Internal Revenue Code and is currently set forth in the form of USI Consulting Group Basic Plan Document #01 and accompanying Adoption Agreement effective as of May 1, 2008 (the “403(b) Plan” or “Plan”); and

WHEREAS, all employees have previously severed from employment with the Foundation, and the Board has determined to terminate the Plan; and

WHEREAS, benefits remain invested under the Plan in grandfathered annuity contracts on behalf of certain participants; and

WHEREAS, Section 9.02 of the Plan permits the amendment thereof in the form of an Addendum, and Section 9.04 of the Plan permits the termination thereof; and

WHEREAS, the Board of Directors of the Foundation has determined to amend the Plan to (i) provide for such termination and distribution of Plan benefits in full to participants; (ii) clarify that the delivery to participants of their annuity contracts from the Plan constitutes distribution of their benefits in full for this purpose as permitted under applicable Treasury Regulations and Internal Revenue Service guidance, and that the Foundation may direct such distribution; and (iii) to comply with applicable terms of Section 403(b) of the Internal Revenue Code, Treasury Regulations and Internal Revenue Service guidance.

NOW, THEREFORE, the Foundation hereby amends the Plan as follows, in the form of an Addendum thereto, effective as provided herein:

“Addendum

1. The Plan is terminated effective as of June 1, 2014 (the “Termination Date”); provided, however, that the Plan may be further amended in accordance with its terms by the Board of Directors of the Employer or by such persons authorized by such Board of Directors to the extent so authorized. After the Termination Date, no contributions may be made to the Plan, nor may plan to plan transfers nor contract exchanges be made, nor may any new loans be made to Participants from the Plan. All Participants shall remain fully vested in their benefits under the Plan as of the Termination Date.
2. All accumulated benefits under the Plan shall be distributed to all Participants and Beneficiaries as soon as administratively practicable following the Termination Date in accordance with the terms of Treasury Regulation Section 1.403(b)-10(a) and Revenue Ruling 2011-7. Accordingly, as

provided in such Regulations and Revenue Ruling, and in Section 9.04(D) of the Plan, the delivery of a fully paid annuity contract to a Participant or Beneficiary shall be treated as a distribution for such purpose, and the Employer may direct the Vendors of any such annuity contracts to deliver such contracts to the applicable Participants and Beneficiaries. As permitted in Section 9.04(E)(2) of the Plan, the terms of this Section 2. shall constitute an election by the Employer not to apply the terms of Section 9.04(E) of the Plan to the extent such terms would otherwise apply to require distribution in a lump sum of each Participant's Vested Account Balance following the Termination Date that is invested in one or more annuity contracts under the Plan, it being the intent of the Employer not to require such lump sum distributions without such Participant's consent, and instead to provide for the delivery of such fully paid annuity contracts to Participants as provided herein."

IN WITNESS WHEREOF, Connecticut Student Loan Foundation, acting by its undersigned Board member duly authorized, hereby executes this amendment to be effective as herein provided.

Connecticut Student Loan Foundation

By: _____

Sarah K. Sanders

Date

Its: Chair of the Board